# LIMITED REVIEW OF RESOURCES & DEVELOPMENT MANAGEMENT DEPARTMENT PURCHASED UTILITIES AND CHILLED WATER & STEAM BILLING PROCESSES

**FOR THE YEAR ENDED MARCH 31, 2004**

**REPORT DATE:**
**September 16, 2004**

**Audit Number #2430**


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**INTERNAL AUDIT DEPARTMENT**

**COUNTY OF ORANGE**

**LIMITED REVIEW OF**
**RESOURCES & DEVELOPMENT MANAGEMENT DEPARTMENT**
**PURCHASED UTILITIES AND CHILLED WATER & STEAM BILLING PROCESSES**
**For the Year Ended March 31, 2004**

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COUNTY OF ORANGE
INTERNAL AUDIT DEPARTMENT

**OFFICE OF THE DIRECTOR**

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**PETER HUGHES**
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**Transmittal Letter**

Audit No. 2430

September 16, 2004

TO: Bryan Speegle, Director
Resources & Development Management Department

FROM: Peter Hughes, Ph.D., CPA
Director, Internal Audit Department

SUBJECT: Limited Review of Resources & Development Management Department
Purchased Utilities and Chilled Water & Steam Billing Processes

We have completed a limited review of Resources & Development Management Department (RDMD) purchased utilities and chilled water & steam billing processes for the year ended March 31, 2004. The final report is attached along with your responses to our recommendations. We have also attached a Customer Survey of Audit Services. Please complete the survey and return it to Renee Aragon, Executive Secretary, Internal Audit Department. We appreciate the courtesy and cooperation of your staff during our review.

Attachment

Other recipients of this audit report:
Members, Board of Supervisors
Members, Audit Oversight Committee
Foreman, Grand Jury
Clerk of the Board of Supervisors
James D. Ruth, County Executive Officer
Vicki Wilson, Deputy County Executive Officer
Steve Danley, Director, Administration, RDMD
Bob Wilson, Director, Internal Services, RDMD
Michael McMillan, Chief, Purchasing & Contracts, RDMD
Bob Boehme, Manager, Facilities Operations, RDMD
Brian Murphy, Chief, Central Quality Assurance, RDMD


*The Internal Audit Department is an independent audit function reporting directly to the Orange County Board of Supervisors.*

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**INTERNAL AUDITOR'S REPORT**

Audit No. 2430

September 16, 2004

Bryan Speegle, Director
Resources & Development Management Department
300 N. Flower Street
Santa Ana, CA 92703

We performed a limited review of the Resources & Development Management Department (RDMD) purchased utilities and chilled water & steam billing processes for the year ended March 31, 2004. The primary purpose of our review was to evaluate the adequacy of the process and controls over the establishment, maintenance and termination of utility services, the utility billing and payment processes, and methods used to determine billing rates and overhead charges. We performed our review in accordance with professional standards established by the Institute of Internal Auditors. We believe our review provides a reasonable basis to support our assessment.

Based upon our review, it is our opinion that process and controls were generally effective in the areas of establishing, maintaining and terminating utility services and utility billing and payment processes. We noted improvements are needed to ensure utility overhead and billable rates are periodically reviewed for appropriateness. In addition, the G Accounts Sharing List for allocating costs to multiple occupants should be regularly updated to ensure accurate information, and the functions of the Purchasing & Contract Utilities Desk should be cross-trained and have supervisory reviews. These are discussed in the Observations, Recommendations and Management Responses section of this report. Responses from the RDMD have been included for each recommendation and the complete text of responses has been appended to the report.

We appreciate the courtesy and cooperation extended to us by the personnel of the RDMD during our review. If we can be of further assistance, please contact me directly or Eli Littner, Deputy Director at (714) 834-5899 or Michael Goodwin, Audit Manager at (714) 834-6066.

Respectfully submitted,

Peter Hughes

Peter Hughes, Ph.D., CPA
Director, Internal Audit



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Attachment

Distribution: Pursuant to Audit Oversight Committee Procedure No. 1
Members, Board of Supervisors
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Vicki Wilson, Deputy County Executive Officer
Steve Danley, Director, Administration, RDMD
Bob Wilson, Director, Internal Services, RDMD
Michael McMillan, Chief, Purchasing & Contracts, RDMD
Bob Boehme, Manager, Facilities Operations, RDMD
Brian Murphy, Chief, Central Quality Assurance, RDMD

# OVERVIEW

## OBJECTIVES

The Internal Audit Department conducted a limited review of the Resources and Development Management Department (RDMD) for the purpose of evaluating the adequacy of the process and controls over purchased utilities and chilled water & steam to ensure:

- The establishment and termination of an on-going utility accounts are properly approved, reviewed and updated on the County Utilities & Telephone System (CUTS).
- Utility payments are adequately processed.
- Utility charges and overhead costs are properly allocated among multiple occupants.
- Chilled water and steam meter readings are accurate and reliable.
- Utility overhead rates and billing rates are periodically reviewed.
- Direct and indirect billings for chilled water & steam consumptions are accurately calculated.

## BACKGROUND

In January 2004, the Board of Supervisors voted to consolidate the former Public Facilities & Resources Department and the Planning & Development Services Department, creating the RDMD to enable greater operational efficiencies.

The mission of RDMD is to provide, operate, and maintain quality public facilities and regional resources for the enjoyment, mobility, protection, and business of the people of Orange County. RDMD has seven divisions to provide services such as flood protection, recreational facilities and maintains County buildings and vehicle fleet.

The Internal Services Division/Central Utility Facility (CUF) provides steam and chilled water for heating and cooling the Old County Court House and buildings around the Civic Center Plaza. RDMD's Administration Division/Accounting Services prepares direct and indirect billings for the usage of steam and chilled water. RDMD's Administration Division/Purchasing and Contract Utility Desk (Utility Desk) processes purchased utility payments for a majority of County agencies. Purchased utilities include electric, water and gas services provided by utility providers (e.g. Southern California Edison). As invoices are received from utility providers, the Utility Desk inputs them on CUTS and forwards them to the Accounting Services for review, approval and allocation among multiple occupants. The invoices and supporting documents are then submitted to the Auditor-Controller/Check Writing where payments are disbursed.

## SCOPE

Our review was limited to process and controls over purchased utilities and chilled water & steam billing processes for the year ended March 31, 2004. Our review methodology included inquiry, auditor observation and limited testing of relevant documentation for the purpose of assessing the adequacy of process and controls over the utility services administered by RDMD. Because RDMD is undergoing a pilot program with Southern California Edison to expedite the payment process, we did not review the timeliness of utility payments. Also, we did not review any utility activity pertaining to relocations, one-time service orders, or street lighting. Further, we did not evaluate CUTS or system controls used in the billing process.

## CONCLUSION

It is our opinion that process and controls over purchased utilities and chilled water & steam are generally effective in establishing, maintaining and terminating utility accounts and in the areas of billing and payment processing. Improvements are needed to ensure processes are in place to evaluate purchased utility overhead rate and chilled water & steam billable rates on a regular basis, and for updating the G Accounts Sharing List. In addition, we recommend the functions of the Purchasing & Contract Utilities Desk are cross-trained and reviewed by a supervisor. Our observations and recommendations are discussed in the Observations, Recommendations and Management Responses section of this report. In the observations, we indicate where improvements are needed.

We want to express our appreciation for the level of cooperation provided by the staff of the RDMD. RDMD staff was responsive and began taking corrective actions to address many of these recommendations as issues were identified during our review

## OBSERVATIONS, RECOMMENDATIONS AND MANAGEMENT RESPONSES

### I. Process & Procedures

Our review noted the following areas where enhancements are needed over establishing billing and overhead rates and allocating costs among multiple users.

#### A. Chilled Water & Steam Billing Rates Review Process

Internal Services Division/Central Utility Facility provides chilled water and steam to the Old County Court House and buildings around the Civic Center Plaza at a pre-determined rate. Among the users are three non-County agencies, which are billed directly based on their monthly consumptions. The other users are County departments and agencies. Their costs are either charged monthly through preparation of journal vouchers or are allocated through the Countywide Cost Allocation Plan (CWCAP) at fiscal year-end.

County Accounting Procedure No. B-2, *Billing Rates and Indirect Cost*, stated that "County policy for charging the costs of County services to outside agencies, businesses, and individuals, and other County funds, is for full cost recovery whenever possible." Further, Section 2.9 requires that "indirect cost, fees and rates should be reviewed periodically to determine whether they require updating."

We noted that a policy is not in place to ensure the billable rates are evaluated for propriety on a regular basis. Since the County bankruptcy in 1994, only two fee studies were conducted. We were informed due to budget issues, reviewing billing rates for chilled water and steam is a low priority. During our review period, the total amounts directly billed for chilled water and steam usages were $352,837 and $76,138 respectively.

We also noted the fee study process is not clearly defined to ensure studies are accurately prepared, reviewed by a supervisor with technical knowledge of the utility production, and formally documented and communicated as to the final decision to revise the fees or rates. The status of the most recent study performed in November 2003 remains unknown due to a change in personnel. Additionally, we noted some errors in the fee study that could have been detected by having both a technical and supervisory review.

**Recommendation No. IA**

RDMD management establish a policy to ensure the billing rates for chilled water and steam are being reviewed on a regular basis. Also, the fee study process should be designed to ensure duties for reviewing (including a technical review); approving and communicating the final decision are clearly defined.

**Resources & Development Management Department Response:**

RDMD concurs with the recommendation and will develop a policy that will provide for the full cost recovery to outside agencies and other County funds housed in the Civic Center, for their use of chilled water and steam. The policy will include a review and update of chilled water and steam rates. The review will take place at least once each year in March and establish rates for the Fiscal Year. The review will include all financial data as provided by the Central Utility Facility (CUF) staff. Using the data that reflects total cost of production, a rate for chilled water and rate for steam will be developed and reviewed by Accounting and Facilities Operations CUF staff. Upon approval by RDMD Internal Services management the proposed rate will be submitted to RDMD management for approval.

Upon approval, all other County agencies and outside agencies housed in the Civic Center will be notified electronically or by hard copy of the rates for the year.

**B. Purchased Utility Overhead Rate Review Process**

RDMD Administration Division/Purchasing and Contract Utility Desk processes purchased utility payments for County departments/agencies. A fixed overhead rate is added to the utility charges as a service fee for processing the payments.

We noted that the current overhead rate was calculated ten years ago and has not been reviewed since it was established. We were informed that because there is a direct relation between the overhead fee charged and the utility charges, that reviewing the overhead rate did not seem necessary. Since RDMD has gone through several organizational changes during the past ten years, it should assess the adequacy of its current overhead rate and revise it as warranted.

**Recommendation No. IB**

RDMD evaluate its current overhead costs for purchased utilities and determine if the existing rate needs to be revised. A policy should also be developed to identify the frequency for future reviews.

**Resources & Development Management Department Response:**

RDMD concurs with the recommendation and will review current overhead costs and revised the current rate in conjunction with the next rate update. Additionally, the policy for reviewing billing rates (see RDMD Response to recommendation 1A) will incorporate a requirement to review the overhead rates annually in conjunction with rate review, update approval process.

**C. G Accounts Sharing List Updating Process**

In instances where there is only one master meter for each utility at a service location containing multiple occupants, such as Building 12 in the Civic Center, utility costs are allocated among the occupants based on square footage that the department/agency occupies. RDMD refers these agencies as G Accounts. Internal Services/Facilities Operations Division calculates the percentage of space the agency occupies and lists them on the G Accounts Sharing List. Administration/Accounting Services Division allocates the utility charges among departments/agencies based on the percentage listed on the G Accounts Sharing List.

We noted the most recent G Account Sharing List revised in November 2003 contained information that was not current. For example, the Community Services Agency is included on the list; however, according to the Board Resolution, the agency was dissolved in July 1, 2003. Although RDMD/Facilities Operations has responsibility for updating and maintaining the G Accounts Sharing List, we noted there was not a well-defined process to ensure current information was provided to Facilities Operations to maintain the accuracy of the list. We were informed that Facilities Operations and RDMD/Asset Management are working together to obtain space inventory information to update the list.

**Recommendation No. IC**
We recommend RDMD management to establish a policy and procedure assigning duties to ensure the space specifications are verified and updated timely. Also, RDMD may consider requiring departments/agencies to submit a certification on an annual basis indicating whether or not changes occurred.

**Resources & Development Management Department Response:**
RDMD concurs with the recommendation. The Asset Management section of RDMD's Internal Services Function has been assigned the responsibility of maintaining and updating the database that describes the inventory of facilities and assigned County space. At a minimum, this information will be annually updated and provided to the Auditor-Controller, CEO, RDMD/Facilities Operations and other Agencies/Departments in time for use in budget development. Timely updates and verification/certification of assigned space are heavily dependent on the cooperation of Agencies and Departments and their commitment of resources to provide such information, however as RDMD does not have the authority to require provision of such data. RDMD is working with Agencies and Departments to make the information in the database as timely as possible.

## II. Purchasing & Contract Utilities Desk

### A. Supervisory Review

An important preventive control activity is supervisory approval. Approval of a transaction means the approver has reviewed the supporting documentation and is satisfied the transaction is appropriate, accurate, and compliant with applicable policies and procedures before the transaction is processed. During our review, we noted that supervisory review of the establishment and termination of the on-going utility accounts in CUTS is performed but not documented.

**Recommendation No. IIA**
RDMD ensure the supervisory review and approval of transactions input into CUTS is documented to ensure the establishment and the termination of the on-going utility accounts are proper, accurate and complete.

**Resources & Development Management Department Response:**
RDMD concurs and in addition to the reviews by County of Orange initiating department, RDMD Facilities Operations and RDMD Accounting Services; RDMD Purchasing and contracts Utility Desk Supervisor will review and initial paperwork for accuracy and completeness prior to establishment and termination of utility accounts in CUTS.

### B. Cross-Training

RDMD Administration Division/Purchasing & Contracts Utility Desk processes all utility payments for County departments/agencies; therefore, RDMD receives a high volume of utility invoices on a daily basis.

During our review, we noted that an Accounting Specialist is assigned to process the payments and that no other employee is cross-trained as a back up. As a result, invoices will not be processed during the absence of the employee. We were informed that Purchasing and Contracts Division is aware of the issue; however, due to limited resource they are unable to cross-train another employee to process the payments.

**Recommendation No. IIB:**
RDMD management ensure an employee is cross-trained as a back up for the Utility Desk to process utility payments.

**Resources & Development Management Department Response:**
RDMD concurs and has acquired an Accounting Specialist within Purchasing & Contracts Services as a result of the PFRD/PDSD merger. In the month of August, this employee was relocated to the Purchasing & Contracts section, given authority to process utility payments and currently is being cross-trained as back-up for the Utility Desk.

COUNTY OF ORANGE
RESOURCES & DEVELOPMENT MANAGEMENT DEPARTMENT

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Audit Report No. 2430

**DATE:** September 8, 2004

**TO:** Peter Hughes, Director, Internal Audit Department

**FROM:** Bryan Speegle, Director, Resources & Development Management Department

**SUBJECT:** Report on Limited Review of Resources & Development Management Department Purchased Utilities and Chilled Water & Steam Billing Processes

The Resources & Development Management Department (RDMD) has received and reviewed in draft form, the Internal Audit Department's Limited Review of the RDMD Purchased Utilities and Chilled Water & Steam Billing Processes for the year ended March 31, 2004.

RDMD understands the primary purpose of the Internal Audit Department's review was to evaluate the adequacy of the process and controls over the establishment, maintenance and termination of utility services, the utility billing and payment processes, and methods used to determine billing rates and overhead charges.

RDMD hereby provides the following "Management Responses" to the Internal Audit Departments five (5) "Observations" and "Recommendations".

**Recommendation No. I A**
RDMD management establishes a policy to ensure the billing rate for chilled water and steam are being reviewed on a regular basis. Also, the fee study process should be designed to ensure duties for reviewing (including a technical review); approving and communicating the final decision are clearly defined.

**Resources & Development Management Department Response:**
RDMD concurs with the recommendation and will develop a policy that will provide for the full cost recovery to outside agencies and other County funds housed in the Civic Center, for their use of chilled water and steam. The policy will include a review and update of chilled water and steam rates. The review will take place at lease once each year in March and establish rates for the Fiscal Year. The review will include all financial data as provided by the Central Utility Facility (CUF) staff. Using the data that reflects total cost of production, a rate for chilled water and rate for steam will be developed and reviewed by Accounting and Facilities Operations CUF staff. Upon approval by RDMD Internal Services management the proposed rate will be submitted to RDMD management for approval.

Upon approval, all other County agencies and outside agencies housed in the Civic Center will be notified electronically or by hard copy of the rates for the year.

**Recommendation No. I. B**
RDMD evaluate its current overhead costs for purchased utilities and determine if the existing rate needs to be revised. A Policy should also be developed to identify the frequency for future reviews.

**Resources and Development Management Department Response:**
RDMD concurs with the recommendation and will review current overhead costs and revised the current rate in conjunction with the next rate update. Additionally, the policy for reviewing billing rates (see RDMD Response to recommendation 1A) will incorporate a requirement to review the overhead rates annually in conjunction with rate review, update approval process.

**Recommendation No. I. C**
We recommend RDMD management to establish a policy and procedure assigning duties to ensure the space specifications are verified and updated timely. Also, RDMD may consider requiring departments/agencies to submit a certification on an annual basis indication whether or not changes occurred.

**Resources and Development Management Department Response:**
RDMD concurs with the recommendation. The Asset Management section of RDMD's Internal Services Function has been assigned the responsibility of maintaining and updating the database that describes the inventory of facilities and assigned County space. At a minimum, this information will be annually updated and provided to the Auditor-Controller, CEO, RDMD/Facilities Operations and other Agencies/Departments in time for use in budget development. Timely updates and verification/certification of assigned space are heavily dependent on the cooperation of Agencies and Departments and their commitment of resources to provide such information, however as RDMD does not have the authority to require provision of such data. RDMD is working with Agencies and Departments to make the information in the database as timely as possible.

**Recommendation No. II. A**
RDMD ensure the supervisory review and approval of transaction input into CUTS is documented to ensure the establishment and the termination of the on-going utility accounts are proper, accurate and complete.

**Resource and Development Management Department Response:**
RDMD concurs and in addition to the reviews by County of Orange initiating department, RDMD Facilities Operations and RDMD Accounting Services; RDMD Purchasing & contracts Utility Desk Supervisor will review and initial paperwork for accuracy and completeness prior to establishment and termination of utility accounts in CUTS.

**Recommendation No. II. B**
RDMD management ensure that an employee is cross-trained to process utility payment as a back up for the Utility Desk.

**Resources and Development Management Department Response:**
RDMD concurs and has acquired an Accounting Specialist within Purchasing & Contracts Services as a result of the PFRD/PDSD merger. In the month of August, this employee was relocated to the Purchasing & Contracts section, given authority to process utility payments and currently is being cross-trained as back-up for the Utility Desk.

Bryan Speegle, Director

cc: James D. Ruth, County Executive Officer
Vicki Wilson, Deputy County Executive Officer
Bob Wilson, Director, RDMD/Internal Services
Bob Boehme, Manager, RDMD/Facilities Operations
Mary Fitzgerald, Manager, RDMD/Accounting Services
Brian Murphy, Chief, RDMD/Central Quality Assurance