



INTERNAL AUDIT DEPARTMENT
COUNTY OF ORANGE

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**REVIEW OF BUDGETARY CONTROLS
FOR
RESOURCES AND DEVELOPMENT
MANAGEMENT DEPARTMENT/
PLANNING AND DEVELOPMENT SERVICES
FUNCTION**

AS OF JUNE 30, 2005

AUDIT NUMBER: 2584

REPORT DATE: October 28, 2005

Audit Director: Peter Hughes, Ph.D., CPA
Deputy Director: Eli Littner, CPA, CIA
Audit Manager: Michael Goodwin, CPA, CIA
Senior Auditor: Dan Melton, CPA

**Review of Budgetary Controls for
Resources and Development Management Department/
Planning and Development Services Function**

As of June 30, 2005

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Transmittal Letter

Audit No. 2584

October 28, 2005

TO: Bryan Speegle, Director
Resources and Development Management Department

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

SUBJECT: Review of Budgetary Controls for Resources and Development Management
Department/Planning and Development Services Function

In conjunction with our Follow-Up Audit of budgetary controls in the former Planning and Development Services Department (Audit No. 2548 for Original Audit No. 2316), we have completed a review of budgetary controls in the Resources & Development Management Department/Planning and Development Services Function (RDMD/PDS). Our audit was limited to reviewing, as of June 30, 2005, the processes and controls in RDMD/PDS over the development and on-going monitoring of the annual budget with particular attention on Building & Safety Fund 113.

This report contains **two new recommendations** that we consider as **Significant Issues** concerning the development of a contingency plan in the event a similar situation occurs from decreased permit revenues coming into Building & Safety Fund 113. The results of our review are discussed in the **Internal Auditor's Report** following this transmittal letter.

Please note, beginning in January 2005, we implemented a more structured and rigorous Follow-Up Audit process in response to recommendations and suggestions made by the Audit Oversight Committee (AOC) and the Board of Supervisors (BOS). As a matter of policy, our first Follow-Up Audit will now begin no later than six months upon the official release of the report. The AOC and BOS expect that audit recommendations will typically be implemented within six months and often sooner for significant and higher risk issues. Our second Follow-Up Audit will now begin at 12 months from the release of the original report, by which time all audit recommendations are expected to be addressed and implemented.

At the request of the AOC, we are to bring to their attention any audit recommendations we find still not implemented or mitigated after the second Follow-Up Audit. The AOC requests that such open issues appear on the agenda at their next scheduled meeting for discussion.

We have attached a Follow-Up Audit Report Form. Your agency should complete this template as our audit recommendations are implemented. When we perform our Follow-Up Audit approximately six months from the date of this report, we will need to obtain the completed document to facilitate our review.

As the Director of the Internal Audit Department, I now make a monthly audit status presentation to the Board of Supervisors (BOS) where I detail any material and significant audit findings released in reports during the prior month, the implementation status of audit recommendations as disclosed by our Follow-Up Audits, any pressing audit or resource issues; as well as, respond to inquiries from the BOS. Therefore, the results of this review will be included in a future summary to the BOS.

Other recipients of this report:

Members, Board of Supervisors

Members, Audit Oversight Committee

Thomas G. Mauk, County Executive Officer

Ed Corser, Deputy County Executive Officer, Chief Financial Officer

Vicki Wilson, Deputy County Executive Officer, Infrastructure & Environment Services

Steve Dunivent, Manager, CEO/Budget Office

Steve Danley, Director, RDMD/Administration

Tim Neely, Director, RDMD/Planning & Development Services

Carlos Bustamante, Assistant Director, RDMD/Planning & Development Services

Greg Lepore, Chief, RDMD/Finance & Department Services

Brian Murphy, Chief, RDMD/Central Quality Assurance

Foreman, Grand Jury

Darlene J. Bloom, Clerk of the Board of Supervisors



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INTERNAL AUDITOR'S REPORT

Audit No. 2584

October 28, 2005

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

We have completed a review of budgetary controls in the Resources & Development Management Department/Planning and Development Services Function (RDMD/PDS). Our audit was limited to reviewing, as of June 30, 2005, the processes and controls in RDMD/PDS over the development and on-going monitoring of the annual budget.

BACKGROUND

An internal audit was conducted on budgetary controls in the County Executive Office (CEO) and PDS following a **\$2.4 million fund deficit** that occurred in PDS's **Building and Safety Fund 113** during the fiscal year ending June 30, 2002. The focus of the audit was a review of high-level budgetary controls both in PDS and the CEO/Budget Office, which is responsible for oversight of the County budget process. Our audit also involved the Auditor-Controller's outstationed accounting function in PDS.

The original audit report contained nine recommendations for corrective actions needed by the CEO, PDS, and the Auditor-Controller. Our Follow-Up Audit (Audit No. 2548 for Original Audit 2316; issued in a separate report on September 8, 2005) found that **satisfactory corrective action was taken on all nine recommendations.**

This audit included a review of budgetary processes and controls in RDMD/PDS, specifically involving the development of the annual budget, on-going budget monitoring processes, and the training of budget personnel. We also reviewed RDMD/PDS' process for projecting workload and staffing needs related to Building & Safety Fund 113. We did not include a review of budget processes and controls in other RDMD divisions.

CONCLUSION

The processes and controls in RDMD/PDS demonstrated a well-defined and articulated budget process. We are pleased with the efforts RDMD/PDS has made in projecting and monitoring staffing needs and workloads and its budget monitoring processes related to Building & Safety Fund 113.

DEVELOPMENT OF FUND RESERVE AND WORKFORCE CONTINGENCY PROGRAM REDUCTION PLAN

Although the budget processes and controls were found to be satisfactory in RDMD/PDS, they are not capable of precluding a sudden drop in revenues from occurring. Permit revenues coming into Building & Safety Fund 113 are influenced by a variety of economic factors that are beyond the control of the RDMD/PDS. Because the fund is used to cover departmental expenses and is subject to both seasonal and economic fluctuations, we believe it is critical to develop **an adequate fund reserve and a contingency plan** specifically for the RDMD/PDS in the event a future reduction in workforce may be warranted. Our two new recommendations, which we consider **Significant Issues** are addressed below. See Attachment A for definitions of audit report items.

A contingency plan should be developed to identify the amount of reserve to be maintained to provide the necessary “cushion” needed to take corrective action. It should also designate a plan for program reductions to meet financial requirements. RDMD should work jointly with Human Resources and Employee Relations to develop such a contingency plan that could be promptly put into effect as warranted. Once the contingency plan is finalized and approved, employees that could be affected should be made aware of the plan.

Recommendation No. 1

RDMD/Planning and Development Services Function should work with the Human Resources and Employee Relations to jointly develop a contingency plan to ensure timely program reductions aligned with the required reductions in RDMD’s workforce for Building & Safety Fund 113.

RDMD Management Response:

RDMD concurs with Recommendation No. 1. RDMD will prepare a draft contingency plan in coordination with Human Resources and Employee Relations Department and submit the draft to CEO for review by November 17, 2005. The draft plan will provide for orderly, planned cost reductions in case of emergency or other unforeseen circumstances resulting in an immediate loss of revenue and need for concurrent reduction in force. If the draft plan requires meet and confer with employee representatives, RDMD will assist Employee Relations with discussions with employee representatives. The County will work with the associations to ensure that the impact upon employees of any such reduction is minimized, that the plan is administered equitably and that all appropriate and available steps to place affected employees within other divisions of RDMD, other county agencies or outside employers are taken.

Recommendation No. 2

In conjunction with developing a contingency plan, RDMD/Planning and Development Services Function should determine an appropriate amount of fund reserve needed to sustain operations and allow sufficient time to take corrective actions, such as a reduction in workforce.

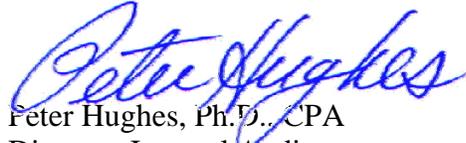
RDMD Management Response:

RDMD concurs with Recommendation No. 2. The Fee Ordinance adopted by the Board of Supervisors on May 18, 2004 included an increase in overhead costs designed to accumulate a “reserve” sufficient for approximately one month of Fund 113 costs for emergency conditions according to a formula developed in collaboration with and approved by the Auditor/Controller’s Office and in compliance with the federal guideline OMB A-87. The maximum amount of the “reserve” is limited by OMB A-87 to about one or two months of costs. RDMD, in consultation with the Development Processing Review Committee (DPRC) and the Building Industry Association (BIA) opted to target a one month reserve level. This “reserve” was accumulated in Fund 113 (total funding: \$825,000) and the increase in overhead for this purpose was deleted in the most recent Fee Ordinance update adopted by the Board on July 19, 2005.



We appreciate the cooperation and assistance extended to us by RDMD/PDS, and RDMD/Finance and Department Services during our review. If you have any questions, please contact me directly or Eli Littner, Deputy Director at (714) 834-5589 or Michael Goodwin, Audit Manager at (714) 834-6066.

Sincerely,


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

Distribution Pursuant to Audit Oversight Committee Procedure No. 1

Members, Board of Supervisors
Members, Audit Oversight Committee
Thomas G. Mauk, County Executive Officer
Ed Corser, Deputy County Executive Officer, Chief Financial Officer
Vicki Wilson, Deputy County Executive Officer, Infrastructure & Environment Svcs.
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Brian Murphy, Chief, RDMD/Central Quality Assurance
Foreman, Grand Jury
Darlene J. Bloom, Clerk of the Board of Supervisors



ATTACHMENT A: Report Item Classifications

For purposes of reporting our audit observations and recommendations, we will classify audit report items into three distinct categories:

Material Weaknesses:

Audit findings or a combination of Significant Issues that can result in financial liability and exposure to a department/agency and to the County as a whole. Management is expected to address “Material Weaknesses” brought to their attention immediately.

Significant Issues:

Audit findings or a combination of Control Findings that represent a deficiency in the design or operation of processes or internal controls. Significant Issues do not present a material exposure throughout the County. They generally will require prompt corrective actions.

Control Findings:

Audit findings that require management’s corrective action to implement or enhance processes and internal controls. Control Findings are expected to be addressed within our follow-up process of six months, but no later than twelve months.



ATTACHMENT B: Resources and Development Management Department Responses



COUNTY OF ORANGE
RESOURCES & DEVELOPMENT MANAGEMENT DEPARTMENT

Bryan Speegle, Director
300 N. Flower Street
Santa Ana, CA
P.O. Box 4048
Santa Ana, CA 92702-4048
Telephone: (714) 834-2300
Fax: (714) 834-5188

DATE: October 26, 2005
TO: Michael J. Goodwin, Audit Manager, Internal Audit Department
FROM: Director, Resources & Development Management Department
SUBJECT: Audit Response - #2584 Budgetary Controls for RDMD/Planning & Development Services Function

The attached RDMD response to the Internal Audit review of Budgetary Controls for RDMD/Planning & Development Services Function has been approved by the CEO.


Bryan Speegle, Director

Attachment

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Recommendation No. 1

RDMD/Planning and Development Services Function should work with the Human Resources and Employee Relations Department to jointly develop a contingency plan to ensure a timely reduction in RDMD's workforce for the Building & Safety Fund 113.

RDMD Management Response:

RDMD concurs with Recommendation No. 1.

RDMD will prepare a draft contingency plan in coordination with Human Resources and Employee Relations Department and submit the draft to CEO for review by November 17, 2005. The draft plan will provide for orderly, planned cost reductions in case of emergency or other unforeseen circumstances resulting in an immediate loss of revenue and need for concurrent reduction in force. If the draft plan requires meet and confer with employee representatives, RDMD will assist Employee Relations with discussions with employee representatives. The County will work with the associations to ensure that the impact upon employees of any such reduction is minimized, that the plan is administered equitably and that all appropriate and available steps to place affected employees within other divisions of RDMD, other county agencies or outside employers are taken.

Recommendation No. 2

In conjunction with developing a contingency plan, RDMD/Planning and Development Services Function should determine an appropriate amount of the fund reserve needed to sustain operations and allow sufficient time to take corrective actions, such as a reduction in workforce.

RDMD Management Response:

RDMD concurs with Recommendation No. 2. The Fee Ordinance adopted by the Board of Supervisors on May 18, 2004 included an increase in overhead costs designed to accumulate a "reserve" sufficient for approximately one month of Fund 113 costs for emergency conditions according to a formula developed in collaboration with and approved by the Auditor/Controller's Office and in compliance with the federal guideline OMB A-87. The maximum amount of the "reserve" is limited by OMB A-87 to about one or two months of costs. RDMD, in consultation with the Development Processing Review Committee (DPRC) and the Building Industry Association (BIA) opted to target a one month reserve level. This "reserve" was accumulated in Fund 113 (total funding: \$825,000) and the increase in overhead for this purpose was deleted in the most recent Fee Ordinance update adopted by the Board on July 19, 2005.

