

Grand Jury Investigation of County Procedures for Determining Fees and Assigning Cost of Local Government Services

Introduction

Since the passage of Proposition 13, local governments have increasingly turned to fees, assessments, and charges to raise revenue for government services. While generally limited by law to the recovery of costs, they now constitute a substantial portion of local government revenue.

Scope

Because of the growing importance of fees, assessments and charges as a source of revenue for local governments, the Grand jury chose to:

- A) Examine the procedures followed in county government for establishing fees, charges and assessments charged to the public.
- B) Examine the procedures followed by county government in assigning cost to various government functions and billing those cost to county departments.
- C) Investigate the complaint of a county employee alleging improper billing practices in the county Water and Wastewater Division of the Department of Public Works.

Fieldwork

- Interview county Auditor/Controller
- Interview county Chief Administrative Officer
- Reviewed county Unified Fee Schedule
- Reviewed county Cost Allocation Plan
- Surveyed numerous county departments concerning fee-setting practices.
- Interview county and city planning directors

The Procedures Followed in County Government for Establishing Fees, Charges, and Assessments Charged to the Public

Findings

1. In general, the county department or agency responsible for providing the government service being charged for formulates the fees. The results of this formulation are then forwarded to the County Administrative Officer who reviews and compiles a proposal to the Board of Supervisors for modification to the counties "Unified Fee Schedule."

Response: Santa Cruz County Board of Supervisors AGREES

2. The “Unified Fee Schedule” is adopted by the Board of Supervisors and constitutes the direct legal authority for a department or agency to recover its cost through the collection of fees from the “beneficiary” of the service provided.

Response: Santa Cruz County Board of Supervisors AGREES

The County agrees with this finding with the clarification that most fees charged by the County do not fully recover the costs of providing the service, but rather recover a portion of the costs expended in providing a service.

3. In general, the amount charged as a fee is limited by law to an amount required to recover the cost expended in providing the service to the beneficiary who is charge the fee.

Response: Santa Cruz County Board of Supervisors PARTIALLY AGREES

The fees charged for many County services are statutory and cannot be amended by the County. Those that are not governed by statute cannot exceed the cost of providing the service.

4. In practice, full or even substantial cost recovery is rare in any department other than the County Planning Department.

Response: Santa Cruz County Board of Supervisors PARTIALLY AGREES

The County Planning Department, like other departments, does not recover fees to cover the cost of service delivery.

5. Therefore, revisions to existing fees are often based on some “reasonable” adjustment to the current fee.

Response: Santa Cruz County Board of Supervisors AGREES

6. These adjustments to prior fees are sometimes based on factors unrelated to the actual costs being recovered such as the local CPI or similar charges in other jurisdictions.

Response: Santa Cruz County Board of Supervisors AGREES

The County agrees with the finding that adjustments are sometimes related to the local CPI or similar charges in other jurisdictions, but believes that these factors are related to the costs being recovered and are appropriate in determining fees.

7. The fee increase form or worksheet used by county departments to request adjustment or additions to the fee schedule, does not specifically identify the cost that are being recovered by the indicated fee.

Response: Santa Cruz County Board of Supervisors PARTIALLY AGREES

On the fee worksheet, departments must cite the authority under which the fee can be charged, indicate whether the fee is mandatory, and describe the services for which the fee will be charged. Sufficient information is provided to the Board of Supervisors to justify the recommended fee.

8. Public frustration with and confusion about planning department fees are one of the most important challenges facing the planning department.

Response: Santa Cruz County Board of Supervisors

The fees associated with the processing of ministerial permit applications, such as building permit applications or over-the-counter plumbing or electrical permits, typically are very simple, straight-forward, and easy to understand fee calculations that do not present problems for members of the public wanting to obtain these types of permits. The majority of fees fall into this category. However, fees associated with the processing and review of discretionary permit applications have at times been a significant source of confusion for some members of the public.

The Board of Supervisors, in connection with the adoption of the County's FY 2003-04 budget, directed the Planning Department to implement a phased conversion of its current method of fee collection to a largely "At Cost" collection procedure. The Board also authorized funds in the Planning Department's budget to undertake a study of the department's fees during FY 2003-04. The Planning Department is currently reviewing its cost estimate worksheets, billing invoice forms and related materials for the purpose of clarifying assumptions and explanations that provide the basis of fee costs or estimates.

Response: City of Capitola DISAGREES

The City Council of the City of Capitola disagrees with this finding as it may be applied to the City of Capitola Planning Department. Recently the City conducted a voter survey of 351 residents, none of whom commented on the Planning Department fees.

Response: City of Santa Cruz DISAGREES

The City has a clearly written fee schedule for planning-related activities.

Response: City of Scotts Valley PARTIALLY AGREES

The issue of fees can be confusing and most concerns raised are not about "processing" fees but impact fees, which have a greater burden than processing fees on most projects. We agree that more clarity as to the purpose of fees and the amounts charged would improve relationships with our customers for all fees charged, not just for the planning process

Response: City of Watsonville DISAGREES

The City disagrees with this finding to the extent that it relates to the City. The City has printed fee schedules that are available to the public and City Staff is not aware of confusion related to fees.

9. Public dissatisfaction with the planing process and its expense leads to poor public compliance.

Response: Santa Cruz County Board of Supervisors

The County is not aware of any studies that support this finding, but agrees that it may be true to some unknown degree. There are members of the public who, because of their perceptions about the County's planning process, have decided to build projects or implement land uses without obtaining the requisite permits. However, a variety of other reasons exist for people not obtaining permits. For example, many individuals indicate that they were unaware that a permit was required to do their project. When it is brought to their attention, and many times not at the urging of the County's Code Compliance staff, they voluntarily make application to secure the necessary approval(s). Another reason that a person may build a structure or introduce a land use and may not want to obtain necessary approvals or permits is because the new structure or use will trigger an unwanted increase in the property's assessed valuation, associated tax obligations, obligatory impact fees, etc.

Response: City of Capitola PARTIALLY AGREES

As a general rule if permit fees so far outpace expenses that they are unreasonable, the public will forego the permit process and risk the penalties for non-compliance. However, it is unclear how this matter relates to the City of Capitola or upon what evidence this finding was made. In Capitola we believe we have a very high degree of compliance.

Response: City of Santa Cruz DISAGREES

The Santa Cruz Planning Department is not aware of public dissatisfaction regarding the planning process.

Response: City of Scotts Valley PARTIALLY AGREES

The planning process and basis for the rules being applied needs to be clearly conveyed at all times in the process. The rules and regulations are complex, however, and often influenced by outside factors such as State and Federal laws. Therefore, local government does not always have the choice about how to apply regulations at another government level. This is particularly the case for issues related with the Endangered Species Act. We agree that the process can be confusing and difficult at times, especially when a case is controversial and where neighbors oppose a particular project. Often, local government is blamed for the controversy even though it is the private sector which opposes the development. A reasonable process to allow for public comment as well as a program to assist applicants is needed. Also, a paramount issue is to ensure that

planners uniformly apply rules in the same manner so that there is equity in the process. Reasonable access to persons with authority to make decisions is also necessary so that applicants can move forward through the process. We agree that trust in the process is very important to encourage compliance with the regulations.

Response: City of Watsonville DISAGREES

The City disagrees with this finding to the extent that it relates to the City.

The City has continually worked to improve customer service and to acknowledge that growth is necessary for the financial and social health of the City. The City provides timely response and full service permit center that is open five days a week, nine hours a day.

Conclusions

1. The more fee revision is based on “reasonable” adjustment rather than “from scratch” calculation, the greater the risk of error.
2. To avoid errors, adjustments to prior fees should be limited to factors related to the actual costs involved.
3. To meet their responsibilities under the law, decision makers need to know what actual costs are being recovered when approving a new or modified fee.
4. The County process for setting fees does not clearly identify to its decision makers the cost being recovered by the proposed fee.
5. Public disputes over fee amounts can be quickly resolved if information on costs being recovered is readily available in a form accessible to the public.
6. The cost basis of Planning Department fees needs to be better communicated to the public to lesson public hostility to the planning process and improve citizen compliance.

Recommendations

1. The County process for setting fees should be amended to require all fees to be reviewed “from scratch” on a reasonable regular basis.

Response: Santa Cruz County Board of Supervisors

This recommendation is already in place. Each year, as part of the budget preparations, departments are instructed to review their sections of the Unified Fee Schedule. Departments are also given the opportunity to review fees in January.

2. Unless required by some outside authority, the Board of Supervisors should not approve proposals for adjustments to fees based on factors unrelated to the actual cost being recovered.

Response: Santa Cruz County Board of Supervisors

This recommendation is already in place.

3. The County Administrative Office should improve its fee request form to require a worksheet attachment that specifically identifies the cost being recovered.

Response: Santa Cruz County Board of Supervisors

This recommendation will be partially implemented. The County will add a section to the fee form to assure that the fee does not exceed the cost of the service delivered. However, as the Grand Jury pointed out, full or even substantial cost recovery is rare in any department. The County has elected to subsidize various services for the public's benefit. For instance, if the Health Services Agency charged fees sufficient to cover their costs, their clients would not be able to afford to seek services. Likewise, if the Swim Center charged participants the full cost of the pool, few people would swim there. Because most fees are set by statute, and many fees cannot be expected to cover the actual costs of the services provided, it is doubtful that preparing additional worksheets would be useful.

4. To improve public confidence in Planning Department fee structures, the County Administrative Officer and each City Manager should require a "from scratch" analysis of all fees for Planning department services during the next regularly scheduled review cycle.

Response: Santa Cruz County Board of Supervisors

This recommendation will be implemented. As previously indicated, the County Planning Department is presently implementing a phased conversion of its fee collection system to a largely at cost arrangement fee collection system. In connection with the project, the department is reviewing ways to increase clarity and understanding regarding how fee estimates are determined. The Board of Supervisors has authorized the reservation of funds in the Planning Department's budget to conduct a fee study during Fiscal year 2003-04. The Planning Department reviews its fees on an annual basis and will continue to do so. The County cannot speak for cities.

Response: City of Capitola

This recommendation will not be implemented because of the following reasons: 1) It is unfounded. At no time has the City of Capitola received any information that its fees were unreasonable. 2) The meaning of "from scratch" is unclear. 3) The City has just implemented a cost recovery system for planning fees that is based on actual time spent on processing applications for development.

Response: City of Santa Cruz

The recommendation requires further analysis. This idea will be considered over the next six months and then a determination will be made about the timetable of implementing an analysis of this nature.

Response: City of Scotts Valley

The City implemented this finding when our fee structure was reviewed in 1991. In 1991, the fees were established based upon a detailed analysis of processing times for specific types of permits. An updated comprehensive analysis is proposed over the next fiscal year, if enough cases are filed to allow for adequate review. Adequate time to develop a cost basis for each fee is critical for such an evaluation to be accurate. This analysis will be “from scratch” analyzing each fee and the actual time required to process each type of permit. In order to ensure the fees are reasonable, a minimum number of similar cases must be reviewed. Depending on the cases analyzed, the City may update the fee schedule in phases as enough historical data becomes available to have the “from scratch” data available.

Response: City of Watsonville DISAGREES

The City disagrees with this finding to the extent that it relates to the City.

The City of Watsonville has recently completed a detailed assessment of its fees with the assistance of Maximus Consulting. We are confident in the analysis and have implemented changes accordingly. We cannot speak to other jurisdiction fees.

5. The detailed cost basis for each planning department fee should be identified and made available for public review at each planning department office.

Response: Santa Cruz County Board of Supervisors

This recommendation has been implemented. Project sponsors who have their permit application processed at cost are provided a detailed cost breakdown of services provided, including time allocated by position. When the department completes implementation of the phased conversion of fee categories to the single at cost arrangement method, project sponsors will uniformly receive detailed cost breakdowns of fees applied to their permit applications.

Response: City of Capitola

This recommendation is in the process of implementation and should be complete within the next three months, in the form of assessing the results of the new cost recovery based approach to planning fees.

Response: City of Santa Cruz

The recommendation requires further analysis. Along with the analysis of the fee schedule (above), this idea will also be reviewed within the next six months. However, it should be noted that to implement this properly would require a sophisticated cost-benefit analysis and may be beyond the capacity of local governments right now.

Response: City of Scotts Valley AGREES

The City has implemented this recommendation. We have made our 1991 study available to those who request documentation. However, upon completion of the updated comprehensive fee analysis discussed in response 4 above, a detailed cost basis for each fee can be provided.

Response: City of Watsonville DISAGREES

The City disagrees with this finding to the extent that it relates to the City.

The City of Watsonville has adopted fees which are equal to, or less than, the actual cost of providing the service in accordance with state law. The report and recommendations are public documents. The vast majority of City Council-adopted fees are set well below the actual costs of providing service due to the implication on home owners and property owners and as an acknowledgement that a City's General Fund bears some responsibility to cover a portion of costs related to City " Police Powers".

Responses Required

Entity	Findings	Recommendations	Respond Within
Board of Supervisors County of Santa Cruz	1-9	1-5	60 Days (Sept. 2, 2003)
City Council of the City of Santa Cruz	8-9	4-5	60 Days (Sept. 2, 2003)
City Council of the City of Capitola	8-9	4-5	60 Days (Sept. 2, 2003)
City Council of the City of Scotts Valley	8-9	4-5	60 Days (Sept. 2, 2003)
City Council of the City of Watsonville	8-9	4-5	60 Days (Sept. 2, 2003)

A) The Procedures Followed By County Government in Assigning Cost to Various Government Functions and Billing Those Cost to County Departments.

Findings

2. County government, as with most local governments, operates on a July 1st to June 30th Fiscal Year.

Response: Santa Cruz County Board of Supervisors AGREES

2. Prior to each fiscal year, the county publishes it “Cost Allocation Plan” to be used in the coming fiscal year. This plan is prepared with the assistance of outside consultants in accordance with the requirements of OMB Circular A-87, “Cost Principles for State and Local Governments” and is based on the experience of the most recently completed fiscal year. For example, the plan used for the just completed 2002/2003 fiscal year was completed in January of 2002 and was developed using the financial data and experience compiled through Fiscal Year 2000/2001.

Response: Santa Cruz County Board of Supervisors AGREES

3. This Cost Allocation Plan is used for the purpose of allocating the cost of county government incurred by one county function for the benefit of another. For example, use of office space at the county government center is billed to each county department based on an allocation of the cost of providing the building in proportion to the square footage allocated to each department.

Response: Santa Cruz County Board of Supervisors AGREES

4. As a further example, cost are allocated to the Grand Jury for use of the county building, custodial services, maintenance of the landscaping at the county building, purchasing, and assistance from the County Auditor/Controller, County Counsel, and the County Chief Administrative Officer.

Response: Santa Cruz County Board of Supervisors AGREES

5. Theoretically, the end result of this Cost Allocation Plan is that estimates of these costs are allocated to each department in proportion to the use and benefit received by the department.

Response: Santa Cruz County Board of Supervisors AGREES

6. This allocation has three significant effects:
 - a. the true cost of providing a government service are better estimated for management and budget purposes;

- b. the proper amount for charges and accountings to federal, state, and local governments for services provided are determined; and
- c. the proper amount of charges, assessments, and fees to the public for services provided are determined.

Response: Santa Cruz County Board of Supervisors AGREES

7. In theory, since it affects their budget, each department acts as a check on the propriety of these charges.

Response: Santa Cruz County Board of Supervisors AGREES

8. In practice, this check is limited by a number of factors including:
- a. the difficulty in contesting charges presented as authoritative;
 - b. the lack of bench mark testing to determine if charges are reasonable;
 - c. the limited benefit to the department given the budgeting process which is likely to merely reduce the budget by the objected amount.

Response: Santa Cruz County Board of Supervisors DISAGREES

Departments do question the amount of the indirect costs, and corrections are made to the Plan when appropriate. The Auditor's Office facilitates the work of the departments by preparing a Cost Plan Review Guide for departmental use. Often departments identify situations where allocations appear incorrect for one reason or another.

9. Many other charges are passed on in a similar ways based on the actual cost of services provided.

Response: Santa Cruz County Board of Supervisors AGREES

10. Interest in challenging such charges is thought to increase during tight budgetary times.

Response: Santa Cruz County Board of Supervisors DISAGREES

County departments are always concerned with the accuracy of the Plan.

11. County departments are generally not allowed to seek outside alternatives even when the cost is significantly more than private sources.
12. The experience of this year's Grand Jury is illustrative: The Grand Jury, as with many county departments, is charge by the County Information Services Division for internet access and access to the county's main frame on a per connection basis. The Grand Jury has little or no need to access the county mainframe. However, it is our understanding that if we objected to the charge for this access we would be disconnected from all access and the line item would be deleted from next year's budget. Thus there is little or no incentive to object to this charge. Similarly, many Grand Jury members familiar with technology issues felt that the amount charged to the Grand Jury for computer assistance

and internet access was for beyond that available commercially. However, since this is an established process, our options seem to be to decline internet access entirely, to fight for outside access which would potentially limit our access to the county intranet, or to accept the current service as presented.

Conclusions

1. Overly broad cost distributions hide inefficiencies in the budgeting process.
2. The budgeting process does not adequately encourage questioning of such charges
3. The benefits of commercial competition are often lacking.
4. Comparisons to commercial alternatives would help to identify inaccuracies.
5. Departments are not encouraged by established processes to assess the actual benefit received and to question charges that are out of proportion to that benefit.

Recommendations

1. The CAO and Auditor/Controller should explore ways to encourage departments to evaluate allocated cost to ensure that they adequately represent the “benefit” provided to the department and to challenge those that appear out of proportion to the benefit received.

Response: Santa Cruz County Board of Supervisors

This recommendation has already been implemented. County departments are encouraged to evaluate allocated costs and to challenge those that appear inaccurate. However, it should be noted that these costs are not based on the “benefit” provided to the department but are based on the proportionate cost of the services which are provided.

2. Where possible, the CAO and Auditor/Controller should require comparison to commercial alternatives to identify inaccuracies and inefficiencies.

Response: Santa Cruz County Board of Supervisors

This recommendation has already been implemented. The County has conducted comparative analysis of services and in most instances found that the public is better served without privatizing the function. Examples include: rapid copy services, service center operations, custodial services, building maintenance, and debt collection services. There are many services that have been privatized or provided by vendors including: acute inpatient hospital care, specialized physician services, consulting services, auditing services, security services, body shop services, computer software and maintenance service, special legal services, public defender services, ambulance services, trash collection services, elevator services, investment advisory services, dental services, actuary services, labor negotiators, window cleaning, translator services, parking fine collections, and more. These comparisons are continually being revisited.

Response: Santa Cruz County Auditor/Controller

With regard to the findings, conclusions, and recommendations related to cost allocations and internal service fund charges, we believe more information would have resulted in a different set of conclusions and recommendations. Therefore, we believe that the recommendations are redundant these processes already exist as explained below.

Indirect Costs: The County-wide Cost Allocation Plan is an elaborate mechanism to allocate the central administrative and support costs to the service delivery departments to facilitate the recovery of costs from State and Federal Agencies and to set fees. Cost Accounting is an art and not a science thus lending itself to more than one approach to distributing costs; however, it is important to select universal allocation basis which is consistently applied and allowable under federal regulations.

Indirect costs are budgeted for certain departments and others use this information to develop appropriate overhead rates for grants and rate setting. Departments do question the amount of the indirect costs and to facilitate their work we prepared a Cost Plan Review Guide for the departmental use. Often departments identify situations where allocations appear incorrect for one reason or another. The County-Wide Cost Allocation Plan is not used to "hide inefficiencies in the budget process." We do not understand your statement. It is important to remember the unique nature of the public institution established under a set of complex statutes, rules, and governance. Trying to compare the private sector to the public sector does not work well in most instances and often finding comparable public organizations can be challenging due to the different structures.

The county has conducted comparative analysis of services and in most instances found that the public is better served without privatizing the function. Examples include: rapid copy services, service center operations, custodial services, building maintenance, and debt collection services. There are many services that have been privatized or provided by vendors including: acute inpatient hospital care, specialized physician services, consulting services, auditing services, security services, body shop services, computer software and maintenance service, special legal services, public defender services, ambulance services, trash collection services, elevator services, investment advisory services, dental services, actuary services, labor negotiators, window cleaning, translator services, parking fine collections, and more.

Internal Service Fund Operations: The County has four internal service fund operations that provide support services. They are the Fleet Service Center, Central Duplication, Information Services, and Self-Insurance.

The Fleet Service Center provides general-purpose use vehicle, supports and maintains the sheriff vehicles, and provides some special purpose vehicles. Vehicles are serviced on a regular schedule and fueled on site. Our analysis has shown that it is more cost effective for employees to use pool vehicles over IRS reimbursement rates when traveling more than 300 miles and assigning vehicles where the annual mileage exceeds 10,000 miles.

Central Duplicating provides a variety of printing services. These services are cost effective and provide for quicker turnaround than most vendors can guaranty. If services cannot be provided, department can be authorize to use outside services. Our office has found the vendor solution to be more costly to print financial statements and budgets.

Information Services provides services on mid-size mainframe processor and provides a number of client server services as well. The mainframe is used mostly to process large applications both vendor and legacy systems. The County is at a cross road as the State has assumed more processing duties. Members of the Information Service Policy Task Force meet a several times a year to discuss and prioritize work plans for the department and we do discuss the cost of the operations. A number of years ago, our office recommended the creation to the internal service fund to provide for a full accounting and to provide for the service charges to be presented within each user budget. Prior to that occurring the expenditures were reported as a General Fund Budget and the charges were not fully applied to the user budgets. When charges do not appear in the customers budget, there is a disincentive to question the costs. Migrating away for the use of the mainframe is not a simple process because it is the host to number of very large and complex systems, which are not easily transferred to another platform, and the cost of replacement could cost several millions of dollars. It is not uncommon for counties to spend \$7 to \$15 million replacing the tax, human resources/payroll and financial systems. Our office has made use of vendor systems for our financial systems, check writers, internet financial reports, electronic timekeeping (in progress), and internet banking inquiry.

Self-Insurance Programs: The County has a self-insurance program which provides for a broad range of insurance coverages through a combination of self-funding and umbrella insurance policies to cover catastrophic losses. The County chose this option because insurance coverage on the commercial market was and is either unavailable or cost prohibitive. The cost of these programs are charged to the County departments either as direct charges or allocated through the cost plan depending on the financial reporting required and cost recovery considerations. These costs are allocated on the basis of relative risk, exposure and history.

Responses Required

Entity	Findings	Recommendations	Respond Within
Board of Supervisors County of Santa Cruz	1-10	1-2	60 Days (Sept. 2, 2003)
Santa Cruz County Auditor/Controller	1-10	1-2	60 Days (Sept. 2, 2003)

B) Grand Jury Investigation of Improper Billing Practices in the County Water and Wastewater Division of the Department of Public Works.

Findings

1. Facilities for the treatment and disposal of wastewater in the unincorporated areas of Santa Cruz County are maintained by employees of the Water and Wastewater Division of the County Department of Public Works.

Response: Santa Cruz County Board of Supervisors AGREES

2. The expenses associated with this maintenance and the cost of new and replacement parts and equipment are financed through assessments on property owners collected through several County Service Areas (CSA) established for this purpose.

Response: Santa Cruz County Board of Supervisors AGREES

The County agrees with this finding, with the clarification that the expenses associated with maintenance of not only the County Service Areas (CSA), but also the Freedom, Davenport and Santa Cruz County Sanitation Districts, are financed through service charges (not assessments) on only those property owners whose homes or businesses are connected to these various sanitary sewer systems.

3. The funds raise through each CSA may only be expended for the purpose of developing and maintaining wastewater treatment and disposal for properties located in the specific CSA for which they were collected.

Response: Santa Cruz County Board of Supervisors AGREES

The County agrees with the finding, although, like finding #2, this should also refer to the Freedom, Davenport and Santa Cruz County Sanitation Districts, in addition to CSAs.

4. The Santa Cruz County Grand Jury received a complaint submitted by a county employee alleging that employees of the Water and Waste Water Division of the Department of Public Works were being required to bill their time to improper accounts. Specifically, it was alleged that labor and parts expended for the repair and maintenance of facilities located in the Sand Dollar CSA had been billed to accounts associated with other service areas. Additionally, it was asserted that this was a common practice in the operations of the department.

Response: Santa Cruz County Board of Supervisors

While the County is unaware of the details of the complaint filed with the Grand Jury, the County has received a similar complaint that is currently the subject of review by the

Department of Public Works and the Auditor. The County is committed to identifying and correcting any weaknesses in internal control.

5. A preliminary investigation of the complaint and a review of documents provided to support the allegations appeared to members of the Grand Jury to substantiate the complainant's allegations.

Response: Santa Cruz County Board of Supervisors

See comment to #4 above.

6. Because Grand Jury members lacked the necessary knowledge and expertise to evaluate the accounting practices associated with these transactions, the Grand jury sought the assistance of the County Auditor/ Controller and Chief Administrative Officer.

Response: Santa Cruz County Board of Supervisors AGREES

7. The County Auditor/Controller suggested his department perform a review of the time tracking system used by the Water and Wastewater Division of the Department of Public Works to evaluate the allegations.

Response: Santa Cruz County Board of Supervisors AGREES

8. The Grand Jury agreed to this proposal and requested the review.

Response: Santa Cruz County Board of Supervisors AGREES

9. Preliminary results of this review indicated numerous inconsistencies between the department's daily report logs and the corresponding employee time cards. Of the data reviewed so far, approximately 50% of the daily reports do not agree to the corresponding time cards.

Response: Santa Cruz County Board of Supervisors AGREES

The Department's daily report logs were not intended for timekeeping purposes, but should conform with time records. The daily logs are tools that allow Water and Wastewater Division management to track which preventative maintenance measures and plant operations were completed on a given day in any given service area or district facility. All of the Department's staff in this and other divisions, like all other County employees, are required to use employee time cards for tracking their actual time spent on any given assignment in any of the CSAs or sanitation districts, using the job numbers assigned to that service area or district and the specific task involved. The percentage of errors noted is misleading in that the difference in the number of actual hours involved in the preliminary comparison study indicates a very small percentage of difference between the time entries in the daily logs and the hours shown on the timecards.

10. The County Auditor/Controller will submit a report of his complete findings and recommendations stemming from this review to the Board of Supervisors during the Budget hearings in June of 2003.

Response: Santa Cruz County Board of Supervisors

The report is expected shortly.

Conclusions

1. The preliminary results of this investigation appear to at least partially substantiate the allegations of the complainant.
2. At a minimum, the division appears to lack adequate internal controls to ensure the accuracy of its time keeping system. Further investigation would be required to determine if other issues are raised by these findings.
3. Allegations that these irregularities are done for some intentional purpose have not to this date been substantiated and would require further review.
4. The County/Auditor controller should be commended for his prompt attention to this matter.

Recommendation

1. The Board of Supervisors should consider the adoption of a “whistleblower program” to facilitate better accounting practices and internal controls within County Departments.

Response: Santa Cruz County Board of Supervisors

This recommendation will be considered when the Auditor-Controller submits his report and recommendations.

2. The County Auditor/Controller should submit to the Board of Supervisors proposals for further review of this and similar structures to determine;
 - a. whether the problem is limited to this particular structure; and
 - b. whether the problem is the result of merely inadequate internal controls or intentional misappropriation.

Response: Santa Cruz County Board of Supervisors

The County will defer to the County Auditor-Controller to respond to this recommendation.

Response: Santa Cruz County Auditor/Controller

We agree with the recommendation. Our office is in the final phase of completing the investigation of cost accounting/timekeeping irregularities that reported in the Sanitation Division of the Public Works Department. Our report will be filed with the Board of Supervisors upon completion and include appropriate recommendations.

Our report will also recommend a “whistleblower” program, also known as a Hot Line intended for reporting indications of fraud, misuse of County resources by employees, vendors, or contractors; and significant violations of County policy. Examples of reportable offenses include:

- Theft*
- Conflict of interest*
- Fictitious claims*
- Misuse of County property*
- Embezzlement*
- Bribes and kickbacks*
- Abuse of work hours*
- Inappropriate use of County credit cards*

The individuals will be afforded confidentiality and may choose to be anonymous.

This program is not necessarily used to improve accounting procedures or internal controls but is a tool to detect abuses. Accounting procedures and internal controls will not in themselves prevent abuses where there is a willful intent or conspiracy to carry out a reportable offense.

In addition, we believe that the County should provide information and training on ethics for public employee. I understand that the County’s conflict of interest and incompatible activities policies are currently being reviewed. This will provide an excellent opportunity to underscore the importance of ethics in government. Public employees are entrusted to be accountable for the expenditure of public money. Employees that are directed to participate in or carry out a reportable offense, need a process to report such incidents without the fear of reprisal or retribution. In 1984 the legislature created the Reporting of Improper Governmental Activities Act, and provided additional guidance in 1986. These Code Sections are attached.

Responses Required

Entity	Findings	Recommendations	Respond Within
Santa Cruz County Board of Supervisors	1-10	1,2	60 Days (Sept. 2, 2003)
Santa Cruz County Auditor/Controller	1-10	1,2	60 Days (Sept. 2, 2003)