

# **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.”
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.
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.
4. In practice, full or even substantial cost recovery is rare in any department other than the County Planning Department.
5. Therefore, revisions to existing fees are often based on some “reasonable” adjustment to the current fee.
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.
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.
8. Public frustration with and confusion about planning department fees are one of the most important challenges facing the planning department.
9. Public dissatisfaction with the planing process and its expense leads to poor public compliance.

## ***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.
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.
3. The County Administrative Office should improve its fee request form to require a worksheet attachment that specifically identifies the cost being recovered.
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.
5. The detailed cost basis for each planning department fee should be identified and made available for public review at each planning department office.

**Responses Required**

<b>Entity</b>	<b>Findings</b>	<b>Recommendations</b>	<b>Respond Within</b>
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***

1. County government, as with most local governments, operates on a July 1st to June 30<sup>th</sup> Fiscal Year.
2. Prior to each fiscal year, the county publishes its “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.
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.
4. As a further example, costs 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.
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.
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.
7. In theory, since it affects their budget, each department acts as a check on the propriety of these charges.
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.
9. Many other charges are passed on in a similar ways based on the actual cost of services provided.
10. Interest in challenging such charges is thought to increase during tight budgetary times.
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.
2. Where possible, the CAO and Auditor/Controller should require comparison to commercial alternatives to identify inaccuracies and inefficiencies.

***Responses Required***

<b>Entity</b>	<b>Findings</b>	<b>Recommendations</b>	<b>Respond Within</b>
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.
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.
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.
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.
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.
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.
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.
8. The Grand Jury agreed to this proposal and requested the review.
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.



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.

**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.
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.

**Responses Required**

<b>Entity</b>	<b>Findings</b>	<b>Recommendations</b>	<b>Respond Within</b>
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)

