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October 23, 2008

Subject: Internal Audit Report 2008-002: Franchise Fees

Dear Agency Heads:

We have completed a limited scope audit of the franchise fee revenue process. We conducted the audit during the period August 28, 2007, through December 21, 2007, for operations of July 1, 2005, through June, 30, 2007.

Our primary objective was to provide management and the Board of Supervisors with an independent assessment about the adequacy of internal controls over the franchise fee revenue process. The scope of our audit included the Community Health Agency, Environmental Health and Economic Development Agency, County Airports.

We conducted our audit in accordance with the auditing standards established by the Institute of Internal Auditors. These standards require that we plan and perform the audit to provide sufficient, competent, and relevant evidence to achieve the audit objectives. We believe the work conducted during the audit provides a reasonable basis for our conclusions.

Overview

Franchise fee revenues are collected as part of a franchise agreement executed between local governmental agencies and other organizations in the utility, waste, and cable businesses. These agreements are executed to ensure service to all customers in the County of Riverside. Franchise fees are typically calculated as a percentage of the franchisee's revenues derived from providing services or sales to customers within the county and range from one percent to eight percent of gross receipts. Franchise fee revenue is utilized for a variety of purposes including but not limited to street improvements, offsetting the cost of regulation and the relocation of power lines.

The County of Riverside has franchise agreements with several businesses throughout the county including waste management and aviation businesses. These contractors are referred to as franchisees and the Board of Supervisors approves and modifies all franchise fee agreements. The agencies are responsible for collecting, verifying, depositing and recording the revenues received.

Environmental Health receives revenue for the collection of waste for residential, commercial and industrial customers at eight percent of gross receipts, less landfill fees or transfer station tipping fees. County Airports receives revenue for the sale of aircraft fuel to pilots at five percent of the total net price paid for fuel delivered. During fiscal years 2005/06 and 2006/07, the agencies audited received \$6,143,700 in franchise fee revenues, \$5,623,838 for Environmental Health and \$519,862 for County Airports.

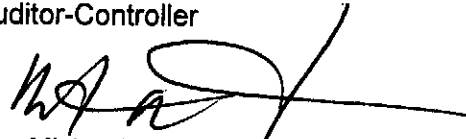
Overall Conclusion

In general, the agencies maintained adequate internal controls over franchise fee revenue processes. However, there is an opportunity to improve internal controls over the agencies' methods for verifying the basis for county revenue. We made specific recommendations to each of the two agencies audited addressing improvements to their internal controls over the verification of franchise fee revenues. Specifically, we recommended Environmental Health require franchisees to submit supporting documentation to validate the revenues received and the County Airports consistently monitor aviation fuel flow readings at all airports. Management concurred with our recommendations. We will follow-up within one year to verify management's implementation of our recommendations.

We thank the participating agencies management and staff for their cooperation. Their assistance contributed significantly to the successful completion of the audit.

Sincerely,

ROBERT E. BYRD, CGFM
Auditor-Controller



By: Michael Alexander, MBA, CIA
Deputy Auditor-Controller

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