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Audit Report

FEE STRUCTURE REVIEW

June 2004

Office of the City Auditor
Austin, Texas

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City of Austin



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June 22, 2004

To: Mayor and Council

From: Stephen L. Morgan

Subject: Fee Structure Review Report

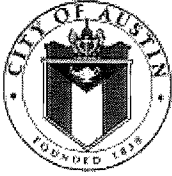
Attached is our report on the Fee Structure Review audit. This audit arises from our Revenue Accountability Project, which has produced nine other products related to revenue streams since 2002. In this project, we reviewed the City's process of setting and evaluating fee levels and structures, primarily for fees administered by general fund departments since 2002.

In general, we found that the Budget Office has made significant improvements in setting and evaluating fees by guiding departments through a more comprehensive formal review of all fees. Management is in the process of formalizing these improvements in a written policy which establishes a full review on a two-year cycle.

We found that the process can be further improved by classifying fees based on their purpose, constituencies, cost basis, or other considerations. Further, the process can be improved by setting cost-recovery targets for each class of fees as a matter of policy, and evaluating all fees against a rigorous and consistent calculation of costs of service which starts with a full allocation of overhead costs to potential fee areas. The fee review process and the recommended improvements should be formalized in written policies and procedures that define roles for the entire process.

We appreciate the cooperation we received from staff in the Budget Office, the Controller's Office, the Parks and Recreation Department, and the Health Department.

Stephen L. Morgan, CIA, CGAP, CFE, CGFM
City Auditor



ACTION SUMMARY FEE STRUCTURE REVIEW

Rec. #	Recommendation Text	Management Concurrence	Proposed Implementation Date
01.	In order to study fully the complex issues related to setting fees, the City Manager should appoint a staff committee comprised of representatives of the Budget Office, the Controller's Office, and a sample of operating departments to guide the implementation of the recommendations in this report.	Concur	January 1, 2005
02.	In order to allow for effective administration of the wide variety of fees, the Budget Officer, aided by the committee named above, should develop a useful system of classifying fees based on factors such as constituencies, purpose of the fee, or underlying basis for the fee, such as cost of service, market rates, or infrastructure maintenance.	Concur	January 1, 2006
03.	The City Manager, through the staff committee named above, should develop cost accounting standards for City departments to ensure that each department can reasonably estimate the full cost of providing each fee service on both a total cost and unit cost basis. These standards should take into consideration both direct and indirect cost, including reasonable allocations of citywide and departmental overhead cost to each fee service. The standards should recognize that cost of service calculations should be reasonable, but not so costly to perform that they undercut efficient administration of the fees.	Concur	March 2005

Rec. #	Recommendation Text	Management Concurrence	Proposed Implementation Date
04.	The Budget Officer, aided by the committee named above, should evaluate the costs and benefits of using City resources or bringing in outside expertise to identify all cost objects, allocate indirect costs to each object, and calculate full cost-recovery rates for each fee area.	Concur	March 2006
05.	<p>In order to ensure consistent evaluation of fee levels and structures, the Budget Officer, in consultation with the operating departments, should develop a written policy (or policies) and procedures for ongoing evaluation that includes the following:</p> <ul style="list-style-type: none"> • steps in the evaluation cycle, • duties of each participant in the process, • frequency of evaluation, • reference to cost accounting standards, • calculation of cost-recovery rates, • establishment of cost-recovery targets for each fee, • provision for auditing cost estimates and recovery calculations. 	Concur	October 2005
06.	To ensure full information to policy makers on the extent to which services are subsidized by general revenues, the Budget Officer should present to Council cost-recovery targets for each fee service and should publish periodically the actual cost-recovery achieved on both a per-unit and total recovery basis for each fee.	Concur	September 2010 (First fees by July 2006)