



Audit of the Public Works Agency's Administration of the Franchise Program

Report Date: September 11, 2025

Office of the Auditor-Controller
County of Ventura, California
Jeffery S. Burgh, Auditor-Controller

County of Ventura
AUDITOR-CONTROLLER
MEMORANDUM

To: Gregg Strakaluse, Director, Public Works Agency

Date: September 11, 2025

From: Jeffery S. Burgh

Subject: AUDIT OF THE PUBLIC WORKS AGENCY'S ADMINISTRATION OF THE FRANCHISE PROGRAM

We have completed our audit of the Public Works Agency's (PWA) administration of the Franchise Program for pipelines and utilities. Our overall objective was to determine whether PWA's Real Estate Services Division (RES) provided adequate oversight for the administration of franchises during Fiscal Year 2023-24.

Executive Summary

Overall, we found that RES adequately administered the Franchise Program. For example, RES conducted reviews to ensure that franchise fee payments and supporting statements were calculated accurately and received timely.

However, we identified opportunities for RES to:

- Strengthen franchise fee review procedures to further ensure the accuracy and completeness of franchise fee payments.
- Maximize revenue by charging penalties for late payments in accordance with ordinance terms.

PWA management initiated corrective action to address our findings. Corrective action is planned to be completed by May 2, 2026.

We appreciate the cooperation and assistance extended by you and your staff during this audit.

cc: Honorable Janice Parvin, Chair, Board of Supervisors
Honorable Jeff Gorell, Vice Chair, Board of Supervisors
Honorable Matt LaVere, Board of Supervisors
Honorable Kelly Long, Board of Supervisors
Honorable Vianey Lopez, Board of Supervisors
Sevet Johnson, Psy.D., County Executive Officer

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Background

The County of Ventura (County) grants franchises for use of public rights-of-way for pipelines and utilities in exchange for the payment of franchise fees in accordance with California Public Utilities Code sections 6201 through 6302. These franchises are administered by the Real Estate Services Division (RES) of the Public Works Agency (PWA) under the Franchise Program. During Fiscal Year (FY) 2023-24, the County received approximately \$3.9 million in general fund revenue from 20 franchises, including water pipelines, oil pipelines, natural gas pipelines, and electricity.

Scope

Our overall objective was to determine whether RES adequately administered the Franchise Program for pipelines and utilities. Specifically, for franchises with fees paid to the County during FY 2023-24, we:

- determined whether franchise fee payments were received in accordance with the franchise terms; and
- evaluated the sufficiency of management oversight of the administration of franchises.

The audit was performed in conformance with the Global Internal Audit Standards promulgated by The Institute of Internal Auditors.

Findings

Overall, we found that RES adequately administered the Franchise Program. For example:

- Reviews were conducted to ensure that franchise fee payments were accompanied by required statements from the franchisees, calculated accurately, and received timely.
- RES notified franchisees of discrepancies in fee amounts for resolution.
- Procedures were established to facilitate franchise assignment and cancellation.

However, we identified areas where improvements were needed as discussed below, presented in order of significance based on information we received at the time of our audit. PWA management initiated corrective action in response to the audit as noted.

1. Franchise Fee Review Procedures

RES could benefit from more robust franchise fee review procedures to help ensure the accuracy and completeness of payments. Franchise fees are due annually to the County along with a franchise statement by which the franchisee self-reports the basis for the franchise fee payment. For example, fees for water pipelines are based on a percentage of gross receipts as reported by the franchisee. While RES management recalculated fees based on franchise statements, this process did not always identify and resolve discrepancies or errors. Our testing of eight franchise fee payments found that:

- One franchisee overpaid \$1,064 due to the franchisee's clerical error, which was not identified during the RES review.
- RES identified a \$138 variance for one franchisee as a rounding variance when \$134 of the variance was actually caused by the franchisee overreporting linear feet. While RES management was aware of this error for 10 years, RES never requested a corrected statement from the franchisee.
- Thresholds were not established to prompt further management review. For example, three (38%) of eight payments exceeded the prior year payment by 19 percent or more, with no documentation indicating further management review.
- RES did not always perform a year-over-year analysis of franchise fee payments to identify and follow up on significant variances.
- RES procedures did not include a review of franchisee operational changes, such as infrastructure upgrades or ownership transfers, that could affect franchise fees.
- Amended statements were not requested from franchisees that did not include complete information on franchise statements. For example, fees for water pipelines were based on the higher of two calculations; however, only one calculation was provided by the franchisees we reviewed. As a result, RES could not confirm that the payments were based on the higher calculation.
- As the franchise ordinances lacked provisions for the standardization of rounding, RES generally dismissed rounding errors as immaterial without establishing an acceptable threshold.
- RES procedures did not discuss communication with the Tax Collector, which collects franchise fee payments, to obtain payment and statement information following the payment deadline for RES compliance monitoring.

Recommendation. PWA management should strengthen franchise fee review procedures to further ensure that franchise fee payments are reasonably accurate and that information provided on franchise statements is complete. The procedures should include variance thresholds prompting further review and steps for: identifying operational changes that may impact the franchise fee; following up with franchisees regarding missing statement information; and proactively requesting timely information from the Tax Collector.

Management Action. PWA management stated: "Yes, we plan to develop RES-specific procedures for its assigned responsibilities, but anything regarding Fee payments will have to be worked out with TTC as they are the delegated authority in the Ordinances for Fee and Penalties, and RES is responsible for bringing non-compliance to the Board.

"1. Audit Review Meeting

PWA/RES will schedule a meeting with the Tax Collector's Office staff to:

- Review the findings of the recent Franchise Fee payment audit.

- Discuss current practices for collection, review, and imposition of penalties for late payments.
- Draft a joint procedure to streamline and standardize the Franchise Fee payment process.
- Document the agreed-upon procedures in a formal memo to ensure clarity and accountability.

2. Pre-Mailing Coordination for Annual Franchise Fee Notice

PWA/RES will organize a pre-mailing meeting with the Tax Collector's Office to:

- Review the current annual notice of Franchise Fee payments due.
- Discuss potential additions or edits to the notice, including:
 - Clarification of the rounding methodology for payments.
 - Inclusion of a reminder about late payment penalties.
- Establish a projection of expected payments from Franchise holders for the upcoming year.
- Identify Franchise holders likely to owe payments to facilitate timely imposition of late penalties.

3. Post-2026 Fee Payment Review

Following the 2026 Franchise Fee Payment Review, PWA/RES will consult with the Tax Collector's Office to:

- Evaluate the effectiveness of the updated procedures and notice revisions.
- Determine if additional changes or improvements are necessary to enhance compliance and efficiency.

Document any recommended updates in a follow-up memo.”

2. Late Payments

RES did not always charge franchisees a penalty for late payments, in noncompliance with applicable ordinances. For example, Ordinance 4223 for oil pipelines stated: “Franchise fees paid late (after April 1) shall include a late charge penalty of 16% (sixteen percent) of the amount due for each year or portion thereof such fees are in arrears. This amount is not interest and therefore shall not be prorated.” However, while one oil pipeline franchisee that we tested paid 7 days late, no late charge penalty was applied, which could have amounted to \$11,957. RES management stated that a late charge penalty is applied in practice only when RES assists the Tax Collector in collecting a nonpayment. In this case, while the payment was received before RES was notified of the late payment and therefore RES was not involved in collection, the ordinance did not include provisions for waiving late fees.

Recommendation. PWA management should consistently charge a penalty for late payments in accordance with the applicable ordinance.

Management Action. PWA management stated: “Yes, PWA plans to implement a late penalty procedure in consultation with TTC to make sure we are in concert.

“PWA/RES will organize a pre-mailing meeting with the Tax Collector's Office to:

- Review the current annual notice of Franchise Fee payments due.
- Discuss potential additions or edits to the notice, including:
 - Clarification of the rounding methodology for payments.
 - Inclusion of a reminder about late payment penalties.
- Establish a projection of expected payments from Franchise holders for the upcoming year.
- Identify Franchise holders likely to owe payments to facilitate timely imposition of late penalties.”

Auditor's Evaluation of Management Action

We believe that management actions taken or planned were responsive to the audit findings. PWA management planned to complete corrective action by May 2, 2026.