




INTERNAL AUDIT DEPARTMENT

Audit No. 2420

August 27, 2025

To: Chair Doug Chaffee, Supervisor, 4th District
 Vice Chair Katrina Foley, Supervisor, 5th District
 Supervisor Janet Nguyen, 1st District
 Supervisor Vicente Sarmiento, 2nd District
 Supervisor Donald P. Wagner, 3rd District

From: Aggie Alonso, CPA, CIA, CRMA
 Internal Audit Department Director  Digitally signed by Agripino Alonso
 Date: 2025.08.27 15:54:17 -07'00'

Subject: Contract Compliance Audit: OC Waste & Recycling – Waste Management of Orange County

Attached is the final report for the contract compliance audit of OC Waste & Recycling (OCWR) – Waste Management of Orange County (WM) conducted by Macias Gini & O'Connell LLP (MGO). This audit was performed in accordance with the FY 2024-25 Audit Plan and Risk Assessment approved by the Audit Oversight Committee and Board of Supervisors.

On August 29, 2024, we engaged MGO to conduct a contract compliance audit of the agreement between the County of Orange and WM for the period of May 1, 2022 through April 30, 2024. The agreement is administered by OCWR. The purpose of the audit was to determine whether WM charged customers appropriately and complied with related laws and regulations, such as ensuring organic waste was collected in accordance with California Senate Bill 1383, as required by the agreement.

MGO noted opportunities to improve processes and controls, including two significant control weaknesses and three control findings, which OCWR management has agreed to strengthen. For example, recommendations to address significant control weaknesses include:

- The County and OCWR should conduct a full review of WM's service charges in their billing system to verify that services previously agreed upon as not part of the agreement are removed from the system to prevent future misuses of the service charges.
- The County, OCWR, and WM should prioritize the renegotiation of commercial versus residential manure rates to ensure alignment and proper billing rate application. Once manure rates are determined and agreed upon, the County should update the contract with WM to ensure the appropriate rates are reflected.

Audit results are detailed in Attachment A. OCWR's response, which indicates general agreement with the findings and recommendations, is included in Attachment B. We will conduct a follow-up audit in approximately six months to assess the status of the recommendations.

Board of Supervisors
August 27, 2025

If you have any questions regarding the audit, please contact me at (714) 834-5442 or Deputy Director Jose Olivo at (714) 834-5509.

Attachments

Other recipients of this report:

- Members, Audit Oversight Committee
- County Executive Office Distribution
- OC Waste & Recycling Distribution
- Robin Stieler, Clerk of the Board
- Foreperson, Grand Jury
- Eide Bailly LLP, County External Auditor

Orange County Waste and Recycling (OCWR)

Contract Compliance Audit of Waste Management (Vendor)
Report

August 27, 2025



OBJECTIVE

The objective is to ensure that the vendor, Waste Management of Orange County (WM), is charging customers appropriately in conformance with the Franchise Agreement (contract) between Waste Management and the County of Orange (County). The Agreement is administered by the Orange County Waste and Recycling (OCWR) Department. Macias Gini & O’Connell LLP (MGO) has been retained by the County to assess Waste Management’s compliance with the terms of the agreement. Specifically, the objectives of the compliance audit are to determine whether Waste Management is:

- Billing customers appropriately in conformance with the Hauler Rate Schedule set by the agreements for each Franchise Area (FA), and
- In compliance with related laws and regulations, namely California Senate Bill 1383 (SB 1383).

BACKGROUND

The County has entered into an Agreement with WM of Orange County for the collection, transportation, recycling, and disposal of discarded materials for residential and commercial customers in FAs 5A, 6, 7B, and 8 within the county. WM’s responsibilities per the Agreement include:

- **Overall Performance Obligations** – Furnishing of all labor, supervision, equipment, materials, supplies and all other items necessary to perform all requirements of the Agreement.
- **Manure** – Collect all horse manure properly discarded at any franchise premises.
- **Special Services** – Provide additional special services requested by any customers which are directly related or ancillary¹ to any of the franchise services authorized within the Agreement.
- **Other Duties**, as described in the Agreement.

SCOPE AND METHODOLOGY

To complete our assessment, we:

- Reviewed the applicable agreements between WM and the County.
- Conducted interviews and walkthroughs with OCWR and WM staff to understand roles and responsibilities, SB 1383 monitoring and compliance, invoice details, and invoice system limitations, etc.
- Reviewed OCWR’s Exclusive Franchise Contract Complaint Log for WM from May 1, 2022 through December 23, 2024 to identify higher risk FAs.
- Conducted FA customer invoice testing to evaluate accuracy, completeness, and compliance.
- Conducted compliance testing to verify WM compliance with SB 1383.

Our period of review for the compliance testing was May 1, 2022 through April 30, 2024. The Agreements under review (and their contents dating back to 2021) span the period from July 1, 2021 through June 30, 2031.

DISCLAIMERS

¹ Ancillary fees include basket rental and other fees for overfilled containers, for example. Due to sample selection limitations which are described later in the report, we were unable to test for or verify compliance of any ancillary fees charged to customers during our audit period.

This engagement was conducted in accordance with internal audit standards. The results of the assessment reported do not constitute an examination made in accordance with attestation standards, the objective of which would be to express an opinion.

AUDIT RESULTS:

SB 1383 Compliance

In 2016, the Governor of California signed into law SB 1383, establishing methane emission reduction targets in a statewide effort to reduce emissions of short-lived climate pollutants in various sectors of California's economy by 2025. CalRecycle, a state agency, is delegated the task of overseeing the implementation of SB 1383, providing resources and guidance to jurisdictions. Local jurisdictions are responsible for implementing and enforcing the regulations, including providing organic waste collection services to all residents and businesses, food recovery programs, contamination monitoring, and education and outreach.

According to the Agreement, the County has delegated some of its SB 1383 compliance responsibilities to WM. Those compliance responsibilities include meeting the goals and requirements for collection, transportation, processing, recycling, and disposal of discarded materials and other services defined by the Agreement.

To verify WM compliance with SB 1383, we obtained a copy of the SB 1383 Implementation Checklist developed by CalRecycle and utilized by OCWR to track SB 1383 compliance. From this checklist, we judgmentally selected the following compliance requirements based on areas outlined in CalRecycle's PowerPoint presentation "SB 1383 Reducing Short-Lived Climate Pollutants in California – An Overview of SB 1383's Organic Waste Reduction Requirements" demonstrating their oversight of SB 1383 compliance:

1. Organic Waste Collection Services
2. Waivers and Exemptions
3. Education and outreach
4. Inspection and Enforcement
5. Compliance Review.

Specifically, we obtained copies of the 2022 and 2023 FA 5, 6, 7, and 8 Annual Reports submitted by OCWR to CalRecycle and verified that WM was listed as a component to OCWR compliance. Additionally, MGO reviewed the 2022 and 2023 Electronic Annual Report confirmation letters and emails to confirm that CalRecycle reviewed the reports and found no issues of noncompliance outstanding. As there was sufficient evidence that supported WM compliance with SB 1383 requirements, MGO concluded that WM is in compliance with applicable laws and regulations, namely SB 1383.

Customer Complaint Analysis

Per the request of OCWR, MGO performed an analysis of OCWR’s Exclusive Customer Complaints log for WM and developed the following table to help us analyze where most of the complaints were coming from and the cause:

Year of Complaint	Franchise Area (FA)	COMPLAINT TYPE						Total Per FA
		Civil – Property Damage	Delayed Service	Educational	Failed to Provide Service	Incorrect Billing	Incorrect Service	
2022	N/A						1	1
	FA 5 CA -1		1		2	1		4
	FA 6	1			5			6
	FA 8				1			1
2023	FA 6	1		2	1			4
2024 ²	FA 6					1		1
Total		2	1	2	9	2	1	17

Source: MGO created based on information received from the OCWR’s “Exclusive Franchise Contract Complaint Log for WM”

MGO used this analysis to help determine that FA 6 received the highest number of complaints between May 2022 and December 2024, for a total of 11 complaints. Of these 11 complaints, seven complaints presented a risk to billing (six due to failure of service and one due to incorrect billing).

Additionally, MGO discussed OCWR’s concern regarding residential customers within FA 5A who are facing issues with manure fees being charged at commercial rates. This claim was supported by evidence provided by OCWR that showed County staff have been in communication with WM regarding this issue, which during the time of our audit remains unresolved, as will be further discussed below in our observations and recommendations.

Based on these considerations, MGO judgmentally increased the sample size reviewed for FA 6 (due to volume of complaints) and specifically included in our sample the FA 5A customer who made the complaints against WM of charging them commercial manure fees to include for testing. See Franchisee Billing Rate Compliance section below for the results of our invoice testing.

Franchisee Billing Rate Compliance

Per the Agreement between WM and the County, WM is to bill customers for services based on the Hauler Rate Schedule agreed upon between WM and the County.

A Hauler Rate Schedule is a schedule of service rates that were developed as part of the agreement between WM and the County for each fiscal year (i.e., July 1 to June 30). The Hauler Rate Schedule provides guidance on billing rates for services provided to residential and commercial customers such as, but not limited to, basic pick-up services, extra cart charges, valet fees, manure fees, refuse bin fees and so forth.

² We reviewed the list of complaints received through December 23, 2024, which extends past our audit period, but which we used to inform our judgmental sample selection in response to issues identified during the entrance conference with the OCWR team.

WORK PERFORMED

We examined a judgmentally selected sample of 40³ customer invoices based on the fee types and the results of our customer complaint analysis (from a total of 23,816) across the audit period 5/1/22 through 4/30/24 for all FAs, which consisted of 22 residential customers and 18 commercial customers. The total amount of fees reviewed was \$13,653 which is 1.46% of the total amount of fees charged by WM to the population (\$938,090).

SCOPE LIMITATION

As it pertains to the franchisee billing rate compliance audit, MGO requested a sample population of historical customers within the audit period but was informed by WM that they were unable to provide a historical listing of customer invoices and would only be able to provide a current listing of customers due to limitations with their financial and invoicing system. MGO noted this as a scoping limitation because:

- We would not be able to see all the historical invoices charged to customers in the franchise areas under audit
- We would be limited to selecting samples from a current listing of customers which may exclude customers who are no longer active but received services during our audit period
- We would be limited in our ability to test for certain types of fees (e.g., valet, municipal solid waste, overfilled containers, basket rentals, etc.) across all customers in our audit period as we are restricted to only seeing the fee types charged to the most current list of customers and their historical invoices
 - Note: while WM stated that service types generally do not change much over the years for the same customer, this method of sample selection prevented our team from being able to select for and review specific fee types (e.g., ancillary fees).

Additionally, due to this scope limitation, two of the samples we selected from the current customer listing were customers that started receiving service outside of the audit period. As such, we had to eliminate them from our review, adjusting the total sampled customers from 40 to 38.

To test the compliance of the WM customer billing rates, we compared the billing rates charged to customers against the approved Hauler Rate Schedules between WM and the County.

MGO noted that there were some services on the invoices that show a "\$0.00" amount billed for services. Based on a discussion with WM, the services billed at \$0.00 are either a placeholder for services that are typically requested with the customer's current services so that if the customer decides they want that service in the future WM can bill them using the placeholder, or they are for complimentary services, such as recycling as an addition to refuse bins.

In our discussion with WM, it was stated and supported by documentation that WM has the discretion to charge late fees to customers in any amount below specific thresholds per their agreement with the County. Specifically, the late fees are not to exceed \$45 per container for commercial premises and multi-family dwelling customers, and not to exceed \$25 for single-family dwelling customers. However, it would be helpful for OCWR to include in the contract a requirement for WM to publish updated late fee schedules (as available) or information about the thresholds in the Hauler Rate Schedules and/or in communications including bills to customers to increase transparency.

³ We were only able to test 38 of the 40 selected samples due to sample selection limitations. See Scope Limitation section for more detail.

Based on the results of the testing, MGO made the following observations:

Observation 1 – Mismatched Service Fee Descriptions
Category: Control Finding
<p>In two of the 38 samples tested, we noted that the Fee(s) Description from customer invoices did not match the Service Level Description from the Hauler Rates FY23-24 Schedule. Specifically:</p> <ul style="list-style-type: none"> • In FA 5A, one customer whose invoice fee description lists "3 Yard Dumpster Service - Green Waste," which did not match the Hauler Rate description of "Manure Collection - Specify Container Size: 2 CY - 2X/Week." • In FA 6, one customer whose invoice fee description lists a "96 Gallon Toter," which did not match the Hauler Rate Schedule's description of "Private Roads/Valet Service - Burro P6X(4)."
Recommendation
<p>This presents a potential risk that customers may be charged inappropriate rates if the description of the service provided does not match the description of services in the Hauler Rate Schedule. As such, the County and OCWR should request that WM update their customer invoice service descriptions to include details that trace to the Hauler Rate Schedules' service descriptions to improve accuracy of billing and prevent confusion from customers who may not understand the service(s) referenced on invoices.</p>

Observation 2 – Over/Undercharged Invoices
Category: Control Finding
<p>In four of the 38 samples tested, we noted that WM had either undercharged or overcharged the customers by utilizing the incorrect formula to calculate the service fees charged to the customer. Specifically, based on the information provided on the invoices:</p> <ul style="list-style-type: none"> • In FA 5A, one customer was charged \$64.62 for 3 months of extra waste carts. Based on the Hauler Rate Schedule this customer should have been charged \$96.63 (\$10.77 x 3 months x 3 extra carts). As such an undercharge of \$32.31 occurred. • In FA 6, one customer was charged \$130.83 for 3 months of basic service. Based on the Hauler Rate Schedule this customer should have been charged \$77.07 (\$25.69 x 3 months). As such an overcharge of \$53.76 occurred. • In F A 7B, two customers were charged \$77.58 for 3 months of extra waste carts. Based on the Hauler Rate Schedule this customer should have been charged \$38.79 (\$12.93 x 3 months). As such an overcharge of \$38.79 occurred.
Recommendation
<p>This presents a potential risk that WM's invoicing system is miscalculating customer fees and potentially under/overcharging its customers. To mitigate this, we recommend the County and OCWR request that WM implement a mechanism for ensuring the calculation methodologies are reviewed for accuracy on a regular basis.</p>

Observation 3 – Unapproved Rates
Category: Significant Control Weakness
<p>In three of the 38 samples tested, MGO was unable to identify approved rates for the fee(s) description listed on the customer invoices on the Hauler Rate Schedules. Specifically:</p> <ul style="list-style-type: none"> • In FA6, a customer fee(s) description "4 Yard Dumpster Service - Green Waste MANURE 1X" matched with the Hauler Rate Schedule's Service Level Description "Manure Collection - Specify Container Size: 2 CY - 1X/Week" but there was not a rate for Franchise Area 6 in this service level. • In FA6, a customer fee(s) description "Push Out/Pull Out" did not match any Hauler Rate Schedule's Service Level Descriptions. • In FA 8, a customer fee(s) description "Valet Service" did not match with any Hauler Rate Schedule's Service Level Descriptions. Although the Hauler Rate Schedule's Service Level Description "Private Roads/Valet Service - Burro P6X(4)" was available, it was listed as a residential curbside customer rate and this customer is labeled a commercial customer. As such, it would not be applicable. <p>Additionally, per WM the fee "Push Out/Pull Out" is not listed on the Hauler Rate Schedule because it was an unapproved fee that was removed from the Hauler Rate Schedule in April 2023 after an audit conducted by WM found that the fee was not part of the franchise agreement. Nonetheless, we found this fee charged to customers in our sample for invoices processed after April 2023.</p> <p>It should also be noted that we attempted to reverse the calculations of the fees to try to find a matching service description but were unable to locate billing rates that match any of the above fees.</p>
Recommendation
<p>This presents a potential risk that the County's customers are being charged for services that are not preapproved by the Agreement between the County and WM. Therefore, the County and OCWR should conduct a full review of WM's service charges in their billing system to verify that services previously agreed upon as not part of the Agreement are removed from the system to prevent future misuses of the service charges.</p>

Observation 4 – Manure Fee Disputes
Category: Significant Control Weakness
<p>While reviewing the invoices, MGO noted that 11 of the 38 samples tested were identified as commercial customers that specifically received manure services due to the inclusion of the acronym "SFD" in their names. Nine of those 11 samples appeared to be residential customers that are being charged commercial bin rates.</p> <p>Based on our preliminary discussion with OCWR, there were concerns expressed by residential customers because they were being charged commercial rates for manure services. According to our discussion with WM, residential and commercial classifications are issued to customers in their system based on the type of services they receive and not if the customer is an actual residential home or a commercial customer (i.e., corporation, LLC, etc.). Specifically, WM staff explained that the use of "commercial" refers to bin service and is the vendor's way to track service type, not to refer to a commercial area or customer. It was further noted that per WM's agreement with the County, only residential ("SFD")</p>

properties can generate manure. We were informed this is/was a point of discussion between WM and the County.

Our review of the documentation provided by OCWR demonstrates that the issue with residential customers being charged commercial manure rates dates back to at least February 2022 and remains unresolved. In the documentation provided, WM states that they sent formal proposed residential manure rates for 2-yard bin and carts (for the County’s unincorporated Areas 5, 6, and 8) to OCWR for consideration in April 2022, related to which OCWR staff requested justification. It is unclear based on the written communications between WM and OCWR staff that were provided for our review what follow-up has occurred since this correspondence, though OCWR staff shared in May 2025 that multiple in-person conversations have occurred where WM staff were given verbal direction by the County to cease charging residential customers commercial rates for manure service. OCWR staff are working to find the support documentation, as available.

Recommendation

This presents a potential risk that the County’s customers are being charged for services that are not appropriate. Therefore, the County, OCWR and WM should prioritize the renegotiation of commercial versus residential manure rates to ensure alignment and proper billing rate application. Once manure rates are determined and agreed upon, the County should update the contract with WM to ensure the appropriate rates are reflected.

Additional Observation

Observation 5 – Vendor System Limitations

Category: Control Finding

As noted previously in the report, technology and system limitations on WM’s end hindered the sample selection process for invoice testing (e.g., WM’s financial system limits the ability to pull population listings for historical invoices/customers).

Relatedly, system limitations with WM’s current customer listing may be yielding system inefficiencies or complexities (e.g., the inability to change billing information for deceased customers without having to close and open a new account).

- For example, during our sample selection process, we observed an instance of a deceased customer on the current listing of customers in WM’s system. We inquired about this customer and why they remained on the active customer list in the system, and WM was unable to provide a response at the time, but provided a written response in April 2025 stating that there is no way in their internal system to change billing contact information without closing and opening a new account. The deceased customer’s relatives asked for continuation of the service and provided an alternate contact in the deceased customers’ place, which is manually noted in WM’s system due to there being no way to update the account information otherwise.

While the customer was likely not deceased during our audit period, and we did not observe any errors related to his account during our audit period, we did want to note that WM’s financial and invoicing system and practices may need review and updating to ensure accuracy and adequate functionality.

Recommendation

OCWR should work with WM to better understand the key functions and limits of WM’s existing financial, invoicing, and customer management systems to ensure they meet the needs of the County and the

requirements of their Agreements. If needed, OCWR should consider updating the terms of their Agreement(s) to ensure WM's relevant systems are appropriate and responsive to Agreement terms (i.e., provides information in a format to allow for mandated audits, etc.).

APPENDIX A: FINDING TYPE CLASSIFICATION

Critical Control Weakness	Significant Control Weakness	Control Finding
<p>These are audit findings or a combination of audit findings that represent critical exceptions to the audit objective(s) and/or business goals. Such conditions may involve either actual or potential large dollar errors or be of such a nature as to compromise the department's or County's reputation for integrity. Management is expected to address Critical Control Weaknesses brought to its attention immediately.</p>	<p>These are audit findings or a combination of audit findings that represent a significant deficiency in the design or operation of internal controls. Significant Control Weaknesses require prompt corrective actions.</p>	<p>These are audit findings concerning the effectiveness of internal control, compliance issues, or efficiency issues that require management's corrective action to implement or enhance processes and internal control. Control Findings are expected to be addressed within six months, but no later than twelve months.</p>

APPENDIX B: OC WASTE & RECYCLING MANAGEMENT RESPONSE



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August 14, 2025

TO: Aggie Alonso, CPA, CIA, CRMA
Internal Audit Department Director

SUBJECT: Response – OC Waste & Recycling Contract Compliance Audit of Waste Management

OC Waste & Recycling (OCWR) has received the draft report of the Contract Compliance Audit of Waste Management (WM) for the period of May 1, 2022 through December 23, 2024. As requested, the following narrative summarizes the five control findings and weaknesses and responses from OCWR's Management.

FINDING NO. 1 – Mismatched Service Fee Descriptions

Recommendation:

The County and OCWR should request that WM update their customer invoice service descriptions to include details that trace to the Hauler Rate Schedules' service descriptions to improve accuracy of billing and prevent confusion from customers who may not understand the service(s) referenced on invoices.

OCWR Management Response:

Concur. OCWR will request WM to conduct a self-audit of their billing system and update customer invoice service descriptions to match descriptions found in the franchise contract rate schedules.

FINDING NO. 2 – Over/Undercharged Invoices

Recommendation:

The County and OCWR should request the WM implement a mechanism for ensuring the calculation methodologies are reviewed for accuracy on a regular basis.

OCWR Management Response:

Concur. OCWR will request WM to conduct a self-audit of their billing system to review their input and

internal billing calculations for customers for accuracy on a regular basis.

FINDING No. 3 – Unapproved Rates

Recommendation:

The County and OCWR should conduct a full review of WM’s service charges in their billing system to verify that services previously agreed upon as not part of the Agreement are removed from the system to prevent future misses of the service charge.

OCWR Management Response:

Concur. However, OCWR believes it would be more efficient for WM to conduct a self-audit in conjunction with the other findings noted in this audit. OCWR would request an annual report or other correspondence verifying service charges have been removed.

FINDING No. 4 – Manure Fee Disputes

Recommendation:

The County, OCWR and WM should prioritize the renegotiation of commercial versus residential manure rates to ensure alignment and proper billing rate application. Once manure rates are determined and agreed upon, the County should update the contract with WM to ensure the appropriate rates are reflected.

OCWR Management Response:

Concur. Although OCWR has discussed this issue numerous times with WM and provided direction to negotiate residential manure rates as a special service as allowed by the contract, WM has stated to OCWR that it doesn’t feel the issue has been settled. OCWR has contacted County Counsel for assistance, who recommends meeting with WM again to review the contract language. OCWR will rely on recommendations from County Counsel on ways to resolve this issue.

FINDING No. 5 – Vendor System Limitations

Recommendation:

OCWR should work with WM to better understand key functions and limits of WM’s existing financial, invoicing, and customer management systems to ensure they meet the needs of the County and the requirements of the Agreements. If needed, OCWR should consider updating the terms of their Agreement (s) to ensure WM’s relevant systems are appropriate and responsive to Agreement terms (i.e. provides information in a format to allow for mandated audits, etc.)

OCWR Management Response:

Concur. The franchise agreements contain language in Sections 9.4 Accounting and Records and Appendix 6 B Record Keeping for the Franchisee to maintain and preserve all cash, billing and disposal records for at least five (5) years following the term of this Franchise. OCWR will follow up with WM to determine if their system can comply with the accounting and records sections. OCWR will consider amending or clarifying the terms of their Agreement regarding their record keeping systems if needed.

OC Waste & Recycling appreciates the collaborative approach taken by Macias Gini & O'Connell in drafting the audit report and the courtesy extended to Waste Management and OCWR staff involved. Should you have any further questions, please contact Jo Anne Taylor, Business Operations and Contract Manager, at (714) 834-5513.

Thank you.



Tom Koutroulis, OCWR Director

cc: Michelle Aguirre, County Executive Officer
Lisa Fernandez, Performance Management and Policy Director, County Executive Office
Michael Dean, Senior Audit Manager, Internal Audit Department
Vicki Sun, Manager, Macias Gini & O'Connell
Lisa Smith, Deputy Director, Business Services and External Affairs, OCWR
Jo Anne Taylor, Business Operations and Contracts, OCWR
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