



# INTERNAL AUDIT DEPARTMENT



## Internal Control Audit: OC Waste & Recycling Fee-Generated Revenue

For the Year Ended January 31, 2019

Audit No. 1821

Report Date: September 23, 2019

### Number of Recommendations

0

**Critical Control  
Weaknesses**

0

**Critical Control  
Weaknesses**

1

**Control Findings**

## OC Board of Supervisors

Chairwoman Lisa A. Bartlett  
5th District

Vice Chair Michelle Steel  
2nd District

Supervisor Andrew Do  
1st District

Supervisor Donald P. Wagner  
3rd District

Supervisor Doug Chaffee  
4th District



# INTERNAL AUDIT DEPARTMENT

Internal Control Audit:  
OC Waste & Recycling Fee-Generated Revenue

September 23, 2019

## AUDIT HIGHLIGHTS

SCOPE OF WORK	Perform an Internal Control Audit of OC Waste & Recycling's (OCWR) fee-generated revenue process for the year ended January 31, 2019.
RESULTS	<ul style="list-style-type: none"> <li>We concluded that OCWR's internal control over fee studies and fee development process is generally effective.</li> <li>We concluded that business processes are generally efficient as related to the process of fee-generated revenue.</li> </ul>
RISKS IDENTIFIED	<p>As a result of our finding, potential risks include:</p> <ul style="list-style-type: none"> <li>Not obtaining full cost recovery.</li> </ul>
NUMBER OF RECOMMENDATIONS	<p>An opportunity for enhancing internal control includes:</p> <ul style="list-style-type: none"> <li>Annual evaluation of fees to ensure compliance with County policy and to obtain full cost recovery.</li> </ul>
0	CRITICAL CONTROL WEAKNESSES
0	SIGNIFICANT CONTROL WEAKNESSES
1	CONTROL FINDINGS

Report suspected fraud, or misuse of County resources by vendors, contractors, or County employees to 714.834.3608



## INTERNAL AUDIT DEPARTMENT

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Audit No. 1821

September 23, 2019

To: Thomas Koutroulis, Director  
OC Waste & Recycling

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

Subject: Internal Control Audit: OC Waste & Recycling Fee-Generated Revenue

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We have completed an Internal Control Audit of OC Waste & Recycling's (OCWR) fee-generated revenue process for the year ended January 31, 2019. Details of our results and recommendations immediately follow this letter. Additional information including background and our objectives, scope, and methodology are included in Appendix A.

OCWR concurred with all of our recommendations and the Internal Audit Department considers management response appropriate to the recommendations in this report.

We will include the results of this audit in a future status report submitted quarterly to the Audit Oversight Committee and the Board of Supervisors. In addition, we will request your department complete a Customer Survey of Audit Services, which you will receive shortly after the distribution of our final report.

We appreciate the courtesy extended to us by OCWR's personnel during our audit. If you have any questions regarding our audit, please contact me at 714.834.5442 or Assistant Director Scott Suzuki at 714.834.5509.

### Attachments

#### Other recipients of this report:

- Members, Board of Supervisors
- Members, Audit Oversight Committee
- CEO Distribution
- OC Waste & Recycling Distribution
- Auditor-Controller Satellite Accounting Operations Distribution
- Foreperson, Grand Jury
- Robin Stieler, Clerk of the Board of Supervisors
- Eide Bailly LLP, County External Auditor

## INTERNAL AUDIT DEPARTMENT

## RESULTS

**BUSINESS PROCESS  
& INTERNAL  
CONTROL  
STRENGTHS**

Business process and internal control strengths noted during our audit include:

- ✓ An annual fee and cost recovery review is conducted by the Budget & Finance Services unit and presented to OCWR executive team.
- ✓ The proposed rate table is presented for executive review and approval.
- ✓ An annual review form and an internal fee checklist is prepared by OCWR staff and reviewed by the department head annually.
- ✓ OCWR has written policy and procedures for the disposal fee development and review process.

**FINDING NO. 1****Fee Updates**

OCWR did not update certain fees (see Table 1 below) annually as required by County policy and did not obtain CEO approval to update these fees less frequently than on an annual basis.

**Table 1. Fees Requiring Update**

Fee	Amount	Last Updated/Revised
Administrative Cost Recovery for Construction & Demolition	\$25	August 2007
Auto Minimum Charge	\$5	October 1995
Truck Minimum Charge	\$12	July 2006
AB939 Surcharge – Light Truck	\$8	July 2006
Hard-to-Handle Fee	\$5	October 1995
AB939 Surcharge	\$19	July 2006
Replacement of Deferred Payment Card	\$5	October 2009

Source: Resolution 07-155, Resolution 95-684, Resolution 06-070, Agreement for Deferred Payment of Disposal Fees

County Accounting Manual R-3 Revenue Policy, Requirements & Responsibilities, Section 2.1 states, "Wherever feasible and cost-effective, all cost recovery revenue rates shall be updated at least once each year to reflect current costs. When the cost associated with making this annual determination appears to be excessive, with the approval of the CEO Budget Management Unit, a complete update shall be prepared every three years."



## INTERNAL AUDIT DEPARTMENT

<b>CATEGORY</b>	<b>Control Finding</b>	
<b>RISK</b>	Not performing annual updates in compliance with County policy increases the risk of not obtaining full recovery of costs.	
<b>RECOMMENDATION</b>	OCWR update its fees annually or for fees where the cost of an annual review would be excessive, OCWR should obtain CEO approval to conduct reviews less frequently.	
<b>MANAGEMENT RESPONSE</b>	<b>Concur.</b> By December 31, 2019, OCWR will review the fees included in the audit finding to determine which fees might require an annual update per the finding and which fees should be submitted to CEO Budget for approval to update less frequently. In addition, OCWR will include an analysis of these fees in its annual fee review, beginning with the next review in April 2020.	
<b>AUDIT TEAM</b>	Scott Suzuki, CPA, CIA, CISA Michael Dean, CPA, CIA, CISA Zan Zaman, CPA, CIA Virginia Nguyen, CPA	Assistant Director Senior Audit Manager Audit Manager Senior Auditor



## INTERNAL AUDIT DEPARTMENT

## APPENDIX A: ADDITIONAL INFORMATION

<b>OBJECTIVES</b>	<p>Our audit objectives were to:</p> <ol style="list-style-type: none"> <li>1. Assess internal control over fee studies and fee development processes for establishing cost recovery fees charged to the public.</li> <li>2. Ensure business processes are efficient as related to controls over the fee generated revenue process.</li> </ol>
<b>SCOPE &amp; METHODOLOGY</b>	<p>Our audit scope was limited to internal control over OCWR's fee development process and cost recovery of charges for the year ended January 31, 2019. Our methodology included inquiry, observation, and examination of documentation.</p>
<b>EXCLUSIONS</b>	<p>Our audit scope did not include a review of controls over fees charged to County departments, fees set by law, and negotiated fees. We did not review CEO and Auditor-Controller's monitoring process of fee studies. We also did not include a review of controls over the cash receipts process.</p>
<b>PRIOR AUDIT COVERAGE</b>	<p>An audit with similar scope, Internal Control Audit: Orange County Waste &amp; Recycling Fee Generated Revenue, Audit No. 1023, was issued on October 4, 2011.</p>
<b>BACKGROUND</b>	<p>The mission of OC Waste &amp; Recycling is "to provide waste management services, protect the environment, and promote recycling in order to ensure a safe and healthy community for current and future generations."</p> <p>One of OCWR's core functions is to manage the County's waste disposal system, which includes three active landfills (Olinda Alpha, Frank R. Bowerman, and Prima Deschecha), four residential hazardous waste collection centers, and 20 closed landfills. OCWR services the County's 34 cities and unincorporated areas. In 2018, OCWR disposed of 5.04 million tons of waste.</p> <p>OCWR's fee-generated revenue is comprised of: Waste Disposal Agreements, Importation Agreements, Posted Rates, Licenses, Permits and Franchise fees, and Deferred Payment Program Fees/Miscellaneous Fees, see Appendix B.</p>





## INTERNAL AUDIT DEPARTMENT

<b>PURPOSE &amp; AUTHORITY</b>	We performed this audit in accordance with the Annual Risk Assessment & Audit Plan for FY 2018-19 approved by the Audit Oversight Committee (AOC) and Board of Supervisors (Board).
<b>PROFESSIONAL STANDARDS</b>	Our audit was conducted in conformance with the International Standards for the Professional Practice of Internal Auditing issued by the International Internal Audit Standards Board.
<b>FOLLOW-UP PROCESS</b>	<p>In accordance with professional standards, the Internal Audit Department has a process to follow-up on its recommendations. A first follow-up audit will generally begin six months after release of the initial report.</p> <p>The AOC and Board expect that audit recommendations will typically be implemented within six months or sooner for significant and higher risk issues. A second follow-up audit will generally begin six months after release of the first follow-up audit report, by which time all audit recommendations are expected to be implemented. Any audit recommendations not implemented after the second follow-up audit will be brought to the attention of the AOC at its next scheduled meeting.</p> <p>A Follow-Up Audit Report Form is attached and is required to be returned to the Internal Audit Department approximately six months from the date of this report in order to facilitate the follow-up audit process.</p>
<b>MANAGEMENT'S RESPONSIBILITY FOR INTERNAL CONTROL</b>	In accordance with the Auditor-Controller's County Accounting Manual Section S-2 Internal Control Systems: "All County departments/agencies shall maintain effective internal control systems as an integral part of their management practices. This is because management has primary responsibility for establishing and maintaining the internal control system. All levels of management must be involved in assessing and strengthening internal controls." Control systems shall be continuously evaluated by Management and weaknesses, when detected, must be promptly corrected. The criteria for evaluating internal controls is the Committee of Sponsoring Organizations of the Treadway Commission (COSO) Internal Control – Integrated Framework. Our Internal Control Audit enhances and complements, but does not substitute for department management's continuing emphasis on control activities and monitoring of control risks.
<b>INTERNAL CONTROL LIMITATIONS</b>	Because of inherent limitations in any system of internal control, errors or irregularities may nevertheless occur and not be detected. Specific examples of limitations include, but are not limited to: resource constraints, unintentional errors, management override, circumvention by collusion, and poor judgment. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or the degree of compliance with the procedures may deteriorate. Accordingly, our audit would not necessarily disclose all weaknesses in the department's operating procedures, accounting practices, and compliance with County policy.



## INTERNAL AUDIT DEPARTMENT

## APPENDIX B: RATES

**Table 2. Negotiated Rates – Waste Disposal Agreements**

Approximately \$102 million in revenue

Fee	Amount Feb – Jun 2018	Amount Jul – Jan 2019	Approved By Board	Cost Recovery	Last Updated/ Revised
City Contract Rate – Standard Charge Per Ton	\$33.50	\$34.18	Yes	WDA negotiated rate	July 2018
City Contract Rate – Standard Charge with Hard to Handle – Per Ton	\$38.50	\$39.18	Yes	WDA negotiated rate	July 2018
OC Sanitation District Rate = Standard Charge Per Ton	\$36.85	\$37.60	Yes	WDA negotiated rate	July 2018
OC Sanitation District Rate with Hard to Handle – Per Ton	\$41.85	\$42.60	Yes	WDA negotiated rate	July 2018

Source: Waste Disposal Agreement and Amendment, Waste Disposal Agreement with OC Sanitation District

**Table 3. Importation Rates (Contracted Importation Agreements)**

Approximately \$50.5 million in revenue

Fee	Amount Feb – Jun 2018	Amount Jul – Jan 2019	Approved By Board	Cost Recovery	Last Updated/ Revised
Tier Rate - < 10,000 tons	\$29.57	\$30.64	Yes	Contracted rate	July 2018
Tier Rate - 10,000 to 20,000	\$28.55	\$29.58	Yes	Contracted rate	July 2018
Tier Rate - 20,001 to 27,500	\$27.53	\$28.53	Yes	Contracted rate	July 2018
Tier Rate - 27,501 to 35,000	\$27.28	\$28.26	Yes	Contracted rate	July 2018
Tier Rate - 35,001 to 50,000	\$27.02	\$28.00	Yes	Contracted rate	July 2018
Tier Rate - 50,001 to 65,000	\$26.51	\$27.47	Yes	Contracted rate	July 2018
Tier Rate - > 65,000	\$25.75	\$26.68	Yes	Contracted rate	July 2018
Hard to Handle Fee in addition to tier rate	\$5	\$5	Yes	No	October 1995

Source: Municipal Solid Waste Importation Agreement Amendment 1





## INTERNAL AUDIT DEPARTMENT

**Table 4. Posted Rates (Non-Contract)**

Approximately \$13 million in revenue; \$3 million attributed to AB 939 Surcharge

Fee	Amount	AB 939 Surcharge	Approved by Board	Cost Recovery	Last Updated/ Revised
Auto - Minimum Rate	\$5		Yes	No	October 1995
Truck - Minimum Rate + Surcharge	\$12	\$8	Yes	No	July 2006
Hard-to-Handle Fee	\$5		Yes	No	October 1995
AB 939 Surcharge	\$19		Yes	No	July 2006
Standard Charge Without Surcharge Feb – Jun 2018	\$38.50	\$19	Yes	Derived from WDA rate	July 2017
Standard Charge Without Surcharge Jul – Jan 2019	\$39.18	\$19	Yes	Derived from WDA rate	July 2018

Source: Resolution No. 95-684, Resolution No. 06-070, Resolution No. 09-036

**Table 5. Licenses, Permits and Franchises**

Approximately \$130,000 in revenue

Fee	Amount	Approved By Board	Cost Recovery	Last Updated/ Revised
Administrative Cost Recovery for Construction & Demolition	\$25	Yes	No	August 2007
Application Fee for Franchise	\$1,000	Yes	Contracted Rate	December 2009
Franchise Fee	Cost Formula	Yes	Yes (Based on cost formula)	December 2009
Non-Exclusive Franchise Fee	Cost Formula	Yes	Yes (Based on cost formula)	December 2009

Source: Resolution No. 07-155, Franchise Agreement, Non-exclusive Franchise Agreement



## INTERNAL AUDIT DEPARTMENT

## APPENDIX C: REPORT ITEM 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 <b>Critical Control Weaknesses</b> 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. <b>Significant Control Weaknesses</b> 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. <b>Control Findings</b> are expected to be addressed within our follow-up process of six months, but no later than twelve months.</p>



## INTERNAL AUDIT DEPARTMENT

## APPENDIX D: OC WASTE &amp; RECYCLING MANAGEMENT RESPONSE



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Fax: (714) 834-4183

August 29, 2019

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

**FROM:** Tom Koutroulis, Director  
OC Waste & Recycling

**SUBJECT:** Internal Control Audit No. 1821  
OC Waste & Recycling Response

OC Waste & Recycling has prepared its response to Audit No. 1821 on fee-generated revenue for the year ended January 31, 2019. The response has been reviewed by the County Executive Office (CEO).

**Finding No. 1**

**Fee Updates (Control Finding)**

*OCWR did not update certain fees (Table 1) annually as required by County policy and did not obtain CEO approval to update these fees less frequently than on an annual basis.*

**OCWR Management Response**

**Concur.**

**By December 31, 2019, OCWR will review the fees included in the audit finding to determine which fees might require an annual update per the finding and which fees should be submitted to CEO Budget for approval to update less frequently. In addition, OCWR will include an analysis of these fees in its annual fee review, beginning with the next review in April 2020.**

cc: Scott Suzuki, Assistant Director, Internal Audit Department  
Michael Dean, Senior Audit Manager, Internal Audit Department  
Lisa Smith, Deputy Director, Business Services & External Affairs, OCWR  
Emily Lin, Accounting Manager, Auditor-Controller Satellite Accounting, OCWR

