



INTERNAL AUDIT DEPARTMENT

Audit No. 2071

February 7, 2022

To: Tom Koutroulis
OC Waste & Recycling Director

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

Subject: OC Waste & Recycling Franchise Contract Review – Ware Disposal

As requested by OC Waste & Recycling (OCWR), Internal Audit has performed a review of Ware Disposal (franchisee) annual gross receipts reported to OCWR as required by the franchise agreement (contract) between OCWR and Ware Disposal for calendar year (CY) 2019. The following is a summary of the work performed and our results:

WORK PERFORMED

Examined a statistically selected sample of 30 transactions (from a total of 2,377) (14 residential, 16 commercial) totaling \$17,213 from the franchisee's detailed revenue listing for CY 2019, which totaled \$279,726 (\$133,258 residential; \$146,468 commercial).

RESULTS

- The total amounts in the franchisee's revenue listing provided to Internal Audit matched the certified gross receipts total submitted to OCWR for CY 2019.
- Invoiced amounts matched authorized rates.

However, we noted the following:

NO.	FINDING
1	<p>The franchisee charged customers certain ancillary fees (e.g., late, interruption, overfilled containers, and basket rental fees) that were not explicitly approved by the current OCWR director, and documentation of previous director's approval was not provided.</p> <ul style="list-style-type: none">• Section 10.2(F) of the contract provides the director discretion to approve rates for special services fees not set by Appendix 2-E.• The franchisee has stated that the late and interruption fees were discussed with OCWR and approved around the 2007-08 timeframe, but no documentation was provided by the franchisee and none has been located by OCWR.• Based on sample testing, we estimate the total amount of these fees charged in CY 2019 to be approximately \$29,000. <p>Since these fees appear to be unauthorized, this causes an overstatement of gross receipts by the same amount.</p>

- 2** The invoices for commercial customers did not support the amounts stated in the revenue listing for 15 of 16 (94%) transactions tested. Specifically, payments collected exceeded what was billed.
- Furthermore, analysis of commercial revenue supports a trend of billings (per sampled invoices) being less than actual payments collected (per revenue listing).
 - Per the franchisee, this was due to a computer system glitch, which caused CY 2019 revenue reported to include revenue collected from CY 2018. This means the system had essentially combined two years into one for reporting purposes. The franchisee clarified that they still paid franchise fees (based on cash collections) to the County to that effect, and that customers were billed correctly in CY 2019. However, they could not provide an explanation as to what caused the computer glitch. Further investigation would likely be a lengthy process and was not directed by OCWR.
 - Based on this observation, gross receipts reported to OCWR were overstated by approximately **\$64,000** for 2019.

CONCLUSION

The franchisee's CY 2019 certified gross receipts were not accurate due to the above findings and were overstated by an estimated total of approximately **\$93,000**.

Should you have any questions, please contact me directly at 714.834.5442 or Assistant Director Scott Suzuki at 714.834.5509.

cc: Lisa Smith, Deputy Director, OCWR
Jo Anne Taylor, Administrative Manager II, OCWR
Emily Lin, OCWR Accounting Manager, Auditor-Controller