



INTERNAL AUDIT DEPARTMENT

Audit No. 2172

December 28, 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 – Waste Management

As requested by OC Waste & Recycling (OCWR), Internal Audit performed a review of Waste Management (franchisee) invoices within Franchise Area 5 to validate that service rates charged were in conformance with the franchise agreement (contract) between OCWR and Waste Management for the six months ended December 2021. The following is a summary of the work performed and results:

WORK PERFORMED

Examined a sample of 30 invoices (five residential, 24 commercial, and one “other” customer billing) totaling \$23,092 from the franchisee’s detailed listing for the review period. The total billing listing (population) was comprised of 1,803 invoices totaling \$299,884 (\$90,879 residential; \$200,705 commercial; and \$8,300 other).

RESULTS

The customer information, charged amounts, and service periods in the franchisee’s billing listing matched the actual invoices. However, we noted instances where customers were charged for certain service fees that were not included in or were not in compliance with the County contract.

Specifically, we identified the following:

NO.	FINDING
1	<p data-bbox="267 1375 1437 1417">Non-Contracted Fees</p> <p data-bbox="267 1417 1437 1480">The franchisee charged customers the following fees that were not in the contract or approved by the OCWR Director:</p> <ul data-bbox="267 1491 1437 1753" style="list-style-type: none"><li data-bbox="267 1491 1437 1690">A. Valet fees totaling \$12,898. These are special services fees ranging from \$50 to \$302 charged to commercial customers. The franchisee inaccurately stated that OCWR does not need to approve the fee unless it was determined to be inappropriate. However, the contract grants the OCWR director authority to approve rates to be charged. The franchisee was unable to provide any documentation to support the approval of valet fees.<li data-bbox="267 1701 1437 1753">B. Late fees totaling \$399. These fees range from \$5 to \$90.

<p>2</p>	<p>Manure Collection Fees</p> <p>The contract allows for manure collection fees for commercial customers. However, we observed instances where these fees were:</p> <p>A. Billed inconsistently. Customers with the same configuration (i.e., same pick-up frequency) were charged different amounts. For example, one customer was charged \$287, while another customer with the same configuration was charged \$371 (\$84 more). Specifically, four of eight customers paid higher rates for the same service than another customer. It should be noted that some invoices did not explicitly state a pick-up frequency. For those invoices, we applied a once-a-week rate.</p> <p>B. Exceeding contracted rates. Three customers were overcharged for a combined total of \$246.</p>
<p>3</p>	<p>Customer Rates</p> <p>From the sample of 30 invoices/customers reviewed, 11 customers experienced a significant bill increase in September 2021, followed by a corresponding decrease. The franchisee stated that this was due to the County's request to postpone the implementation of the new contract rates to October 2021, which were to be effective July 2021. The rates applied were within the new contracted rates.</p> <p>In addition, we inquired with the franchisee regarding three sampled customers who were billed for Municipal Solid Waste (MSW), but a Waste Management site audit confirmed the three customers were disposing manure, which is less expensive to dispose of than MSW. The three customers' rates were subsequently reduced to the manure disposal fee, and according to OCWR, the three customers were notified of the rate changes.</p> <p>Note: The prior contract did not distinguish between MSW and manure rates.</p>

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 of Business Services and G&E Affairs, OCWR
 Jo Anne Taylor, Business Operations & Contracts Manager, OCWR