



# INTERNAL AUDIT DEPARTMENT



## Internal Control Audit: OC Waste & Recycling Selected Credit Card Controls

For the Year Ended December 31, 2023

Audit No. 2321  
Report Date: September 4, 2024

### Number of Recommendations

<b>0</b>	<b>Critical Control Weaknesses</b>
<b>2</b>	<b>Significant Control Weaknesses</b>
<b>1</b>	<b>Control Finding</b>

## OC Board of Supervisors

CHAIRMAN DONALD P. WAGNER  
3rd DISTRICT

VICE CHAIRMAN DOUG CHAFFEE  
4th DISTRICT

SUPERVISOR ANDREW DO  
1st DISTRICT

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2nd DISTRICT

SUPERVISOR KATRINA FOLEY  
5th DISTRICT



# INTERNAL AUDIT DEPARTMENT

Internal Control Audit:  
OC Waste & Recycling Selected Credit Card Controls

September 4, 2024

## AUDIT HIGHLIGHTS

SCOPE OF WORK	Perform an internal control audit of OC Waste & Recycling (OCWR) Selected Credit Card Controls for the year ended December 31, 2023.						
RESULTS	<ul style="list-style-type: none"> <li>We concluded that OCWR's internal control over the selected credit card controls is generally effective to ensure credit card payments are properly collected, recorded, deposited, and safeguarded.</li> <li>We concluded that the efficiency of OCWR's selected credit card controls is generally efficient.</li> </ul>						
RISKS IDENTIFIED	<p>As a result of our findings, potential risks include:</p> <ul style="list-style-type: none"> <li>Accounting errors, credit card payment processing issues, significant time spent correcting errors, and customer complaints.</li> <li>Suspension of credit card payment acceptance, costly fines, and state and federal law violations.</li> <li>Errors, misappropriation, or theft of County assets.</li> </ul>						
<p>NUMBER OF RECOMMENDATIONS</p> <table border="1"> <tr> <td data-bbox="99 1255 201 1352">0</td> <td data-bbox="201 1255 391 1352">CRITICAL CONTROL WEAKNESSES</td> </tr> <tr> <td data-bbox="99 1352 201 1449">2</td> <td data-bbox="201 1352 391 1449">SIGNIFICANT CONTROL WEAKNESSES</td> </tr> <tr> <td data-bbox="99 1449 201 1598">1</td> <td data-bbox="201 1449 391 1598">CONTROL FINDING</td> </tr> </table>	0	CRITICAL CONTROL WEAKNESSES	2	SIGNIFICANT CONTROL WEAKNESSES	1	CONTROL FINDING	<p>Opportunities for enhancing internal control include:</p> <ul style="list-style-type: none"> <li>Collaborating with Orange County Information Technology (OCIT) and the Point-of-Sale (POS) system vendor to make the necessary configuration changes and ensure testing is performed for those changes.</li> <li>Ensuring OCIT performs periodic updates to the POS system, as necessary.</li> <li>Consider replacing the credit card processor to effectively meet business needs.</li> <li>Meeting Payment Card Industry Data Security Standards (PCI DSS) compliance requirements.</li> <li>Establishing and updating written policies and procedures for credit card payments, such as handling paper storage of customer credit card information, receiving contactless payments, and processing refunds.</li> </ul>
0	CRITICAL CONTROL WEAKNESSES						
2	SIGNIFICANT CONTROL WEAKNESSES						
1	CONTROL FINDING						

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. 2321

September 4, 2024

To: Tom Koutroulis  
OC Waste & Recycling Director

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

Subject: Internal Control Audit: OC Waste & Recycling Selected Credit Card Controls

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We have completed an internal control audit of OC Waste & Recycling's (OCWR) Selected Credit Card Controls for the year ended December 31, 2023. Details of our results and recommendations immediately follow this letter. Additional information including background and our objectives, scope, and methodology is included in Appendix A.

OC Waste & Recycling concurred with all our recommendations and the Internal Audit Department considers management's 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 personnel during our audit. If you have any questions regarding our audit, please contact me at (714) 834-5442 or Assistant Deputy Director Michael Dean at (714) 834-4101.

### Attachments

#### Other recipients of this report:

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

## RESULTS

### BUSINESS PROCESS & INTERNAL CONTROL STRENGTHS

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

- ✓ Landfill sites have established written internal policies and procedures for handling credit card transactions.
- ✓ Accounting has established written internal policies and procedures for credit card reconciliations.
- ✓ Accounting confirms credit card payments by reviewing daily Point-of-Sale (POS) system and credit card payment gateway reports.
- ✓ Accounting performs a bi-weekly reconciliation of credit card payments.
- ✓ Accounting maintains a credit card dispute log to track chargebacks to ensure customer refunds are processed correctly.
- ✓ Accounting reports all credit card payment issues to OC Information Technology (OCIT) and conducts weekly meetings with them to ensure reported issues are resolved.
- ✓ Fee Station Attendants (FSA) provide customers with receipts for every transaction.
- ✓ All FSAs and Supervising FSAs have a unique user identification (ID) to log into the POS system.
- ✓ Landfill sites have security surveillance systems to monitor fee station activities.

### FINDING No. 1

#### Credit Card Payment Variances

OCWR is experiencing several issues with their POS system and credit card payment processor, which has impacted their ability to process customer credit card payments. Based on a review of OCWR's December 2023 payment reconciliation log, we noted 12 credit card payment variances totaling \$2,232.

**Duplicate credit card payments** – We noted that five (42%) out of the 12 transactions reviewed included duplicate credit card transactions. Specifically, the five transactions were recorded once in OCWR's POS system report but recorded twice in the credit card transaction report.

For three of the five (60%) transactions reviewed involving duplicate payments, landfill staff reported that the issues could be caused by customers improperly tapping or inserting their credit cards and time-out issues.

**Voided transactions** – We noted that for four (33%) of the 12 voided transactions reviewed, the POS system did not accurately transmit voided information to the credit card payment processor. Specifically,



# INTERNAL AUDIT DEPARTMENT

	<p>OCWR's POS system correctly reflected the voided transactions, but the credit card payment processor did not reflect that the transactions were voided.</p> <p>OCIT staff indicated that these issues may be caused by an interface issue between the POS system and the credit card payment processor, such as an improperly configured firewall. OCIT is working to set up, reconfigure, and test the firewall settings. OCIT is also continuing to work with the POS system vendor to evaluate other potential issues that could be causing the credit card payment variances.</p> <p>In addition, while there have been software patch updates to the POS system, OCIT indicated that their system version has not been upgraded in two years.</p>
<b>CATEGORY</b>	<b>Significant Control Weakness</b>
<b>RISK</b>	<p>Using a POS system and credit card payment processor that does not perform to the specifications required for business operations increases the risk of accounting errors resulting in significant amount of staffing resources to correct, credit card payment processing issues, and customer complaints due to erroneous credit card billing.</p>
<b>RECOMMENDATION</b>	<p>OCWR management:</p> <ul style="list-style-type: none"> <li>A. Collaborate with OCIT and the POS system vendor to make the necessary configuration changes and ensure testing is performed for any changes.</li> <li>B. Ensure OCIT performs periodic updates and/or upgrades to their POS system, as necessary.</li> <li>C. Consider another credit card payment processing vendor if the current vendor cannot effectively meet their business needs.</li> </ul>
<b>MANAGEMENT RESPONSE</b>	<p><b>Concur.</b> OCIT has worked with our POS vendor [REDACTED] on issues affecting the credit card processing. At [REDACTED] recommendation, OCIT performed updates on the credit card readers and pin pads in June 2024. OCIT adjusted its security firewall at the Olinda landfill site to receive automatic updates from [REDACTED] which we're previously blocked. Results of the corrective actions are being reviewed by OCWR Accounting via the monthly credit card reconciliation for July 2024. OCWR Accounting will continue to work with OCIT and [REDACTED] to resolve any continued discrepancies before updating FRB and Prima landfills.</p> <p>OCIT implemented its last maintenance patch update in May 2022. OCIT will be implementing the most current patch in mid-October, 2024, pending testing. Continuing forward, OCIT will implement available patches approximately every six months to stay current with application maintenance.</p> <p>OCWR will work with the Treasurer-Tax Collector for other vendor opportunities in the future if we are unable to resolve issues related to the credit card processing with [REDACTED].</p>



# INTERNAL AUDIT DEPARTMENT

<b>FINDING NO. 2</b>	<p><b>Payment Card Industry Data Security Standard Compliance</b></p> <p>OCWR did not complete the required Payment Card Industry Data Security Standard (PCI DSS) Self-Assessment Questionnaire, Attestation of Compliance forms, and PCI DSS Scan Report until prompted by our review. Staff were initially unaware of the PCI DSS compliance requirements for credit card processing.</p> <p>The PCI DSS compliance includes guidelines for capturing, processing, and storing sensitive cardholder information. This compliance is required for any merchant accepting credit card payments as well as collecting, transmitting, or storing the cardholder's information.</p>
<b>CATEGORY</b>	<b>Significant Control Weakness</b>
<b>RISK</b>	Non-compliance with PCI DSS standards increases the risk of losing the ability to process credit card payments, being assessed costly fines by card associations, and/or violation of federal or state law.
<b>RECOMMENDATION</b>	OCWR management ensure PCI DSS Self-Assessment Questionnaires, Attestation of Compliance forms, and Scan Reports are completed as required.
<b>MANAGEMENT RESPONSE</b>	<b>Concur.</b> Recommendation has been implemented. The PCI DSS Self-Assessment Questionnaires, Attestation of Compliance Forms and Scan Reports were completed on April 10, 2024. OCWR will ensure that the documents are completed annually in compliance with PCI DSS standards as outlined in Treasurer Tax Collector Policy and Procedure 9.3 Payment Card Industry Data Security Standards Policy.

<b>FINDING NO. 3</b>	<p><b>Policies and Procedures</b></p> <p>While OCWR has established written internal policies and procedures (P&amp;Ps) for credit card payment processing at their landfill sites, they have not been updated since 2019. In addition, the P&amp;Ps do not address the receipt of contactless payments and handling paper storage of customer credit card information. PCI DSS requires the procedures for handling the paper storage of customer credit card information to be documented.</p> <p>We also noted that OCWR's Accounting P&amp;Ps for processing credit card transactions have not been finalized. In addition, while we noted that OCWR Accounting has an internal process for processing refunds as well as a credit card refund checklist that the unit follows, this is not included in the procedure.</p>
<b>CATEGORY</b>	<b>Control Finding</b>
<b>RISK</b>	Incomplete and outdated policies and procedures could cause inconsistencies that lead to errors, misappropriation, or theft.



# INTERNAL AUDIT DEPARTMENT

<b>RECOMMENDATION</b>	OCWR management ensure policies and procedures related to credit card payments are reviewed and updated periodically.
<b>MANAGEMENT RESPONSE</b>	<p><b>Concur.</b> Recommendation has been implemented. The internal policy and procedures for credit card processing at the landfill sites have been reviewed and updated as of August 2024 to include contactless payments and paper storage of customer credit card information. OCWR will continue to periodically review and update these policy and procedures to maintain documentation in compliance with PCI DSS standards.</p> <p>In addition, OCWR Accounting has finalized its policy and procedures for processing credit card transactions as of August 2024. OCWR Accounting also documented the internal process and checklist for refund processing in a Credit Card Refund policy and procedure and finalized this accordingly as of August 2024.</p>

<b>AUDIT TEAM</b>	Michael Dean, CPA, CIA, CISA Jimmy Nguyen, CISA, CFE, CEH Alejandra Luna Mary Ann Cosep Tina Dinh Thuy Luu	Assistant Deputy Director Senior IT Audit Manager Audit Manager Lead Senior Auditor Senior Auditor Staff Specialist
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# 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. Evaluate the effectiveness of internal controls over selected credit card controls to ensure payments are properly collected, recorded, deposited, and safeguarded.</li><li>2. Review the selected credit card controls for efficiency.</li></ol>
<b>SCOPE &amp; METHODOLOGY</b>	<p>Our audit scope was limited to internal controls over OC Waste &amp; Recycling's Selected Credit Card Controls for the year ended December 31, 2023. Our methodology included inquiry, observation, examination of documentation, and testing of relevant transactions.</p>
<b>EXCLUSIONS</b>	<p>Our audit scope did not include a review of controls over other forms of payments (i.e., cash and checks).</p>
<b>PRIOR AUDIT COVERAGE</b>	<p>We issued an audit report related to OCWR's cash receipts on September 18, 2017, Audit No. 1525 Internal Control Audit: OC Waste &amp; Recycling – Cash Handling Activities for the year ended March 31, 2017.</p>
<b>BACKGROUND</b>	<p>OCWR manages one of the nation's premier solid waste disposal systems, serving residents and businesses in the County's 34 cities and unincorporated areas. They are among the largest in the State and annually receive more than 4 million tons of solid waste. OCWR operates a network of three active landfills and four household hazardous waste collection centers.</p> <p>OCWR's landfills accept waste from haulers who pay fees by cash/checks and credit cards at the gate (public and other entities without a customer account) and "deferred billing" haulers with established customer accounts.</p> <p>OCWR began a new contract with their POS system's vendor in 2018 to make program modifications and/or enhancements to the system to allow it to accept credit cards payments for disposal services. During our audit period, OCWR's total daily credit card payments were approximately \$16.3 million.</p>
<b>PURPOSE &amp; AUTHORITY</b>	<p>We performed this audit in accordance with the FY 2023-24 Audit Plan and Risk Assessment approved by the Audit Oversight Committee (AOC) and Board of Supervisors (Board).</p>
<b>PROFESSIONAL STANDARDS</b>	<p>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.</p>





# INTERNAL AUDIT DEPARTMENT

<p><b>FOLLOW-UP PROCESS</b></p>	<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>
<p><b>MANAGEMENT'S RESPONSIBILITY FOR INTERNAL CONTROL</b></p>	<p>In accordance with the Auditor-Controller's County Accounting Manual Section S-2 Internal Control Systems: "All County departments shall establish effective internal controls as department management is responsible for internal control. Department management shall also continuously assess and strengthen internal control by evaluating internal control systems and promptly correcting weaknesses when detected." The criteria for evaluating internal control is the Committee of Sponsoring Organizations of the Treadway Commission (COSO) Internal Control – Integrated Framework. Our audit enhances and complements, but does not substitute for department management's continuing emphasis on control activities and monitoring of control risks.</p>
<p><b>INTERNAL CONTROL LIMITATIONS</b></p>	<p>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.</p>



## APPENDIX B: 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 <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>



## APPENDIX C: OC WASTE & RECYCLING MANAGEMENT RESPONSE



Thomas D. Koutroulis, Director  
601 N. Ross Street, 5<sup>th</sup> Floor  
Santa Ana, CA 92701  
[www.oclandfills.com](http://www.oclandfills.com)  
Telephone: (714) 834-4000  
Fax: (714) 834-4183

August 23, 2024

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

**SUBJECT:** Response – Audit No. 2321: OC Waste & Recycling Selected Credit Card Controls

OC Waste & Recycling (OCWR) has received the draft report of the Internal Control Audit of Selected Credit Card Controls for the calendar year ended December 31, 2023, Audit No. 2321. As requested, the following narrative summarizes the two (2) significant control weaknesses and one (1) control finding and responses from OCWR's management.

### **FINDING NO. 1 – Credit Card Payment Variances**

- A. Collaborate with OCIT and the POS system vendor to make the necessary configuration changes and ensure testing is performed for any changes.
- B. Ensure OCIT performs periodic updates and/or upgrades to their POS system, as necessary.
- C. Consider another credit card payment processing vendor if the current vendor cannot effectively meet their business needs.

### **OCWR Management Response:**

Concur. OCIT has worked with our POS vendor [REDACTED] on issues affecting the credit card processing. At [REDACTED] recommendation, OCIT performed updates on the credit card readers and pin pads in June 2024. OCIT adjusted its security firewall at the Olinda landfill site to receive automatic updates from [REDACTED] which we're previously blocked. Results of the corrective actions are being reviewed by OCWR Accounting via the monthly credit card reconciliation for July 2024. OCWR Accounting will continue to work with OCIT and [REDACTED] to resolve any continued discrepancies before updating FRB and Prima landfills.

OCIT implemented its last maintenance patch update in May 2022. OCIT will be implementing the most current patch in mid-October, 2024, pending testing. Continuing forward, OCIT will implement available patches approximately every six months to stay current with application maintenance.

OCWR will work with the Treasurer-Tax Collector for other vendor opportunities in the future if we are unable to resolve issues related to the credit card processing with [REDACTED]

### **FINDING NO. 2 – Payment Card Industry Data Security Standard Compliance**



# INTERNAL AUDIT DEPARTMENT

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OCWR management ensure PCI DSS Self-Assessment Questionnaires, Attestation of Compliance forms, and Scan Reports are completed as required.

**OCWR Management Response:**

Concur – recommendation has been implemented. The PCI DSS Self-Assessment Questionnaires, Attestation of Compliance Forms and Scan Reports were completed on April 10, 2024. OCWR will ensure that the documents are completed annually in compliance with PCI DSS standards as outlined in Treasurer Tax Collector Policy and Procedure 9.3 Payment Card Industry Data Security Standards Policy.

**FINDING NO. 3 – Policies and Procedures**

OCWR management ensure policies and procedures related to credit card payments are reviewed and updated periodically.

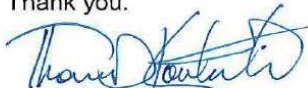
**OCWR Management Response:**

Concur – recommendation has been implemented. The internal policy and procedures for credit card processing at the landfill sites have been reviewed and updated as of August 2024 to include contactless payments and paper storage of customer credit card information. OCWR will continue to periodically review and update these policy and procedures to maintain documentation in compliance with PCI DSS standards.

In addition, OCWR Accounting has finalized its policy and procedures for processing credit card transactions as of August 2024. OCWR Accounting also documented the internal process and checklist for refund processing in a Credit Card Refund policy and procedure and finalized this accordingly as of August 2024.

OC Waste & Recycling appreciates the collaborative approach taken by Internal Audit in drafting the audit report and the courtesy extended to staff involved. Should you have any further questions, please contact Jo Anne Taylor, Business Operations and Contracts at (714) 834-5513 or Fatima Son, Accounting Manager at (714) 834-4135.

Thank you.



Tom Koutroufis, OCWR Director

cc: Michelle Aguirre, Acting County Executive Office  
Lisa Fernandez, Performance Management and Policy Director, County Executive Office  
Michael Dean, Senior Audit Manager, Internal Audit Department  
Lisa Smith, Deputy Director, Business Services and External Affairs, OCWR  
Fatima Son, OCWR Accounting Manager, Auditor-Controller  
Tyler Piper, Business Relationship Manager, OCIT

