



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"> We concluded that OCWR's internal control over fee studies and fee development process is generally effective. We concluded that business processes are generally efficient as related to the process of fee-generated revenue. |
| RISKS IDENTIFIED | <p>As a result of our finding, potential risks include:</p> <ul style="list-style-type: none"> Not obtaining full cost recovery. |
| NUMBER OF RECOMMENDATIONS | <p>An opportunity for enhancing internal control includes:</p> <ul style="list-style-type: none"> Annual evaluation of fees to ensure compliance with County policy and to obtain full cost recovery. |
| 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

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

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

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

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| CATEGORY | Control Finding |
| RISK | Not performing annual updates in compliance with County policy increases the risk of not obtaining full recovery of costs. |
| RECOMMENDATION | 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. |
| 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. |

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| AUDIT TEAM | 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 |
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APPENDIX A: ADDITIONAL INFORMATION

| | |
|--------------------------------|--|
| OBJECTIVES | <p>Our audit objectives were to:</p> <ol style="list-style-type: none"> 1. Assess internal control over fee studies and fee development processes for establishing cost recovery fees charged to the public. 2. Ensure business processes are efficient as related to controls over the fee generated revenue process. |
| SCOPE & METHODOLOGY | <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> |
| EXCLUSIONS | <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> |
| PRIOR AUDIT COVERAGE | <p>An audit with similar scope, Internal Control Audit: Orange County Waste & Recycling Fee Generated Revenue, Audit No. 1023, was issued on October 4, 2011.</p> |
| BACKGROUND | <p>The mission of OC Waste & 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

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| PURPOSE & AUTHORITY | 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). |
| PROFESSIONAL STANDARDS | 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. |
| FOLLOW-UP PROCESS | <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> |
| MANAGEMENT'S RESPONSIBILITY FOR INTERNAL CONTROL | 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. |
| INTERNAL CONTROL LIMITATIONS | 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. |



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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



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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



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 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 our follow-up process of six months, but no later than twelve months.</p> |



APPENDIX D: OC WASTE & RECYCLING MANAGEMENT RESPONSE



Thomas D. Koutroulis, Director
300 N. Flower Street, Suite 400
Santa Ana, CA 92703

www.oclandfills.com
Telephone: (714) 834-4000
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

