

Internal Audit Department

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FINAL CLOSE-OUT FIRST FOLLOW-UP INTERNAL CONTROL AUDIT:

OC WASTE & RECYCLING CONTRACT ADMINISTRATION FOR THE LA PATA AVENUE GAP CLOSURE PROJECT

AS OF AUGUST 25, 2014

Our First Follow-Up Audit found that OC Waste & Recycling has implemented all eight (8) recommendations from our original audit report dated January 6, 2014. We commend OCWR and OCWR Accounting, and OC Public Works on their responsiveness in addressing our audit recommendations.

OC Waste & Recycling entered into a Memorandum of Understanding with OC Public Works to share costs associated with the La Pata Avenue Gap Closure Project through the Prima Deshecha Landfill site. In August 2013, OC Public Works reported to the Board of Supervisors that the estimated project costs will total \$92 million.

AUDIT NO: 1334-F1
(REFERENCE 1429)
ORIGINAL AUDIT NO. 1334

REPORT DATE: AUGUST 29, 2014

Director: Dr. Peter Hughes, MBA, CPA, CIA
Senior Audit Manager: Michael Goodwin, CPA, CIA
Audit Manager: Kenneth Wong, CPA, CIA

RISK BASED AUDITING

GAO & IIA Peer Review Compliant – 2001, 2004, 2007, 2010, 2013



American Institute of Certified Public Accountants Award to Dr. Peter Hughes as 2010 Outstanding CPA of the Year for Local Government

GRC (Government, Risk & Compliance) Group 2010 Award to IAD as MVP in Risk Management



2009 Association of Certified Fraud Examiners' Hubbard Award to Dr. Peter Hughes for the Most Outstanding Article of the Year – Ethics Pays



2008 Association of Local Government Auditors' Bronze Website Award



2005 Institute of Internal Auditors' Award to IAD for Recognition of Commitment to Professional Excellence, Quality, and Outreach


 ORANGE COUNTY BOARD OF SUPERVISORS'
Internal Audit Department

GAO & IIA Peer Review Compliant - 2001, 2004, 2007, 2010, 2013

Providing Facts and Perspectives Countywide

RISK BASED AUDITING

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OC Fraud Hotline (714) 834-3608



Transmittal Letter



Audit No. 1334-F1 August 29, 2014

TO: Dylan Wright, Director
OC Waste & Recycling

FROM: Dr. Peter Hughes, CPA, Director
Internal Audit Department

SUBJECT: First and **Final Close-Out** Follow-Up Internal Control Audit: OC Waste & Recycling Contract Administration for the La Pata Avenue Gap Closure Project, Original Audit No. 1334, Issued January 6, 2014

We have completed a First Follow-Up Internal Control Audit of OC Waste & Recycling Contract Administration for the La Pata Avenue Gap Closure Project. Our audit was limited to reviewing, as of August 25, 2014, actions taken to implement the **eight (8) recommendations** from our original audit report dated January 6, 2014. We conducted this First Follow-Up Audit in accordance with the *FY 14-15 Audit Plan and Risk Assessment* approved by the Audit Oversight Committee.

The results of our First Follow-Up Audit are discussed in the **OC Internal Auditor's Report** following this transmittal letter. Our First Follow-Up Audit found that OC Waste & Recycling has implemented all **eight (8) recommendations** from our original audit report. We commend OCWR and OCWR Accounting, and OC Public Works on their responsiveness in addressing our audit recommendations. **As such, this report represents the final close-out of the original audit.**

Each month I submit an **Audit Status Report** to the Board of Supervisors where I detail any material and significant audit findings released in reports during the prior month and the implementation status of audit recommendations as disclosed by our Follow-Up Audits. Accordingly, the results of this audit will be included in a future status report to the BOS.

Other recipients of this report are listed on the **OC Internal Auditor's Report** on page 4.

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Contract Administration
La Pata Avenue Gap Closure Project
Audit No. 1334-F1*

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OC Internal Auditor's Report



Audit No. 1334-F1

August 29, 2014

TO: Dylan Wright, Director
OC Waste & Recycling

FROM: Dr. Peter Hughes, CPA, Director
Internal Audit Department

SUBJECT: First and **Final Close-Out** Follow-Up Internal Control Audit: OC Waste & Recycling Contract Administration for the La Pata Avenue Gap Closure Project, Original Audit No. 1334, Issued January 6, 2014

Scope of Review

We have completed a First Follow-Up Audit of OC Waste & Recycling (OCWR) Contract Administration for the La Pata Avenue Gap Closure Project. Our audit was limited to reviewing actions taken, as of August 25, 2014, to implement the **eight (8) recommendations** from our original audit report.

Background

At the request of OCWR, we conducted an Internal Control Audit of OCWR's contract administration process to ensure compliance with the memorandum of understanding between OCWR and OC Public Works (OCPW) for the La Pata Avenue Gap Closure Project and settlement agreement approved by the Board of Supervisors. In addition, an evaluation was completed on OCWR's accounting and budget practices for the project and processes for accumulating expenses for cost-sharing. In August 2013, OCPW reported to the Board of Supervisors that the estimated project costs will total **\$92 million**.

The original audit identified **three (3) Significant Control Weaknesses** and **five (5) Control Findings** concerning contract administration processes.

Results

Our First Follow-Up Audit indicated OCWR has **implemented all eight (8) recommendations** representing the final close-out of the original audit. Based on our First Follow-Up Audit, the following is the implementation status of the eight (8) original recommendations:

- Inconsistent Description in Scope of Work for Cost Sharing Allocation (Significant Control Weakness)** OC Waste & Recycling clarify with OC Public Works the scope of work and financial responsibility that is the basis for OCWR's cost-sharing allocation for the La Pata Avenue Gap Closure Project.

Current Status: Implemented. The financial teams for OCWR and OCPW conferred on the scope of work and financial responsibilities for the basis of the cost-sharing allocation for the La Pata Avenue Gap Closure Project. OCWR and OCPW clarified the basis for the cost-sharing allocation by updating the Memorandum of Understanding (MOU) for the project. The MOU dated June 28, 2014 provides that OCWR's financial obligation as 7.2% of total project costs. The MOU defines project costs as all OCPW and OCWR construction and non-construction project costs and includes direct and indirect costs incurred. Since OCWR took satisfactory corrective actions in this area, we consider this recommendation implemented.



2. **Variations Between Estimated Project Costs** (Significant Control Weakness)

OC Waste & Recycling clarify with OC Public Works the components of project costs and estimated project costs for the La Pata Avenue Gap Closure Project.

Current Status: Implemented. The financial teams for OCWR and OCPW met seven (7) times between December 2013 and August 2014 and clarified the components of project costs and estimated project costs for the La Pata Avenue Gap Closure Project. OCWR and OCPW updated the MOU for the project showing the project cost components. In addition, OCWR and OCPW prepared and exchanged analyses showing estimated and actual project costs incurred by each department. OCWR's estimated project costs are reviewed and approved by management prior to distributing the data to OCPW. Since OCWR took satisfactory corrective actions in this area, we consider this recommendation implemented.

3. **Limited Monitoring of Project Costs** (Significant Control Weakness)

OC Waste & Recycling ensure job cost reports are monitored by management and amounts are supported with appropriate documentation.

Current Status: Implemented. OCWR prepared a job cost report from the project's inception through fiscal year 2013/2014. A review of the job cost report disclosed that eligible reimbursable project costs incurred by OCWR were supported with invoices and other accounting records prepared by OCWR Accounting. The job cost report was reviewed and approved by the OCWR Accounting Manager and OCPW Accounting prior to the reimbursement of project costs from OCPW for project costs incurred by OCWR. The initial reimbursement of project costs totaled \$3,311,503 through a journal voucher entry on August 22, 2014. The journal voucher processed by OCWR Accounting was distributed to OCPW. Since OCWR took satisfactory corrective actions in this area, we consider this recommendation implemented.

4. **Project Costs Not Reported or Reimbursed** (Control Finding)

OC Waste & Recycling enhance communication with OC Public Works on how project costs are to be reported and reimbursed, and determine the start date and frequency of reports and reimbursements for the La Pata Avenue Gap Closure Project.

Current Status: Implemented. The financial teams for OCWR and OCPW met seven (7) times between December 2013 and August 2014 to discuss financial reporting responsibilities. OCWR and OCPW updated the MOU for the project. The MOU dated June 28, 2014 requires both departments to prepare and exchange monthly project job cost reports. The department incurring the project expense will record the payment or cost reimbursement after receiving approval from the other department.

OCWR and OCPW processed cost transfers from the project's inception through fiscal year 2013/2014 on August 22, 2014. OCWR Accounting is currently preparing the La Pata job cost reports and corresponding journal vouchers for the months of July and August, 2014, and which is inclusive of the FY 2014/15 indirect cost rate. It is projected that these documents will be forwarded to OCPW for their review and approval by the end of September, 2014. Thereafter, on an ongoing, regular basis monthly reports on journal vouchers will be processed and approved by OCWR/OCPW. Since OCWR enhanced communication with OCPW on project costs and established a frequency for exchanging data, we consider this recommendation implemented.



5. **Methodology Not Determined for Market Value (Control Finding)**

OC Waste & Recycling confer with OC Public Works about determining the market value for the right-of-way and soil used for the La Pata Avenue Gap Closure Project.

Current Status: Implemented. The financial teams for OCWR and OCPW conferred on the market value for the right-of-way and soil used for the La Pata Avenue Gap Closure Project. OCWR calculated a prorated value of the area for the right-of-way based upon the historical acquisition cost for the property. OCWR presented the methodology to County Counsel and received advice that the methodology was acceptable. The two departments clarified the market value for the right-of-way and soil by updating the MOU for the project. The MOU dated June 28, 2014 provides the exchange value for the right-of-way and soil used for the project. Since OCWR took satisfactory corrective actions in this area, we consider this recommendation implemented.

6. **Transfer of Ownership Occurred Prior to Project Completion (Control Finding)**

OC Waste & Recycling confer with OC Public Works about the transfer of ownership of La Pata Avenue and document the final disposition.

Current Status: Implemented. The financial teams for OCWR and OCPW conferred on the transfer of ownership of La Pata Avenue. OCWR and OCPW clarified the transfer of ownership by updating the MOU for the project. The MOU dated June 28, 2014 provides that La Pata Avenue is owned by OCWR and ownership will transfer when the road is completed and accepted by OCPW. The MOU provides that OCWR will continue to pay for maintenance of the existing road until the project is accepted by OCPW. Since OCWR took satisfactory corrective actions in this area, we consider this recommendation implemented.

7. **All Project Costs Not Segregated (Control Finding)**

OC Waste & Recycling ensure the accounting records adequately document and support the accumulated costs for the La Pata Avenue Gap Closure Project from inception to completion. In addition, the accounting records should be maintained to identify costs eligible for cost-sharing with OC Public Works.

Current Status: Implemented. OCWR prepared a job cost report from the project's inception through fiscal year 2013/2014. A review of the job cost report disclosed that eligible reimbursable project costs incurred by OCWR were supported with invoices and other accounting records prepared by OCWR Accounting. The job cost report was reviewed and approved by the OCWR Accounting Manager and OCPW Accounting prior to the reimbursement of project costs from OCPW for project costs incurred by OCWR. The initial reimbursement of project costs totaled \$3,311,503 through a journal voucher entry on August 22, 2014. The journal voucher processed by OCWR Accounting was distributed to OCPW. Since OCWR took satisfactory corrective actions in this area, we consider this recommendation implemented.



8. **Indirect Costs Not Allocated to Project (Control Finding)**

OC Waste & Recycling allocate indirect costs to the La Pata Avenue Gap Closure Project throughout the project period in the most equitable basis practical.

Current Status: Implemented. OCWR prepared a job cost report from the project's inception through fiscal year 2013/2014. A review of the job cost report disclosed that eligible reimbursable project costs incurred by OCWR were supported with invoices and other accounting records prepared by OCWR Accounting. It was noted that the job cost report include an allocation of indirect costs for the project. The job cost report was reviewed and approved by the OCWR Accounting Manager and OCPW Accounting prior to the reimbursement of project costs from OCPW for project costs incurred by OCWR. The initial reimbursement of project costs totaled \$3,311,503 through a journal voucher entry on August 22, 2014. The journal voucher processed by OCWR Accounting was distributed to OCPW. Since OCWR took satisfactory corrective actions in this area, we consider this recommendation implemented.

We appreciate the assistance extended to us by OC Waste & Recycling personnel during our Follow-Up Audit. If you have any questions, please contact me directly at 834-5475 or Michael Goodwin, Senior Audit Manager at 834-6066.

Distribution Pursuant to Audit Oversight Committee Procedure No. 1:

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