

# Internal Audit Department

O R A N G E C O U N T Y  
6<sup>th</sup> Largest County in the USA

**FINAL CLOSE-OUT**

## SECOND AND FINAL FOLLOW-UP INTERNAL CONTROL AUDIT:

### OC WASTE & RECYCLING FEE GENERATED REVENUE

AS OF DECEMBER 31, 2012

Our Second Follow-Up Audit found that OC Waste & Recycling (OCWR) fully implemented the one (1) recommendation remaining from our original audit containing three (3) recommendations. Previously, two (2) recommendations were implemented in our First Follow-Up Audit report dated June 25, 2012. Because all recommendations were implemented, the original audit is closed for follow-up purposes.

During the original audit period, OCWR generated \$87 million in revenue from negotiated contract rates and \$6 million in non-negotiated “posted rates” and applicable surcharges.

AUDIT NO: 1228-D  
ORIGINAL AUDIT No. 1023

REPORT DATE: JANUARY 9, 2013

**Director:** Dr. Peter Hughes, MBA, CPA, CIA  
**Deputy Director:** Eli Littner, CPA, CIA  
**Senior Audit Manager:** Michael Goodwin, CPA, CIA  
**Senior Internal Auditor:** Abdul Khan, CPA, CIA

**RISK BASED AUDITING**

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



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*

*Providing Facts and Perspectives Countywide*

**RISK BASED AUDITING**

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Certified Information Technology Professional (CITP)  
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OC Internal Audit Department, visit our website: [www.ocgov.com/audit](http://www.ocgov.com/audit)



**OC Fraud Hotline (714) 834-3608**

# Letter from Dr. Peter Hughes, CPA

## Transmittal Letter



**Audit No. 1228-D January 9, 2013**

**TO:** Michael Giancola, Director  
OC Waste & Recycling

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

**SUBJECT:** **Second and Final Close-Out** Follow-Up:  
Internal Control Audit of OC Waste &  
Recycling Fee Generated Revenue, Original  
Audit No. 1023, Issued October 4, 2011

We have completed a Second and Final Follow-Up Audit of OC Waste & Recycling Fee Generated Revenue. Our audit was limited to reviewing, as of December 31, 2012, actions taken to implement the **one (1) recommendation** remaining from our First Follow-Up Audit report dated June 25, 2012. We conducted this Second Follow-Up Audit in accordance with the *FY 12-13 Audit Plan and Risk Assessment* approved by the Audit Oversight Committee and Board of Supervisors (BOS).

The results of our Second Follow-Up Audit are discussed in the **OC Internal Auditor's Report** following this transmittal letter. Our Second Follow-Up Audit found that OC Waste & Recycling **fully implemented the one (1) recommendation remaining**. Previously, two (2) recommendations were implemented. As such, this report represents the **final close-out of the original audit**.

Each month I submit an **Audit Status Report** to the BOS 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 2.

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Internal Control Audit of OC Waste & Recycling Fee Generated Revenue  
Audit No. 1228-D***

As of December 31, 2012

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**Audit No. 1228-D**

**January 9, 2013**

TO: Michael Giancola, Director  
OC Waste & Recycling

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

SUBJECT: **Second and Final Close-Out** Follow-Up: Internal Control Audit of OC Waste & Recycling Fee Generated Revenue, Original Audit No. 1023, Issued October 4, 2011

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## Scope of Review

We have completed a Second and Final Close-Out Follow-Up Audit of OC Waste & Recycling (OCWR) Fee Generated Revenue. Our audit was limited to reviewing actions taken, as of December 31, 2012, to implement the **one (1) recommendation** remaining from our First Follow-Up Audit report dated June 25, 2012.

## Background

We conducted an Internal Control Audit of OCWR Fee Generated Revenue, which included an evaluation of internal controls, testing compliance with OCWR and County policies, and evaluating process efficiencies and effectiveness.

The original audit identified **three (3) Control Findings** pertaining to having written policies and procedures over the fee development process and compliance with County revenue policy. In our First Follow-Up Audit, two (2) recommendations were implemented.

## Results

Our Second Follow-Up Audit indicated that OCWR **implemented the one (1) recommendation** remaining from our First Follow-Up Audit. As such, we consider the original audit closed for follow-up purposes. The following is the implementation status of the three original recommendations:

### 1. **Fee Development Process Policies and Procedures (Control Finding)**

OCWR develop and implement written policies and procedures over the fee development process, including the process for ensuring compliance with Proposition 26. Documented policy and procedures should be reviewed and approved by management and current versions need to be readily accessible for reference by personnel responsible for the fee development process.

Current Status: **Implemented (First Follow-Up Audit).** OCWR took appropriate corrective action by developing and implementing written policies and procedures over the fee development process, including the process for ensuring compliance with Proposition 26. The new procedures include department actions, fee development guidelines, steps for fee study approval, and implementation. The policy and procedures were reviewed and approved by management. Because OCWR took measures to establish and implement policy and procedures over the fee development process, we consider this recommendation implemented.



## 2. **Compliance with County Revenue Policy (Control Finding)**

OCWR take measures to ensure compliance with County Accounting Manual Procedure R-3, specifically with maintaining documentation to show fees were reviewed for cost-recovery and consistent use of Fee Checklist forms.

**Current Status: Implemented (Second Follow-Up Audit).** In December 2012, OCWR Executive Management reviewed the annual update to its long range financial plan for the upcoming 10 year term. The review included an analysis of all fees including the Waste Development Agreements and posted disposal rates that are subject to cost-recovery requirements stated in County Accounting Manual Procedure R-3. OCWR documented the annual update using *Annual Fee Review* and *Annual Fee Checklist Review* forms. The analysis determined that OCWR's financial condition projected for the upcoming FY 13-14 is deemed sufficient to meet operational requirements. Because OCWR took measures to establish and implement an annual process to review its cost-recovery fees, we consider this recommendation implemented.

## 3. **Compliance with County Revenue Policy (Control Finding)**

OCWR evaluate its process for establishing the Standard Charge per Ton and determine if it should be developed in accordance with the requirements of County Accounting Manual Procedure R-3.

**Current Status: Implemented (First Follow-Up Audit).** OCWR evaluated its process for establishing the Standard Charge per Ton and determined that, as the Standard Charge per Ton is dependent on the Waste Disposal Agreement rate, it should not be developed in accordance with the requirements of County Accounting Policy R-3. The fee will continue to be part of the negotiated contract process for Waste Disposal and Importation Agreements. However, as indicated in Finding No. 2, OCWR will conduct an annual financial analysis of fees that will include the Standard Charge per Ton and other non-contract, posted rates. Because OCWR evaluated its process for establishing the Standard Charge per Ton, we consider this recommendation implemented.

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

Distribution Pursuant to Audit Oversight Committee Procedure No. 1:

Members, Board of Supervisors  
Members, Audit Oversight Committee  
Robert J. Franz, Interim County Executive Officer  
Dylan Wright, Division Manager, OCWR Administration  
Alan Yuki, Section Manager, OCWR Budget Services  
Mike Montijo, Section Manager, OCWR Accounting Services  
Foreperson, Grand Jury  
Susan Novak, Clerk of the Board of Supervisors