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
Orange County Board of Supervisors’
Internal Audit Department


Providing Facts and Perspectives Countywide

RISK BASED AUDITING

Dr. Peter Hughes  Ph.D., MBA, CPA, CCEP, CITP, CIA, CFE, CFF, CGMA
Director
Certified Compliance & Ethics Professional (CCEP)
Certified Information Technology Professional (CITP)
Certified Internal Auditor (CIA)
Certified Fraud Examiner (CFE)
Certified in Financial Forensics (CFF)
Chartered Global Management Accountant (CGMA)

E-mail: peter.hughes@iad.ocgov.com

Eli Littner  CPA, CIA, CFE, CFS, CISA
Deputy Director
Certified Fraud Specialist (CFS)
Certified Information Systems Auditor (CISA)

Michael Goodwin  CPA, CIA
Senior Audit Manager

Alan Marcum  MBA, CPA, CIA, CFE
Senior Audit Manager

Hall of Finance & Records
12 Civic Center Plaza, Room 232
Santa Ana, CA  92701
Phone: (714) 834-5475  Fax: (714) 834-2880

To access and view audit reports or obtain additional information about the OC Internal Audit Department, visit our website: www.ocgov.com/audit

OC Fraud Hotline (714) 834-3608
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.
Second and Final Close-Out Follow-Up:
Internal Control Audit of OC Waste & Recycling Fee Generated Revenue Audit No. 1228-D

As of December 31, 2012

Transmittal Letter i

OC Internal Auditor’s Report 1
Audit No. 1228-D

January 9, 2013

TO: Michael Giancola, Director
OC Waste & Recycling

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


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