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FIRST FOLLOW-UP AUDIT:

INTERNAL CONTROL AUDIT OF OC WASTE & RECYCLING FEE GENERATED REVENUE

As of May 15, 2012

Our First Follow-Up Audit found that OC Waste & Recycling (OCWR) fully implemented two (2) recommendations and partially implemented one (1) recommendation from our original audit report dated October 4, 2011. For 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: 1130-J (Original Audit No. 1023)

REPORT DATE: JUNE 25, 2012

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

RISK BASED AUDITING

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

AlcPA 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





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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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

Letter from Dr. Peter Hughes, CPA



Transmittal Letter



Audit No. 1130-J June 25, 2012

TO: Michael Giancola, Director OC Waste & Recycling

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

SUBJECT: First Follow-Up Internal Control Audit:

OC Waste & Recycling Fee Generated Revenue, Original Audit No. 1023, Issued October 4, 2011

We have completed a First Follow-Up Audit of internal controls over OC Waste & Recycling's Fee Generated Revenue. Our audit was limited to reviewing, as of May 15, 2012, actions taken to implement the **three (3) recommendations** from our original audit. We conducted this First Follow-Up Audit in accordance with the *FY 11-12 Audit Plan and Risk Assessment* approved by the Audit Oversight Committee and Board of Supervisors (BOS).

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 implemented two (2) recommendations and one (1) recommendation was partially implemented. As such, a Second Follow-Up Audit will be conducted approximately six months from the date of this report.

Each month I submit an **Audit Status Report** to the BOS where I detail any critical and significant control weaknesses 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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OC Internal Auditor's Report



Audit No. 1130-J June 25, 2012

TO: Michael Giancola, Director

OC Waste & Recycling

FROM: Dr. Peter Hughes, CPA, Director,

Internal Audit Department

SUBJECT: First Follow-Up Internal Control Audit: OC Waste & Recycling

Fee Generated Revenue, Original Audit No. 1023, Issued October 4, 2011

Scope of Review

We completed a First Follow-Up Audit of OC Waste & Recycling's Fee Generated Revenue. Our audit was limited to reviewing actions taken as of May 15, 2012 to implement the **three (3) recommendations** in our original audit report.

Background

We conducted an Internal Control Audit of OC Waste & Recycling (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. During the original audit, OCWR generated **\$87 million** in revenue from negotiated contract rates and **\$6 million** in non-negotiated "posted rates" and applicable surcharges.

Results

Our First Follow-Up Audit indicated OCWR implemented two (2) recommendations and one (1) recommendation was partially implemented from our original audit.

Based on the Follow-Up Audit we conducted, 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.

<u>Current Status:</u> **Implemented.** 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.

OC Internal Auditor's Report



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: **Partially Implemented.** OCWR took corrective action by developing documents that will be used to show support for annual fee studies. OCWR will review all cost-recovery fees on an annual basis as required by County Accounting Policy R-3. OCWR developed *Annual Fee Review* and *Annual Fee Checklist Review* forms to document the review of cost recovery fees. However, use of these documents will commence at the end of calendar year 2012. Because OCWR took measures to develop documentation for its annual fee studies and plan to implement these documents at the end of calendar year 2012, we consider this recommendation partially implemented.

<u>Planned Action:</u> OCWR will annually review the posted rate fees for cost recovery and prepare supporting documentation of the financial analysis completed for the annual reviews. This review will commence at the end of calendar year 2012.

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.

<u>Current Status:</u> **Implemented.** 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 <u>not</u> 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 courtesy extended to us by OCWR and staff during our audit. If we can be of further assistance, please contact me directly or Eli Littner, Deputy Director at 834-5899 or Mike Goodwin, Senior Audit Manager at 834-6066.

Distribution Pursuant to Audit Oversight Committee Procedure No. 1:

Members, Board of Supervisors
Members, Audit Oversight Committee
Thomas G. Mauk, County Executive Officer
Dylan Wright, Deputy Director, OCWR Administration
Alan Yuki, Manager, OCWR Budget Services
Mike Montijo, Manager, OCWR Accounting Services
Foreperson, Grand Jury
Susan Novak, Clerk of the Board of Supervisors