



# Orange County Auditor-Controller Internal Audit



Internal Control Audit:  
OC Waste & Recycling -  
Cash Handling Activities

For the Year Ended  
March 31, 2017

Audit Number 1525  
Report Date: September 18, 2017



O R A N G E C O U N T Y  
**AUDITOR-CONTROLLER**  
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AUDITOR-CONTROLLER



**Transmittal Letter**

**Audit No. 1525**

**September 18, 2017**

**TO:** Thomas D. Koutroulis, Director  
OC Waste & Recycling

**SUBJECT:** Internal Control Audit:  
OC Waste & Recycling – Cash Handling Activities

We have completed our audit of internal controls over cash handling activities in OC Waste & Recycling (OCWR) for the year ended March 31, 2017. Our final report is attached for your review.

I submit an **Audit Status Report** quarterly to the Audit Oversight Committee (AOC) and the Board of Supervisors (BOS) where I detail any critical and significant audit findings released in reports during the prior quarter 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 AOC and BOS.

Additionally, we will request your department to complete a **Customer Survey** of Audit Services. You will receive the survey shortly after the distribution of our final report.

A handwritten signature in blue ink, appearing to read "Toni Smart".

Toni Smart, CPA, Director  
Auditor-Controller Internal Audit Division

**Attachments**

Other recipients of this report:

Members, Board of Supervisors  
Members, Audit Oversight Committee  
Eric H. Woolery, Auditor-Controller  
Frank Kim, County Executive Officer  
Lala Ragen, Deputy Chief Operating Officer  
Lisa Smith, Business Services Deputy Director, OCWR  
Alan Yuki, Administrative Manager II, OCWR/Budget, Purchasing & Landfill Administration  
John Escutia, Administrative Manager, OCWR/Prima Descheca Landfill  
Isaac Novella, Administrative Manager, OCWR/Frank R. Bowerman Landfill  
Nikil Patel, Administrative Manager, OCWR/Olinda Alpha Landfill  
Tonya Riley, Director of Satellite Accounting Operations, Auditor-Controller  
Vivian Canton, Accounting Manager II, Auditor-Controller/OCWR Accounting  
Foreperson, Grand Jury  
Robin Stieler, Clerk of the Board of Supervisors  
Macias Gini & O'Connell LLP, County External Auditor



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OC Waste & Recycling –  
Cash Handling Activities  
Audit No. 1525*

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# Internal Auditor's Report

**Audit No. 1525**

**September 18, 2017**

TO: Thomas D. Koutroulis, Director  
OC Waste & Recycling

FROM: Toni Smart, CPA, Director  
Auditor-Controller Internal Audit Division

SUBJECT: Internal Control Audit:  
OC Waste & Recycling – Cash Handling Activities

## OBJECTIVES

We have completed our audit of internal controls over cash handling activities in OC Waste & Recycling (OCWR) for the year ended March 31, 2017. We performed this audit in accordance with the FY 2016-17 Audit Plan and Risk Assessment approved by the Audit Oversight Committee (AOC) and Board of Supervisors (BOS). Our audit was conducted in conformance with the International Standards for the Professional Practice of Internal Auditing prescribed by the Institute of Internal Auditors. Our audit objectives were to ensure:

1. Cash receipts at OCWR's three landfills (Olinda Alpha, Frank R. Bowerman, and Prima Deshecha) are properly collected, recorded, deposited, reconciled, and safeguarded.
2. Cash receipts at OCWR's three landfills are processed in accordance with applicable County and OCWR policies and procedures.
3. Business processes are efficient and effective as related to the receipting process.

## RESULTS

**Objective #1:** We found that controls and processes are in place to ensure that cash receipts are properly collected, recorded, deposited, reconciled, and safeguarded. We have no findings under this objective.

**Objective #2:** We found that controls and processes are in place to ensure that cash receipts are processed in accordance with applicable County and OCWR policies and procedures; however, we identified **five (5) Control Findings** regarding dual custody of cash during close-out procedures, appropriate Paradigm system user access, password requirements for the Paradigm system, expired decals, and inspections of scale house receipts.

**Objective #3:** We found that business processes are efficient and effective as related to the receipting process. We identified **one (1) Efficiency/Effectiveness Finding** regarding the acceptance of credit card payments.

## BACKGROUND

OCWR's mission 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."



# Internal Auditor's Report

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OCWR manages one of the nation's premiere solid waste disposal systems serving residents and businesses. On behalf of 34 cities and over three million residents, OCWR operates a network of three active landfills and four household hazardous waste collection centers.

OCWR consists of approximately 300 employees divided into two organizational units:

1. **Business Services** – includes Accounting, Management Services, Budget & Landfill, Information Systems, and Waste Disposal Contracts & Recycling Programs.
2. **Waste Management Operations** – includes North Region Operations, Central Region Operations, South Region Operations, Environmental Services, and Capital Improvement Project Planning & Management.

OCWR's landfills accept waste disposals from haulers who pay fees by cash/check at the gate (public and other entities without a customer account) and "deferred billing" haulers with established customer accounts. OCWR maintains three active landfills:

1. **Olinda Alpha Landfill (Olinda)** in Brea. During the audit period, Olinda received approximately \$2.1 million in cash receipts.
2. **Frank R. Bowerman Landfill (FRB)** in Irvine. During the audit period, FRB received approximately \$1.8 million in cash receipts.
3. **Prima Deshecha Landfill (Prima)** in San Juan Capistrano. During the audit period, Prima received approximately \$1.4 million in cash receipts.

To account for the landfill activity, OCWR utilizes the Paradigm software suite of products including CompuWeigh (data maintenance), Accounts Receivable & Aging module (deferred billings), WeighStation (transaction processing at the landfill sites), and Disposal Reporting (State reporting system).

## Prior Audit Activity

We issued a report on Information Technology Audit: OC Waste & Recycling/Paradigm System – Deferred Billings (Audit No. 1445) on July 31, 2015. There were no reportable findings or recommendations issued in this report.

## SCOPE AND METHODOLOGY

Our audit scope was limited to internal controls over cash handling activities at OCWR landfills for the year ended March 31, 2017. Our methodology included inquiry, observation, and examination of documentation, and testing of relevant transactions.

## Scope Exclusions

Our audit scope did not include a review of controls over cash receipts or accounts receivable at OCWR headquarters. Also, we did not review OCWR's Paradigm system.

## FOLLOW-UP PROCESS

Please note we have a structured and rigorous **Follow-Up Audit** process in response to recommendations and suggestions made by the AOC and the BOS. Our **First Follow-Up Audit** will generally begin at six months from the official release of the report. A copy of all our Follow-



# Internal Auditor's Report

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Up Audit reports is provided to the BOS as well as to all those individuals indicated on our standard routing distribution list.

The AOC and BOS expect that audit recommendations will typically be implemented within six months and often sooner for significant and higher risk issues. Our **Second Follow-Up Audit** will generally begin at six months from the release of the first Follow-Up Audit report, by which time **all** audit recommendations are expected to be addressed and implemented. We bring to the AOC's attention any audit recommendations we find still not implemented or mitigated after the second Follow-Up Audit. Such open issues will appear on the AOC agenda at their next scheduled meeting for discussion.

We have attached a **Follow-Up Audit Report Form**. Your department should complete this template as our audit recommendations are implemented. When we perform our first Follow-Up Audit approximately six months from the date of this report, we will need to obtain the completed form to facilitate our review.

## **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 an entity's internal control structure are 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 OCWR's continuing emphasis on control activities and self-assessment of control risks.

## **Inherent Limitations in Any System of Internal Control**

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 OCWR's operating procedures, accounting practices, and compliance with County policy.

The Auditor-Controller Internal Audit Division is available to partner with your staff so that they can successfully implement or mitigate difficult audit recommendations.

## **ACKNOWLEDGEMENT**

We appreciate the courtesy extended to us by the personnel at OC Waste & Recycling during our audit. If you have any questions regarding our audit, please contact me directly at (714) 834-5442, or Scott Suzuki, Assistant Director, at (714) 834-5509.



# Detailed Findings, Recommendations, and Management Responses

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## Business Process and Internal Control Strengths

Process and internal control strengths noted during our audit include:

- ✓ Auditor-Controller/OCWR Accounting staff performed ongoing evaluations to assess controls over cash receipts at the landfills to ensure the controls are present and functioning. The results of these evaluations were communicated to senior OCWR management in a timely manner. These practices align with the monitoring activities component of COSO.
- ✓ Cash receipt transactions were processed via an electronic point-of-sale system (Paradigm) that automatically calculates fees and records sales information. Each Fee Station Attendant (FSA) has a unique username and password to log into the Paradigm system and each FSA is assigned their own cash drawer. User rights in Paradigm are granted based on the employee's role/title, which corresponds to a user group with pre-set capabilities.
- ✓ A receipt is automatically printed via Paradigm and given to the customer for each transaction.
- ✓ Options such as decals and transponders are available to landfill customers to help expedite the receipting process.
- ✓ The cash registers have a reader that automatically validates checks to ensure no checks with NSF (non-sufficient funds) history are accepted.
- ✓ After Accounting receives supporting documents from the landfill sites for the daily deposits, they reconcile totals to the Site Sales Report from Paradigm and prepare a Cash Receipt (CR) document to record the daily landfill fee collection revenue in CAPS+.
- ✓ At closing, the FSA Supervisor verifies each FSA's cash and check totals via money counter, which prints out a Batch Report. The Batch Report is agreed to the Operator Cash Reports (for each FSA), which is then agreed to the Supervisor Deposit Report (totals for all FSAs).
- ✓ A bank deposit slip is completed and totals agreed to the deposit bag. Cash and checks are deposited in separate sealed deposit bags. All deposits are picked up via armored transport service.
- ✓ Cash and cash equivalent assets (i.e., manual tickets) are stored in a secure manner and accessible only by authorized personnel. A written record of safe combination and key holders is maintained.
- ✓ There is a security camera installed above each fee booth register.
- ✓ FSAs use a counterfeit detector pen to verify \$20, \$50, and \$100 bills.





## Detailed Findings, Recommendations, and Management Responses

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The following areas are where we believe cash receipts processes and controls should be enhanced:

### **Finding No. 1 – No Dual Custody of Cash During Closing (Control Finding)**

We observed the closing process and noted deposits are made by the Fee Station Attendant (FSA) Supervisor in the FSA Supervisor room without another employee present. Although there are security cameras installed above each cash register to capture receipt of payments, there is no security camera installed in the respective FSA Supervisor rooms, where all close outs/deposits occur.

Failure to provide appropriate controls and security measures for areas storing cash and cash equivalents could result in a misappropriation of assets. Basic cash control principles mandate dual custody where two people should be involved in critical cash handling tasks, such as the closing and deposit process.

#### **Recommendation No. 1:**

We recommend OCWR management improve the controls over the closing process by either having two employees present during the closing process or by redesigning the camera placement to capture the FSA Supervisor rooms.

#### **OC Waste & Recycling Management Response:**

**Concur.** Effective September 1, 2017 OCWR will add a fee booth procedure to existing cash control practices and have two employees present during the closing process.

Subject to an upcoming meet and confer OCWR is also planning the design and implementation of additional video cameras as needed and necessary over the FSA supervisory locations.

### **Finding No. 2 – Some Paradigm Users Retained Access When No Longer Required (Control Finding)**

Two OCWR employees were granted temporary access to Paradigm. One user account was an OCIT employee who no longer supports Paradigm, the other account was related to an employee that has separated from OCWR.

Not updating user roles when employees no longer require permissions increases the risk of unauthorized access to Paradigm, which can result in unauthorized transactions, manipulation of data, and access to reports or data not related to the employee's duties.

#### **Recommendation No. 2:**

We recommend that OCWR perform periodic reviews of Paradigm user access and maintain access only to authorized personnel.

#### **OC Waste & Recycling Management Response:**

**Concur.** OCWR performs a periodic review of Paradigm user access. A more formal review practice, e.g. every three months by a combination of OCWR and OCIT staff, will be implemented. In all instances it is the policy and practice of OCWR staff to delete from active user status access by any employees who are no longer with the Department. The names of



## Detailed Findings, Recommendations, and Management Responses

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former fee staff personnel who previously worked for OCWR are retained on the master list (inactive category) for the purposes of historical reference and to facilitate review of previous transactions performed be necessary.

### Finding No. 3 – Inadequate Paradigm Password Policies (Control Finding)

Paradigm does not have a security feature that forces periodic user password changes; however, the system does have password syntax (e.g., requirements for alpha, numeric, length, and special characters) settings that OCWR has not enabled.

There is an increased risk of unauthorized access to Paradigm due to inadequate password policy measures.

#### Recommendation No. 3:

We recommend that OCWR develop password policy enhancements in Paradigm, such as enabling password syntax settings and forcing periodic password changes. OCWR should also seek a feature that requires automated mandatory password changes in any future upgrades or replacement of Paradigm.

#### OC Waste & Recycling Management Response:

**Concur.** OCWR has implemented establishment in the Paradigm system an automatic requirement for fee station users to change of passwords every six months, and with required minimum password characteristics (upper case, lower case, numeral, symbols).

### Finding No. 4 – Inspection of Scale House Receipts Not Completed as Required (Control Finding)

OCWR staff patrol the landfill area and inspect customer scale house receipts to ensure proper fees were paid. Our audit found these inspections were not performed in accordance with OCWR policy.

Insufficient inspection of scale house receipts increases the risk of unauthorized use of the landfills and loss of revenue to the County.

OCWR procedure 7.36 Section III.A states that, “*Landfill Waste Inspectors shall perform inspections of no less than ten (10) landfill scale house receipts per day on six (6) days each month, chosen at random.*”

We obtained the most recent month's (April 2017) Scale House Receipt Inspection Logs from all three landfills and determined that none of the landfills fulfilled the inspection quota. The following inspections were completed for April 2017:

- Prima: 5 of 6 days were completed
- FRB: 2 of 6 days were completed
- Olinda: 4 of 6 days were completed



## Detailed Findings, Recommendations, and Management Responses

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In addition, **ten of 40 (25%) individual receipt inspections at Olinda resulted in a customer not having a receipt**, as indicated by "RTS" (Return to Site) on the inspection log.

### **Recommendation No. 4:**

We recommend that OCWR enforce the inspection quota, which is no less than ten landfill scale house receipts per day on six days each month, chosen at random.

### **OC Waste & Recycling Management Response:**

**Concur.** OCWR will enforce the inspection quota, as stated in the OCWR P&P which provides for no less than ten (10) landfill scale house receipts per day on six days each month, chosen at random.

### **Finding No. 5 – Expired Decals Not Re-Issued (Control Finding)**

Decals are used by customers on account, i.e., fees are paid via invoice. We observed several instances in which customer vehicles had expired decals, some dating back to 2007.

Allowing expired decals is against OCWR policy and could result in customers being inaccurately charged.

Per OCWR procedure 7.41, Section III.A, "*When a vehicle is decaled in any given month, the decal is valid for two (2) calendar years from the month that the decal was installed. OCWR/Accounting monitors non-usage and determines when a decal should be removed from the system.*"

We observed one instance at FRB where a vehicle had an expired decal and a new decal was not issued. FRB management stated that it is a process to re-issue decals and can stop the flow of traffic. There used to be a designated lane for re-decals; however, the installation of an automatic (unmanned) transponder lane has taken up that available lane. In addition, we were informed it is not typical for trucks/trailers to have a significant change in weight; therefore, the need to re-weigh/re-decal every two years may not be necessary. FRB management expressed that the policy should be changed so that decals are valid up to four years.

The Fee Supervisor at Olinda made a similar statement, informing us that there are not enough manned fee stations to renew decals without disrupting the flow of customer traffic and that Olinda does not re-decal expired decals for that reason.

### **Recommendation No. 5:**

We recommend that OCWR management enforce re-issuing of decals when expired and consider revising P&P 7.41 *Vehicle Decaling* to extend the length of time decals are valid.

### **OC Waste & Recycling Management Response:**

**Concur.** OCWR is reviewing this control finding in a way that ensures the occurrence of expired decals is eliminated as much as possible and in a way that can be done with existing and/or increased fee personnel and such as to not cause disruption to traffic workflow. Included in the review is to develop a workflow to ensure customer tare weights are accurate.



## Detailed Findings, Recommendations, and Management Responses

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OCWR P&P 7.41 is being reviewed to update wording as necessary. Included in recommended wording changes to this P&P:

Section III. A wording will be changed from "OCWR/Accounting monitors non-usage and determines when a decal should be removed from the system" to "OCWR Accounting maintains the Decals Log and updates the appropriate decal information in the accounts receivable system based on the completed Decal Tare Chart form provided by landfill staff".

### **Finding No. 6 – Acceptance of Credit Card Payments Should be Considered (Efficiency/Effectiveness Finding)**

OCWR does not currently accept credit card payments because Paradigm is not equipped to accept such payments.

Credit card payments are more efficient than cash payments and can expedite transactions. Accepting credit card payments would reduce the amount of cash on hand, the labor to process cash transactions, and also lower the risk of loss or theft.

OCWR stated they are in the early stages of upgrading Paradigm and are discussing with the vendor potential terms for accepting credit card payments.

#### **Recommendation No. 6:**

We recommend that OCWR consider accepting credit card payments.

#### **OC Waste & Recycling Management Response:**

**Concur.** As indicated in this finding OCWR will be working prospectively to implement the acceptance of credit cards as an alternate form of payment for disposal services. Implementation of this form of payment will involve programming modifications and/or enhancements to the Paradigm System. The new contract with Paradigm will commence January 1, 2018; thereafter OCWR will be initiating this activity.



# Detailed Findings, Recommendations, and Management Responses

## ATTACHMENT A: Report Item Classifications

For purposes of reporting our audit findings and recommendations, we will classify audit report items into three distinct categories:

<b>Critical Control Weaknesses</b>	<b>Significant Control Weaknesses</b>	<b>Control Findings</b>
<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 <b>Critical Control Weaknesses</b> 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. <b>Significant Control Weaknesses</b> require prompt corrective actions.</p>	<p>These are audit findings concerning internal controls, compliance issues, or efficiency/effectiveness issues that require management's corrective action to implement or enhance processes and internal controls. <b>Control Findings</b> are expected to be addressed within our follow-up process of six months, but no later than twelve months.</p>



# Detailed Findings, Recommendations, and Management Responses

## ATTACHMENT B: OC Waste & Recycling Management Responses



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September 7, 2017

**TO:** Toni Smart, CPA, Director  
Auditor-Controller Internal Audit Division

**FROM:** Alan Yuki, Section Manager  
Budget, Purchasing & Landfill Administrative Services  
OC Waste & Recycling

**SUBJECT:** Internal Control Audit No. 1525  
OC Waste & Recycling Responses

On behalf of OC Waste & Recycling, attached are our responses to Audit No. 1525 on cash handling activities for the year ended March 31, 2017. The responses have been reviewed by the CEO.

Finding No. 1  
No Dual Custody of Cash During Closing (Control Finding)

OCWR Management Response

**Concur.**

**Effective September 1, 2017 OCWR will add a fee booth procedure to existing cash control practices and have two employees present during the closing process.**

**Subject to an upcoming meet and confer OCWR is also planning the design and implementation of additional video cameras as needed and necessary over the FSA supervisory locations.**

Finding No. 2  
Some Paradigm Users Retained Access When No Longer Required (Control Finding)

OCWR Management Response

**Concur. OCWR performs a periodic review of Paradigm user access. A more formal review practice, e.g. every three months by a combination of OCWR and OCIT staff, will be implemented. In all instances it is the policy and practice of OCWR staff to delete from active user status access by any employees who are no longer with the Department. The names of former fee staff personnel who previously worked for OCWR are retained on the**



# Detailed Findings, Recommendations, and Management Responses

## ATTACHMENT B: OC Waste & Recycling Management Responses (cont.)

**master list (inactive category) for the purposes of historical reference and to facilitate review of previous transactions performed be necessary.**

Finding No. 3  
Inadequate Paradigm Password Policies (Control Finding)

OCWR Management Response  
**Concur. OCWR has implemented establishment in the Paradigm system an automatic requirement for fee station users to change of passwords every six months, and with required minimum password characteristics (upper case, lower case, numeral, symbols).**

Finding No. 4  
Inspection of Scale House Receipts Not Completed as Required (Control Finding)

OCWR Management Response  
**Concur. OCWR will enforce the inspection quota, as stated in the OCWR P&P which provides for no less than ten (10) landfill scale house receipts per day on six days each month, chosen at random.**

Finding No. 5  
Expired Decals Not Re-Issued (Control Finding)

OCWR Management Response  
**Concur. OCWR is reviewing this control finding in a way that ensures the occurrence of expired decals is eliminated as much as possible and in a way that can be done with existing and/or increased fee personnel and such as to not cause disruption to traffic workflow. Included in the review is to develop a workflow to ensure customer tare weights are accurate.**  
**OCWR P&P 7.41 is being reviewed to update wording as necessary. Included in recommended wording changes to this P&P:**  
**Section III. A wording will be changed from "OCWR/Accounting monitors non-usage and determines when a decal should be removed from the system" to "OCWR Accounting maintains the Decals Log and updates the appropriate decal information in the accounts receivable system based on the completed Decal Tare Chart form provided by landfill staff".**

Finding No. 6  
Acceptance of Credit Card Payments Should be Considered (Efficiency/Effectiveness Finding)

OCWR Management Response  
**Concur. As indicated in this finding OCWR will be working prospectively to implement the acceptance of credit cards as an alternate form of payment for disposal services. Implementation of this form of payment will involve programming modifications and/or enhancements to the Paradigm System. The new contract with Paradigm will commence January 1, 2018; thereafter OCWR will be initiating this activity.**



# Detailed Findings, Recommendations, and Management Responses

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## ATTACHMENT B: OC Waste & Recycling Management Responses (cont.)

cc: Scott Suzuki, Assistant Director, A-C Internal Audit Division  
Michael Dean, Audit Manager II, A-C Internal Audit Division  
Tom Koutroulis, Director, OCWR  
Lisa Smith, Deputy Director, Business Services, OCWR