

Napa County

Auditor-Controller

Internal Audit Report

# Quarterly Monitoring NVWMA

For the Period: January 1, 2019 - June 30, 2019

Report Date: July 30, 2019



A Tradition of Stewardship  
A Commitment to Service

Tracy A. Schulze  
Auditor-Controller

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**Tracy A. Schulze**  
Auditor-Controller

July 30, 2019

Board of Directors  
Napa-Valley Waste Management Authority

### **Executive Summary**

The Internal Audit Section of the Napa County Auditor-Controller's Office has completed a fiscal monitoring for Napa-Vallejo Waste Management Authority (Authority) for the quarters ended March 31, 2019 and June 30, 2019. We are not engaged to, and did not perform an audit, the objective of which would be the expression of an opinion on specified elements, accounts or items. Accordingly, we do not express such an opinion. Had we performed additional procedures; other matters may have come to our attention that would have been reported to you.

It was noted that there was an overall shortage of \$347.15 for the quarter ended March 31, 2019 and \$836.12 for the quarter ended June 30, 2019 primarily due to bank adjustments correcting deposits, short pays, clerical errors and multiple double charges on credit cards. Given the volume of transactions that occurred throughout the quarters, we have determined the error rate (less than 1%) resulting in cash shortages and the use of an incorrect rate are immaterial. Based upon the walk-through of internal controls we have reasonable assurance that internal controls associated with fees collected and tickets issued or voided are in place and effective.

This report is intended solely for the information and use of the Authority Board and management and is not intended to be used by anyone other than these specified parties.

I want to thank the Internal Audit and Devlin Road Transfer Station staff, along with the Authority management for their expertise and professionalism in conducting this engagement.

Sincerely,

Tracy A. Schulze  
Auditor-Controller

## **Background and Authority**

The agreement between the Authority, a joint powers agency organized under the laws of the State of California pursuant to Government Code Section 6500 et seq., and Northern Recycling Operations and Waste Services LLC (Northern), a California Limited Liability Company was entered into and executed as of March 1, 2007, and subsequently amended on March 19<sup>th</sup>, 2010.

The Authority is composed of County of Napa and the Cities of Napa, American Canyon and Vallejo, and was formed for the purpose of providing economic coordination of solid waste processing, transfer and disposal services. The Authority has contracted with Northern to operate the Devlin Road Transfer Station, pursuant to the provisions of Public Resource Code section 40059(a)(2). The Authority and Northern are authorized to enter into a transfer station operation agreement where Northern will operate the Devlin Road Transfer Station.

## **Scope and Objective**

This engagement was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*. We have performed a review applicable to the revenue and other elements noted below for the Authority. This engagement is solely to assist the Authority Board and management with respect to the review of revenue and accounts receivable associated with inbound customers; and verification of controls associated with fees collected, manual tickets issued, stored tare weights, voids and issuance of tickets at Devlin Road Transfer Station (DRTS) operated by Northern Recycling Operations & Waste Services, LLC (Northern), for the quarters ended March 31, 2019 and June 30, 2019.

The objective of our engagement was to assess risk pertaining to inbound customers specifically to:

- ✓ Determine if controls associated with fees collected, manual tickets issued, stored tare weights, voids and issuance of tickets at Devlin Road Transfer Station are being maintained to protect the integrity of the revenues reported to the Authority; and
- ✓ Determine the accuracy of the revenue reported in the Authority's general ledger for inbound customers; and
- ✓ Provide the Authority with information on exceptions and additional information resulting from our engagement.

## Procedures

In achieving the objectives, the following procedures were performed, including but not limited to:

1. **General Controls** – We documented the procedures applicable to customers weighing in and out at the DRTS along with the flow of information between Northern and the Napa County Treasurer’s (Treasurer) Office in a narrative format. Key controls were identified within the narratives for the scale house procedures. We verified these controls by performing walk-throughs on a sample of transactions occurring during the March quarter for every type of material that DRTS accepts through the scale house and processes on the outbound scale.

2. **Specific Controls**

Quarter Ended March 31, 2019

Based on the risk assessed from the analysis of the General Controls for the quarter ended March 31, 2019, we:

- ✓ Verified that credit card transactions were deposited timely;
- ✓ Performed ticket rate testing;
- ✓ Examined a sample of voided cash tickets that had replacement amounts less than the original ticket amount to determine if replacement tickets were issued and driver signatures were obtained to ensure accuracy of the transaction as well as additional voids due to the volume of voids;
- ✓ We examined a sample of manually issued tickets (hand tags) to determine if the information on the hand tag was entered into Northern’s Soft-Pak system accurately;
- ✓ We analyzed the Aging Reports to determine if accounts 90 days and over past due exceeded \$10,000;
- ✓ We verified that all tickets issued in the quarter were accounted for;
- ✓ We tested every ticket issued in the quarter to verify that rates were accurate;
- ✓ We verified Account Receivable Customers who were electronically billed had received their invoices and paid timely

## 2. Specific Controls (Continued)

### Quarter Ended June 30, 2019

We did not perform a walk-through or narrative for the quarter ended June 30, 2019. Based on the risk assessed from the analysis of the General Controls for the previous quarter, we:

- ✓ Verified that credit card transactions were deposited timely;
- ✓ Performed ticket rate testing;
- ✓ We analyzed the Aging Reports to determine if accounts 90 days and over past due exceeded \$10,000;
- ✓ We verified that all tickets issued in the quarter were accounted for

3. Reporting Accuracy – We compared the amount posted into the Authority’s general ledger to the amount reported in the Soft-Pak system for cash and credit card transactions for the quarters ended March 31, 2019 and June 30, 2019.

## **Results and Recommendations**

For the quarters ended March 31, 2019 and June 30, 2019, internal controls over inbound procedures were adequate ensuring checks and balances are in place to accurately conduct business transactions while minimizing the risk of errors and fraudulent activity. However, the following reportable results were noted:

### Over/Short Variance

**Result:** There was an overall shortage of \$347.15 for the quarter ended March 31, 2019 and \$836.12 for the quarter ended June 30, 2019, due to bank adjustments, short pays, clerical errors, and double charges on credit cards.

**Recommendation:** We recommend DRTS should continue to monitor the existing system of controls over the cash receipts, specifically:

- ✓ Practice dual custody when counting cash drawers (opening and closing)
- ✓ All cash held overnight must be deposited in a safe
- ✓ Cash drawers or cash boxes must be closed and secured when not in use
- ✓ Deposit slips must be reviewed in dual custody by another employee before the bank deposit

- ✓ Implement controls to avoid duplicate credit card and double charged transactions.

We also recommend researching the options available to Northern for detecting counterfeit bills at the time cash is received from the customers.

**Northern's Management Response:** Northern Recycling will continue to monitor the daily activities and functions of the scale house staff.

- ✓ The scale house staff is practicing dual counting and confirmation for all scale house staff cash drawers.
- ✓ The scale house staff are practicing dual custody with regards to bank deposits and note the confirmation with an employee initial on the deposit.
- ✓ The scale house staff has been instructed to practice some patience with credit card transactions to help prevent double charges and customer refunds.
- ✓ Staff will research additional methods for counterfeit cash detection. Our current methods include visual inspection, use of counterfeit pen and counterfeit scanner.

### **Voided Tickets**

**Result:** For the quarter ended March 31, 2019, there were seven tickets with amounts lower than the original ticket. There was one instance where the driver did not sign a replacement ticket. In addition, there was one voided ticket with no replacement for a credit card that was declined when the hand tag was inputted. Additional testing was performed as a result of the excessive number of voided tickets. Most of the voids were due to documented system errors.

**Recommendation:** We recommend that the replacement tickets for cash transactions are signed by the drivers. This procedure ensures that the voided transaction has been accurately reported for the amount received from the customer as well as providing an audit trail that the appropriate amount received from the customer was recorded on the replacement ticket.

However, if a driver refuses to sign the replacement ticket, we recommend the scale house operator note the instance on the ticket to show that the driver did not comply.

**Northern's Management Response:** Northern Recycling staff have been reminded to have the driver sign the replacement ticket. This step helps to provide an audit trail and provides backup proof that the customer is aware of the voided transaction. If a driver refuses to sign a replacement ticket, we have instructed office and scale house staff to have additional employees verify that the customer refuses to sign the new ticket and to make note of the issue.

**Exhibit A**

**Napa-Vallejo Waste Management Authority  
 Summary of Cash (Shortage) Overage  
 For the Quarters Ended March 31, 2019 & June 30, 2019**

<u>Description</u>	<u>Quarter Ended June 30, 2019</u>	<u>Quarter Ended March 31, 2019</u>	<u>Quarter Ended Dec 31, 2018</u>	<u>Quarter Ended Sep. 30, 2018</u>	<u>Year to Date</u>
<u>Authority's General Ledger</u>					
Cash	\$ 668,856.80	\$ 520,691.50	\$ 576,093.88	\$ 673,762.74	\$ 1,770,548.12
VISA/MC	961,091.36	746,187.79	751,530.96	879,659.68	2,377,378.43
Subtotal	<u>1,629,948.16</u>	<u>1,266,879.29</u>	<u>1,327,624.84</u>	<u>1,553,422.42</u>	<u>2,881,047.26</u>
<u>Northern's Records</u>					
Cash	669,345.88	521,126.25	576,291.04	673,899.74	1,771,317.03
VISA/MC	961,438.40	746,100.19	751,491.96	879,710.64	2,377,302.79
Subtotal	<u>1,630,784.28</u>	<u>1,267,226.44</u>	<u>1,327,783.00</u>	<u>1,553,610.38</u>	<u>4,148,619.82</u>
Net Cash (Shortage) Overage	\$ <u>(836.12)</u>	\$ <u>(347.15)</u>	\$ <u>(158.16)</u>	\$ <u>(187.96)</u>	\$ <u>(1,529.39)</u>