



A Tradition of Stewardship  
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Auditor-Controller

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**Tracy A. Schulze**  
Auditor-Controller

## QUARTERLY MONITORING FOR THE QUARTER ENDED JUNE 30, 2018

October 22, 2018

Board of Directors  
Napa-Vallejo Waste Management Authority  
Napa, California

### Scope

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 Napa-Vallejo Waste Management Authority (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 quarter ended June 30, 2018.

### Objectives

The objective of our engagement was to assess risk pertaining to Inbound and Outbound 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;
- Provide the Authority with information on exceptions and additional information resulting from our engagement.

## Procedures

In achieving the engagement 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 June quarter for every type of material that DRTS accepts through the scale house and processes on the outbound scale.
2. **Specific Controls** – Based on the risk assessed from the analysis of the General Controls, we:
  - 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 obtain to ensure accuracy of the transaction; and
  - We examined a sample of manually issued tickets (hand tags) to determine if the information on the hand tag was entered into Northern’s SoftPak system accurately.
3. **Reporting Accuracy** – We compared the amount posted into the Authority’s general ledger to the amount reported in the SoftPak system for cash and credit card transactions.

## Summary of Results

### **General Controls**

**Results:** Based on our identification and testing of key controls for the inbound and outbound procedures, we noted that Northern has adequate controls ensuring checks and balances are in place to accurately conduct business transactions while minimizing the risk of errors and fraudulent activity.

**Recommendation:** We recommend Northern also use these procedures as a training tool for their employees and to make sure they are updated and improved upon bi-annually.

**Northern's Response:** Northern Recycling staff routinely reviews the scale house training manual and procedures. We utilize several staff members to train new employees, to help ensure that the new employees are exposed to multiple employees reviewing and training the new recruits on the day to day business.

Northern Recycling also routinely reviews portions of our training and scale house daily procedures with the Auditor Controllers office and with Napa County Central collections. These routine reviews happen during our quarterly audits and site visits and with the Central Collection staff on a daily or weekly basis while addressing collection issues.

### **Specific Controls – Voids and Hand Tags**

Due to the associated risks applicable to void and hand tags, additional samples were examined.

**Results – Voids and Hand Tags:** Based on our review for the quarter ended June 30, 2018, Northern has materially complied with the policy and procedures governing the voiding of a ticket and issuing a ticket for a previously issued hand tag. However, financial risk to the Authority is higher in the area of voided cash tickets due to the scale house operators having the ability to void tickets in the system. Northern has implemented mitigating controls by placing cameras inside and outside the scale house. Additionally, all voids are reviewed by management and an exchange of information as well as follow-up questions are discussed with the scale house operators to ensure that each voided transaction is processed in accordance with the Northern's Policy & Procedures. To ensure controls are working, all voided cash tickets with replacement amounts less than the original amount are examined to determine the driver's signature is obtained. The driver's signature provides additional assurance that the cash reported is the same amount received from the driver.

Of the sixty-four voided tickets, twenty-one tickets were for cash transactions. We examined eleven cash tickets that had replacement amounts less than the original ticket amount to determine if the driver signed the replacement ticket acknowledging the corrected transaction and if the reason for the void was noted in the comment field. Based on the description in the Void Ticket report, one of the original tickets was reduced from \$359.97 to \$88.75 due to the "Wrong Amount" and the driver's signature was not obtained for the replacement ticket. Upon further examination it was determined that the ticket was voided as a result of the wrong weight on the Inbound Scale.

During the quarter eleven Hand Tags, 5415 through 5419 and 5422 through 5427, were issued as a result of system updates occurring during operating hours and affecting the SoftPak system. The break in sequence was a result of Hand tags 5420 & 5421 being issued during the quarter ended March 31, 2018.

**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.

In addition, we recommend that Hand Tags are utilized in numerical sequence to ensure that revenue and load information is recorded in the correct month.

**Northern's Response:** Northern Recycling continues to instruct all scale house staff to make sure that customer/drivers sign any replacement tickets which helps to prevent fraud and helps to maintain and audit trail. Northern Recycling office staff will continue to review all transactions and will investigate reasons for replacement tickets.

### **Reporting Accuracy**

**Results:** To determine the accuracy of the amount transmitted to the Napa County Treasurer, we compared the amount posted in the Authority's general ledger to the amount reported in Northern's SoftPak system. During the quarter ended June 30, 2018, we noted a net shortage of \$399.83. The shortage was a result of cash and check shortages of \$422.92 and a credit card overage of \$23.09. The errors occurred over a span of thirty-three of the ninety-one days DRTS was opened during the quarter. The majority of the errors were due to clerical errors in processing credit cards, issuing change and selecting the incorrect customer at the outbound scale. See Exhibit 1 for a breakdown of the cash shortage.

**Recommendation:** We recommend Northern continue to monitor their employees and provide quality training to minimize errors. In addition, the successful implementation of the kiosk system for customers with stored tared weights should help with the reduction of errors.

**Northern's Response:** Northern Recycling has taken steps to reduce scale house staff turnover which should reduce clerical errors that are a result of newer employees not being familiar with regular account customers. Northern Recycling office staff will continue to review and audit daily transactions for accuracy and errors and use the information for training and job performance reviews with staff.

### **Conclusion**

The Authority's contractor, Northern, has policy and procedures in place that govern the processes applicable to Inbound, Outbound and Void transactions. Given the magnitude of transactions that Northern's employees process each day, they should be commended

for a cash shortage that is less than one percent of the transactions processed. A total of \$4.6 million in revenue was received in cash, checks, credit card charges, and payments on accounts receivable for the quarter ended June 30, 2018. Northern's scale house employees processed over 37,400 tickets during the quarter of which over 10,500 were for cash transactions and 12,000 were for credit card transactions with the remaining 14,900 tickets issued to accounts receivable customers. The cumulative cash shortage for fiscal year 2017-2018 was \$818.38.

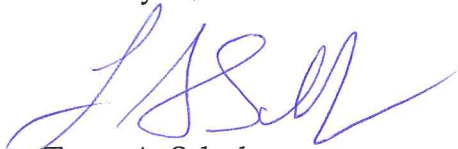
We recommend Northern continue to provide training to employees and open the kiosk system to trucks with stored tare weights as soon as training is completed. The implementation of the kiosk to franchise haulers and public agencies will help reduce the reliance on scale house operators especially in times of high turnover.

Overall, we have reasonable assurance that internal controls associated with fees collected, manual tickets issued, stored tare weights, voids and issuance of tickets at Devlin Road Transfer Station are in place and effective.

We were 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. The responses to the exceptions identified in our report have been provided by Northern. We did not audit these responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Board of Directors; the Executive Director of the Napa-Vallejo Waste Management Authority and the Manager of the Devlin Road Transfer Station and is not intended to be used by anyone other than these specified parties.

Thank you,



Tracy A. Schulze  
Auditor-Controller

cc: Richard F. Luthy, Jr.  
Executive Director

Karen Dotson  
Internal Audit Manager

**Napa-Vallejo Waste Management Authority**  
**Summary of Cash (Shortage) Overage**  
**For the Quarter Ended June 30, 2018**

**EXHIBIT 1**

<u>Description</u>	<u>Quarter Ended Sep. 30, 2017</u>	<u>Quarter Ended Dec. 31, 2017</u>	<u>Quarter Ended March 31, 2018</u>	<u>Quarter Ended June 30, 2018</u>	<u>Year to Date</u>
<u>Authority's General Ledger</u>					
Cash	\$ 602,512.64	\$ 533,753.06	\$ 510,829.36	\$ 634,806.68	\$ 2,281,901.74
VISA/MC	819,737.22	732,975.84	729,259.80	866,391.20	3,148,364.06
Subtotal	<u>1,422,249.86</u>	<u>1,266,728.90</u>	<u>1,240,089.16</u>	<u>1,501,197.88</u>	<u>5,430,265.80</u>
<u>Northern's Records</u>					
Deposits per Northern's Cash Report	1,421,762.84	1,267,074.22	1,240,300.34	1,501,597.71	5,430,735.11
CC Void not in SoftPak - Error	-	(581.49)	-	-	(581.49)
Refund Error	-	167.56	-	-	167.56
Subtotal	<u>1,421,762.84</u>	<u>1,266,660.29</u>	<u>1,240,300.34</u>	<u>1,501,597.71</u>	<u>5,430,321.18</u>
Net Cash (Shortage) Overage	487.02	68.61	(211.18)	(399.83)	(55.38)
Credit Card Refund Error	<u>(611.00)</u>	<u>(152.00)</u>	<u>-</u>	<u>-</u>	<u>(763.00)</u>
Net Cash (Shortage) Overage After CC Adjustment	<u>\$ (123.98)</u>	<u>\$ (83.39)</u>	<u>\$ (211.18)</u>	<u>\$ (399.83)</u>	<u>\$ (818.38)</u>