

County of Napa

Auditor-Controller

Internal Audit Report

Quarterly Monitoring NVWMA

For the Quarter Ended March 31, 2020

Report Date: June 15, 2020



A Tradition of Stewardship
A Commitment to Service

Tracy A. Schulze
Auditor-Controller

Table of Contents

	<u>Page</u>
Executive Summary	1
Background and Authority.....	2
Scope and Objective.....	2
Procedures.....	3
Results and Recommendations	4
Exhibit A – Summary of Cash (Shortage) Overage.....	6

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Tracy A. Schulze
Auditor-Controller

June 12, 2020

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 quarter ended March 31, 2020. 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.

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's 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's 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 19th, 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 (DRTS), 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 DRTS.

Scope and Objective

This engagement was conducted in conformance with the *International Standards for the Professional Practice Internal Auditing (Standards)* established by the Institute of Internal Auditors. 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's 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 DRTS operated by Northern, for the quarter ended March 31, 2020.

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, electronic billing, 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 internal control 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 Office.

2. **Specific Controls**
 - Verified that credit card transactions were deposited timely
 - 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
 - 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
 - Analyzed the aging reports to determine if accounts 90 days and over past due exceeded \$10,000
 - Verified that all tickets issued in the quarter were accounted for
 - Audited every ticket issued in the quarter to verify that rates were accurate
 - Verified account receivable customers who were electronically billed had received their invoices and paid timely

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 for the quarter ended March 31, 2020.

Results and Recommendations

For the quarter ended March 31, 2020, internal controls over inbound procedures were adequate with ensuring checks and balances were in place to accurately conduct business transactions while minimizing the risk of errors and fraudulent activity. However, the following results and recommendations were noted:

Over/Short Variance

Result: We noted that an overage of \$57.45 for the quarter ended March 31, 2020 was primarily due to bank adjustments, correcting deposits, short pays, and clerical errors.

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

- Practice dual custody when counting cash drawers (opening and closing)
- Deposit all cash held overnight in a safe
- Close and secure cash drawers or cash boxes when not in use
- Review deposit slips in dual custody before processing the bank deposit
- Implement controls to avoid duplicate credit card and double charged transactions

Northern's Management Response: The DRTS management and staff will continue to monitor all daily transactions and follow all recommended controls with regard to cash handling and daily Scale House procedures. DRTS management and staff will review all the quarterly audit results and discuss the Auditor's findings and explore ways to make improvements.

Ticket Testing

Result: We noted two franchise customers were charged the non-franchise fee, which resulted in 42 tickets being overcharged for a total of \$561.88. After the investigation, it was determined that a system malfunction caused the error and billing adjustments were subsequently submitted to Central Collections for correction.

Recommendation: As part of their daily review, we recommend that Scale House staff implement assurance that the correct rates are being applied to the customers.

Results and Recommendations (Continued)

Northern's Management Response: Northern Recycling's software provider "Soft Pak" had implemented a software update which caused a communication error with the software that is utilized to operate the unattended truck kiosk terminal. Northern Recycling staff will continue to monitor all transactions and utilize all recommended controls including a review of all transactions after any software updates are put into place.

Missing Tickets

Result: We noted four missing tickets for the quarter ended March 31, 2020. After the investigation, it was determined that two tickets were not in the report due to a system malfunction. The two other tickets were replacement tickets that were back-dated in the previous quarter.

Recommendation: We recommend that Northern compare the number of tickets issued using the first and last ticket number for the month to the number of tickets issued per the Scale Transaction Report to identify any missing tickets. In addition, we recommend that Northern document the back dating of ticket corrections for better transparency.

Northern's Management Response: Northern Recycling will continue to review and monitor all daily ticket transactions and make note of any skipped or missing tickets. All voided and replacement tickets will be documented and reported as required.

Exhibit A

**Napa-Vallejo Waste Management Authority
Summary of Cash (Shortage) Overage
For the Quarter Ended March 31, 2020**

Description	Quarter Ended March 31, 2020	Quarter Ended Dec. 31, 2019	Quarter Ended Sept. 30, 2019	Year to Date
<u>Authority's General Ledger</u>				
Cash	\$ 543,396.01	\$ 597,203.34	\$ 721,683.73	\$ 1,862,283.08
VISA/MC	883,678.95	753,792.12	957,515.21	2,594,986.28
Subtotal	<u>1,427,074.96</u>	<u>1,350,995.46</u>	<u>1,679,198.94</u>	<u>4,457,269.36</u>
<u>Northern's Records</u>				
Cash/Check per Northern's Cash Report	543,623.26	598,027.52	721,639.09	1,863,289.87
VISA/MC per Northern's Cash Report	883,149.70	753,153.31	956,990.34	2,593,293.35
Subtotal	<u>1,426,772.96</u>	<u>1,351,180.83</u>	<u>1,678,629.43</u>	<u>4,456,583.22</u>
Bank Adjustments	<u>(244.55)</u>	<u>100.00</u>	<u>(528.26)</u>	<u>(672.81)</u>
Cash (Shortage) Overage	\$ 57.45	\$ (85.37)	\$ 41.25	\$ 13.33