



A Tradition of Stewardship
A Commitment to Service

Napa-Vallejo Waste Management Authority

Internal Audit Report

For the Quarter Ended September 30, 2016

Issued by
AUDITOR-CONTROLLER
Internal Audit Section
March 1, 2017

NAPA-VALLEJO WASTE MANAGEMENT AUTHORITY

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A Tradition of Stewardship
A Commitment to Service

Auditor-Controller

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Tracy A. Schulze
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EXECUTIVE SUMMARY

Board of Directors
Napa-Vallejo Waste Management Authority
1195 Third Street, Room B10
Napa, California 94559

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 review 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, manual tickets, 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 September 30, 2016.

Objective

The objective of our review was to:

- Determine the accuracy of the revenue reported in the Authority's general ledger for inbound customers.
- Determine if controls associated with fees, manual tickets, 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.
- Provide the Authority with information on exceptions and additional information resulting from our engagement.

Procedures

Our engagement included the following procedures:

- Verify that the revenue has been posted accurately and timely to the general ledger;
- Verify that tickets have been properly charged;
- Verify that internal controls are in place over the issuance of tickets;

Summary of Results and Exceptions

For the purpose of our review, items requiring notification to the Board and management have been categorized as follows:

Result – A transaction or group of transactions that warrant notification to the Board and management, but do not require action from the involved parties.

Exception – A transaction or group of transactions that warrant notification to the Board and management and require action from the involved parties, such as a revision of procedures.

Based on our review of the quarter ended September 30, 2016, we noted the following results and exceptions:

Report Section

- I.** **Result:** Account Balances over 90 Days – As of September 30, 2016, twelve accounts had balances over 90 days past due for an amount of \$6,016. See Exhibit A on page 7 for a detail list and Exhibit B on page 8 for the quarterly history of accounts over 90 days from October 1, 2014 to September 30, 2016.
- II.A** **Result:** Analysis of General Ledger Activity – A total of \$2.9 million in revenue was received in cash, checks, credit card charges, and payments to accounts receivable. See Exhibit C on page 9 for the detail results of the analysis.
- II.B** **Exception:** Cash (Shortage) Overage – During the quarter there were seven overages and five of those overages were refunded back to the customers. There were four shortages and three of those shortages were paid back by the customers. Total net overage for all occurrences was \$38.
- III.A** **Exception:** Same Time In and Out - We noted twenty-two tickets with the same “Time In” and “Time Out” entries for a cumulative amount of \$1,423. The Scale Transaction report did not indicate the cause of why the time was the same within the comment field nor did the information appear on the Daily Reconciliation Forms.
- III.B** **Exception:** Negative Tickets – During the quarter there were ninety tickets with negative amounts for a cumulative amount of \$29,650. There were thirty-one instances where the voided ticket was not noted on the Daily Reconciliation form on the day of the void for a cumulative amount of \$11,698. See Exhibit E on pages 11 and 12 for additional analysis.
- III.C** **Exception:** Material code – During the quarter there were twenty-six instances where rate increases were not applied, resulting in a shortage of \$32.

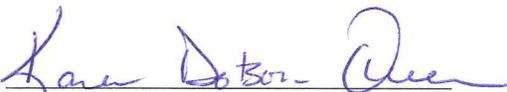
Detailed information of the reported results, exceptions, and recommendations can be found starting on page 4.

Conclusion

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.

Tracy A. Schulze
Auditor-Controller

By 
Karen Dotson-Querin, CPA
Audit Manager
March 1, 2017

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RESULTS

AND

EXCEPTIONS

**NAPA-VALLEJO WASTE MANAGEMENT AUTHORITY
FOR THE QUARTER ENDED SEPTEMBER 30, 2016**

RESULTS AND EXCEPTIONS

I. ACCOUNTS RECEIVABLE

Procedure: We obtained information from Central Collections regarding the status of accounts 90 days and over past due. The Treasurer's Central Collection Division has the option of requesting Board approval to write-off the uncollectible accounts twice a year, historically in December and June.

Result: Account Balances over 90 Days – All accounts over 90 days at September 30, 2016 and their status have been presented in Exhibit A on page 7 for an aggregate amount of \$6,016 including fees and interest, which is a decrease of \$683 compared to the prior quarter balance of \$6,699. Historical data and trends of the accounts receivable balances over 90 days is presented in Exhibit B on page 8.

II. REVENUE

A. Procedure: Analysis of General Ledger Activity – We completed a comparison of the general ledger activity to the deposit slip information submitted by DRTS for the quarter ended September 30, 2016. We also verified the timeliness of transmitting the deposit information and recording the revenue in the proper account.

Result A: A total of \$2.9 million in revenue was received in cash, checks, credit card charges and payments on accounts receivable. We summarized our analysis in Exhibit C on page 9 (“Analysis of General Ledger Activity”). Exhibit C also includes a graph depicting the quarterly revenue collected by DRTS from cash and credit card transactions over the last twelve quarters. Transactions were remitted and posted timely. No exceptions were noted.

B. Procedure: Cash (Shortage) Overage - We examined cash shortages by comparing the total transaction per transaction date according to the cash report generated from the “Scale Transaction Report” versus the amount in the general ledger.

Exception B: During the quarter there were seven overages and five of those overages were refunded back to the customers. There were four shortages and three of those shortages were paid back by the customers. Total net overage for all occurrences was \$38. There was one instance not recorded on the Daily Reconciliation Form. The overages listed below resulted in Customer Refunds:

- Customer was overcharged due to incorrect customer selected;
- Customer was overcharged due to a Soft-Pak error;
- Customer was overcharged due to Operator error

Recommendation B: We recommend that Scale House staff note reasons for any overages or shortages on the end of day reconciliation form. The reasons should include the original ticket number, the replacement ticket number, and any change of date, weight, or origin.

**NAPA-VALLEJO WASTE MANAGEMENT AUTHORITY
FOR THE QUARTER ENDED SEPTEMBER 30, 2016**

RESULTS AND EXCEPTIONS

II. REVENUE (Continued)

Northern's Response B: Northern Recycling has instructed all scale house staff to make sure that all overages or shortages are noted on the daily reconciliation form with all pertinent information and that any shortages are also noted on a Short Pay form.

We examined the process for documenting short pay of \$20 or more that were not collected by Northern within three days of the transaction to determine if the information was forwarded to Central Collections. During the quarter Northern transmitted the applicable information on shortages to the Treasurer-Tax Collector.

We have summarized our comparison and results in Exhibit D on page 10 ("Summary of Cash (Shortage) Overage").

III. INTERNAL CONTROLS

A. Procedure: Same Time In and Out – We examined the Scale Transaction Reports for the quarter ended September 30, 2016 and noted transactions with the same "Time In" and "Time Out."

Transaction that have the same "Time In" and "Time Out" occur whenever the system is down and hand tags are entered afterwards; or a ticket is modified such as a change in payment type, incorrect material or customer name, or for any reason where the customer changes their mind and replaced with a new ticket.

Same "Time In" and "Time Out" will occur for non-weighted items. We excluded tickets for non-weighted items (e.g. auto batteries, tires, etc.), tickets for Collection Contractor's vehicles and public agencies with tare weights coded into the system in accordance with the Northern contract, and hand tags for system outages and tickets where the comment indicated that the ticket was entered manually to correct a previous ticket. As a result of this procedure we noted the following exceptions:

Exception A: We noted twenty-two tickets with the same "Time In" and "Time Out" entries for a cumulative amount of \$1,423. The Scale Transaction report did not indicate the cause of why the time was the same within the comment field nor did the information appear on the Daily Reconciliation Forms. Fifteen of the tickets were for cash customers totaling \$655 and seven tickets were for accounts receivable customers totaling \$768. Tickets for voids, replacements, non-weighted items, Collection Contractors and public agencies were excluded from the procedure.

Recommendation A: We recommend that reasons for manual input of tickets continue to be noted in the comment field within Soft-Pak. In addition to noting the reasons within Soft-Pak, the reasons for manual entry should also be noted on the Daily Reconciliation Forms.

**NAPA-VALLEJO WASTE MANAGEMENT AUTHORITY
FOR THE QUARTER ENDED SEPTEMBER 30, 2016**

RESULTS AND EXCEPTIONS

III. INTERNAL CONTROLS (Continued)

Northern's Response A: Northern Recycling has reviewed the procedure for same time in and out tickets. All scale house staff have been instructed to note any reason that would generate a same time in and out ticket. The reason should be noted in the comment section of the ticket in question and can also be noted on the Daily Reconciliation form.

B. Procedure: Negative Tickets – We reviewed negative amounts from the Scale Transaction Reports for the quarter ended September 30, 2016. We understand from our inquiries that negative quantities may be input manually to void or adjust ticket charges as necessary, for example where the origin, vehicle, customer or other information is input in error. The reasons for the negative amounts appear on a monthly Void Report.

Exception B: During the quarter there were ninety tickets with negative amounts for a cumulative amount of \$29,650. There were twenty-nine negative Accounts Receivable tickets and two negative Cash tickets where the voided ticket was not noted on the daily reconciliation form for a cumulative amount of \$11,698.

Recommendation B: We understand that the Administrative staff is reviewing the daily work of the Scale House operators to ensure accuracy and completeness. Since this process is completed after the date of work, any comments or corrections on the Daily Reconciliation form will be noted at a later date. We recommend that reasons for voiding tickets continue to be noted in the comment field within Soft-Pak or on the Daily Reconciliation forms.

Northern's Response B: All scale house staff have been reminded to note in the comment section of the scale ticket why the ticket was voided. The ticket number and replacement ticket number should also be noted on the daily reconciliation form, for further review by office staff.

C. Procedure: Material Code – We performed ticket testing to determine if fees have been adjusted timely and correctly into the software and also to verify if the system is calculating amounts charged for loads accurately. This was done by creating a table of rates by material type and tonnage based on the rate resolution.

Exception C: A total of 36,075 tickets were tested, valuing at \$3,960,719. There were twenty-five instances where rate increases were not applied, resulting in a shortage of \$32.

Recommendation C: It is recommended that Northern verify that the Soft-Pak system is programmed to charge all customers at the correct rates.

Northern's Response C: Office staff has been instructed to check all new rates after a price change. A review of the tickets/transactions the day following a price change should be reviewed to insure that all customers are being charged to correct rates.

EXHIBITS

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Exhibit A

Napa-Vallejo Waste Management Authority Status of Accounts Receivable Over 90 Days Per Central Collections September 30, 2016

Account Name	Account Number	Total	Collection Measure
Account 501 - General A/R			
Ashorn Construction	50522	\$ 452	Still attempting to collect
Buchanan Construction	60745	1,629	Creditors claim pending
Forbes & Sons	50593	233	Still attempting to collect
Kenridge Builders	56915	38	Paid 10/17/16
On Time Maintenance Service	55260	927	Payment plan
Unique Recycling	50761	<u>505</u>	Still attempting to collect
Subtotal 501 - General A/R		<u>3,784</u>	
Account 501B - No Pay A/R			
Anderson, Tracy	62538	<u>68</u>	Still attempting to collect
Subtotal 501B - No Pay A/R		<u>68</u>	
Account 501C - NSF A/R			
Calmell Carlos A DBA C & C Plumbing	62308	232	Still attempting to collect
Golden Gate Roofing Service	55442	783	Holding-due to judgment on file
Grossi Paul E DBA North Bay Roofing	60494	180	Still attempting to collect
Hernandez, Ruben	57142	678	Holding-due to judgment on file
Morgan Peabody, Ltd.	55396	<u>291</u>	Holding-due to judgment on file
Subtotal 501C - NSF A/R		<u>2,164</u>	
Total Accounts Receivable Over 90 Days		<u><u>\$ 6,016</u></u>	

Exhibit B

Napa-Vallejo Waste Management Authority Comparison of Accounts Receivable Over 90 Days Quarters Ended December 31, 2014 through September 30, 2016

Table 1

Quarter Ended	501		501B & 501C		Total	
	# of Accounts	Amount	# of Accounts	Amount	# of Accounts	Amount
12/31/2014	6	\$ 2,510	6	\$ 2,133	12	\$ 4,643
3/31/2015	10	2,834	5	2,057	15	4,891
6/30/2015	10	21,926	6	2,163	16	24,089
9/30/2015	6	4,762	9	2,976	15	7,738
12/31/2015	10	7,246	8	2,474	18	9,720
3/31/2016	8	6,301	8	2,474	16	8,775
6/30/2016	4	4,225	8	2,474	12	6,699
9/30/2016	6	3,784	6	2,232	12	6,016
Average	8	\$ 6,698	7	\$ 2,373	15	\$ 9,071

Historically, delinquent accounts are due to lack of payments on general accounts receivable accounts. The dollar amount of delinquencies historically decreases during the quarter ended March 31st due to uncollectible accounts being approved by the Board to be written-off and historically increases in the quarter ended December 31st.

**Graph 1
Accounts Receivables Over 90 Days
Quarters Ended December 31, 2014 through September 30, 2016**

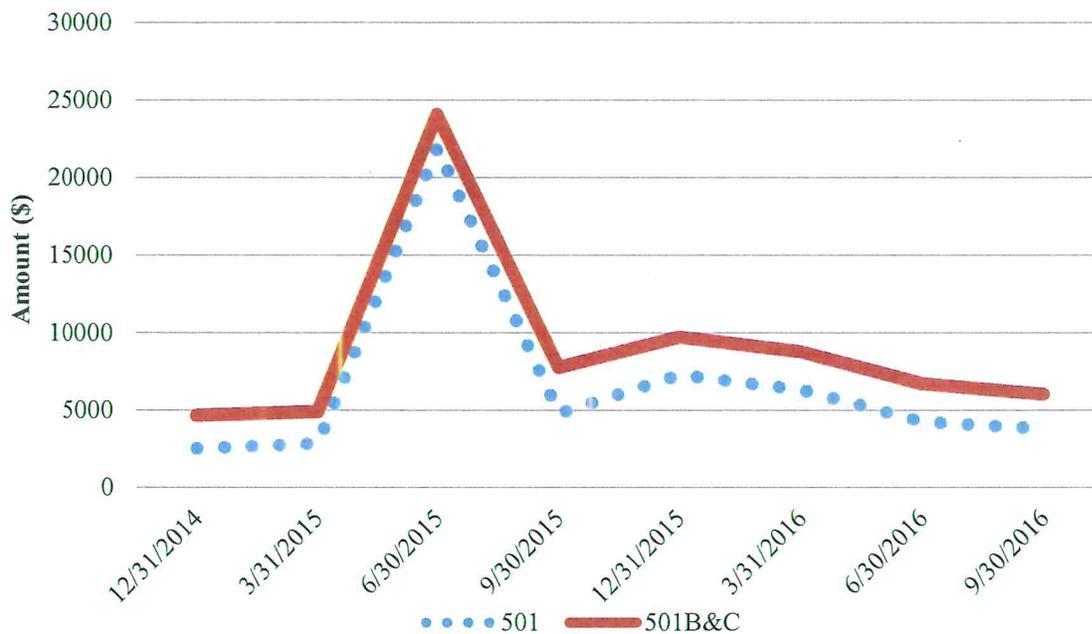


Exhibit C

Napa-Vallejo Waste Management Authority Analysis of General Ledger Activity July 1, 2016 through September 30, 2016

Table 2

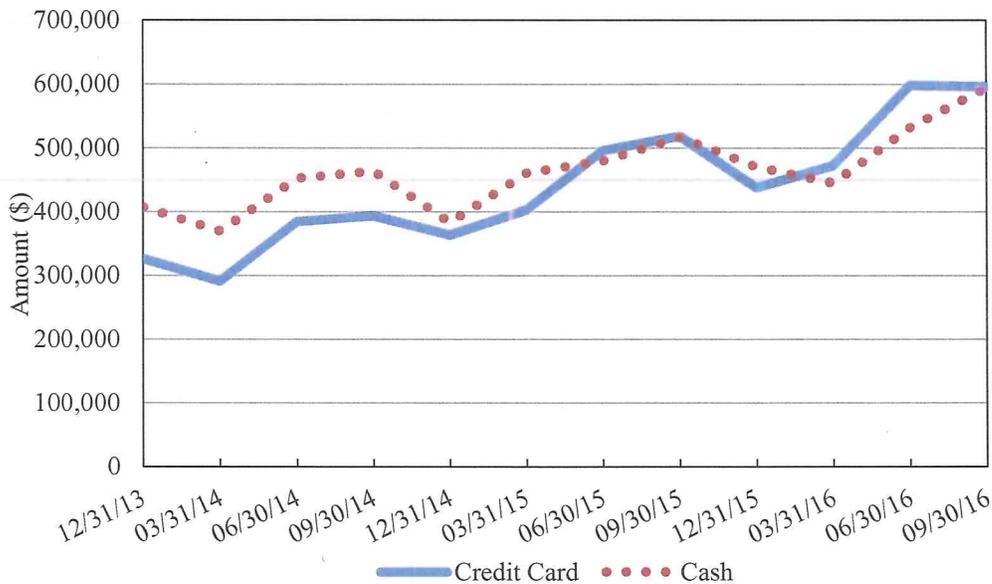
	General Ledger Total	Components				
		Visa / MC	Deposit Slip	Accounts Receivable	Bank Adjustments	Other
JULY	\$ 286,134	\$ 176,693	\$ 195,485	\$ 902,883	\$ -	\$ (988,927)
AUGUST	1,313,209	225,316	213,523	874,120	-	250
SEPTEMBER	1,378,848	193,330	185,277	994,400	-	5,841
QUARTER	<u>\$ 2,978,191</u>	<u>\$ 595,339</u>	<u>\$ 594,285</u>	<u>\$ 2,771,403</u>	<u>\$ -</u>	<u>\$ (982,836)</u>

Total Bank Adjustments and Other \$ (982,836)

<u>Explanation of Bank Adjustments & Other:</u>	<u>Instances</u>	<u>Amount</u>
Refund/Returned Checks - Non Sufficient Funds (NSF)	14	\$ (510)
Adjustment (Reverse Accts Receivable 15-16)	1	(988,167)
2008-2015 Annual Cash Shortages (DRTS)	1	5,841
	<u>16</u>	<u>\$ (982,836)</u>

Detail is available upon request from the Napa County Auditor-Controller's Office

Graph 2
Revenue Collected at Devlin Road Transfer Station (DRTS)
Quarters Ended December 31, 2013 through September 30, 2016



Revenue collected at DRTS increased approximately \$62,000 for Cash/Checks and decreased approximately \$1,800 for Visa/MC in the quarter ended September 30, 2016 compared to the quarter ended June 30, 2016.

Exhibit D

Napa-Vallejo Waste Management Authority Summary of Cash (Shortage) Overage For the Quarter Ended September 30, 2016

<u>Description</u>	<u>Quarter Ended Sep. 30, 2016</u>	<u>Year to Date</u>
Deposit Slips	\$ 598,080	\$ 598,080
VISA Slips	602,686	602,686
Subtotal	1,200,766	1,200,766
Deposits Per Cash Report	<u>1,200,728</u>	<u>1,200,728</u>
Cash (Shortage) Overage	38	38
Bank Adjustments	-	-
Net Cash (Shortage) Overage	<u>\$ 38</u>	<u>\$ 38</u>

September 30, 2016 shortage is caused by the following:

	<u>Instances</u>	<u>Total</u>
Overages	7	\$ 3,121
Shortages	1	(2,915)
Short Pay	3	(225)
Shortages Paid	3	225
Refunds to Customers overcharged	4	(131)
Refund to Customer - Soft-Pak error	<u>1</u>	<u>(37)</u>
Net Cash (Shortage) Overage	<u>19</u>	<u>\$ 38</u>

Exhibit E

Napa-Vallejo Waste Management Authority Summary of Tickets with Negative Amounts For Quarters Ended December 31, 2014 to September 30, 2016

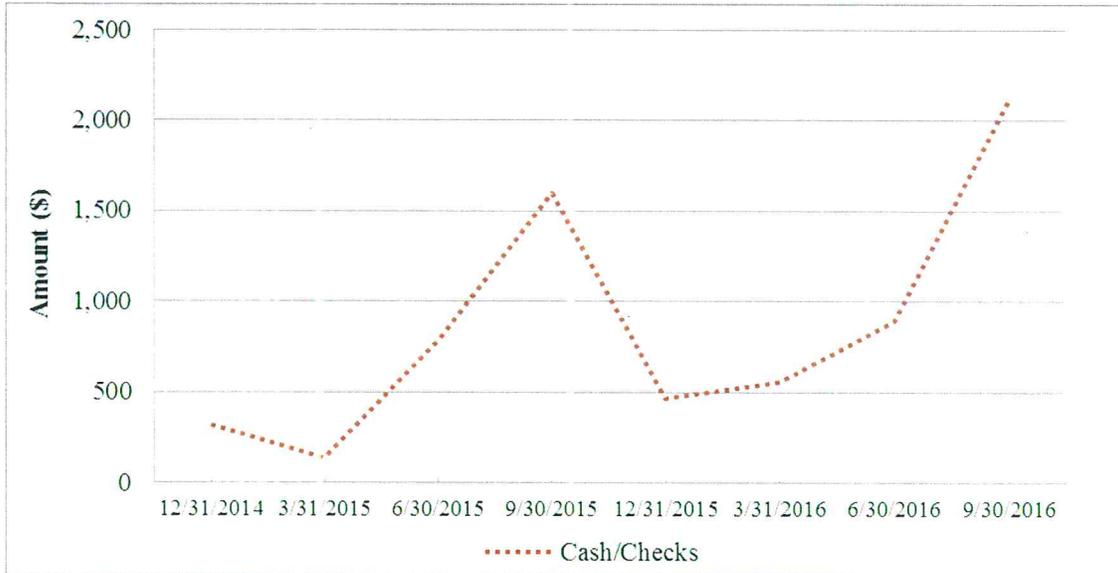
Quarter Ended	Cash/Checks		A/R		Total	
	# of Tickets	Amount	# of Tickets	Amount	# of Tickets	Amount
12/31/2014	9	\$ 316	288	\$ 76,742	297	\$ 77,058
3/31/2015	1	139	41	15,240	42	15,379
6/30/2015	5	785	25	15,531	30	16,316
9/30/2015	7	1,600	18	5,736	25	7,336
12/31/2015	6	467	25	6,499	31	6,966
3/31/2016	4	558	0	-	4	558
6/30/2016	7	890	0	-	7	890
9/30/2016	17	2,109	73	27,540	90	29,650
Average	7	\$ 858	59	\$ 18,411	66	\$ 19,269

The above table is a summary of negative tickets by transaction type, month, and totals for the quarter ended September 30, 2016 and also includes totals for the seven prior quarters, for comparison.

**Exhibit E
(Continued)**

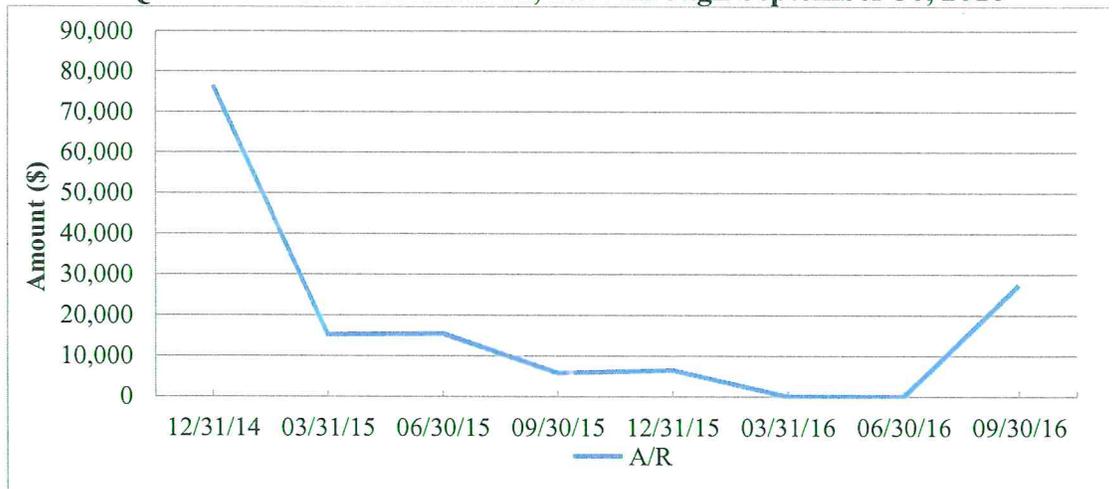
**Napa-Vallejo Waste Management Authority
Summary of Tickets with Negative Amounts
For Quarters ended December 31, 2014 to September 30, 2016**

**Graph 3a
Cash/Check Tickets with Negative Amounts
Quarters Ended December 31, 2014 through September 30, 2016**



Due to the inherent risk of fraud associated with cash transactions, negative cash/check tickets have been separately shown above. Cash tickets with negative amounts increased significantly during the quarter ended September 30, 2016.

**Graph 3b
Accounts Receivable (AR) Tickets with Negative Amounts
Quarters Ended December 31, 2014 through September 30, 2016**



Accounts Receivable tickets with negative amounts increased during the quarter ended September 30, 2016.