



A Tradition of Stewardship  
A Commitment to Service

**Napa-Vallejo Waste Management Authority**  
Internal Audit Report  
For the Quarter Ended December 31, 2013

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Issued by  
**AUDITOR-CONTROLLER**  
Internal Audit Section  
May 1, 2014

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**  
Auditor-Controller

## 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 December 31, 2013.

### Objective

The objective of our review was to:

- Provide the Authority with information on exceptions and additional information resulting from our engagement.
- Determine the accuracy of the accounts receivable maintained by the Treasurer-Tax Collector's Office on behalf of the Authority.
- 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.

## Procedures

Our engagement included the following procedures:

- Evaluate accounts receivable activity and balances;
- 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;
- Examine a sample of transactions to determine the reliability of the Scale Transaction Report; and
- Provide a summary of the results to the Board of Directors and the Executive Director of the Napa-Vallejo Waste Management Authority.

## Summary of Results and Exceptions

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

**Results** – 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 December 31, 2013, we noted the following results and exceptions:

## Report Section

- I.** **Result:** Account Balances over 90 Days – As of December 31, 2013, twenty-four (24) accounts had balances over 90 days past due for an amount of \$12,510. See Exhibit A on page 8 for a detailed list.
- II.A** **Result:** Analysis of General Ledger Activity – A total of \$3.2 million in revenue was received in cash, checks, credit card charges and charges to accounts receivable. See Exhibit B on page 9 for the detail results of the analysis.
- II.B** **Result:** Shortage/Short Pays – During the quarter four (4) short pays occurred for the cumulative amount of \$30.08. Two (2) of the short pays were paid during the quarter for a total of \$20.08, resulting in a net shortage of \$10 for the quarter. All short pay procedures were followed.
- III.A** **Exception:** Same Time In and Out – During the quarter there were six (6) tickets with the same “Time In” and “Time Out” for a cumulative amount of \$287. Tickets for voids, replacements, non-weighed items, Collection Contractors and public agencies were excluded from the procedure.
- III.B** **Exception:** Negative Tickets – During the quarter there were twenty-eight (28) tickets with negative amounts for a cumulative amount of \$6,673. Of the twenty-eight (28) tickets there were five (5) instances where the comment was not noted on the Daily Reconciliation Form.

**Report Section** (Continued)

**III.D Exception: Missing Tickets** – During the quarter, there were seventy-seven (77) missing tickets on the Scale Transaction Report. During the quarter ended December 31, 2013, Northern did not track the missing tickets manually or from a report generated by SoftPak.

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

**Conclusion**

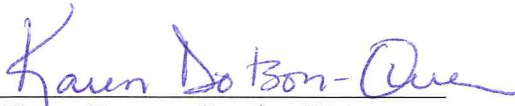
We determined that Northern Recycling Operations & Waste Services, LLC currently owes Napa-Vallejo Waste Management Authority \$765 for cash shortages occurring during the period of July 1, 2013 to December 31, 2013. At the end of the fiscal year, ending June 30, 2014, the cumulative shortage is due to Napa-Vallejo Waste Management Authority upon the receipt of a letter from the Executive Director of NVWMA in accordance with the conditions set forth in the Agreement between Northern Recycling Operations & Waste Services, LLC and Napa-Vallejo Waste Management Authority.

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 and the Napa County Treasurer Tax-Collector's Office. 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 and 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

May 1, 2014

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## RESULTS AND EXCEPTIONS

**NAPA-VALLEJO WASTE MANAGEMENT AUTHORITY  
FOR THE QUARTER ENDED DECEMBER 31, 2013**

**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 and their status have been presented in Exhibit A on page 8 for an aggregate amount of \$12,510, including fees and interest, which is an increase of \$5,472 compared to the prior quarter balance of \$7,038. In addition, a detailed listing of the “Status of Accounts Receivable over 90 Days” is also included in Exhibit A. Also, historical data and trends of the accounts receivable balances over 90 days is presented in Exhibit E on page 13.

**Treasurer’s Response:** See Exhibit A for Treasurer’s Collection Measures.

**II. REVENUE**

**Procedure A:** We completed a comparison of the general ledger activity to the deposit slip information submitted by DRTS for the quarter ended December 31, 2013. We also verified the timeliness of transmitting the deposit information and recording the revenue in the proper account.

**Result A:** Analysis of General Ledger Activity - A total of \$3.2 million in revenue was received in cash, checks, credit card charges and charges to accounts receivable. We summarized our analysis in Exhibit B on page 9 (“Analysis of General Ledger Activity”). Exhibit B also includes a graph depicting the quarterly revenue collected by DRTS from cash and credit card transactions over the last twelve quarters. There were no exceptions.

**Procedure B:** Using the “Scale Transaction Reports,” we summarized the total cash, check, and credit card payments for each day and calculated the monthly total. We compared the daily amounts to the amounts DRTS deposited into the bank. We have summarized our comparison and results in Exhibit C on page 10 (“Summary of Cash (Shortage) Overage”).

**Result B:** Shortage/Short Pays – During the quarter four (4) short pays occurred for the cumulative amount of \$30.08. Two (2) of the short pays were paid during the quarter for a total of \$20.08, resulting in a net shortage of \$10 for the quarter. All short pay procedures were followed.



**NAPA-VALLEJO WASTE MANAGEMENT AUTHORITY  
FOR THE QUARTER ENDED DECEMBER 31, 2013**

**RESULTS AND EXCEPTIONS**

**III. INTERNAL CONTROLS**

**Procedure A:** We examined the Scale Transaction Reports for the quarter ended December 31, 2013 and noted transactions with the same “Time In” and “Time Out.” Tickets have the same “Time In” and “Time Out” when staff manually input the tickets. Manual tickets may be required if the system is down. We excluded tickets for non-weighed 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, 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 exception:

**Exception A: Same Time In and Out** – We noted six (6) tickets with the same “Time In” and “Time Out” entries for a cumulative amount of \$287 for inbound materials. Four (4) of the six (6) tickets with the same time entries were for cash customers. Two (2) tickets were for a non-franchise account. The tickets occurred throughout the quarter ended December 31, 2013.

**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 when the reason for manual entry is not apparent.

**Northern’s Response A:** Northern Recycling has developed a tracking form and will implement its use on June 3, 2014 to record and report same in and out times.

**Procedure B:** We reviewed negative amounts from the Scale Transaction Reports for the quarter ended December 31, 2013. 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: Negative Tickets** - During the quarter there were twenty-eight (28) tickets with negative amounts for a cumulative amount of \$6,673. Of the twenty-eight (28) tickets there were five (5) instances where the comment was not noted on the Daily Reconciliation Form. See Exhibit D on page 11 for a summary of the negative tickets for the quarter ended December 31, 2013 and for the previous seven (7) quarters.

Exhibit D also includes graphs depicting the quarterly dollar value of negative tickets for quarters ended March 31, 2012 through December 31, 2013.

**Recommendation B:** We recommend that scale house staff continue to note reasons for any negative amounts on the end of day reconciliation form. The reasons should include the original ticket number and the replacement ticket number. The implementation of the monthly void reports has been useful for review purposes, as the comment field (described in the void report as “Notes”) provides a description for each ticket with a negative quantity.

**NAPA-VALLEJO WASTE MANAGEMENT AUTHORITY  
FOR THE QUARTER ENDED DECEMBER 31, 2013**

**RESULTS AND EXCEPTIONS**

**III. INTERNAL CONTROLS (Continued)**

**Northern's Response B:** Northern Recycle will re-iterate to record negative amounts on the daily reconciliation form.

**Procedure C:** We analyzed every ticket on the Scale Transaction Report and determined if:

1. Tonnage was charged at the appropriate rate.
2. The minimum vehicle charge was applied.
3. Tare amounts were included on the Scale Transaction Report for each ticket.

The appropriate rate and minimum vehicle charge are based on the current fees in Resolution #2011-08 increased annually by \$1, which was adopted by NVWMA Board of Directors on June 2, 2011. There were no exceptions.

**Procedure D:** We verified if Northern accounted for all tickets issued in the quarter ended December 31, 2013. We also tested the sequence of the tickets issued.

We understand that gaps in the ticket numbers within a month will appear when corrections for billing purposes are made after month end by posting replacement tickets. The system posts the replacement tickets with the date of the original ticket, but uses the next available ticket number at the time the correction is made, creating the appearance of gaps in sequence.

Gaps in sequential numbering may also occur when manual tickets, which are issued when the system goes down, are entered into the Soft-Pak system. Manual tickets must be dated in the system based on the date the load was delivered to ensure accurate reporting of daily vehicle counts and tonnage.

As a result of this procedure, we noted the following:

**Exception D: Missing Tickets** – There were seventy-seven (77) tickets missing on the Scale Transaction Report. One potential cause of the missing tickets is the connectivity issues related to credit card transactions. It was discovered that Northern experiences malfunctions when reversing a credit card transaction if a charge is declined or the method of payment is changed. The ticket is suspended and the operator is forced to manually disconnect the system in order to generate a new ticket, which results in the original ticket number disappearing.

**Recommendation D:** We understand that Northern is working with Soft-Pak to resolve the issue of missing tickets. We recommend that Northern continues to log all Soft-Pak issues and note any unique circumstances as well as recording each instance when the operator is forced to disconnect the system. Additionally, we recommend that Northern report all connectivity issues to Soft-Pak when the operator is forced to start a new ticket after losing connection.

NAPA-VALLEJO WASTE MANAGEMENT AUTHORITY  
FOR THE QUARTER ENDED DECEMBER 31, 2013

RESULTS AND EXCEPTIONS

III. INTERNAL CONTROLS (Continued)

**Northern's Response D:** Northern Recycling is continuing to work with Soft-Pak to resolve this issue. The scale house staff will continue to make a note in the log book when this occurs.

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## EXHIBITS

**Exhibit A**

**Napa-Vallejo Waste Management Authority  
Status of Accounts Receivable Over 90 Days  
Per Central Collections  
As of December 31, 2013**

<b>Account Name</b>	<b>Account Number</b>	<b>Total</b>	<b>Collection Measure *</b>
<b>Account 501 - General A/R</b>			
Alpine Construction	50514	\$ 108.54	Paid 1/27/14
R.E. Bradley Construction	52363	843.46	Still disputing charges with NVWMA
Cannaday Construction	54927	880.31	Account was written off as "Uncollectible" 3/13/14
Carlos Landscape	57283	123.95	Paid 3/14/14
City of Napa Finance Dept.	50557	106.16	Paid 3/28/14
Commercial Development Consultants	51033	99.35	Account was written off as "Uncollectible" 3/13/14
FRG Waste Resources, Inc.	51936	3,658.32	Paid 1/13/14
Ghilotti Bros. Inc.	60820	1,153.73	Paid 1/22/14
Harlan Estate Winery Inc./Pacific Union	55261	206.32	Paid 1/22/14
Napa Valley Door & Trim	50688	272.89	Account was written off as "Uncollectible" 3/13/14
Norcal Communications & Construction	55769	105.96	Paid 1/30/14
On Time Maintenance Service	55260	1,726.60	Payment Plan Initiated
Penning, Lou Landscape Inc.	50653	0.18	Paid 1/16/14
Pro Craft Title Co.	52077	138.02	Paid 2/25/14
Sabado, Tiffany	60907	476.18	Paid 4/4/14
Scott's Service & Co.	54754	227.29	Paid 1/28/14
Western Roofing Service	51146	46.20	Paid 1/23/14
<b>Subtotal 501 - General A/R</b>		<u>10,173.46</u>	
<b>Account 501C - NSF A/R</b>			
Golden Gate Roofing Service	55442	783.48	Continue collection procedures
Grossi, Paul DBA North Bay Roofing	60494	179.55	Continue collection procedures
Hernandez, Ruben	57142	678.44	Continue collection procedures
Investment Enterprises USA Inc.	61011	250.92	Continue collection procedures
Morgan Peabody, Ltd.	55396	291.00	Continue collection procedures
Rojas, Steven/Aqua Fresca Pool & Spa	60596	77.00	Continue collection procedures
Spangler, Billy	57965	76.00	Account was written off as "Uncollectible" 3/13/14
<b>Subtotal 501C - NSF A/R</b>		<u>2,336.39</u>	
<b>Total Accounts Receivable Over 90 Days</b>		<u><u>\$ 12,509.85</u></u>	

\* Collection measures provided by Central Collections.

**Exhibit B**

**Napa-Vallejo Waste Management Authority  
Analysis of General Ledger Activity  
October 1, 2013 through December 31, 2013**

	<u>General Ledger Total</u>	<u>Components</u>			
		<u>Visa / MC</u>	<u>Deposit Slip</u>	<u>CAMS</u>	<u>Other</u>
<b>OCTOBER</b>	\$ 1,367,190.92	\$ 121,106.99	\$ 165,953.19	\$ 1,080,165.60	\$ (34.86)
<b>NOVEMBER</b>	602,046.53	105,931.07	118,080.51	378,210.88	(175.93)
<b>DECEMBER</b>	1,283,686.43	98,904.14	122,173.11	1,063,387.07	(777.89)
<b>QUARTER</b>	<u>\$ 3,252,923.88</u>	<u>\$ 325,942.20</u>	<u>\$ 406,206.81</u>	<u>\$ 2,521,763.55</u>	<u>\$ (988.68)</u>

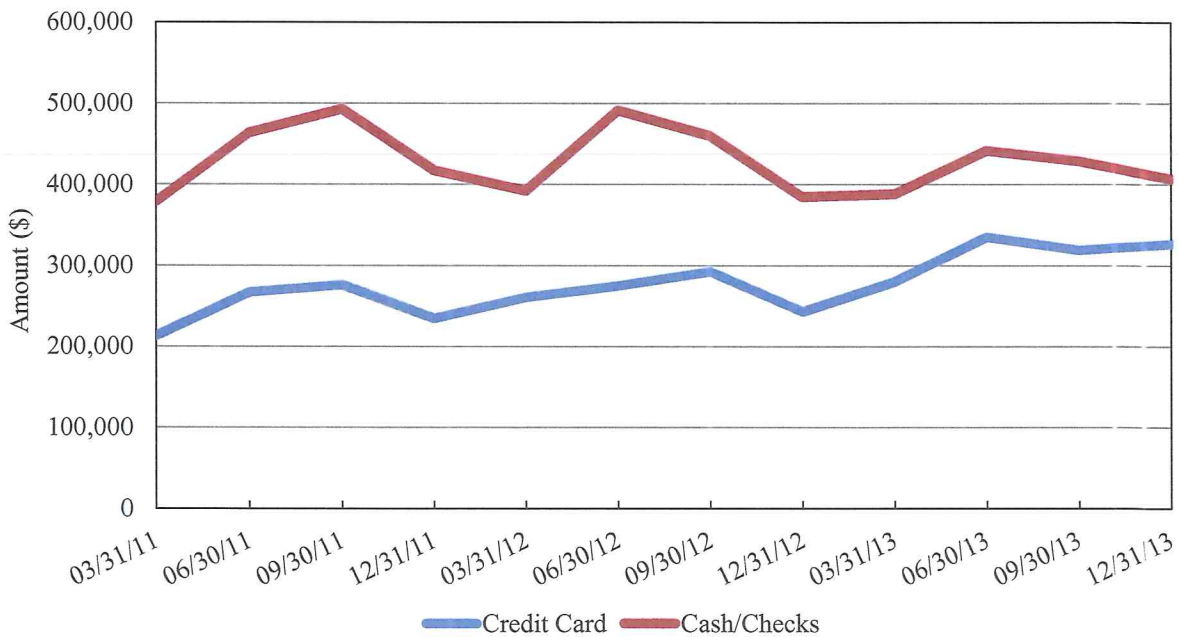
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<u>Explanation of Bank Adjustments &amp; Other:</u>	<u>Instances</u>	<u>Amount</u>
Refund/Returned Checks - Non Sufficient Funds (NSF)	8	\$ (988.68)
Reclassification	1	-
	<u>9</u>	<u>\$ (988.68)</u>

a

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

**Revenue Collected at Devlin Road Transfer Station (DRTS)  
Quarter Ended March 31, 2011 through December 31, 2013**



Revenue collected at DRTS decreased slightly for Cash/Checks and increased slightly for Visa/MC in the quarter ended December 31, 2013.

**Exhibit C**

**Napa-Vallejo Waste Management Authority  
Summary of Cash (Shortage) Overage  
For the Quarter Ended December 31, 2013**

<u>Description</u>	<u>Quarter Ended Sep. 30, 2013</u>	<u>Quarter Ended Dec. 31, 2013</u>	<u>Year to Date</u>
Deposit Slips	\$ 448,509.40	\$ 393,869.06	\$ 842,378.46
VISA Slips	336,903.28	319,267.00	656,170.28
Subtotal	785,412.68	713,136.06	1,498,548.74
Deposits Per Cash Report	786,167.27	713,146.06	1,499,313.33
Cash (Shortage) Overage	(754.59)	(10.00)	(764.59)
Bank Adjustments	-	-	-
Net Cash (Shortage) Overage	\$ (754.59)	\$ (10.00)	\$ (764.59)

<u>Shortage is caused by the following:</u>	<u>Instances</u>	<u>Total</u>
Cash Shortage	0	\$ -
Cash Overage	0	-
Short Pay	4	(10.00)
Settlement Batch Date Recorded	11	-
Net Cash (Shortage) Overage	15	\$ (10.00)



**Exhibit D**

**Napa-Vallejo Waste Management Authority  
For the Quarter Ended December 31, 2013**

**Additional Information  
Tickets with Negative Amounts**

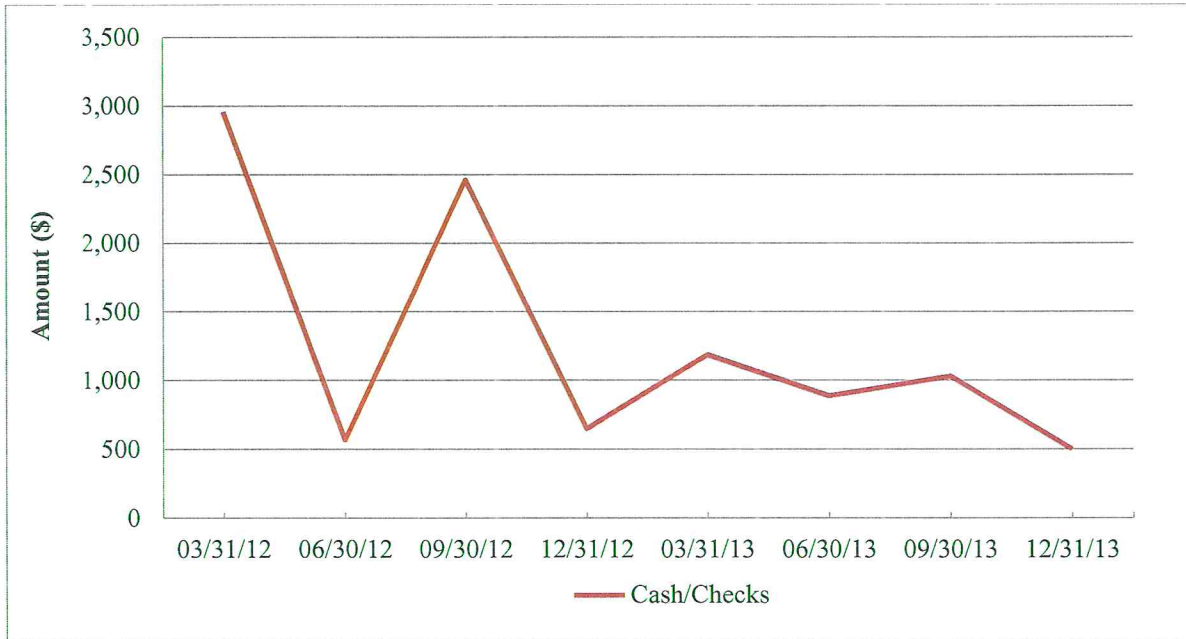
<b>Quarter Ended</b>	<b>Cash/Checks</b>		<b>A/R</b>		<b>Total</b>	
	<b># of Tickets</b>	<b>Amount</b>	<b># of Tickets</b>	<b>Amount</b>	<b># of Tickets</b>	<b>Amount</b>
3/31/2012	16	2,958	29	8,066	45	\$ 11,024
6/30/2012	13	570	35	11,117	48	11,687
9/30/2012	20	2,462	28	9,264	48	11,726
12/31/2012	8	651	16	4,016	24	4,667
3/31/2013	13	1,191	16	5,178	29	6,369
6/30/2013	10	889	25	9,628	35	10,517
9/30/2013	13	1,033	39	11,321	52	12,354
12/31/2013	6	500	22	6,174	28	6,673
<b>Average</b>	<b>12</b>	<b>\$ 1,282</b>	<b>26</b>	<b>\$ 8,095</b>	<b>39</b>	<b>\$ 9,377</b>

The above table is a summary of negative tickets by transaction type, month, and totals for the quarter ended December 31, 2013 and also includes totals for the seven (7) prior quarters, for comparison.

**Exhibit D  
(Continued)**

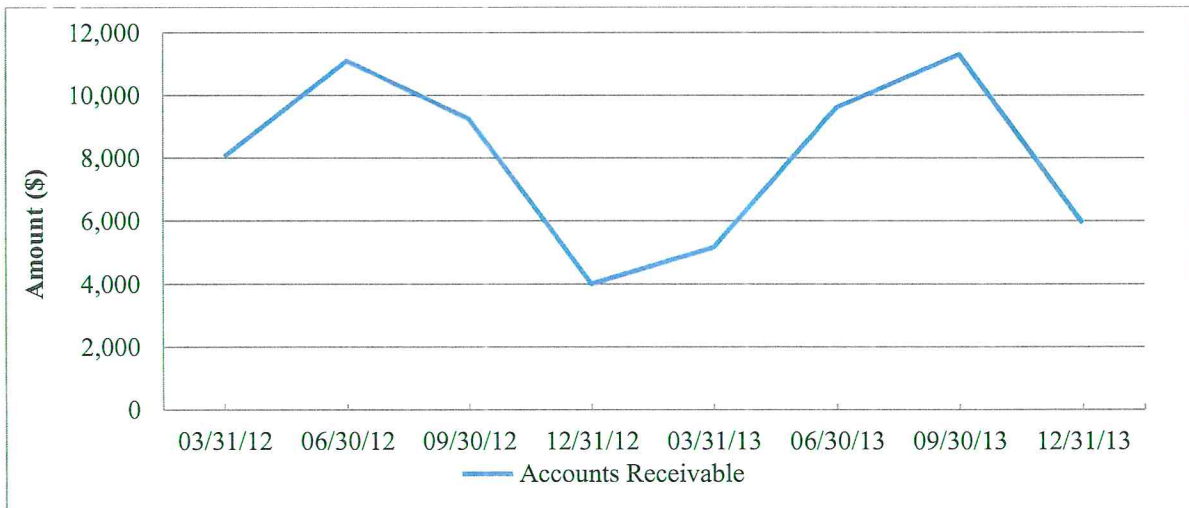
**Napa-Vallejo Waste Management Authority  
For the Quarter Ended December 31, 2013**

**Cash/Check Tickets with Negative Amounts  
Quarters Ended March 31, 2012 through December 31, 2013**



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 decreased for the quarter ended December 31, 2013.

**Accounts Receivable (AR) Tickets with Negative Amounts  
Quarters Ended March 31, 2012 through December 31, 2013**



Accounts Receivable tickets with negative amounts decreased for the quarter ended December 31, 2013.

**Exhibit E**

**Napa-Vallejo Waste Management Authority  
Comparison of Accounts Receivable Over 90 Days  
Quarters Ended March 31, 2012 through December 31, 2013**

Quarter Ended	501		501C		Total	
	# of Accounts	Amount	# of Accounts	Amount	# of Accounts	Amount
3/31/2012	17	\$5,993	12	\$3,354	29	\$ 9,347
6/30/2012	8	5,646	12	3,354	20	9,000
9/30/2012	9	3,377	7	2,162	16	5,540
12/31/2012	26	7,904	7	2,162	33	5,539
3/31/2013	11	3,782	7	2,162	18	10,066
6/30/2013	18	5,778	8	2,413	26	8,192
9/30/2013	11	4,702	7	2,336	18	7,038
12/31/2013	17	10,174	7	2,336	24	12,510
Average	15	\$ 5,920	8	\$ 2,535	23	\$ 8,404

Historically, delinquent accounts are due to lack of payments on general accounts receivable accounts. The dollar amount of delinquencies generally increases during the quarter ended December 31<sup>st</sup> due to a slowdown in construction jobs and the related cash flows.

