



A Tradition of Stewardship
A Commitment to Service

Napa-Vallejo Waste Management Authority

Internal Audit Report

For the Quarter Ended March 31, 2014

Issued by
AUDITOR-CONTROLLER
Internal Audit Section
May 12, 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
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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 March 31, 2014.

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;

Procedures (Continued)

- 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 Exception

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 March 31, 2014, we noted the following results and exceptions:

Report Section

I. Result: Account Balances over 90 Days – As of March 31, 2014, fourteen (14) accounts had balances over 90 days past due for an amount of \$5,981. See Exhibit A for a detail list.

II.A Analysis of General Ledger Activity

Result A1: A total of \$2.5 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.

Exception A2: There were twelve (12) instances of deposits that did not have the transaction date entered as reference information within the general ledger for an aggregate amount of \$34,208.70.

Exception A3: General Ledger descriptions on two (2) different days for a total of six (6) transactions with an aggregate value of \$7,233.47 were incorrect.

II.B Exception: Shortage/Short Pays – During the quarter, one (1) short pay occurred in the amount of \$34.00. In addition, there were three (3) transactions resulting in overages and three (3) transactions resulting in shortages for a net shortage of \$179.56. The total shortage for the quarter was \$213.56. Four (4) of the eight (8) transactions were not recorded on the Daily Reconciliation Form.

Report

Section (Continued)

- III.A** **Exception:** Same Time In and Out – We noted five (5) tickets with the same “Time In” and “Time Out” entries for a cumulative amount of \$228 for inbound materials that did not indicate the cause of why the time was the same within the comment field. Tickets for voids, replacements, non-weighed items, Collection Contractors and public agencies were excluded from the procedure.
- III.B** **Result:** Negative Tickets – During the quarter there were nineteen (19) tickets with negative amounts for a cumulative amount of \$5,629. All nineteen (19) tickets were noted on the Daily Reconciliation Form.
- III.C** **Exception:** Missing Tickets – During the quarter, there were twenty-seven (27) tickets missing on the Scale Transaction Report. This is a reduction of fifty (50) tickets from the prior quarter.

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

Conclusion

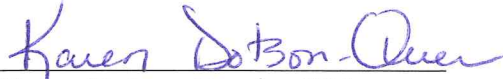
We determined that Northern Recycling Operations & Waste Services, LLC currently owes Napa-Vallejo Waste Management Authority \$1,078.15 for cash shortages occurring during the period of July 1, 2013 to March 31, 2014. At the end of the fiscal year, ending June 30, 2014, the cumulative shortage is due 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 12, 2014

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RESULTS AND EXCEPTIONS

**NAPA-VALLEJO WASTE MANAGEMENT AUTHORITY
FOR THE QUARTER ENDED MARCH 31, 2014**

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 as of March 31, 2014 and their status have been presented in Exhibit A on page 8 for an aggregate amount of \$5,981, including fees and interest, which is a decrease of \$6,529 compared to the prior quarter balance of \$12,510. 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

A. Procedure: We completed a comparison of the general ledger activity to the deposit slip information submitted by DRTS for the quarter ended March 31, 2014. We also verified the timeliness of transmitting the deposit information and recording the revenue in the proper account.

Analysis of General Ledger Activity

Result A1: A total of \$2.5 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.

Exception A2: There were twelve (12) instances of deposits that did not have the transaction date entered as reference information within the general ledger for an aggregate amount of \$34,208.70. The errors occurred throughout the quarter. There is no monetary effect from this error to the Authority.

Recommendation A2: We recommend that Central Collections record the transaction date for deposits in the reference code field based on the dates which can be located at the top of the deposit slip and next to “Business Day” on the credit card settlement report which are attached to the Daily Reconciliation Forms. Recording the transaction date provides a tracking system for determining whether revenue was recorded timely.

**NAPA-VALLEJO WASTE MANAGEMENT AUTHORITY
FOR THE QUARTER ENDED MARCH 31, 2014**

RESULTS AND EXCEPTIONS

II. REVENUE (Continued)

Treasurer's Management Response A2: Treasury has made the switch from the use of "Settlement Batch Date" to "Business Day" when processing these deposits. There had been a change in the reporting, and we were using Settlement Batch Date as it is at the top of the page sent to us as backup and we had not received specific instructions to record one date over the other. As the two dates are often the same, there were few differences. Now that Northern is circling the "Business Day" field, we are consistently using the desired data for input to the reference field, and have added an additional review step internally to assist in identifying input errors.

Exception A3: General Ledger descriptions on two (2) different days for a total of six (6) transactions with an aggregate value of \$7,233.47 were incorrect based on a comparison to the deposit information loaded on Northern's cloud storage at the CCH portal. There is no monetary effect from this error to the Authority.

Recommendation A3: We recommend that Central Collections utilize the information from the deposit support loaded on Northern's cloud storage. The description is used to link the type of deposit to the type of transaction recorded in Northern's Cash Report. The cash report is derived from Northern's Softpak system that splits transactions summarized by day between cash/check and credit card transactions.

Treasurer's Management Response A3: Treasury receives the deposit information via fax and processes the general ledger transactions once the deposits are reflected as credited at the bank. Fax transmission also provides a time stamp on the deposit documentation, which has been desired in the past. This procedure is similar to what is provided departments for which Treasury creates the general ledger deposit.

With regard to the specific items above, we acknowledge that the incorrect identifier was entered on these transactions. In an effort to minimize this type of error in the future, we will expand our secondary review process to verify this information as well.

B. Procedure: 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").

Exception B: Shortage/Overages/Short Pays – During the quarter, one (1) short pay occurred in the amount of \$34.00. In addition, there were three (3) transactions resulting in overages and three (3) transactions resulting in shortages for a net shortage of \$179.56. The total shortage for the quarter was \$213.56. Four (4) of the eight (8) transactions were not recorded on the Daily Reconciliation Form.

**NAPA-VALLEJO WASTE MANAGEMENT AUTHORITY
FOR THE QUARTER ENDED MARCH 31, 2014**

RESULTS AND EXCEPTIONS

II. REVENUE (Continued)

Recommendation B: We recommend that all unusual transactions be recorded on the Daily Reconciliation Form. This will provide information to balance the daily transactions prior to the deposits being remitted to the bank.

Northern's Management Response B: We will continue to remind our staff to make note of any unusual transaction on the daily reconciliation form.

III. INTERNAL CONTROLS

Procedure: We examined the Scale Transaction Reports for the quarter ended March 31, 2014 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 five (5) tickets with the same "Time In" and "Time Out" entries for a cumulative amount of \$228 for inbound materials that did not indicate the cause of why the time was the same within the comment field. All five (5) of the tickets with the same time entries were for cash customers. The tickets occurred in February and March 2014.

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: Customer changed form of payment type and on two of these instances the customer was paying for multiple vehicles.

Procedure B: We reviewed negative amounts from the Scale Transaction Reports for the quarter ended March 31, 2014. 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.

**NAPA-VALLEJO WASTE MANAGEMENT AUTHORITY
FOR THE QUARTER ENDED MARCH 31, 2014**

RESULTS AND EXCEPTIONS

III. INTERNAL CONTROLS (Continued)

Result B: Negative Tickets - During the quarter there were nineteen (19) tickets with negative amounts for a cumulative amount of \$5,629. All nineteen (19) tickets were noted on the Daily Reconciliation Form. See Exhibit D on page 11 for a summary of the negative tickets for the quarter ended March 31, 2014 and for the previous seven (7) quarters.

Exhibit D also includes graphs depicting the quarterly dollar value of negative tickets for quarters ended June 30, 2012 through March 31, 2014.

Procedure C: We verified if Northern accounted for all tickets issued in the quarter ended March 31, 2014. 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 C: Missing Tickets – There were twenty-seven (27) tickets missing on the Scale Transaction Report. This is a reduction of fifty (50) tickets from the prior quarter. 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 C: 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.

Northern's Response C: Continuing missing ticket software problem should be resolved with the software update in August.

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EXHIBITS

Exhibit A

Napa-Vallejo Waste Management Authority Status of Accounts Receivable Over 90 Days Per Central Collections As of March 31, 2014

Account Name	Account Number	Total	Collection Measure
Account 501 - General A/R			
Adams Roofing	57964	\$ 0.74	Left message to send payment with next invoice
BBI Construction	54926	0.12	Payment was promised immediately
R.E. Bradley Construction	52363	843.46	Customer responsible for all charges per NVWMA. Will continue collection procedures
Forbes and Sons Inc.	50593	151.25	Payment has been promised immediately
Grimm's Cabinet	50608	34.84	Paid 4/23/14
On Time Maintenance Service	55260	1,726.60	Payment Plan Initiated
Pure Set Wireless/Pure Set Construction	61564	268.00	Paid 4/1/14
Sabado, Tiffany	60907	491.72	Paid 4/4/14
Subtotal 501 - General A/R		<u>3,516.73</u>	
Account 501C - NSF A/R			
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	454.71	Continue collection procedures
Morgan Peabody, Ltd.	55396	291.00	Continue collection procedures
Rojas, Steven/Aqua Fresca Pool & Spa	60596	77.00	Continue collection procedures
Subtotal 501C - NSF A/R		<u>2,464.18</u>	
Total Accounts Receivable Over 90 Days		<u>\$ 5,980.91</u>	

Exhibit B

Napa-Vallejo Waste Management Authority Analysis of General Ledger Activity January 1, 2014 through March 31, 2014

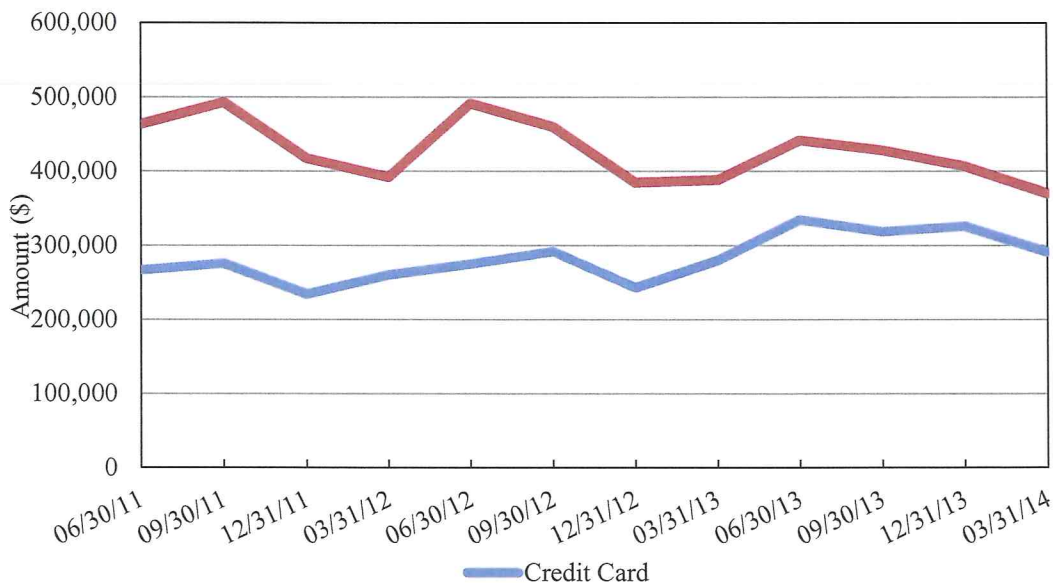
	General Ledger Total	Components				
		Visa / MC	Deposit Slip	CAMS	Bank Adjustments	Other
JANUARY	\$ 1,006,597.13	\$ 106,163.97	\$ 130,294.38	\$ 769,672.06	\$ 100.00	\$ 366.72
FEBRUARY	508,953.00	86,206.60	105,688.84	315,432.16	-	1,625.40
MARCH	998,716.77	98,513.62	133,324.45	768,838.00		(1,959.30)
QUARTER	<u>\$ 2,514,266.90</u>	<u>\$ 290,884.19</u>	<u>\$ 369,307.67</u>	<u>\$ 1,853,942.22</u>	<u>\$ 100.00</u>	<u>\$ 32.82</u>

Σ a = \$ 132.82
b

Explanation of Bank Adjustments & Other:	Instances	Amount
Bank Adjustments/Deposit Corrections	1	\$ 100.00
Refund/Returned Checks - Non Sufficient Funds (NSF)	12	942.53
Uncollectible Writeoff	1	(909.71)
	<u>14</u>	<u>\$ 132.82</u>

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

Revenue Collected at Devlin Road Transfer Station (DRTS) Quarter Ended June 30, 2011 through March 31, 2014



Revenue collected at DRTS decreased slightly for Cash/Checks and for Visa/MC in the quarter ended March 31, 2014.

Exhibit C

Napa-Vallejo Waste Management Authority Summary of Cash (Shortage) Overage For the Quarter Ended March 31, 2014

Description	Quarter Ended Sep. 30, 2013	Quarter Ended Dec. 31, 2013	Quarter Ended Mar. 31, 2014	Year to Date
Deposit Slips	\$ 448,509.40	\$ 393,869.06	\$ 376,437.12	\$ 1,218,815.58
VISA Slips	336,903.28	319,267.00	291,988.64	948,158.92
Posting errors/Corrections	(754.59)	-	-	(754.59)
Subtotal	784,658.09	713,136.06	668,425.76	2,166,219.91
Deposits Per Cash Report	785,412.68	713,146.06	668,639.32	2,167,198.06
Cash (Shortage) Overage	(754.59)	(10.00)	(213.56)	(978.15)
Bank Adjustments	-	-	(100.00)	(100.00)
Net Cash (Shortage) Overage	<u>\$ (754.59)</u>	<u>\$ (10.00)</u>	<u>\$ (313.56)</u>	<u>\$ (1,078.15)</u>

Shortage is caused by the following:

	Instances	Total
Cash shortage	3	\$ (354.76)
Cash overage	3	175.20
Short Pay	1	(34.00)
Bank Adjustments	1	(100.00)
Net Cash (Shortage) Overage	<u>8</u>	<u>\$ (313.56)</u>

Exhibit D

Napa-Vallejo Waste Management Authority For the Quarter Ended March 31, 2014

Additional Information Tickets with Negative Amounts

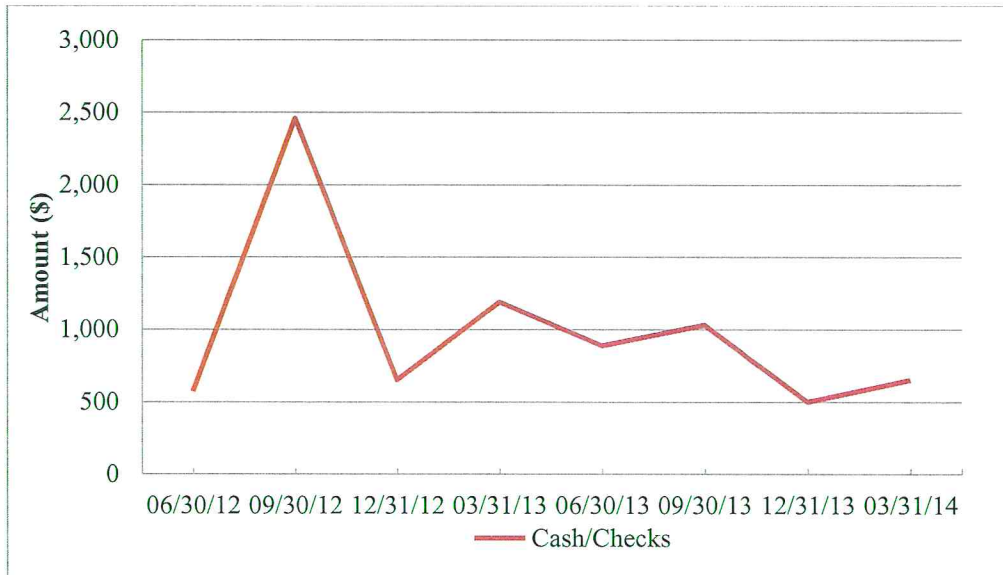
Quarter Ended	Cash/Checks		A/R		Total	
	# of Tickets	Amount	# of Tickets	Amount	# of Tickets	Amount
6/30/2012	13	\$ 570	35	\$ 11,117	48	\$ 11,687
9/30/2012	20	2,462	28	9,264	48	11,726
12/31/2012	8	651	16	4,016	24	4,667
3/31/2013	13	1,191	16	5,178	29	6,369
6/30/2013	10	889	25	9,628	35	10,517
9/30/2013	13	1,033	39	11,321	52	12,354
12/31/2013	6	500	22	6,174	28	6,673
3/31/2014	5	652	14	4,978	19	5,629
Average	11	\$ 993	24	\$ 7,709	35	\$ 8,703

The above table is a summary of negative tickets by transaction type, month, and totals for the quarter ended March 31, 2014 and also includes totals for the seven (7) prior quarters, for comparison.

**Exhibit D
(Continued)**

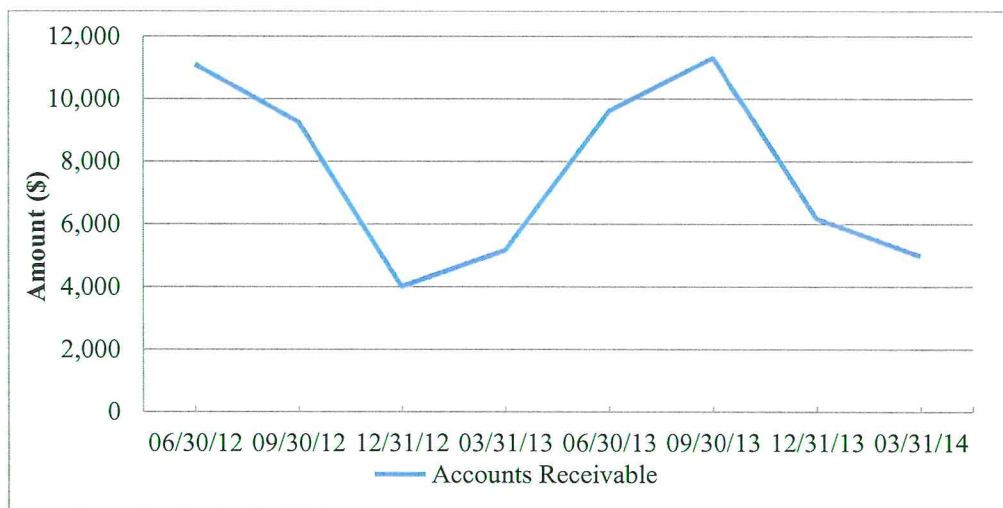
**Napa-Vallejo Waste Management Authority
For the Quarter Ended March 31, 2014**

**Cash/Check Tickets with Negative Amounts
Quarters Ended June 30, 2012 through March 31, 2014**



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 for the quarter ended March 31, 2014.

**Accounts Receivable (AR) Tickets with Negative Amounts
Quarters Ended June 30, 2012 through March 31, 2014**



Accounts Receivable tickets with negative amounts decreased for the quarter ended March 31, 2014.

Exhibit E

Napa-Vallejo Waste Management Authority Comparison of Accounts Receivable Over 90 Days Quarters Ended June 30, 2012 through March 31, 2014

Quarter Ended	501		501C		Total	
	# of Accounts	Amount	# of Accounts	Amount	# of Accounts	Amount
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	10,067
3/31/2013	11	3,782	7	2,162	18	5,944
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	10,173	7	2,336	24	12,509
3/31/2014	8	3,517	6	2,464	14	5,981
Average	14	\$ 5,610	8	\$ 2,424	21	\$ 8,034

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

