



A Tradition of Stewardship
A Commitment to Service

Napa-Vallejo Waste Management Authority

Internal Audit Report

For the Quarter Ended December 31, 2014

Issued by
AUDITOR-CONTROLLER
Internal Audit Section
May 21, 2015

NAPA-VALLEJO WASTE MANAGEMENT AUTHORITY

TABLE OF CONTENTS

	<u>Page</u>
<u>Executive Summary</u>	1
<u>Results and Exceptions</u>	
I. Accounts Receivable	4
II. Revenue	4
III. Internal Controls	5
<u>Exhibits</u>	
Exhibit A – Status of Accounts Receivable Over 90 Days	8
Exhibit B – Comparison of Accounts Receivable Over 90 Days	9
Exhibit C – Analysis of General Ledger Activity	10
Exhibit D – Summary of Cash (Shortage) Overage	11
Exhibit E – Summary of Tickets with Negative Amounts	12



A Tradition of Stewardship
A Commitment to Service

Auditor-Controller

1195 Third Street · Room B10
Napa, CA 94559
www.countyofnapa.org

Main: (707) 253-4551
Fax: (707) 226-9065

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, 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 (Treasurer) 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;
- Examine a sample of hand tags to determine the reliability of the information inputted into 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 December 31, 2014, we noted the following results and exceptions:

Report Section

- I.** **Result:** Account Balances over 90 Days – As of December 31, 2014, twelve (12) accounts had balances over 90 days past due for an amount of \$4,643. See Exhibit A on page 8 for a detail list and Exhibit B on page 9 for the history of accounts over 90 days from January 1, 2013 to December 31, 2014.
- II.A** **Result:** Analysis of General Ledger Activity – A total of \$3.4 million in revenue was received in cash, checks, credit card charges and charges to accounts receivable. See Exhibit C on page 10 for the detail results of the analysis.
- II.B** **Exception:** Shortage/Short Pays – During the quarter, three (3) overages, one (1) refund and one (1) short pay occurred for the cumulative shortage of \$7. Three (3) of the above transactions were recorded on Daily Reconciliation Forms five (5) to nine (9) days after the transaction occurred. See Exhibit D on page 11 for the detail of Net Cash (Shortages) Overages for the quarter ending December 31, 2014.

Summary of Results and Exception (Continued)

Report

Section (Continued)

- III.A** **Exception: Same Time In and Out** – We noted ten (10) tickets with the same “Time In” and “Time Out” entries for a cumulative amount of \$679 for inbound materials that did not indicate the cause of why the time was the same within the comment field of SoftPak or on the Daily Reconciliation Forms. 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 two hundred ninety-eight (298) tickets with negative amounts for a cumulative amount of \$77,058. See a breakdown of the exceptions on page 6. See Exhibit E on page 12 and 13 for additional analysis.

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

Conclusion

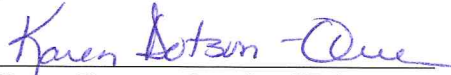
We determined that Northern Recycling Operations & Waste Services, LLC currently owes Napa-Vallejo Waste Management Authority \$235 for cash shortages occurring during the period of July 1, 2014 to December 31, 2014. At the end of the fiscal year, ending June 30, 2015, the cumulative shortage is due 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 21, 2015

This page is intentionally left blank

RESULTS
AND
EXCEPTIONS

**NAPA-VALLEJO WASTE MANAGEMENT AUTHORITY
FOR THE QUARTER ENDED DECEMBER 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 September.

Result: Account Balances over 90 Days – All accounts over 90 days as of December 31, 2014 and their status have been presented in Exhibit A on page 8 for an aggregate amount of \$4,643, including fees and interest, which is a decrease of \$293 compared to the prior quarter balance of \$4,936. A detailed listing of the "Status of Accounts Receivable over 90 Days" is also included in Exhibit A on page 8. In addition, historical data and trends of the accounts receivable balances over 90 days is presented in Exhibit B on page 9.

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 December 31, 2014. 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 \$3.4 million in revenue was received in cash, checks, credit card charges and charges to accounts receivable. We summarized our analysis in Exhibit C on page 10 ("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.

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 D on page 11 ("Summary of Cash (Shortage) Overage").

Exception B: Overages/Shortage/Short Pays – During the quarter, one (1) short pay, three (3) overages and one (1) refund of the overages occurred resulting in a net shortage of \$10 before bank adjustments. Three (3) of the above transactions were recorded on Daily Reconciliation Forms five (5) to nine (9) days after the transaction occurred. See Exhibit D on page 11 for the detail of Net Cash (Shortages) Overages for the quarter ending December 31, 2014.

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

RESULTS AND EXCEPTIONS

II. REVENUE (Continued)

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

Northern's Management Response B: The Daily Reconciliation form was uploaded on the Portal as an additional document that shows the overages and refund.

III. INTERNAL CONTROLS

A. Procedure: We examined the Scale Transaction Reports for the quarter ended December 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 ten (10) tickets with the same "Time In" and "Time Out" entries for a cumulative amount of \$679 for inbound materials that did not indicate the cause of why the time was the same within the comment field of SoftPak or on the Daily Reconciliation Forms. Six (6) of the ten (10) tickets were for cash customers. Tickets for voids, replacements, non-weighed 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 when the reason for manual entry is not apparent.

Northern's Response A: Northern will remind the scale house staff to continue to note reasons for manual entries.

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

RESULTS AND EXCEPTIONS

III. INTERNAL CONTROLS (Continued)

Exception B: Negative Tickets - During the quarter there were two hundred ninety-eight (298) tickets with negative amounts for a cumulative amount of \$77,057. The following is a breakdown of the negative tickets:

No exceptions noted

- 29 tickets – Tickets had explanations and documentation to support the reasons for being voided.

Passed on further investigation:

- 250 tickets – Reissued tickets to franchise customers for transactions occurring October 1st – October 3rd. The transactions were originally charged at the old franchise rate. Northern reported the original tickets and the replacement tickets.

Exceptions:

- 5 tickets – Timeliness – On December 30, 2014, one (1) ticket was subsequently reported as void on separate Daily Reconciliation Form on January 5, 2015. In addition, during the month of December four (4) additional voids were not reported timely.
- 1 ticket – Driver Signature – During the month of October, one (1) cash ticket was voided and replaced with tickets of lesser value. The driver's signature was missing on the replacement tickets. The difference between the original tickets and the replacement tickets was \$26.20.
- 7 tickets – Not Reported on Daily Reconciliation Form – Information was recognized in Void Report, but not on scale house operator's Daily Reconciliation Form.

See Exhibit E on page 12 for a summary of the negative tickets for the quarter ended December 31, 2014 and for the previous seven (7) quarters.

Exhibit E also includes graphs on page 13 depicting the quarterly dollar value of negative tickets for quarters ended March 31, 2013 through December 31, 2014.

The Negative Tickets increased mainly for the following reasons:

- Cash transactions - decreased mainly due to a decrease in cash transactions.

Accounts Receivable transactions – increased dramatically due to the old rate being charged to franchise customers.

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

RESULTS AND EXCEPTIONS

III. INTERNAL CONTROLS (Continued)

Recommendation C: 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, the replacement ticket number, and any change of date, weight or origin. 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.

We also recommend that replacement tickets for cash transactions are signed by the drivers. This will assist in providing an audit trail that the appropriate payment was received in conjunction with the replacement ticket.

Northern’s Response C: The scale house staff has been notified to have the cash tickets signed by the cash customer.

This page is intentionally left blank

EXHIBITS

Exhibit A

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

Account Name	Account Number	Total	Collection Measure
Account 501 - General A/R			
Classic Party Rentals	55367	\$ 626.78	Paid fees for \$51.68, still owes \$626.78. In Bankruptcy
Grimm's Cabinet	50608	105.02	Paid 1/20/15
Harvey Construction	50616	0.20	To overs/shorts on 8/29/14
On Time Maintenance Service	55260	1,226.00	Customer agreed to payment plan-has not followed through
R.E. Bradley Construction	52363	551.66	Customer making monthly pymts for \$100.00
Transport Products Unilimited	61705	0.01	Paid 4/16/15
Subtotal 501 - General A/R		<u>2,509.67</u>	
Account 501B - No Pay A/R			
Miller, Jeff	61909	124.08	Continue collection procedures
Subtotal 501B - No Pay A/R		<u>124.08</u>	
Account 501C - NSF A/R			
Golden Gate Roofing Service	55442	783.48	Judgement on file
Grossi, Paul DBA North Bay Roofing	60494	179.55	continue collection process
Hernandez, Ruben	57142	678.44	Judgement on file
Morgan Peabody, Ltd.	55396	291.00	Judgement on file
Rojas, Steven/Aqua Fresca Pool & Spa	60596	77.00	"Uncollectible" written off 3/2015
Subtotal 501C - NSF A/R		<u>2,009.47</u>	
Total Accounts Receivable Over 90 Days		<u><u>\$ 4,643.22</u></u>	

Exhibit B

Napa-Vallejo Waste Management Authority Comparison of Accounts Receivable Over 90 Days Quarters Ended March 31, 2013 through December 31, 2014

Quarter Ended	501		501B & 501C		Total	
	# of Accounts	Amount	# of Accounts	Amount	# of Accounts	Amount
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
6/30/2014	7	3,324	5	2,009	12	5,333
9/30/2014	4	2,926	5	2,009	9	4,935
12/31/2014	6	2,510	6	2,133	12	4,643
Average	10	4,589	6	2,233	17	6,822

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 and generally increase in the quarter ended December 31st. However, due to collection efforts the delinquent accounts have been decreasing for the last three (3) quarters.

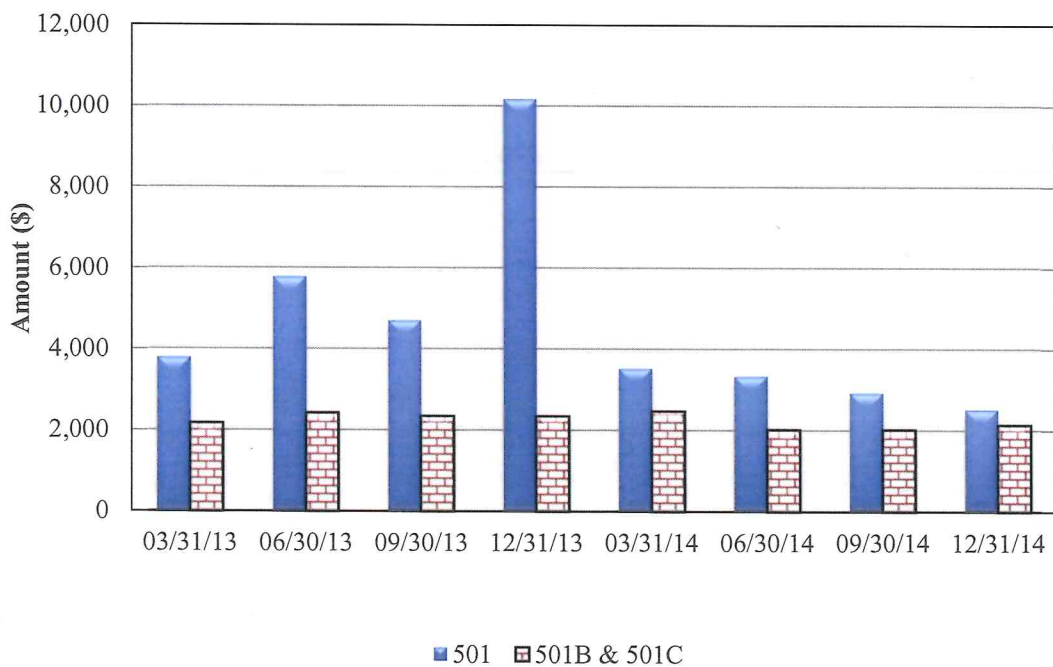


Exhibit C

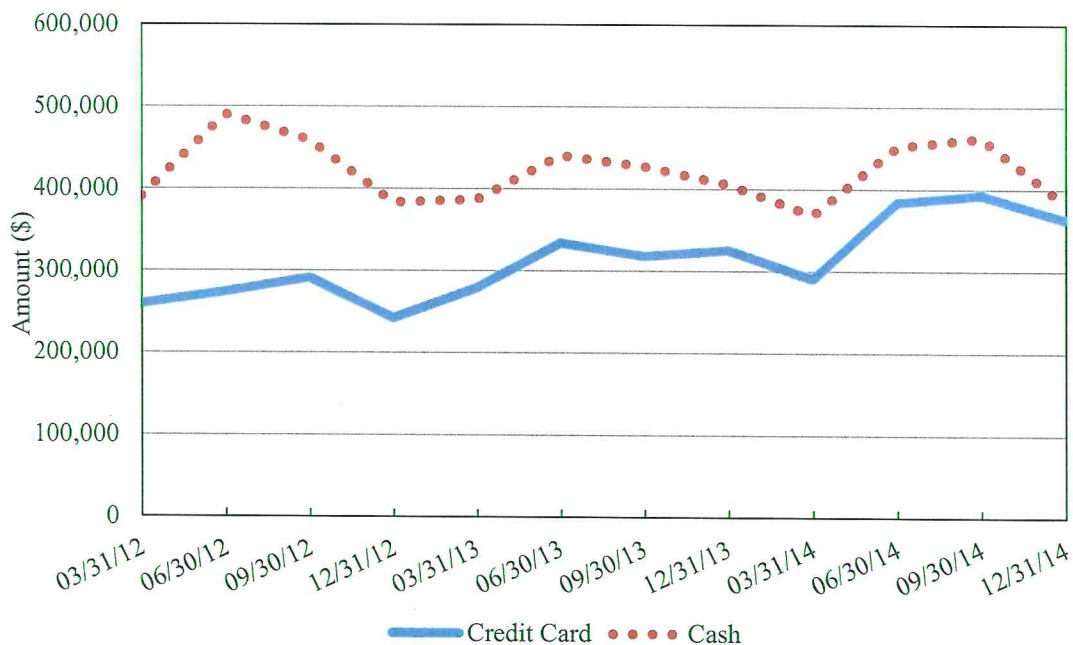
Napa-Vallejo Waste Management Authority Analysis of General Ledger Activity October 1, 2014 through December 31, 2014

	General Ledger Total	Components				
		Visa / MC	Deposit Slip	CAMS	Bank Adjustments	Other
OCTOBER	\$ 1,670,943	\$ 135,679	\$ 136,762	\$ 1,398,502	\$ -	\$ -
NOVEMBER	427,540	112,968	127,837	186,740	(3)	(2)
DECEMBER	1,363,274	114,735	118,274	1,130,265	-	-
QUARTER	<u>\$ 3,461,757</u>	<u>\$ 363,382</u>	<u>\$ 382,873</u>	<u>\$ 2,715,507</u>	<u>\$ (3)</u>	<u>\$ (2)</u>
				$\Sigma a =$	<u>\$ (5)</u>	
					<u><u>b</u></u>	<u><u>a</u></u>

Explanation of Bank Adjustments & Other:	Instances	Amount
Bank Adjustments/Deposit Corrections	1	\$ (3)
Refund/Returned Checks - Non Sufficient Funds (NSF)	1	(2)
	<u>2</u>	<u><u>b</u></u> \$ (5)

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

Revenue Collected at Devlin Road Transfer Station (DRTS) Quarters Ended March 31, 2012 through December 31, 2014



Revenue collected at DRTS decreased approximately \$100,000 for Cash/Checks and for Visa/MC in the quarter ended December 31, 2014 compared to the quarter ended September 30, 2014.

Exhibit D

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

Description	Quarter Ended Sep. 30, 2014	Quarter Ended Dec. 31, 2014	Year to Date
Deposit Slips	\$ 462,107	\$ 382,811	\$ 844,918
VISA Slips	396,866	361,493	758,359
Subtotal	858,973	744,304	1,603,277
Deposits Per Cash Report	859,201	744,314	1,603,515
Cash (Shortage) Overage	(228)	(10)	(238)
Bank Adjustments	-	3	3
Net Cash (Shortage) Overage	<u>\$ (228) a</u>	<u>\$ (7)</u>	<u>\$ (235)</u>

December 31, 2014 shortage is caused by the following:

	<u>Instances</u>	<u>Total</u>
Overage	3	\$ 223
Shortage	1	(223)
Short Pay	1	(10)
Bank Adjustments	1	3
Net Cash (Shortage) Overage	<u>6</u>	<u>\$ (7) a</u>

Exhibit E

Napa-Vallejo Waste Management Authority Summary of Tickets with Negative Amounts For January 1, 2013 to December 31, 2014

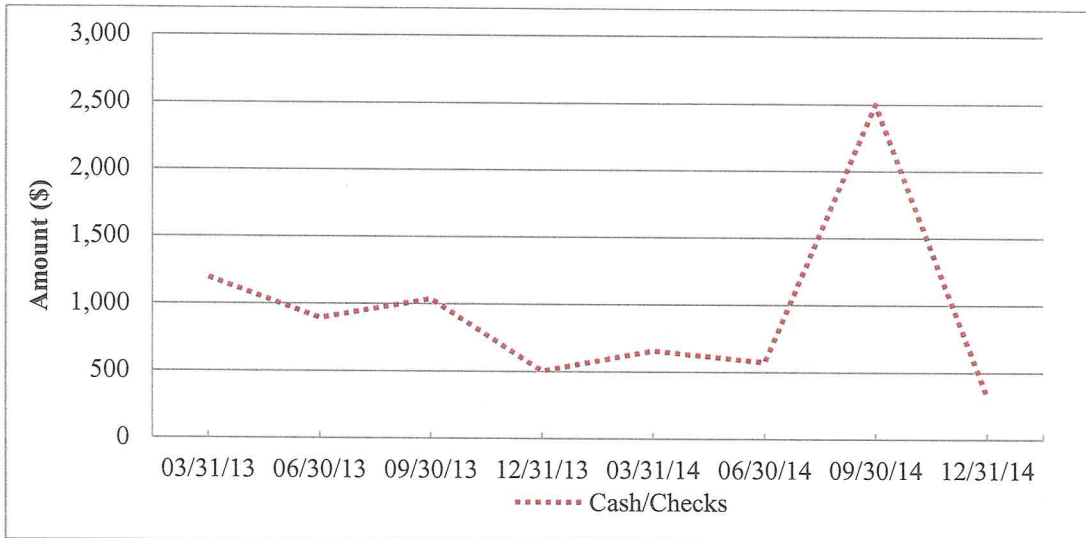
Quarter Ended	Cash/Checks		A/R		Total	
	# of Tickets	Amount	# of Tickets	Amount	# of Tickets	Amount
3/31/2013	13	1,191	16	5,178	29	6,369
6/30/2013	10	889	25	9,628	35	10,517
9/30/2013	13	1,033	39	11,321	52	12,354
12/31/2013	6	500	22	6,174	28	6,673
3/31/2014	5	652	14	4,978	19	5,629
6/30/2014	6	570	49	11,959	55	12,529
9/30/2014	15	2,497	206	43,736	221	46,233
12/31/2014	10	316	288	76,742	298	77,058
Average	10	\$ 956	82	\$ 21,214	92	\$ 22,170

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

**Exhibit E
(Continued)**

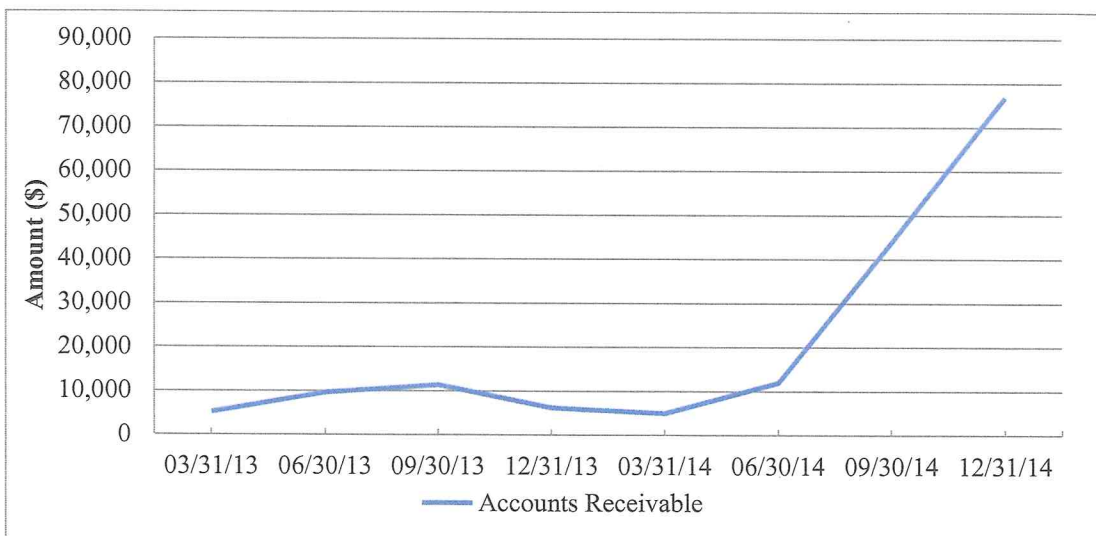
**Napa-Vallejo Waste Management Authority
Summary of Tickets with Negative Amounts
For January 1, 2013 to December 31, 2014**

**Cash/Check Tickets with Negative Amounts
Quarters Ended March 31, 2013 through December 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 decreased during the quarter ended December 31, 2014 mainly due to a decreased in cash transactions.

**Accounts Receivable (AR) Tickets with Negative Amounts
Quarters Ended March 31, 2013 through December 31, 2014**



Accounts Receivable tickets with negative amounts in the quarter ended December 31, 2014, increased dramatically compared to the quarter ended September 30, 2014 due to the franchise rate not being updated in the scale house software.

