



A Tradition of Stewardship
A Commitment to Service

Napa-Vallejo Waste Management Authority

Internal Audit Report

For the Quarter Ended September 30, 2015

Issued by
AUDITOR-CONTROLLER
Internal Audit Section
February 8, 2016

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	7
Exhibit B – Comparison of Accounts Receivable Over 90 Days	8
Exhibit C – Analysis of General Ledger Activity	9
Exhibit D – Summary of Cash (Shortage) Overage	10
Exhibit E – Summary of Tickets with Negative Amounts	11



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 September 30, 2015.

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 September 30, 2015, we noted the following results and exceptions:

Report Section

- I. Result: Account Balances over 90 Days** – As of September 30, 2015, fifteen accounts had balances over 90 days past due for an amount of \$7,738. See Exhibit A on page 7 for a detail list and Exhibit B on page 8 for the history of accounts over 90 days from October 1, 2013 to September 30, 2015.
- II.A Result: Analysis of General Ledger Activity** – A total of \$3.6 million in revenue was received in cash, checks, credit card charges and payments on accounts receivable. See Exhibit C on page 9 for the detail results of the analysis.
- II.B Result: Cash (Shortage) Overage** – During the quarter there was one instance where a counterfeit bill was deposited for the amount of \$100.
- III.A Exception: Same Time In and Out** – We noted nine tickets with the same “Time In” and “Time Out” entries for a cumulative amount of \$945 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 twenty-five tickets with negative amounts for a cumulative amount of \$7,336. See Exhibit E on page 11 and 12 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 \$100 for cash shortages occurring during the period of July 1, 2015 to September 30, 2015. At the end of the fiscal year, ending June 30, 2016, 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
February 8, 2016

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RESULTS
AND
EXCEPTIONS

**NAPA-VALLEJO WASTE MANAGEMENT AUTHORITY
FOR THE QUARTER ENDED SEPTEMBER 30, 2015**

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 September 30, 2015 and their status have been presented in Exhibit A on page 7 for an aggregate amount of \$7,738, including fees and interest, which is a decrease of \$16,351 compared to the prior quarter balance of \$24,089. Historical data and trends of the accounts receivable balances over 90 days is presented in Exhibit B on page 8.

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 September 30, 2015. 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 \$3.6 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.

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 10 (“Summary of Cash (Shortage) Overage”).

Result B: Cash (Shortage) Overage – During the quarter there was one instance where a counterfeit bill was deposited for the amount of \$100.

**NAPA-VALLEJO WASTE MANAGEMENT AUTHORITY
FOR THE QUARTER ENDED SEPTEMBER 30, 2015**

RESULTS AND EXCEPTIONS

III. INTERNAL CONTROLS

A. Procedure: We examined the Scale Transaction Reports for the quarter ended September 30, 2015 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 nine tickets with the same “Time In” and “Time Out” entries for a cumulative amount of \$945 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. One of the nine tickets was for a cash customer. 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.

Northern’s Response A: Northern Recycling researched the nine tickets in question and the following is what we found: Ticket number 846201 was a replacement ticket for 846199 which had the incorrect weight because another customer vehicle was partially on the outbound scale causing an incorrect weight. Ticket 860325 had a Freon removal charge in addition to the minimum charge. The following tickets 866572, 868123, 873521 and 874122 were tickets covering multiple vehicles with one payment. Ticket 875759 was a replacement ticket for a hand tag weight ticket. Ticket 851673 was due to the scale attendant selecting the wrong customer’s ticket from the queue in the system of open tickets.

Scale house attendants have been reminded to note all reasons for same time in and out date stamps on tickets. A review of these tickets with the scale house staff will provide excellent examples.

B. Procedure: We reviewed negative amounts from the Scale Transaction Reports for the quarter ended September 30, 2015. 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 SEPTEMBER 30, 2015**

RESULTS AND EXCEPTIONS

III. INTERNAL CONTROLS (Continued)

Exception B: Negative Tickets - During the quarter there were twenty-five tickets with negative amounts for a cumulative amount of \$7,336. Four of the tickets were recognized on the Void Report, but not on the Scale Operator's Daily Reconciliation Form.

See Exhibit E on page 11 for a summary of the negative tickets for the quarter ended September 30, 2015 and for the previous seven (7) quarters. Exhibit E also includes graphs on page 12 depicting the quarterly dollar value of negative tickets for quarters ended December 31, 2013 through September 30, 2015.

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, 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 B: Northern Recycling staff reviewed all 25 tickets in question and will use the examples of the four tickets that had negative amounts but did not get noted on the daily reconciliation form. All scale house staff was reminded to note any negative scale ticket on their daily reconciliation form.

EXHIBITS

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Exhibit A

Napa-Vallejo Waste Management Authority Status of Accounts Receivable Over 90 Days Per Central Collections As of September 30, 2015

Account Name	Account Number	Total	Collection Measure
Account 501 - General A/R			
Atazz Technical Services	61762	\$ 2,310.48	Customer on payment plan; last payment made 12/31/15 for \$1,150.00
California Custom Remodeling	52445	162.06	Continue collection procedures
Classic Party Rentals	55367	487.49	Bankruptcy acct
On Time Maintenance Service	55260	1,126.60	Failed to follow through with payment plan. Still attempting to collect
Rice, Eric	60677	180.47	Continue collection procedures
Scott's Service and Co.	54754	683.00	Paid in full on 12/22/15
Four accounts - Credit Balances	Various	(188.55)	Refunded accounts, applied to invoice or to Over/Shorts account
Subtotal 501 - General A/R		<u>4,761.55</u>	
Account 501B - No Pay A/R			
Garcia, Fernando	62098	106.44	Do not have current address/ phone number for acct. Possible write off
Miller, Jeff	61909	124.08	Do not have current address/ phone number for acct. Possible write off
Subtotal 501B - No Pay A/R		<u>230.52</u>	
Account 501C - NSF A/R			
Ace Concrete & Son's LLC	62292	501.80	Paid in full 10/6/15
Calmell, Carlos (DBA C & C Plumbing)	62308	231.44	Continue collection procedures
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
Morgan Peabody, Ltd.	55396	291.00	Continue collection procedures
Nature's Wellness Center	62239	80.00	Business closed; do not have current address/phone number; possible writeoff
Subtotal 501C - NSF A/R		<u>2,745.71</u>	
Total Accounts Receivable Over 90 Days		<u>\$ 7,737.78</u>	

Exhibit B

Napa-Vallejo Waste Management Authority Comparison of Accounts Receivable Over 90 Days Quarters Ended December 31, 2013 through September 30, 2015

Quarter Ended	501		501B & 501C		Total	
	# of Accounts	Amount	# of Accounts	Amount	# of Accounts	Amount
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
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
Average	9	\$ 6,496	6	\$ 2,268	15	\$ 8,765

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. Delinquent accounts increased for the quarter ended June 30, 2015 due to two accounts with high balances. Both accounts managed to pay their accounts in full by the quarter ended September 30, 2015.

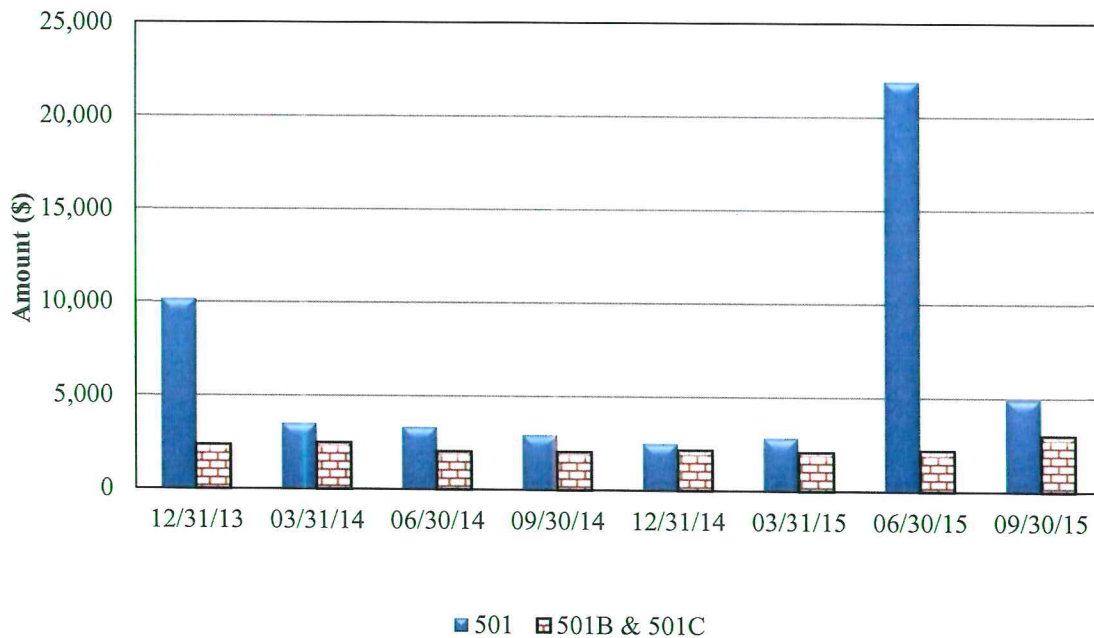


Exhibit C

Napa-Vallejo Waste Management Authority Analysis of General Ledger Activity July 1, 2015 through September 30, 2015

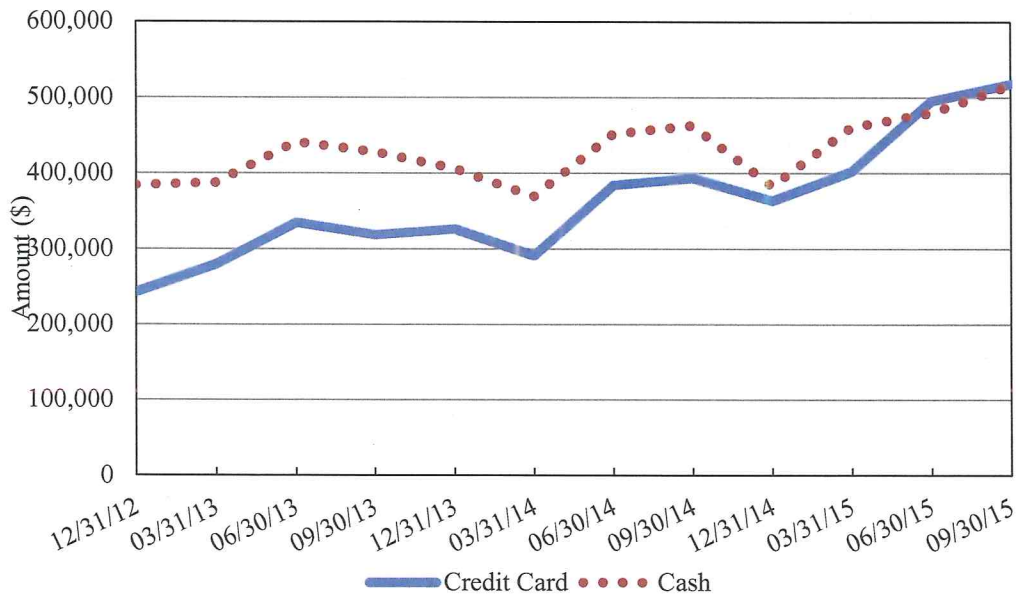
	General Ledger Total	Components				
		Visa / MC	Deposit Slip	Accounts Receivable	Bank Adjustments	Other
JULY	\$ 1,171,733	\$ 180,648	\$ 160,864	\$ 830,363	\$ -	\$ (141)
AUGUST	1,213,329	169,404	172,077	871,948	(100)	-
SEPTEMBER	1,245,569	167,795	183,464	894,309	-	-
QUARTER	\$ 3,630,631	\$ 517,847	\$ 516,405	\$ 2,596,620	\$ (100)	\$ (141)

Total Bank Adjustments and Other \$ (241)

Explanation of Bank Adjustments & Other:	Instances	Amount
Bank Adjustments/Deposit Corrections	1	\$ (100)
Refund/Returned Checks - Non Sufficient Funds (NSF)	4	(141)
	<u>5</u>	<u>\$ (241)</u>

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

Revenue Collected at Devlin Road Transfer Station (DRTS) Quarters Ended December 31, 2012 through September 30, 2015



Revenue collected at DRTS increased approximately \$132,000 for Cash/Checks and for Visa/MC in the quarter ended September 30, 2015 compared to the quarter ended June 30, 2015. Increase was generated from a rate increase and the increase in construction debris.

Exhibit D

Napa-Vallejo Waste Management Authority Summary of Cash (Shortage) Overage For the Quarter Ended September 30, 2015

<u>Description</u>	<u>Quarter Ended Sep. 30, 2015</u>	<u>Year to Date</u>
Deposit Slips	\$ 521,621	\$ 521,621
VISA Slips	522,101	522,101
Subtotal	1,043,722	1,043,722
Deposits Per Cash Report	1,043,722	1,043,722
Cash (Shortage) Overage	(0)	(0)
Bank Adjustments	(100)	(100)
Net Cash (Shortage) Overage	<u>\$ (100)</u>	<u>\$ (100)</u>

September 30, 2015 shortage is caused by the following:

	<u>Instances</u>	<u>Total</u>
Shortage	0	\$ (0)
Bank Adjustments	1	(100)
Net Cash (Shortage) Overage	<u>1</u>	<u>\$ (100)</u>

Exhibit E

Napa-Vallejo Waste Management Authority Summary of Tickets with Negative Amounts For October 1, 2013 to September 30, 2015

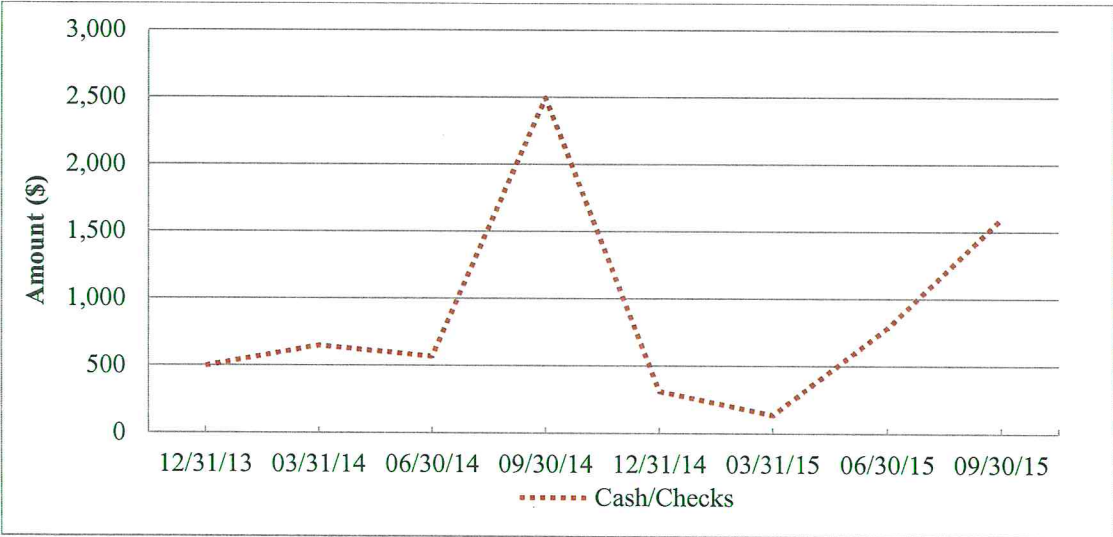
Quarter Ended	Cash/Checks		A/R		Total	
	# of Tickets	Amount	# of Tickets	Amount	# of Tickets	Amount
12/31/2013	6	\$ 500	22	\$ 6,174	28	\$ 6,673
3/31/2014	5	652	14	4,978	19	5,629
6/30/2014	6	570	49	11,959	55	12,529
9/30/2014	15	2,497	206	43,736	221	46,233
12/31/2014	9	316	288	76,742	297	77,058
3/31/2015	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
Average	7	\$ 882	83	\$ 22,512	90	\$ 23,394

The above table is a summary of negative tickets by transaction type, month, and totals for the quarter ended September 30, 2015 and also includes totals for the seven (7) prior quarters, for comparison.

**Exhibit E
(Continued)**

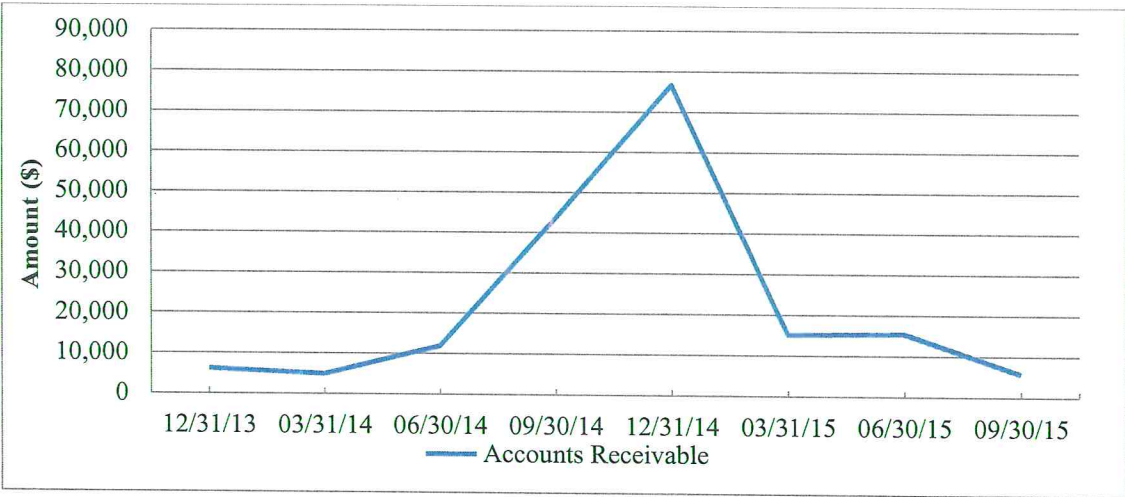
**Napa-Vallejo Waste Management Authority
Summary of Tickets with Negative Amounts
For October 1, 2013 to September 30, 2015**

**Cash/Check Tickets with Negative Amounts
Quarters Ended December 31, 2013 through September 30, 2015**



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 during the quarter ended September 30, 2015.

**Accounts Receivable (AR) Tickets with Negative Amounts
Quarters Ended December 31, 2013 through September 30, 2015**



Accounts Receivable tickets with negative amounts decreased in the quarter ended September 30, 2015.