



A Tradition of Stewardship
A Commitment to Service

Napa-Vallejo Waste Management Authority
Internal Audit Report
For the Quarter Ended March 31, 2016

Issued by
AUDITOR-CONTROLLER
Internal Audit Section
July 7, 2016

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 March 31, 2016.

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 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:

- 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 Exception

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 March 31, 2016, we noted the following results and exceptions:

Report Section

- I.** **Result:** Account Balances over 90 Days – As of March 31, 2016, sixteen accounts had balances over 90 days past due for an amount of \$8,775.31. 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 April 1, 2014 to March 31, 2016.
- II.A** **Result:** Analysis of General Ledger Activity – A total of \$3.9 million in revenue was received in cash, checks, and credit card charges 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 four instances where cash shortages occurred, two instances were due to wrong change was given out and two instances were because customers did not make a full payment. In addition, there were two overages. Total net shortage for all occurrences was \$153. Short pays were not remitted to central collections during the quarter.
- 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 \$1,474 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.
- III.B** **Result:** Negative Tickets – During the quarter there were four tickets with negative amounts for a cumulative amount of \$558. All tickets were listed in the explanation section of the daily reconciliation. See Exhibit E on page 11 and 12 for additional analysis.
- III.C** **Exception:** Material Code – We noted a material code for special handling fees, SHF, was being used during the quarter, whereas only SH should be used per price sheet. This resulted in the wrong fee being charged for one ticket.

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 \$353 for cash shortages occurring during the period of July 1, 2015 to March 31, 2016. 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 written communication 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. 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
July 7, 2016

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RESULTS
AND
EXCEPTIONS

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

Result: Account Balances over 90 Days – All accounts over 90 days as of March 31, 2016 and their status have been presented in Exhibit A on page 7 for an aggregate amount of \$8,775.31 including fees and interest, which is a decrease of \$944.86 compared to the prior quarter balance of \$9,720.17. 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 March 31, 2016. We also verified the timeliness of transmitting the deposit information and recording the revenue in the proper account.

Result A: A total of \$3.9 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: There were four instances discovered where cash shortages had occurred and two instances of overages. All shortages were recorded in the Daily Reconciliation Form.

Two of the shortages were due to the wrong change being given out by a weighmaster. The other two shortages were due to short pays, which occur when a customer does not make a full payment for the load.

We verified procedures for documenting short pays and forwarding the information to central collections, which then includes such balances under an aging AR schedule. During the quarter it was noted that the two instances where short pays had occurred the Authority did not relay the shortage to central collections timely.

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

**NAPA-VALLEJO WASTE MANAGEMENT AUTHORITY
FOR THE QUARTER ENDED MARCH 31, 2016**

RESULTS AND EXCEPTIONS

II. REVENUE (Continued)

Recommendation B: We recommend that short pays should be reported timely to central collections so they can be included in the AR schedules.

Northern's Response B: Northern Recycling has reviewed the short pay procedures with all scale house staff and has reminded them of the required procedure and proper forms to use for short pays. Staff has also reviewed the procedure for end of day reconciliation and requirement for staff to double check each others end of day totals. In a review of the 4th quarter of 2015/2016 please note that Northern has not had any recorded short pays for the quarter.

III. INTERNAL CONTROLS

A. Procedure: Same Time In and Out – We examined the Scale Transaction Reports for the quarter ended March 31, 2016 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, 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 exception:

Exception A: We noted nine tickets with the same “Time In” and “Time Out” entries for a cumulative amount of \$1,474 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. Seven of the tickets were for cash customers totaling \$352 and two tickets were for accounts receivable customers totaling \$1,122. 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: Scale house staff has been reminded to always note any reason that would cause a same time in and out ticket and to make sure that the reason for the same time in and out is on the daily reconciliation and noted on the scale tickets in the comments section.

**NAPA-VALLEJO WASTE MANAGEMENT AUTHORITY
FOR THE QUARTER ENDED MARCH 31, 2016**

RESULTS AND EXCEPTIONS

III. INTERNAL CONTROLS (Continued)

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

Result B: During the quarter there were four tickets with negative amounts for a cumulative amount of \$558. Reasons for negative tickets were documented. No exceptions were noted.

C. Procedure: Material Code – We performed ticket testing to determine if fees have been programed timely and correctly into the software and also to verify if 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: We noted in one instance the wrong material code was used resulting in a discrepancy in the rate charged to the customer. Per rate resolution, code for special handling is SH and the corresponding rate is \$130, whereas a Northern weighmaster used SHF, which is an outdated code and has a corresponding rate of \$129.

Recommendation C: We recommend only SH code be used for special handling and the SHF code should either be deleted from the system or locked preventing it from being used again.

Northern's Response C: Northern Recycling reviewed all available material codes in the Soft Pak system and has eliminated all codes that do not conform to our current rate schedule. Negative tickets and voided tickets will continue to be listed on the voided ticket report.

EXHIBITS

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Exhibit A

Napa-Vallejo Waste Management Authority Status of Accounts Receivable Over 90 Days Per Central Collections As of March 31, 2016

Account Name	Account Number	Total	Collection Measure
Account 501 - General A/R			
Abels Roofing	58183	\$ 583.86	Paid in full on 5/16/16
Ashorn Construction	50522	419.98	Continue collection attempts
Atazz Technical Services	61762	2,432.57	Client still making pymts
Buchanan Construction	60745	1,501.64	Creditor's claim filed by County Counsel on 3/4/16
D J M Construction	52747	(6.13)	To overs/shorts account on 4/29/16
On Time Maintenance Service	55260	1,126.60	Client still making pymts
Rice, Eric	60677	200.77	Paid in full on 5/9/16
Waypoint Homes Inc	61609	41.59	Paid in full 4/26/16
Subtotal 501 - General A/R		<u>6,300.88</u>	
Account 501B - No Pay A/R			
Garcia, Fernando *	62098	106.44	Do not have current phone or address-will request writeoff
Miller, Jeff *	61909	124.08	Do not have current phone or address-will request writeoff
Subtotal 501B - No Pay A/R		<u>230.52</u>	
Account 501C - NSF A/R			
Calmell, Carlos A DBA C&C Plumbing	62308	231.44	Continue collection attempts
Golden Gate Roofing Service	55442	783.48	Judgement on file-still attempting to collect
Grossi, Paul E DBA North Bay Roofing	60494	179.55	Continue collection attempts
Hernandez, Ruben	57142	678.44	Judgement on file-still attempting to collect
Morgan Peabody, Ltd.	55396	291.00	Judgement on file-still attempting to collect
Natures Wellness Center *	62239	80.00	No longer in business-No contact information-will request writeoff
Subtotal 501C - NSF A/R		<u>2,243.91</u>	
Total Accounts Receivable Over 90 Days		<u>\$ 8,775.31</u>	

* Board approved write-off request on June 9, 2016

Exhibit B

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

Table 1

Quarter Ended	501		501B & 501C		Total	
	# of Accounts	Amount	# of Accounts	Amount	# of Accounts	Amount
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
12/31/2015	10	7,246	8	2,474	18	9,720
3/31/2016	8	6,301	8	2,474	16	8,775
Average	8	\$ 6,478	7	\$ 2,287	14	\$ 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.

Graph 1
Accounts Receivables Over 90 Days
Quarters Ended June 30, 2014 through March 31, 2016

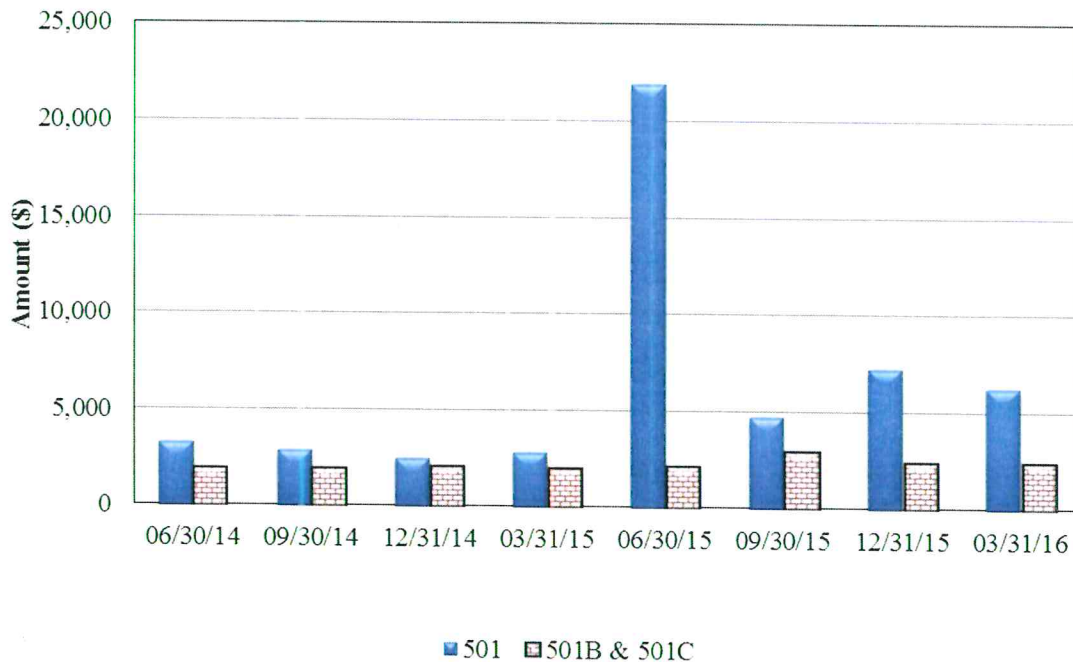


Exhibit C

Napa-Vallejo Waste Management Authority Analysis of General Ledger Activity January 1, 2016 through March 31, 2016

Table 2

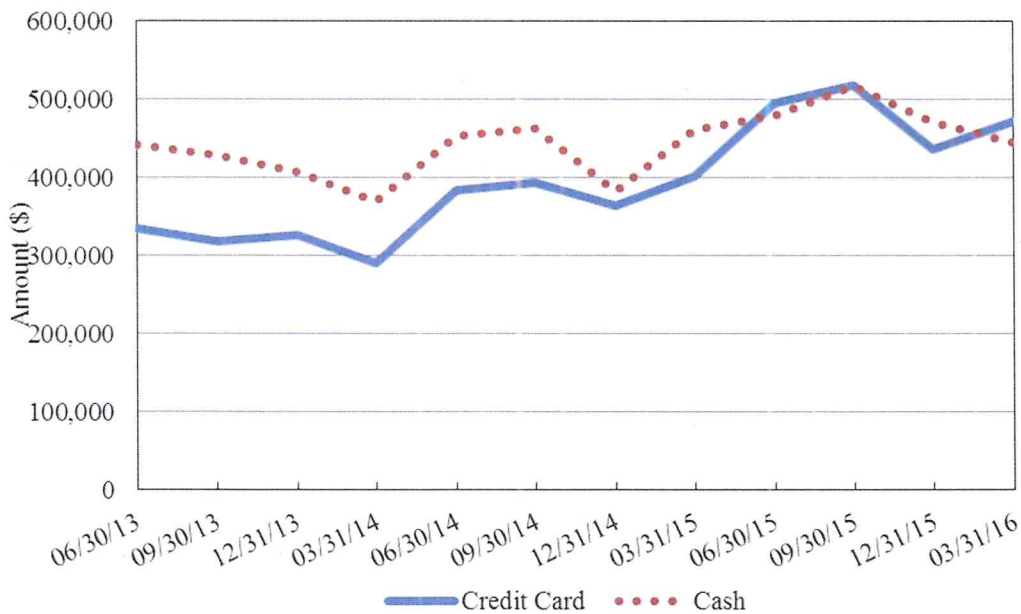
	General Ledger Total	Components				
		Visa / MC	Deposit Slip	Accounts Receivable	Bank Adjustments	Other
JANUARY	\$ 1,440,036	\$ 124,130	\$ 128,564	\$ 1,187,341	\$ -	\$ -
FEBRUARY	1,254,804	165,237	143,238	946,767	-	(439)
MARCH	<u>1,215,810</u>	<u>182,831</u>	<u>172,943</u>	<u>860,505</u>	<u>-</u>	<u>(469)</u>
QUARTER	<u>\$ 3,910,649</u>	<u>\$ 472,199</u>	<u>\$ 444,745</u>	<u>\$ 2,994,614</u>	<u>\$ -</u>	<u>\$ (908)</u>

Total Bank Adjustments and Other \$ (908)

Explanation of Bank Adjustments & Other:	Instances	Amount
Refund/Returned Checks - Non Sufficient Funds (NSF)	<u>2</u>	<u>\$ (908)</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 June 30, 2013 through March 31, 2016



Revenue collected at DRTS decreased approximately \$25,000 for Cash/Checks and increased approximately \$35,000 for Visa/MC in the quarter ended March 31, 2016 compared to the quarter ended December 31, 2015.

Exhibit D

Napa-Vallejo Waste Management Authority Summary of Cash (Shortage) Overage For the Quarter Ended March 31, 2016

Description	Quarter Ended Sep. 30, 2015	Quarter Ended Dec. 31, 2015	Quarter Ended Mar. 31, 2016	Year to Date
Deposit Slips	\$ 521,621	\$ 477,233	\$ 438,807	\$1,437,661
VISA Slips	522,101	433,279	475,464	1,430,844
Subtotal	1,043,722	910,512	914,271	2,868,505
Deposits Per Cash Report	1,043,722	910,512	914,424	2,868,658
Cash (Shortage) Overage	-	-	(153)	(153)
Bank Adjustments	(100)	(100)	-	(200)
Net Cash (Shortage) Overage	<u>\$ (100)</u>	<u>\$ (100)</u>	<u>\$ (153)</u>	<u>\$ (353)</u>

March 31, 2016 shortage is caused by the following:

	<u>Instances</u>	<u>Total</u>
Overage	2	\$ 3
Shortage	2	(58)
Short Pay	2	(98)
Net Cash (Shortage) Overage	<u>6</u>	<u>\$ (153)</u>

Exhibit E

Napa-Vallejo Waste Management Authority Summary of Tickets with Negative Amounts For Quarter Ended June 30, 2014 to March 31, 2016

Table 3

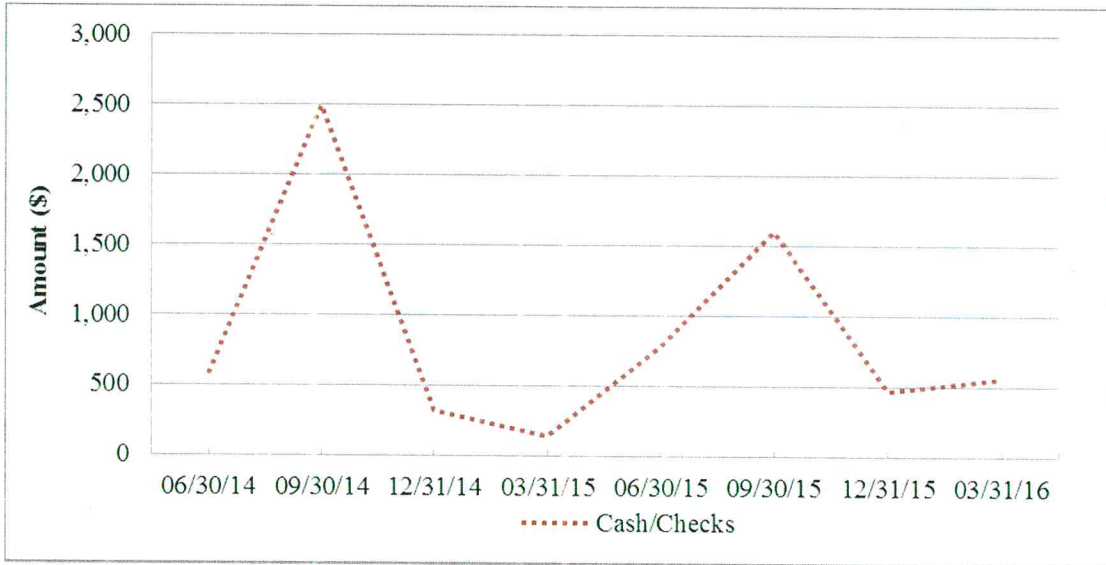
Quarter Ended	Cash/Checks		A/R		Total	
	# of Tickets	Amount	# of Tickets	Amount	# of Tickets	Amount
6/30/2014	6	\$ 570	49	\$ 11,959	55	\$ 12,529
9/30/2014	15	2,497	206	43,736	221	46,233
12/31/2014	9	316	288	76,742	297	77,058
3/31/2015	1	139	41	15,240	42	15,379
6/30/2015	5	785	25	15,531	30	16,316
9/30/2015	7	1,600	18	5,736	25	7,336
12/31/2015	6	467	25	6,499	31	6,966
3/31/2016	4	558	0	-	4	558
Average	7	\$ 866	82	\$ 21,930	88	\$ 22,797

The above table is a summary of negative tickets by transaction type, month, and totals for the quarter ended March 31, 2016 and also includes totals for the seven prior quarters, for comparison.

**Exhibit E
(Continued)**

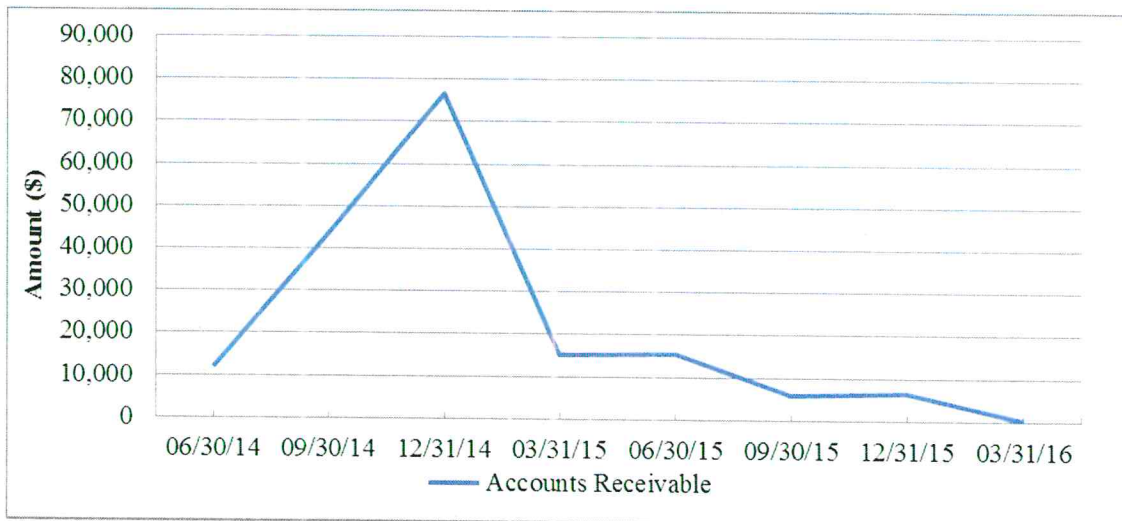
**Napa-Vallejo Waste Management Authority
Summary of Tickets with Negative Amounts
For Quarters ended June 30, 2014 to March 31, 2016**

**Graph 3a
Cash/Check Tickets with Negative Amounts
Quarters Ended June 30, 2014 through March 31, 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 had a small increase during the quarter ended March 31, 2016.

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



Accounts Receivable tickets with negative amounts slightly decreased in the quarter ended March 31, 2016.