



A Tradition of Stewardship
A Commitment to Service

Napa-Vallejo Waste Management Authority

Internal Audit Report

For the Quarter Ended June 30, 2017

Issued by
AUDITOR-CONTROLLER
Internal Audit Section
January 30, 2018

NAPA-VALLEJO WASTE MANAGEMENT AUTHORITY

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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 engagement 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 collected, manual tickets issued, 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 June 30, 2017.

Objective

The objective of our review was to:

- Determine the accuracy of the revenue reported in the Authority's general ledger for inbound customers;
- Determine if controls associated with fees collected, manual tickets issued, 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; and
- Provide the Authority with information on exceptions and additional information resulting from our engagement.

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; and
- Verify that internal controls are in place over the issuance of tickets.

Summary of Results and Exceptions

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 June 30, 2017, we noted the following results and exceptions:

Report Section

- I. Result: Account Balances over 90 Days** – As of June 30, 2017, seventeen accounts had balances over 90 days past due for an amount of \$6,087. See Exhibit A on page 8 for a detail list and Exhibit B on page 9 for the quarterly history of accounts over 90 days from July 1, 2015 to June 30, 2017.
- II.A Result: Analysis of General Ledger Activity** – A total of \$3.7 million in revenue was received in cash, checks, credit card charges, and payments to accounts receivable. See Exhibit C on page 10 for the detail results of the analysis.
- II.B Exception: Cash (Shortage) Overage** – There was a total net overage of \$34 for the quarter. The overage consisted of credit card refunds not applied to the Authority’s bank account of \$230; and other errors, shortages and overages totaling for a shortage of \$196 during the June 30, 2017 quarter.
- II.C Result: Hand Tag Analysis** – During the quarter ended June 30, 2017, two hundred ninety-four (294) hand tags were issued primarily on May 17, 2017 as a result of a software failure in the newly installed kiosks.
- III.A Exception: Same Time In and Out** - We noted twenty-four tickets with the same “Time In” and “Time Out” entries for a cumulative amount of \$1,225. The Scale Transaction report did not indicate the cause of why the time was the same within the comment field nor did the information appear on the Daily Reconciliation Forms.
- III.B Result: Negative Tickets/Void Tickets** – During the quarter there were 71 tickets with negative amounts for a cumulative amount of \$25,120. See Exhibit E on pages 12 and 13 for additional analysis.

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

Conclusion

Avenues need to be explored to determine efficient and effective ways for information to be documented on transactions for hand tags, voiding and replacing tickets, and system outages. We had recommended a simple coding key to be used in the comment field that would minimize the time of entering the ticket but provide an audit trail.

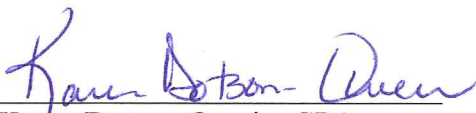
There was system failure related to the newly installed kiosks due to incompatibility with Softpak. We suggest the Authority test the new system thoroughly to make sure all systems are compatible and working in conjunction with each other; and going forward put in place a system of monitoring the viability of the various Software systems to minimize downtime.

Credit card refunds are being deducted from an account Northern uses to record credit card fees instead of netting against the credit card transactions of the day the refund is issued. This is resulting in the Authority's general ledger being overstated due to these refunds not being recorded.

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
January 30, 2018

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RESULTS
AND
EXCEPTIONS

**NAPA-VALLEJO WASTE MANAGEMENT AUTHORITY
FOR THE QUARTER ENDED JUNE 30, 2017**

RESULTS AND EXCEPTIONS

I. ACCOUNTS RECEIVABLE

A. Procedure: Account Balances over 90 Days – 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 A: During the quarter, nine accounts were approved by the Authority Board for write off on June 8, 2017 and the rest were under collection. All accounts over 90 days at June 30, 2017 and their status have been presented in Exhibit A on page 11 for an aggregate amount of \$6,087 including fees and interest, which is a decrease of \$235 compared to the prior quarter balance of \$6,322. Historical data and trends of the accounts receivable balances over 90 days is presented in Exhibit B on page 9.

B. Procedure: Accounts Receivable Analysis – We compared the Station List to the A/R Client Transaction Report to see if the Accounts Receivable Customers were billed correctly. In addition interviews were conducted with the staff at Napa County Treasurer Tax Collectors Office to document the process of Accounts Receivable and review samples of transaction through the process.

Result B: No deficiencies were noted, the Accounts Receivable process can be relied upon.

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 June 30, 2017. We also verified the timeliness of transmitting the deposit information and recording the revenue in the proper account.

Result A: A total of \$3.7 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 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. Transactions were remitted and posted timely.

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: During the quarter we noted there was a net overage of \$34. The overage consisted of credit card refunds not applied to the Authority’s bank account of \$230; and other errors, shortages totaling \$196 during the June 30, 2017 quarter.

II. REVENUE (Continued)

Recommendation B: We recommend the following guidelines to ensure proper internal controls including segregation of duties and to assist in reducing the risk of misappropriation of cash.

- Enforce the existing system of controls over the cash receipts.
 - Employee personal funds should not be used to cover discrepancies
 - Practice dual custody when counting cash drawers (opening and closing)
 - All cash held overnight must be deposited in a safe
 - Cash drawers or cash boxes must be closed and secured when not in use
 - Deposit slips must be reviewed in dual custody by another employee before the bank deposit

- Credit card refunds are being processed through Northern's account that is used to cover the credit card fees, hence not being recorded in the Authority's General Ledger. Credit card refunds should offset against the account where the original deposit was made and netted against the credit card transactions on the day the refund is issued then processed with the Authority's bank and through their General Ledger system.

Response B: Northern Recycling continues to instruct all scale house staff to follow all established policies with regard to completing the daily reconciliation, daily cash deposits and double checking of all funds held in each safe and for each scale house staffs daily deposits and reconciliation.

C. Procedure: Hand Tag Analysis – We took a sample of Hand Tags to verify if Northern accounted for the manual “hand tag” tickets accurately within the electronic system for the quarter.

Result C: There were 294 Hand tags issued during the quarter. No exceptions were noted in the completion of the Hand Tags sampled. Hand Tags contained the necessary information to input into SoftPak and the data entry agreed with the corresponding Hand Tag.

Exception C: A vast majority of Hand Tags were issued on May 17, 2017 due to a SoftPak software failure, which was caused by the two unattended Kiosks installed by American Scale. It was verified with Northern staff that American Scale had not developed a relationship with SoftPak Software Company to assure compatibility with Northern's computer system.

Recommendation C: We recommend the Authority use a vendor for the unattended kiosks that has an established long standing relationship with SoftPak and can assure compatible software.

II. REVENUE (Continued)

Response C: On May 17, 2017 the Devlin Road computer system and SoftPak software was compromised by the 2 unattended kiosks which are part of the newly constructed scale house and new truck scale system. The kiosks are terminals that allow our member jurisdiction and contract hauler truck drivers to be able to weigh their incoming or outgoing truck loads for transaction and weight tag/scale ticket generation. The Kiosks are supposed to be compatible with Northern Recycling Operation and Waste Service computer system and are supposed to interface with the SoftPak software system which is the system that allows for proper computation of all facility transaction and electronic storage of such transactions.

The 2 unattended kiosks were installed on 2 of the scales by a subcontractor (American Scale) who installed the equipment as part of Phase 2 construction project that was awarded to Ghiloti Construction.

The reality of the computer malfunction on May 17, 2017 was a direct result of American Scale not developing a direct relationship with SoftPak Software Company, a relationship that would guarantee that the 2 kiosks would function seamlessly with the NROWS computer system and ultimately properly interface with the SoftPak software.

Our research into the events of May 17, 2017 discovered that the Devlin Road Recycling and Transfer Facility was the only site negatively impacted that are users of the SoftPak software systems. It was determined that the issue was with the 2 kiosks developing an ability to properly communicate with the NROWS computer system as a result of a software update that caused the site to not be able to accept credit card payments.

Once we discovered what was causing the system error the 2 kiosks were taken offline and NROWS obtained approval from the Authority to purchase and install SoftPak software compatible unattended kiosks from Fairbanks Scales. Fairbanks Scales has a long standing relationship with SoftPak Software and the facilities that had those systems in place on May 17, 2017 were not negatively impacted by the software update.

III. INTERNAL CONTROLS

A. Procedure: Same Time In and Out – We examined the Scale Transaction Reports for the quarter ended June 30, 2017 and noted transactions with the same “Time In” and “Time Out.”

Transaction that have the same “Time In” and “Time Out” occur whenever the system is down and hand tags are entered afterwards; or a ticket is modified such as a change in payment type, incorrect material or customer name, or for any reason where the customer changes their mind and the ticket is replaced with a new ticket.

III. INTERNAL CONTROLS (Continued)

A. Procedure: Same Time In and Out (Continued) - Same "Time In" and "Time Out" will occur for non-weighted items. We excluded tickets for non-weighted items (e.g. auto batteries, tires, freon 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 exceptions:

Exception A: We noted twenty-four tickets with the same "Time In" and "Time Out" entries for a cumulative amount of \$1,225. The Scale Transaction report did not indicate the cause of why the time was the same within the comment field nor did the information appear on the Daily Reconciliation Forms.

Recommendation A: We recommend that reasons for manual input of tickets be consistently noted in the comment field within Soft-Pak. If the scale house attendant fails to note the reasons within Soft-Pak, then the reason must be noted on the Daily Reconciliation Form. We have previously recommended that Northern Recycling create a list of codes that would cover most known issues to assist the weigh masters, hence making the process simpler and faster for the scale house staff. Northern recycling is working on creating such a list.

Response A: Northern Recycling has developed a set of codes that the scale house staff will use to note the reasons for any issues that arise with a scale ticket transaction. Northern Recycling will review the effectiveness of the use of the codes with the Napa County Auditor Controllers staff.

B. Procedure: Negative Tickets – We reviewed negative amounts from the Scale Transaction Reports for the quarter ended June 30, 2017. We understand from our inquiries that negative quantities may be manual input to void or adjust ticket charges as necessary, for example correcting the origin, vehicle, customer or other information input in error. The reasons for the negative amounts do appear on a monthly Void Report.

The data extracted for negative tickets for cash customers from the scale transaction report where the replacement ticket amounts were different from the original, was reviewed to determine if the replacement ticket contained the driver/customer signature.

Result B: During the quarter there were 71 tickets with negative amounts for a cumulative amount of \$25,120. All cash customer tickets with a different replacement ticket balances had a driver signature acknowledging the change in ticket amount. No exceptions were noted.

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EXHIBITS

Exhibit A

Napa-Vallejo Waste Management Authority Status of Accounts Receivable Over 90 Days Per Central Collections June 30, 2017

Account Name	Account Number	Total ¹	Collection Measure ²
Account 501 - General A/R			
Ashorn Construction	50522	\$ 501	Write Off approved 6/8/17
Buchanan Construction	60745	1,820	Write Off approved 6/8/17
Forbes & Sons	50593	263	Continue Collection Procedures
North Bay Construction Inc	50703	113	Write Off approved 6/8/17 Attempting to get client to make payments as agreed
On Time Maintenance Service	55260	727	
Recology Vallejo	50763	(247)	Overpayment from payment dated 3/21/17
Recology American Canyon	54053	(342)	Overpayment from payment dated 2/27/17
Unique Recycling	50761	550	Bankruptcy-Claim Filed
Subtotal 501 - General A/R		<u>3,385</u>	
Account 501B - No Pay A/R			
Gaither, Brian	62713	222	Continue Collection Procedures
Knosky, Erek	62718	72	Continue Collection Procedures
Singh, Parveen	62780	46	Continue Collection Procedures
Subtotal 501B - No Pay A/R		<u>340</u>	
Account 501C - NSF A/R			
Calmell Carlos A DBA C & C Plumbing	62308	231	Write Off approved 6/8/17
Grossi Paul E DBA North Bay Roofing	60494	180	Write Off approved 6/8/17
Golden Gate Roofing Service	55442	783	Write Off approved 6/8/17
Hernandez, Ruben	57142	678	Write Off approved 6/8/17
Morgan Peabody, Ltd.	55396	291	Write Off approved 6/8/17
Ray's Custom Iron Works	62781	199	Write Off approved 6/8/17
Subtotal 501C - NSF A/R		<u>2,362</u>	
Total Accounts Receivable Over 90 Days		<u>\$ 6,087</u>	

¹ Includes principal and any applicable fees/interest

² Collection measures provided by Central Collections on 9/5/2017

Exhibit B

Napa-Vallejo Waste Management Authority Comparison of Accounts Receivable Over 90 Days Quarters Ended September 30, 2015 through June 30, 2017

Table 1

Quarter Ended	501		501B & 501C		Total	
	# of Accounts	Amount	# of Accounts	Amount	# of Accounts	Amount
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
6/30/2016	4	4,225	8	2,474	12	6,699
9/30/2016	6	3,784	6	2,232	12	6,016
12/31/2016	6	3,746	6	2,232	12	5,978
3/31/2017	7	3,864	7	2,458	14	6,322
6/30/2017	8	3,385	9	2,702	17	6,087
Average	7	\$ 4,847	7	\$ 2,474	14	\$ 7,321

Historically, delinquent accounts are due to lack of payments on general accounts receivable accounts. The balance of uncollectible accounts remained relatively constant with a slight decrease of \$235.

Graph 1
Accounts Receivables Over 90 Days
Quarters Ended September 30, 2015 through June 30, 2017

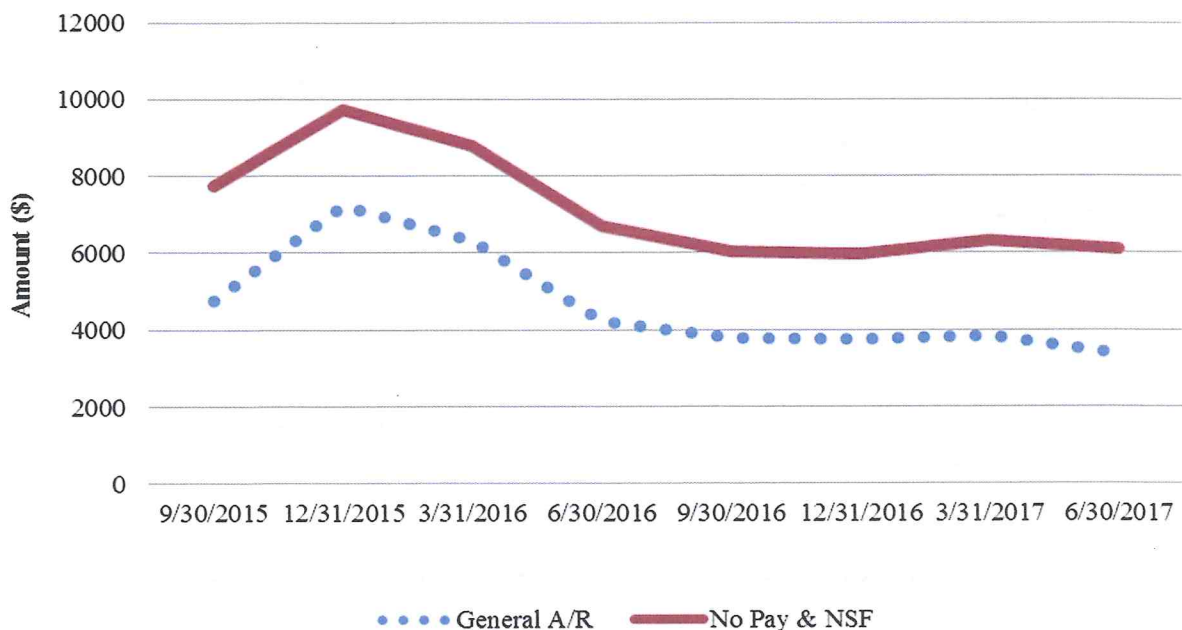


Exhibit C

Napa-Vallejo Waste Management Authority Analysis of General Ledger Activity April 1, 2017 through June 30, 2017

Table 2

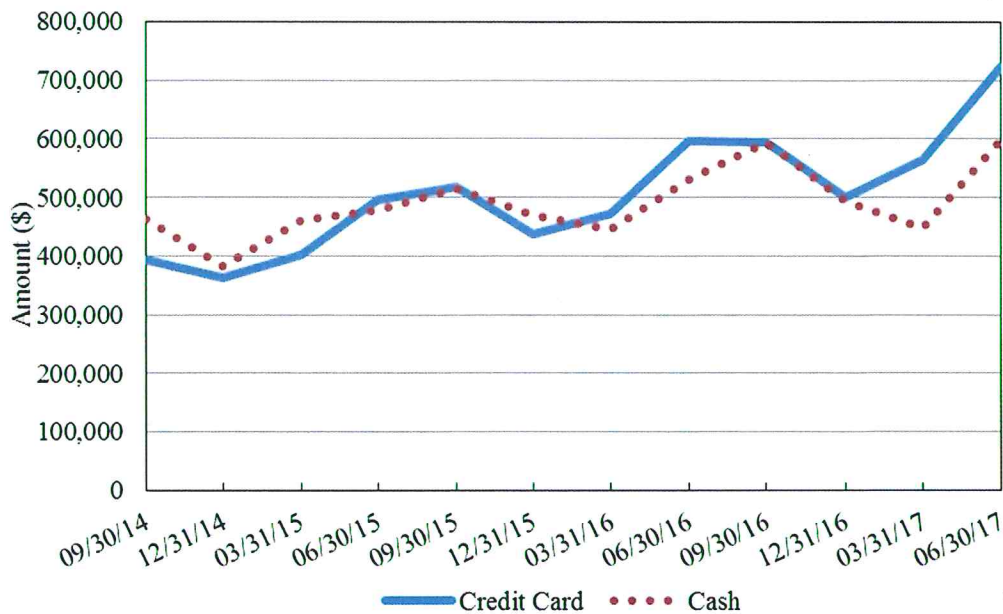
	General Ledger Total	Components				
		Visa / MC	Deposit Slip	Accounts Receivable	Bank Adjustments	Other
APRIL	\$ 883,747	\$ 202,732	\$ 173,453	\$ 507,633	\$ -	\$ (71)
MAY	1,787,202	254,860	218,230	1,315,454	-	(1,342)
JUNE	1,080,387	265,856	206,919	607,372	-	240
QUARTER	\$ 3,751,336	\$ 723,448	\$ 598,602	\$ 2,430,459	\$ -	\$ (1,173)

Total Bank Adjustments and Other \$ (1,173)

Explanation of Bank Adjustments & Other:	Instances	Amount
Correction - Deposit	6	\$ (177)
Returned Checks	4	1,350
	<u>10</u>	<u>\$ 1,173</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 September 30, 2014 through June 30, 2017**



Revenue collected at DRTS increased approximately \$151,000 for Cash/Checks and increased approximately \$160,000 for Visa/MC in the quarter ended June 30, 2017 compared to the quarter ended March 31, 2017.

Exhibit D

Napa-Vallejo Waste Management Authority Summary of Cash (Shortage) Overage For the Quarter Ended June 30, 2017

<u>Description</u>	<u>Quarter Ended Sep. 30, 2016</u>	<u>Quarter Ended Dec. 31, 2016</u>	<u>Quarter Ended Mar. 31, 2017</u>	<u>Quarter Ended Jun. 30, 2017</u>	<u>Year to Date</u>
Cash	\$ 598,080	\$ 501,995	\$ 447,835	\$ 587,494	\$ 2,135,404
VISA/MC	602,686	509,752	551,523	722,787	2,386,748
Subtotal	1,200,766	1,011,748	999,358	1,310,281	4,522,152
Deposits per Cash Report	1,200,728	1,012,678	998,953	1,310,247	4,522,606
Net Cash (Shortage) Overage	<u>\$ 38</u>	<u>\$ (930)</u>	<u>\$ 405</u>	<u>\$ 34</u>	<u>\$ (453)</u>
Breakdown of Net Cash (Shortage) Overage					
Other (Overage/Shortage/Short Pays/Errors)	\$ 38	\$ (930)	\$ (103)	\$ (196)	\$ (1,191)
Credit Card Refunds	-	-	508	230	738
	<u>\$ 38</u>	<u>\$ (930)</u>	<u>\$ 405</u>	<u>\$ 34</u>	<u>\$ (453)</u>

Refunds have not yet been deducted from the Authority's Bank Account. Until the refunds are processed against the correct account the Authority's General Ledger is overstated.

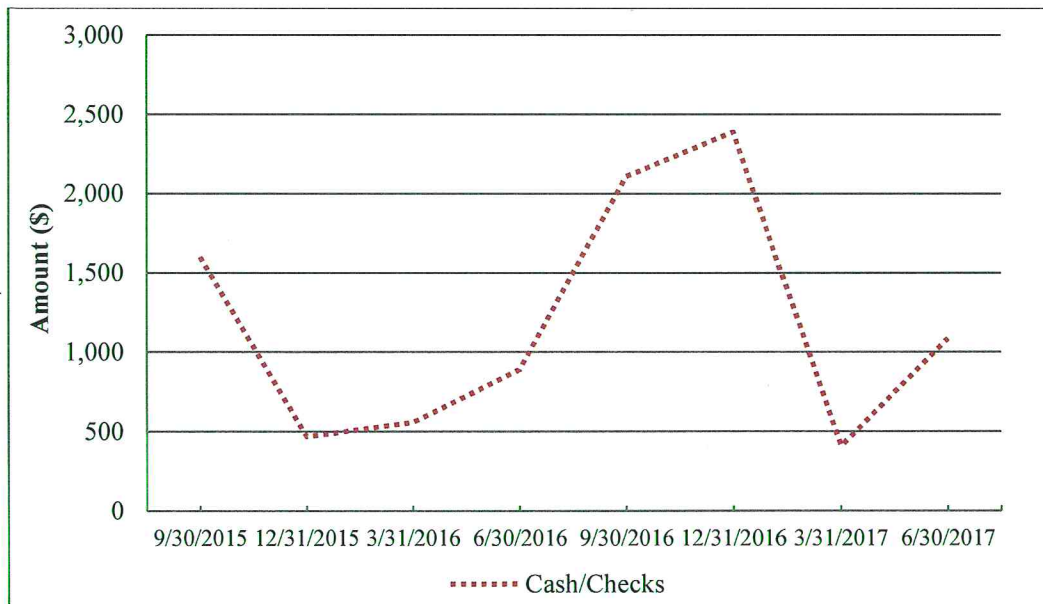
Exhibit E

Napa-Vallejo Waste Management Authority Summary of Tickets with Negative Amounts For Quarters Ended September 30, 2015 to June 30, 2017

Quarter Ended	Cash/Checks		A/R		Total	
	# of Tickets	Amount	# of Tickets	Amount	# of Tickets	Amount
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
6/30/2016	7	890	0	-	7	890
9/30/2016	17	2,109	73	27,540	90	29,650
12/31/2016	35	2,389	38	12,513	73	14,903
3/31/2017	5	408	104	46,694	109	47,102
6/30/2017	9	1,365	62	23,755	71	25,120
Average	13	\$ 1,336	26	\$ 8,715	38	\$ 10,050

The above table is a summary of negative tickets by transaction type, month, and totals for the quarter ended June 30, 2017 and also includes totals for the seven prior quarters, for comparison.

Graph 3a
Cash/Check Tickets with Negative Amounts
Quarters Ended September 30, 2015 through June 30, 2017

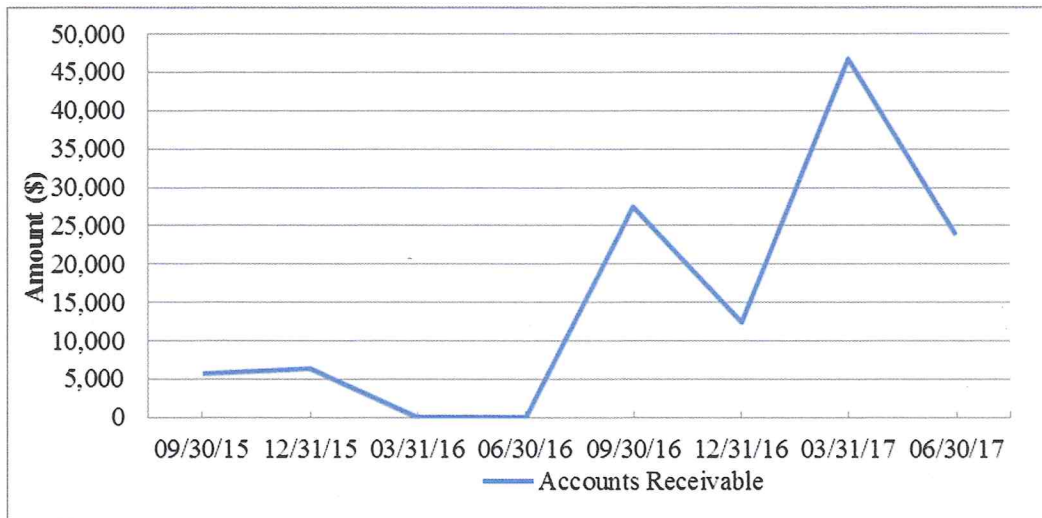


Due to the inherent risk of fraud associated with cash transactions, negative cash/check tickets have been separately shown above. Cash tickets with negative amounts had a slight increase during the quarter ended June 30, 2017.

**Exhibit E
(Continued)**

**Napa-Vallejo Waste Management Authority
Summary of Tickets with Negative Amounts
For Quarters ended September 30, 2015 to June 30, 2017**

**Graph 3b
Accounts Receivable (AR) Tickets with Negative Amounts
Quarters Ended September 30, 2015 through June 30, 2017**



Accounts Receivable tickets with negative amounts decreased during the quarter ended June 30, 2017.