



A Tradition of Stewardship
A Commitment to Service

Auditor-Controller

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Tracy A. Schulze
Auditor-Controller

REVIEW OF THE QUARTERS ENDED DECEMBER 31, 2017 AND MARCH 31, 2018

August 30, 2018

Board of Directors
Napa-Vallejo Waste Management Authority
Napa, California

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 quarters ended December 31, 2017 and March 31, 2018.

Objective

- 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:

- Perform walk-throughs and document in narrative form the process of incoming materials for the December quarter and perform testing of transactions for March quarter.
- Verify that internal controls are in place over the issuance of tickets.
- Verify that the revenue has been posted accurately and timely to the general ledger;
- Verify that tickets have been properly charged with the correct rate.

Summary of Results

No Exceptions

No exceptions were noted for the following procedures:

Revenue

- Analysis of General Ledger Activity – For the quarter ended December 31, 2017 and March 31, 2018, the revenues were \$4.4 and \$4.3 million respectively. Which include accounts receivable, cash, check and credit cards.

Internal Controls

- Hand Tag Analysis –For the quarter ended March 31, 2018, eight hand tags were issued during the quarter. There were five hand tags missing out of sequence because the pre-numbered hand tag receipt book had a misprint skipping the numerical sequence, we consider this an anomaly and not an error. We will continue to monitor the hand tags.
- Ticket rate testing – New rates are applied for franchise customers every October 1st. We verified the accuracy of the rates charged to customers by re-calculating the amounts of all transactions for the quarter ended March 31, 2018.
- Report Reliability – We reviewed 25 random tickets to determine if the report download in Excel agrees with the SoftPak system.

Summary of Results Exceptions

Accounts Receivable - Account Balances over 90 Days

Exception: For the Quarters ended December 31, 2017 and March 31, 2018, accounts with past due balances over 90 days did not exceed \$10,000. Two of the accounts with a cumulative balance of \$2,129.89 less fees and interest have been deemed uncollectible by the Treasurer-Tax Collector and will be brought to the Board at a later date for permission to write-off the accounts. However, the current protocol being followed has not been formally adopted by the Board of Directors.

Recommendation: We recommend that the written protocol for Uncollectible Accounts be presented to the Authority's Executive Director for review and approval.

Napa County Treasurer's Response: The Treasurer-Tax Collector agrees with this recommendation and has made the necessary revisions within the policy and presented them to the Executive Director of NVWMA.

Revenue

Exception: During the quarters we noted there was a net overage of \$83.39 for the December 2017 quarter and a shortage of \$211.18 for the March 2018 quarter after adjusting for the errors in refunding credit cards through January 2018. The shortages are primarily a result of employee error the authority experienced a high turnover of employees during the two quarters. See Exhibit 1 for a breakdown.

The Auditor-Controller's office will report the cumulative effect of the credit card refunds when reporting on the quarter ended June 30, 2018. When the credit card refunds are recognized, then a shortage will occur. Beginning in February 2018, refunds began to be processed through the Authority's bank account. Refunds for the cumulative amount of \$1,501.30 from March 2017 to January 2018 are still pending recognition as of March 31, 2018.

Recommendation: We recommend the following:

- We recommend the authority continue to monitor their employees and provide quality training to minimize errors. Also the successful implementation of the kiosk system for additional customers should help with reduction of errors.
- Notify the Authority and the Auditor-Controller when refunds from March 2017 to January 2018 have been corrected.

- Continue to provide refund information to the Treasurer-Tax Collector's Office as refunds are issued.

Northern's Response: Northern Recycling hired several new scale house staff in April of 2018. Northern Recycling engaged in an extensive search to find new recruits for the scale house position with and emphasis on selecting employees who are highly skilled at high paced office/service environment.

Northern will provide the Authority with a reconciliation of the refunds that have were processed from March 2017 to January of 2018 during the month of September 2018.

Northern Recycling staff will continue to notify the Authority and the Auditor Controller office each time a refund is processed. Northern Recycling will continue to work with the scale house staff to minimize transaction errors and voided tickets.

Napa County Treasurer's Response: The Treasurer-Tax Collector agrees with this recommendation.

Void Tickets

Exception: During the quarters ended December 31, 2017 and March 31, 2018, a total of 74 and 119 void tickets were noted respectively. An analysis of employee turnover rate and the frequency of void tickets for each month was performed to see if a positive correlation exists between the two factors. See Exhibit 2 for the results. It was determined that employee turnover did not have a direct correlation to the number of voids. Further analysis will be performed in future quarters.

There were 3 cash tickets in the March 2018 quarter, which had replacement ticket amounts lower than the original void, it was noted that one ticket did not have driver signature on the replacement ticket.

Recommendation: We recommend that the 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: Northern Recycling will continue to instruct all scale house staff to have drivers sign any replacement ticket. As we stated above, Northern has taken steps to hire long term employees who demonstrate the skills to work in a high paced environment that also demonstrate a high level of competence for the entire transaction process.

Conclusion

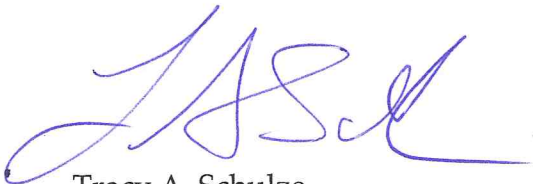
The Authority should continue to provide training to employees and explore avenues to retain good employees. Currently the kiosk system is only being used for outbound Tiger Lines trucks we suggest the authority continue to work with the kiosk system and eventually implementing it for most customers, this will help reduce the reliance on scale house operators especially in times of high turnover.

Overall we believe the percentage of errors given the volume of transactions and revenue is minimal hence evident of good internal controls that are in place.

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.

Thank you,



Tracy A. Schulze
Auditor-Controller

cc: Richard F. Luthy, Jr.
Executive Director

Karen Dotson
Internal Audit Manager

Napa-Vallejo Waste Management Authority
Summary of Cash (Shortage) Overage
For the Quarters Ended December 31, 2017 and March 31, 2018

EXHIBIT 1

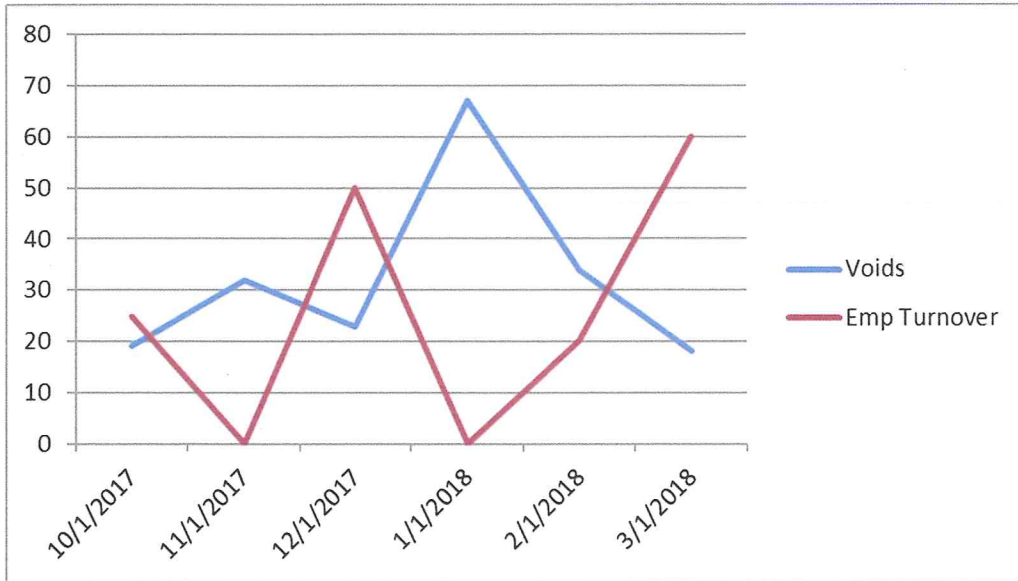
<u>Description</u>	<u>Quarter Ended Sep. 30, 2017</u>	<u>Quarter Ended Dec. 31, 2017</u>	<u>Quarter Ended Mar. 31, 2018</u>	<u>Year to Date</u>
<u>Authority's General Ledger</u>				
Cash	\$ 602,512.64	\$ 533,753.06	\$ 510,829.36	\$ 1,647,095.06
VISA/MC	819,737.22	732,975.84	729,259.80	2,281,972.86
Subtotal	<u>1,422,249.86</u>	<u>1,266,728.90</u>	<u>1,240,089.16</u>	<u>3,929,067.92</u>
<u>Northern's Records</u>				
Deposits per Northern's Cash Report	1,421,762.84	1,267,074.22	1,240,300.34	3,929,137.40
CC Void not in Soft-Pak - error		(581.49)		
Refund error		167.56		
Subtotal	<u>1,421,762.84</u>	<u>1,266,660.29</u>	<u>1,240,300.34</u>	<u>3,929,137.40</u>
Cash (Shortage) Overage	487.02	68.61	(211.18)	344.45
Bank Adjustments	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Cash (Shortage) Overage	487.02	68.61	(211.18)	344.45
Credit Card Refund Error	<u>(611.00)</u>	<u>(152.00)</u>	<u>-</u>	<u>(763.00)</u>
Net Cash (Shortage) Overage After CC Adjustment	<u>\$ (123.98)</u>	<u>\$ (83.39)</u>	<u>\$ (211.18)</u>	<u>\$ (418.55)</u>

Accumulative Credit Card Refund Error

<u>Prior Years</u>	<u>Current Year</u>	<u>Accum For CC</u>
<u>\$ 738.30</u>	<u>\$ 763.00</u>	<u>\$ 1,501.30</u>

Napa-Vallejo Waste Management Authority
Employee Turnover Analysis
For the Quarters Ended December 31, 2017 and March 31, 2018

EXHIBIT 2



Month	No. of Voids	Emp turnover
10/31/2017	19	25 %
11/30/2017	32	0 %
12/31/2017	23	50 %
1/31/2018	67	0 %
2/28/2018	34	20 %
3/31/2018	18	60 %