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Auditor-Controller

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## ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON PROCEDURES (SUMMARY)

Board of Directors  
Napa-Vallejo Waste Management Authority  
1195 Third Street, Room 101  
Napa, CA 94559

We have performed the procedures enumerated in the engagement letter, which was agreed to by the Manager of Napa-Vallejo Waste Management Authority, hereafter known as NVWMA, on behalf of the Board and Manager of the Devlin Road Transfer Station, hereafter known as DRTS. These procedures are solely to assist the designated parties with respect to the documents obtained in Step I of the Agreed-Upon Procedures as they pertain to the Revenues, Accounts Receivable and Northern Recycling Operations & Waste Services, LLC, hereafter known as Northern, for the quarter ended June 30, 2010. This engagement to apply agreed-upon procedures was performed in accordance with the standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the specified users of the report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose. Responses to the findings identified in our report have been provided by Northern and Treasurer's Central Collection staff. We did not audit these responses and, accordingly, we express no opinion on them. A partial summary of our report dated August 27, 2010, as it pertains to the exhibits and the exceptions, is as follows:

### Summary of Exhibits

#### 1. Summary of Accounts Receivable by Account Type (fees and interest not included):

Account Type	September 30	December 31 *	March 31	June 30
501	\$ 85,946.78	\$ 603,846.05	\$ 78,407.68	\$ 109,066.36
500B	261.32	261.32	-	-
500C & 501C	4,961.16	5,689.64	5,096.02	5,153.54
Subtotal	91,169.26	609,797.01	83,503.70	114,219.90
Lemon Street Hauls	-	-	-	-
Total FY 2009/10	\$ 91,169.26	\$ 609,797.01	\$ 83,503.70	\$ 114,219.90
Accounts Receivable	\$ 80,228.85	\$ 70,868.26	\$ 98,002.52	\$ 122,378.04
Lemon Street Hauls	-	-	-	-
Total FY 2008/09	\$ 80,228.85	\$ 70,868.26	\$ 98,002.52	\$ 122,378.04

\* Restated

2. Accounts Receivable over 90 days by Account (fees and interest not included):

Account Type	September 30	December 31 *	March 31	June 30
501	\$ 10,881.25	\$ 18,492.08	\$ 12,836.33	\$ 5,250.03
501B	248.62	261.32	-	-
500C & 501C	4,482.54	4,981.16	4,621.66	5,013.82
Total FY 2009/10	\$ <u>15,612.41</u>	\$ <u>23,734.56</u>	\$ <u>17,457.99</u>	\$ <u>10,263.85</u>
Total FY 2008/09	\$ <u>10,025.36</u>	\$ <u>10,116.72</u>	\$ <u>10,992.06</u>	\$ <u>12,740.50</u>

\* Restated

3. Revenue Activity per the "General Ledger Transactions"

Deposit Type	Year-to-Date	September 30	December 31	March 31	June 30
Cash	\$ 1,883,249.26	\$ 533,260.60	\$ 439,983.28	\$ 406,499.64	\$ 503,505.74
Credit Card	832,729.41	221,154.52	195,424.39	191,327.08	224,823.42
Accts Receivable	8,605,407.67	2,277,656.08	1,677,337.90	2,546,068.20	2,104,345.49
Lemon Street	-	-	-	-	-
Bank Adj & Other	(3,377.18)	1,208.95	(1,370.29)	(1,599.19)	(1,616.65)
Total FY 2009/10	\$ <u>11,318,009.16</u>	\$ <u>3,033,280.15</u>	\$ <u>2,311,375.28</u>	\$ <u>3,142,295.73</u>	\$ <u>2,831,058.00</u>
Total FY 2008/09	\$ <u>12,001,310.26</u>	\$ <u>3,505,283.76</u>	\$ <u>3,012,426.57</u>	\$ <u>2,599,124.79</u>	\$ <u>2,884,475.14</u>

4. Cash Overages (Shortages) including Bank Adjustments and "No Pay" Activity:

For the Quarter Ended	FY 2009/10	FY 2008/09
September 30	\$ (395.60)	\$ 184.65
December 31	226.31	(38.52)
March 31	(635.86)	(61.10)
June 30	<u>(82.84)</u>	<u>(580.66)</u>
Year-to-Date	\$ <u>(887.99)</u>	\$ <u>(495.63)</u>

## Accounts Receivable (AR)

**Procedure:** We compared the “Accounts Receivable by Name” reports as of June 30, 2010 to the activity in each client’s account from the “Invoice Register-Summary by Customer Account Name” and “Transaction Register”. We summarized the “Accounts Receivable by Name” report as of June 30, 2010 and adjusted the report by the exceptions noted below. The following exceptions arose during the quarter ended June 30, 2010.

**Exception AR1:** When reviewing the accounts receivable for the quarter ended June 30, 2010, we noted one (1) payment of \$143.33 received from Account #56991 on May 18, 2010, was not reflected in the customer’s account during the month of June 2010. In addition, for the month ended May 31, 2010, the balance for Account #56991 per the “Accounts Receivable by Name” report was \$0.00. The balance per the “Transaction Register” was (\$143.33). Per the Treasurer’s Office, the May 31, 2010 balance should have been (\$143.33). The June 30<sup>th</sup> balance, per both reports, was \$456.96, which did not reflect the credit of \$143.33. The balance at June 30, 2010 should be \$313.63.

**Recommendation AR1:** We recommend that Central Collections verify all entries within the Transaction Register accounts agree with the Accounts Receivable by Name report, investigate any differences and verify that all payments have been posted to the invoices in a timely manner.

**Treasurer’s Response AR1:** This was a system posting problem with our vendor (HMS) and their AR system. Our IT department is currently working with the vendor on an upgrade to the system which should alleviate this problem.

**Exception AR2:** When reviewing the accounts receivable for the quarter ended June 30, 2010, we noted the balance for Account #54051 was adjusted twice. In March 2010, Account 54051 was billed \$173.40 in error for a February 2010 ticket that should have been billed to account #50558. In April 2010, a correcting adjustment was made to Account #54051 by Central Collections to credit the balance \$173.40. On the April 2010 invoice to Account #54051 from Northern, the balance due was reduced by the original February ticket, effectively reducing the account receivable balance activity transferred for the month of March to Central Collections by \$173.40. The effect of these transactions has resulted in understating the accounts receivable balance by \$173.40 on the Accounts Receivable records maintained by Central Collections.

Similar misstatements occurred for four (4) additional accounts, accounts #50558, #54053, #50763, and #56658. Northern made adjustments to the May activity for errors pertaining to April. Central Collections had already made the adjustments to the account activity maintained in HMS. The activity for May posted in June by Central Collections was understated by \$1,742.42. Therefore the accounts receivable balances for these four (4) accounts were understated as of June 30, 2010.

**Recommendation AR2:** When corrections need to be made for tickets from prior months, a “Billing Adjustment Form” should be completed and sent to the Napa County Treasurer/Central Collections along with the incorrect tickets attached as backup. If corrections for prior months are made by issuing a corrected ticket and voiding the incorrect ticket in subsequent months, double adjustments may be made in error and the activity for the current month is incorrect. Only one method of correcting prior month corrections should be used.

**Treasurer’s Response AR2:** When I receive a Billing Adjustment Form then I do the adjustments for the tickets at that time. This is the procedure that will be used for prior month adjustments.

**Northern's Response AR2:** A billing adjustment will be used and a copy of the ticket will be attached and sent to Central Collections. An auditor can verify this procedure and paperwork when he/she visits the transfer station in the future.

**Exception AR3:** When reviewing the accounts receivable for the quarter ended June 30, 2010, we noted one (1) instance where the activity reported in the "Transaction Register" for account #50763 did not sum to the total due reported on the "Transaction Register." A receivable balance totaling \$673.20 was manually calculated based on the June activity. The June 30<sup>th</sup> balance reported on the "Transaction Register" was \$0.00. The "Transaction Register" had excluded a transaction from the month's activity. An adjusting credit of \$673.20 on June 30, 2010 was not reported on the "Transaction Register." Although the adjusting credit was excluded from the transaction register, the total balance still reflected the month's activity.

**Recommendation AR3:** We recommend that Central Collections work with HMS to identify and resolve any glitches in the processing and reporting of transactions.

**Treasurer's Response AR3:** See response to **Exception AR1**.

**Procedure:** We compared the amounts charged based on the "Invoice Register-Summary by Customer Account Name," generated from the "Scale Transaction Report," to the "Transaction Register". As a result of performing this procedure we noted the following exception:

**Exception AR4:** When reviewing Exception AR.2, we noted one (1) correction for a ticket to Account #54053 due to the wrong tare weight being used. Based on our correspondence with Transfer Station staff, tare weights are electronically stored for Collection Contractors' vehicles (e.g. American Canyon Recycling). Since the same Vehicle ID was used for both the incorrect and corrected ticket, the tare weights should have been the same. This was not the case due to the vehicle having a temporary attachment that will void the tare weight due to the truck being heavier with the attachment.

**Recommendation AR4:** We recommend that for Collection Contractors' vehicles that often use an attachment, the Transfer Station should have two (2) separate Vehicle IDs for the vehicle to denote it with or without the attachment. For example, the Vehicle ID for the vehicle related to Exception AR4 is AC11190. We recommend that when there is an attachment the Vehicle ID would be AC11190A and when there is no attachment the Vehicle ID would be AC11190. The addition of "A" at the end of the Vehicle ID would denote an attachment. It may also be beneficial to store the tare weight of the vehicle with the attachment. However, we understand that it may not be practical to store the tare weights if various attachments can be attached to the vehicle.

**Northern's Response AR4:** Scale house staff and management will explore some different options for using different tare weights for this particular truck that sometimes carries this large basket attachment. In the mean time we will continue to have this truck weigh both full and empty when the attachment is being used.

### **Revenues (R)**

**Procedure:** We recalculated the charges on the "Scale Transaction Report" for 200 randomly selected transactions from each of the monthly reports for the quarter ended June 30, 2010.

**Exception R1:** (Updated Finding) During the examination of the Scale Transaction reports for the quarter ended June 30, 2010, we noted fifty-eight (58) tickets with negative quantities, resulting in credits to cash and accounts receivable customer accounts of \$13,793.86:

Quarter Ended	Cash Customers		Accounts Receivable Customers	
	Negative Quantities	Credits	Negative Quantities	Credits
9/30/2009	25	\$ 1,468.52	855	\$ 309,862.14
12/31/2009	36	3,236.88	34	13,834.66
3/31/2010	28	2,365.40	82	20,197.34
6/30/2010	20	2,397.46	38	11,396.40
Year to date	109	\$ 9,468.26	1009	\$ 355,290.54
9/30/2008	37	\$ 3,571.62	68	\$ 18,284.26
12/31/2008	30	1,959.38	114	27,520.25
3/31/2009	27	2,220.98	62	15,811.28
6/30/2009	21	1,590.86	223	75,484.70
FY 2008/2009	115	\$ 9,342.84	467	\$ 137,100.49

**Exception R1 (Continued): (Updated Finding)** 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. In review of the Void Report, no exceptions were found.

We also reviewed the applicable manual end of day reconciliation forms for all tickets with negative quantities. Reasons for the negative amounts were not noted on the end of day reconciliation forms in one (1) instance out of fifty-eight (58) tickets with negative quantities.

**Recommendation R1:** We recommend that scale house staff continue to note reasons for any negative amounts in the end of day reconciliation form. The reasons should include the original ticket number and the replacement ticket number. We also recommend that the Office Manager keep a log of all ticket adjustments that she does. The implementation of the monthly void reports have been useful for review purposes due to the comment field (described in the report as Notes) which provides a description for each ticket with a negative quantity. At this time, DRTS is working to incorporate the comment field into the report used for all Inbound, Outbound and Voided tickets known as the "Scale Transactions" Report.

**Northern's Response R1:** Scale house staff that failed to note the reason for the negative amount has been given a verbal warning and reminded to be sure to list any voided tickets on the daily reconciliation form and the replacement ticket as well as the reason for the void. The soft ware provider is still working on including the comment field in the "Scale Transaction" report.

**Exception R2: (Updated Finding)** We understand that gaps in the ticket numbers within a month will appear when corrections for billing purposes are made after month end by posting replacement tickets. The system posts the replacement tickets with the date of the original ticket, but uses the next available ticket number at the time the correction is made, creating an appearance of gaps in the sequence. For the quarter ended June 30, 2010, it was noted that there were seven (7) instances when ticket numbers were issued out of sequence. We noted that all seven (7) instances were tickets replacing voids and the ticket date was the date of the original ticket. We also noted one (1) ticket missing from the sequence of tickets from the "Scale

Transaction” Reports. The missing ticket was reported on the May “Inbound Report” but not the “Scale Transaction” report because it was an incomplete ticket.

**Recommendation R2:** We recommend that the “Scale Transaction” reports be all inclusive. It should report all tickets created in the month, including voided and incomplete tickets. It would also be beneficial if the date the replacement ticket was entered into the system was indicated in the comment field. This would help in verifying if the tickets have been issued in sequence.

**Northern’s Response R2:** The “Scale Transaction report has a date column which is column (N).

**Exception R3:** (Updated Finding) During the examination of the “Scale Transaction” reports for the quarter ended June 30, 2010, we noted ninety-seven (97) tickets with the same “Time In and Time Out” entries where no apparent reason was noted in the “Scale Transaction” report or the reconciliation forms. Tickets have the same “Time In and Time Out” when staff has input the tickets manually. We have excluded tickets for non-weighted items (e.g. auto batteries, tires, etc.), tickets for Collection Contractor’s vehicles with tare weights coded into the system in accordance with the Northern contract, and tickets where the comment indicated that the ticket was entered manually to correct a previous ticket.

Quarter Ended	Cash Customers	Valley Recycling	Other A/R Customers
9/30/2009	43	8	45
12/31/2009	39	-	101
3/31/2010	9	1	105
6/30/2010	17	0	80
Year to date	108	9	331
9/30/2008	429	649	178
12/31/2008	266	768	188
3/31/2009	89	791	37
6/30/2009	141	302	44
Year to date 2008/09	925	2,510	447

There were zero (0) tickets for Valley Recycling. Manual tickets may be required if the system is down. We were provided with dates the system was down which were also noted on the Daily Reconciliation form.

**Recommendation R3:** A meeting was held November 3, 2009 with representatives of Northern Recycling & Waste Services, LLC to discuss tickets with the same “Time In and Time Out”. It was recommended that data capture procedures include reasons for the input of manual tickets where the reason is not apparent from the type of material or vehicle tare weight as described above. This information will provide assurance that manual input of weights and calculation of charges is restricted to appropriate and essential circumstances. This control has been implemented for the quarter ended June 30, 2010.

We noted that seventy-seven (77) of the ninety-seven (97) tickets were to accounts #50685, #50765, and #50764. These accounts are not Collection Contractors. DRTS stores tare weights for these customers. The contract between Northern and NVWMA currently only provides for

the storing of tare weights for Collection Contractors' vehicles. We recommend that the contract be amended to allow the storing of tare weights for vehicles of other Approved Users.

**Northern's Response R3:** Northern will discuss staff recommendation for use of tare weights for the customers in question with Rich Luthy the Manager for NVWMA and decide how to proceed.

**Procedure:** We compared payments made to the collection agency reflected on the "Transaction Register" to the "General Ledger (G/L) Detail Transactions" reports. As a result of this procedure we noted the following exception:

**Exception R4:** During the examination of the payments made to the collection agency, we noted one (1) instance where the amount per the G/L did not agree with the amount reported by HMS. The amount posted to the G/L on April 22, 2010 was short \$0.20. This was corrected on May 4, 2010.

**Recommendation R4:** We recommend that Central Collections verify all deposits to the deposit batch totals and investigate any differences.

**Treasurer's Response R4:** We will implement the recommendation.

**Procedure:** We completed a comparison of the dollars (Cash/Check/Credit Card) per the "Cash Receipt Journal – Summary by Date" to the dollars per the deposit information for the quarter ended June 30, 2010 and year-to-date.

**Exception R5:** (Updated Finding) Eleven (11) exceptions, resulting in a net cash shortage of \$84.84 inclusive of bank adjustments, were noted for the quarter ended June 30, 2010. Of the eleven (11) exceptions, we noted ten (10) instances where cash variances were not detected by the end of day cash reconciliation completed by DRTS staff.

**Recommendation R5:** A meeting was held November 3, 2009 with representatives of Northern Recycling & Waste Services, LLC to discuss controls over cash, reconciliation procedures and reporting of shortages. Some controls have been implemented as a result of this meeting. An analysis of the quarter ending June 30, 2010 was performed to determine the status of controls that had not been implemented in the prior quarter. Specifically the following controls were examined:

- Cash Shortages/Overages are to be indicated on the Daily Reconciliation – 91% of the cash shortages/overages for the quarter ending June 30, 2010 were not indicated on the Daily Reconciliation.
- "No Pays" are to be indicated on the Daily Reconciliation – There were no "No Pays" for the quarter. Therefore, we cannot determine if this control has been implemented.

Other items discussed during the meeting included:

- Reason for voids entered in comment box with ticket number being replaced within the system or on the Daily Reconciliation – This control has been implemented on the void report. DRTS is working to incorporate the comment field into the Scale Transaction report.

**Northern's Response R5:** Scale house staff has been instructed to run an adding machine tape with each deposit. The adding machine tape is attached to the scale house person's daily reconciliation and given to the Office Manger who reviews and verifies all the deposits and daily reconciliation prior to scanning the info to Central Collections.

**Procedure:** We completed a comparison of the credit card payments per the “Scale Transaction” report to the credit card payments per the deposit information for the quarter ended June 30, 2010.

**Exception R6:** One (1) exception was noted out of the ninety (90) summary charge slips for the quarter ended June 30, 2010. The one (1) exception was not noted on the Daily Reconciliation. The total credit card charges posted to the General Ledger were \$2.28 less than Northern Recycling & Waste Services, LLC records for the quarter ended June 30, 2010. DRTS processed \$226,339.62 in total credit card charges for the quarter ended June 30, 2010.

**Recommendation R6:** Continued effort should be made by scale house staff to verify payment type before closing a ticket. However, should a customer change the payment type after the ticket is closed then the scale house staff should indicate the change at the bottom of the Daily Reconciliation form.

**Northern’s Response R6:** Scale house staff has been instructed to note any payment changes on the Daily Reconciliation form. An auditor can verify this is being done when he/she visits the transfer station in the future.

**Procedure:** We compared the bank adjustments in Exhibit B to the amounts posted in the “General Ledger Transactions” report.

**Exception R7:** For the quarter ended June 30, 2010, we noted five (5) bank adjustments posted to the General Ledger resulting in a net increase of \$920.00.

**Recommendation R7:** We recommend that scale house staff perform a self-review of the deposit slips they prepare by double-checking with a calculator or adding machine the amounts listed on the slip then subtracting the total previously calculated. The amount should net to zero. Then another employee (reviewer) should verify the amount of the cash to the amount listed on the deposit slips while in the presence of the employee preparing the deposit slip. If the cash agrees with the amount on the deposit slip, then the reviewer should initial next to the cash amount prior to sealing the deposit in the armor car carrier bag.

**Northern’s Response R7:** Scale house staff is required to attach an adding machine tape with their Daily reconciliation paperwork. Scale house staff is also responsible for checking each others addition and work and initial that they have performed this check. Office Manager reviews and verifies all scale house staff deposits and reconciliations prior to sending the information to Central Collections.

**Procedure:** We compared the “General Ledger Detail Transactions” report to the information obtained in the detailed break down of General Ledger Activity for the quarter ended June 30, 2010. As a result of this procedure we noted the following exception:

**Exception R8:** During our review of the General Ledger Activity for the quarter ended June 30, 2010, we noted four (4) exceptions for an aggregate amount of \$7,326.88 where the deposit information was not faxed timely to Central Collections. Standard time for deposit transmittal is two (2) days.

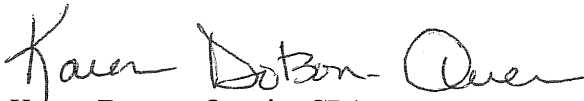
**Recommendation R8:** We recommend that the deposit information is transmitted in a timely fashion, within one (1) to two (2) business days. This allows Central Collections to record the deposit in a timely manner, thus allowing the Authority to generate additional interest income on the deposits recognized in the General Ledger.



**Northern's Response R8:** The General Manager will send the deposit information to Central Collections when the Office Manger is out of the office for the day.

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 might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Board of Directors and the managers of the Napa-Vallejo Waste Management Authority and Devlin Road Transfer Station and is not intended to be used by anyone other than these specified parties.



Karen Dotson-Querin, CPA  
Internal Audit Manager  
August 27, 2010