



A Tradition of Stewardship
A Commitment to Service

Napa-Vallejo Waste Management Authority
Internal Audit Report
For the Quarter Ended September 30, 2013

Issued by
AUDITOR-CONTROLLER
Internal Audit Section
February 24, 2014

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	9
Exhibit B – Analysis of General Ledger Activity	10
Exhibit C – Summary of Cash (Shortage) Overage	11
Exhibit D – Additional Information – Tickets with Negative Amounts.....	12
Exhibit E – Comparison of Accounts Receivable Over 90 Days	14



A Tradition of Stewardship
A Commitment to Service

Auditor-Controller

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Tracy A. Schulze
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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 operated by Northern Recycling Operations & Waste Services, LLC (Northern), for the quarter ended September 30, 2013.

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 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;
- 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; 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, 2013, we noted the following results and exceptions:

Report Section

- I.** **Results:** Account Balances over 90 Days – As of September 30, 2013, eighteen (18) accounts had balances over 90 days past due for an amount of \$7,038.
- II.A** **Results:** Analysis of General Ledger Activity – See Exhibit B on page 10 for the results of the analysis.
- II.B** **Exception:** Cash Shortage – Seventeen (17) customers were not charged due to a computer software system malfunction for an aggregate amount of \$726. In addition, a \$29 input error increased the quarterly shortage to \$755. See Exhibit C on page 11 for the detail breakdown.
- III.A** **Exception:** Same Time In and Out – During the quarter there were six (6) tickets with the same “Time In” and “Time Out” that were not Collection Contractors or public agencies for a cumulative amount of \$350.
- III.B** **Results:** Negative Tickets – During the quarter there were fifty-two (52) tickets with negative amounts for a cumulative amount of \$12,354. Of the fifty-two (52) tickets there were seventeen (17) instances where the comment was not noted on the Daily Reconciliation Form.
- III.C** **Exception:** Ticket Rate Testing – During the quarter there were ten (10) tickets that were not charged the appropriate rate resulting in an undercharge of \$32.

Report Section (Continued)

III.D Exception: Out of Sequence/Missing Tickets – During the quarter, there were sixty-one (61) tickets issued out of sequence and seventy-eight (78) missing tickets on the Scale Transaction Report.

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

Conclusion

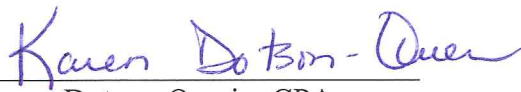
We determined that Northern Recycling Operations & Waste Services, LLC currently owes Napa-Vallejo Waste Management Authority \$755 for cash shortages occurring during the period of July 1, 2013 to September 30, 2013. At the end of the fiscal year, ending June 30, 2014, the cumulative shortage is due 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 24, 2014

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RESULTS AND EXCEPTIONS

**NAPA-VALLEJO WASTE MANAGEMENT AUTHORITY
FOR THE QUARTER ENDED SEPTEMBER 30, 2013**

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 June.

Results: Account Balances over 90 Days – All accounts over 90 days and their status have been presented in Exhibit A on page 9 for an aggregate amount of \$7,038, including fees and interest, which is a decrease of \$1,154 compared to the prior quarter balance of \$8,192. In addition, a detailed listing of the “Status of Accounts Receivable over 90 Days” is also included in Exhibit A. Also, historical data and trends of the accounts receivable balances over 90 days is presented in Exhibit E on page 14.

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, 2013. We also verified the timeliness of transmitting the deposit information and recording the revenue in the proper account.

Results A: Analysis of General Ledger Activity - We summarized our analysis in Exhibit B on page 10 (“Analysis of General Ledger Activity”). Exhibit B also includes a graph depicting the quarterly revenue collected by DRTS from cash and credit card transactions over the last twelve quarters. There were no exceptions.

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.

Exception B: Cash Shortage - A shortage for the aggregate amount of \$754.59, inclusive of bank adjustments, is noted below for the quarter ended September 30, 2013. We have summarized our comparison and results in Exhibit C on page 11 (“Summary of Cash (Shortage) Overage”).

- A shortage of \$725.59 on August 2, 2013 was due to seventeen (17) customers not charged as a result of a malfunction when a new credit card software system was installed. Northern staff reported the shortage to the Devlin Road Transfer Station’s (DRTS) Manager, Authority’s Executive Director and County Staff.
- A shortage of \$29.00 was a result of an input error. A charge for \$32 (minimum amount for clean dirt) was incorrectly entered as \$3 credit card payment. Scale house staff did not indicate the shortage on the Daily Reconciliation Form.

**NAPA-VALLEJO WASTE MANAGEMENT AUTHORITY
FOR THE QUARTER ENDED SEPTEMBER 30, 2013**

RESULTS AND EXCEPTIONS

II. REVENUE (Continued)

Recommendation B: We understand that there were connectivity issues when the new software system was implemented during the quarter ended September 30, 2013. We verified that Northern has not yet submitted payment to cover the amount of \$725.59, which can either be completed upon the receipt of a letter from the Executive Director of NVWMA for the quarter ended September 30, 2013 or at year end June 30, 2014.

We recommend that scale house staff exercise greater care when processing payments. The amount of the charge should be double checked before the transaction is completed. All Cash Shortages/Overages are required to be indicated on the Daily Reconciliation Forms by scale house staff.

Northern's Response B: Northern Recycling had changed the hardware for processing credit card payments during the quarter. When the system was changed, for some unknown reason, \$725.59 worth of credit card charges showed in the system that the charges were completed but at the end of the day reconciliation and credit card printout indicated that not all of the charges went through. Please have Napa Vallejo Waste Management Authority prepare an invoice for Northern Recycling to pay for the missing \$725.59 credit card charges for the quarter ending September 30, 2013.

III. INTERNAL CONTROLS

Procedure: We examined the Scale Transaction Reports for the quarter ended September 30, 2013 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 six (6) tickets with the same "Time In" and "Time Out" entries for an aggregate amount of \$350 for inbound materials. Five (5) of the six (6) tickets with the same time entries were for cash customers. One (1) ticket was for a non-franchise account. The tickets occurred throughout the quarter ending September 30, 2013.

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 when the reason for manual entry is not apparent.

**NAPA-VALLEJO WASTE MANAGEMENT AUTHORITY
FOR THE QUARTER ENDED SEPTEMBER 30, 2013**

RESULTS AND EXCEPTIONS

III. INTERNAL CONTROLS (Continued)

Northern's Response A: The following tickets were hand tags 637770, 643369, 643371 643433. The scale house personnel noted the hand tag numbers on the replacement ticket but did not note the information on the end of day reconciliation or on the comments section. Ticket # 657963 was a manual ticket that paid for two vehicles. Ticket 659681 was a replacement ticket for ticket number 659490. The scale house staff has been reminded to use the reconciliation form to note any reason for a same time in and out ticket and to use the software system to make comments on each ticket if needed.

Procedure B: We reviewed negative amounts from the Scale Transaction Reports for the quarter ended September 30, 2013. 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.

Exception B: Negative Tickets - During the quarter there were fifty-two (52) tickets with negative amounts for a cumulative amount of \$12,354. Of the fifty-two (52) tickets there were seventeen (17) instances where the comment was not noted on the Daily Reconciliation Form. See Exhibit D on page 12 for a summary of the negative tickets for the quarter ended September 30, 2013.

Exhibit D also includes graphs depicting the quarterly dollar value of negative tickets for quarters ended December 31, 2011 through September 30, 2013.

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 and the replacement ticket number. 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.

Northern's Response B: The seventeen (17) tickets were not noted on the daily reconciliation form as the procedure calls for. Sixteen (16) of the tickets were noted on the voided ticket report but they should have also been noted on the daily reconciliation report.

Procedure C: We analyzed every ticket on the Scale Transaction Report and determined if:

1. Tonnage was charged at the appropriate rate.
2. The minimum vehicle charge was applied.
3. Tare amounts were included on the Scale Transaction Report for each ticket.

The appropriate rate and minimum vehicle charge are based on the current fees in Resolution #2011-08 increased annually by \$1, which was adopted by NVWMA Board of Directors on June 2, 2011.

Exception C: Incorrect Rate Charged - As a result of this procedure, we noted ten (10) instances where the cash customer was charged incorrectly resulting in an undercharge of \$32.25.

**NAPA-VALLEJO WASTE MANAGEMENT AUTHORITY
FOR THE QUARTER ENDED SEPTEMBER 30, 2013**

RESULTS AND EXCEPTIONS

III. INTERNAL CONTROLS (Continued)

Recommendation C: It is recommended that Northern verify that the Soft-Pak system is programmed to charge all customers at the correct rates. Northern should submit a billing adjustment to Central Collections to correct the affected accounts receivable customers.

Northern's Response C: Northern Recycling made the annual rate changes in the system and the rate for C&D roofing did not convert properly. The 10 tickets in question were under charged for a total of \$32.25. Napa Vallejo Waste Management Authority will need to prepare an invoice to Northern for the \$32.25.

Procedure D: We verified if Northern accounted for all tickets issued in the quarter ended September 30, 2013. We also tested the sequence of the tickets issued.

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 the appearance of gaps in sequence.

Gaps in sequential numbering may also occur when manual tickets, which are issued when the system goes down, are entered into the Soft-Pak system. Manual tickets must be dated in the system based on the date the load was delivered to ensure accurate reporting of daily vehicle counts and tonnage.

As a result of this procedure, we noted the following:

Exception D1: Out of Sequence Tickets – For the quarter ended September 30, 2013, there were sixty-one (61) tickets out of sequence. Fifty-nine (59) of the tickets were due to back-dated tickets issued in the previous quarter and two (2) tickets were due to tickets from June billed in July.

Exception D2: Missing Tickets – There were seventy-eight (78) tickets missing on the Scale Transaction Report due to connectivity issues. It was determined that when the system has connectivity issues, the open tickets assigned to customers will be dropped and when the system reconnects then the next available number is assigned. We also discovered that Northern experiences malfunctions when reversing a credit card transaction if a charge is declined or the method of payment is changed. The ticket is suspended and the operator is forced to manually disconnect the system in order to generate a new ticket.

Recommendation D1 & D2: We recommend that Northern compare the number of tickets issued using the first and last ticket number for the month to the number of tickets issued per the Scale Transaction Report to identify missing tickets. In addition, ticket corrections should be entered prior to month end to prevent gaps caused by back dating.

**NAPA-VALLEJO WASTE MANAGEMENT AUTHORITY
FOR THE QUARTER ENDED SEPTEMBER 30, 2013**

RESULTS AND EXCEPTIONS

III. INTERNAL CONTROLS (Continued)

Recommendation D1 & D2: (Continued)

Additionally, we recommend that Northern continues to log all Soft-Pak issues and note any unique circumstances as well as recording each instance when the operator is forced to disconnect the system. We recommend Northern report all connectivity issues to Soft-Pak as well as the credit card system and investigate the impact on system controls from the use of the credit card machine/process. Northern should inquire with SoftPak if there is a Suspense file/report that can be pulled for the missing tickets.

Northern's Response D1 &D2: The missing tickets are a software related problem and Northern has asked Soft-Pak to look into a tracking report for missing ticket numbers.

EXHIBITS

Exhibit A

**Napa-Vallejo Waste Management Authority
Status of Accounts Receivable Over 90 Days
Per Central Collections
As of September 30, 2013**

<u>Account Name</u>	<u>Account Number</u>	<u>Total</u>	<u>Collection Measure*</u>
Account 501 - General A/R			
R.E. Bradley Construction	52363	\$ 811.00	Continue collection procedures
Cannaday Construction	54927	851.06	Approved to writeoff as "Uncollectible" for 12/13
Commercial Development Consultants	51033	96.89	Approved to writeoff as "Uncollectible" for 12/13
FRG Waste Resources, Inc.	51936	13.00	Paid 12/11/13
Leggett Construction	50933	0.66	Paid 10/31/13
Napa Valley Door & Trim	50688	272.89	Approved to writeoff as "Uncollectible" for 12/13
Norcal Communications & Construction	55769	103.11	Paid 1/30/14
On Time Maintenance Service	55260	1,726.60	Continue collection procedures
Penning, Lou Landscape Inc.	50653	0.18	Paid 1/16/14
Sabado, Tiffany	60907	733.64	Client making monthly payments
Scott's Service & Co.	54754	92.82	Credit Memo
Subtotal 501 - General A/R		<u>4,701.85</u>	
Account 501C - NSF A/R			
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
Investment Enterprises USA Inc.	61011	250.92	Continue collection procedures
Morgan Peabody, Ltd.	55396	291.00	Continue collection procedures
Rojas, Steven/Aqua Fresca Pool & Spa	60596	77.00	Continue collection procedures
Spangler, Billy	57965	76.00	Approved to writeoff as "Uncollectible" for 12/13
Subtotal 501C - NSF A/R		<u>2,336.39</u>	
Total Accounts Receivable Over 90 Days		<u>\$ 7,038.24</u>	

* Collection measures provided by Central Collections.

Exhibit B

**Napa-Vallejo Waste Management Authority
Analysis of General Ledger Activity
July 1, 2013 through September 30, 2013**

	General Ledger Total	Components			
		Visa / MC	Deposit Slip	CAMS	Other
JULY	\$ 1,018,904.30	\$ 113,642.05	\$ 139,218.57	\$ 766,043.71	\$ (0.03)
AUGUST	1,012,903.16	105,034.73	150,122.43	758,173.95	(427.95)
SEPTEMBER	632,857.98	99,845.82	138,693.43	394,549.35	(230.62)
QUARTER	<u>\$ 2,664,665.44</u>	<u>\$ 318,522.60</u>	<u>\$ 428,034.43</u>	<u>\$ 1,918,767.01</u>	<u>\$ (658.60)</u>

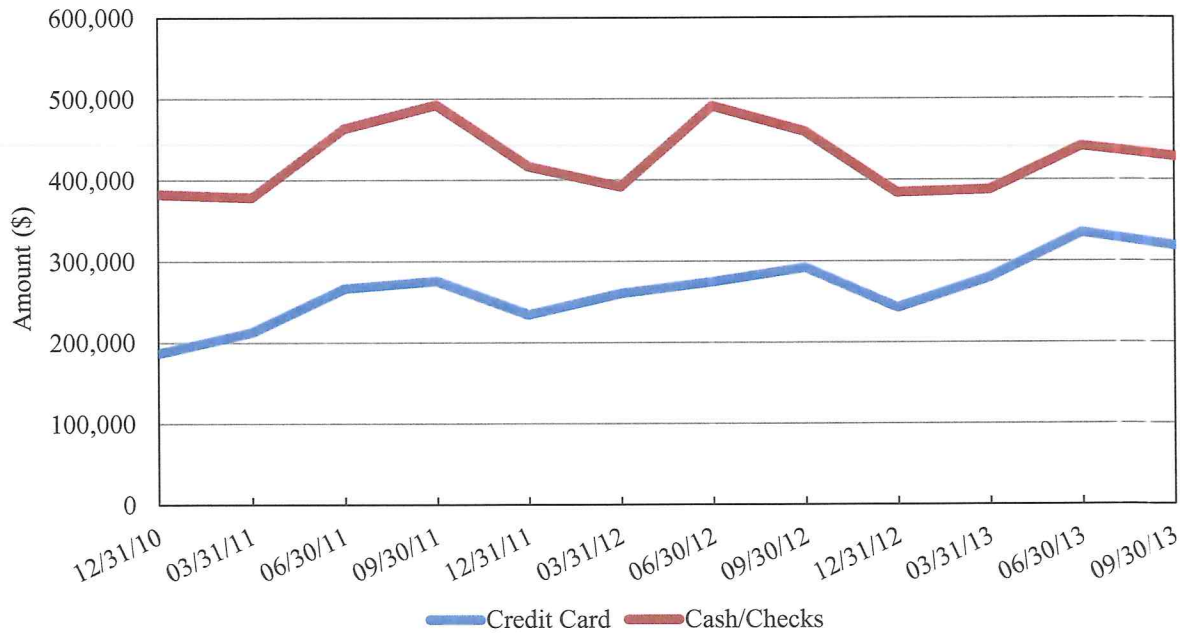
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Explanation of Bank Adjustments & Other:	Instances	Amount
Refund/Returned Checks - Non Sufficient Funds (NSF)	10	\$ 618.94
Reclassification	10	39.66
	<u>20</u>	<u>\$ 658.60</u>

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

**Revenue Collected at Devlin Road Transfer Station (DRTS)
Quarter Ended December 31, 2010 through September 30, 2013**



Revenue collected at DRTS decreased slightly in the quarter ended September 30, 2013.

Exhibit C

**Napa-Vallejo Waste Management Authority
Summary of Cash (Shortage) Overage
For the Quarter Ended September 30, 2013**

<u>Description</u>	<u>Quarter Ended Sep. 30, 2013</u>	<u>Year to Date</u>
Deposit Slips	\$ 448,509.40	\$ 448,509.40
VISA Slips	<u>336,903.28</u>	<u>336,903.28</u>
Subtotal	785,412.68	785,412.68
Deposits Per Cash Report	<u>786,167.27</u>	<u>786,167.27</u>
Cash (Shortage) Overage	(754.59) *	(754.59)
Bank Adjustments	-	-
Net Cash (Shortage) Overage	<u>\$ (754.59)</u>	<u>\$ (754.59)</u>
<u>Shortage is caused by the following</u>	<u>Instances</u>	<u>Total</u>
Cash Shortage	1	\$ (29.00)
Cash Overage	0	-
Short Pay	1	-
Incorrect Reference Date	4	-
Credit Card Malfunction	17	(725.59)
Old CC Terminal used	1	-
Double Charged/Test Ticket	<u>4</u>	<u>-</u>
Net Cash (Shortage) Overage	<u>28</u> *	<u>\$ (754.59)</u>

Exhibit D

**Napa-Vallejo Waste Management Authority
For the Quarter Ended September 30, 2013**

**Additional Information
Tickets with Negative Amounts**

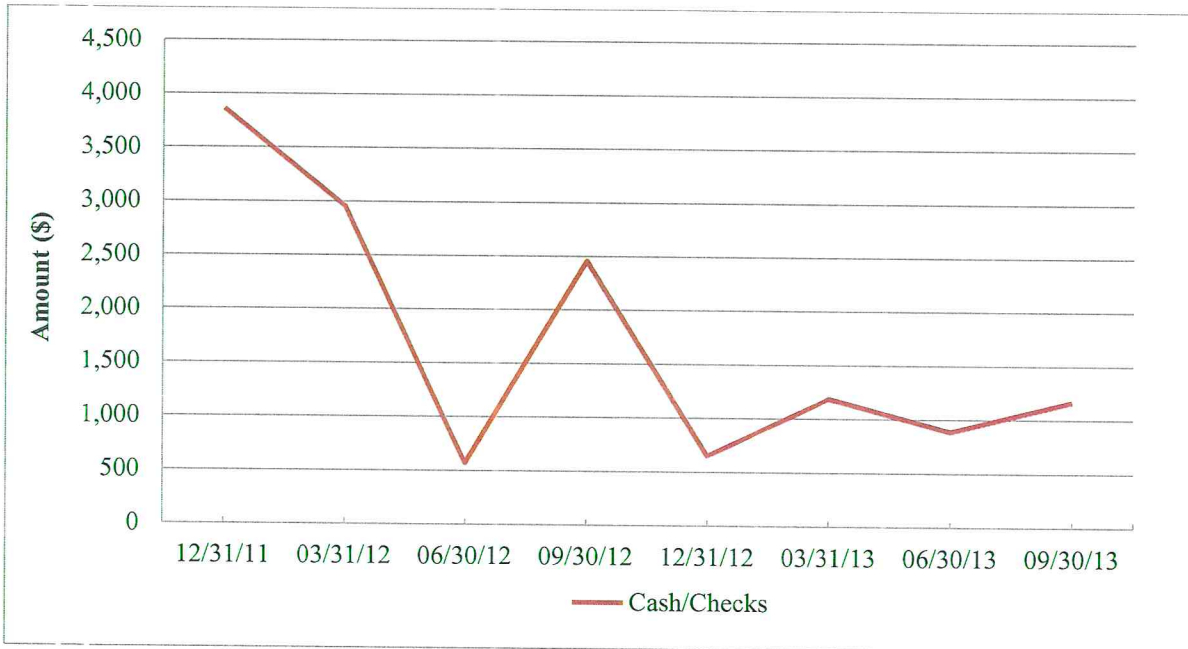
Quarter Ended	Cash/Checks		A/R		Total	
	# of Tickets	Amount	# of Tickets	Amount	# of Tickets	Amount
12/31/2011	16	\$ 3,864	145	\$ 41,628	161	\$ 45,492
3/31/2012	16	2,958	29	8,066	45	11,024
6/30/2012	13	570	35	11,117	48	11,687
9/30/2012	20	2,462	28	9,264	48	11,726
12/31/2012	8	651	16	4,016	24	4,667
3/31/2013	13	1,191	16	5,178	29	6,369
6/30/2013	10	889	25	9,628	35	10,517
9/30/2013	13	1,033	39	11,321	52	12,354
Average	14	\$ 1,702	42	\$ 12,527	55	\$ 14,230

The above table is a summary of negative tickets by transaction type, month, and totals for the quarter ended September 30, 2013 and also includes totals for the seven (7) prior quarters, for comparison.

**Exhibit D
(Continued)**

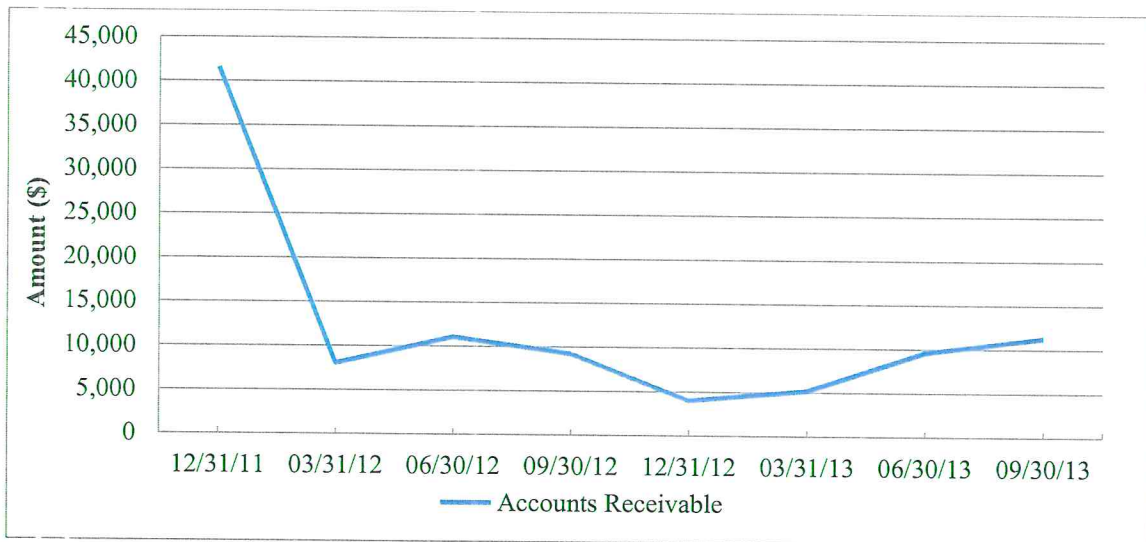
**Napa-Vallejo Waste Management Authority
For the Quarter Ended September 30, 2013**

**Cash/Check Tickets with Negative Amounts
Quarters Ended December 31, 2011 through September 30, 2013**



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 for the quarter ended September 30, 2013.

**Accounts Receivable (AR) Tickets with Negative Amounts
Quarters Ended December 31, 2011 through September 30, 2013**



Accounts Receivable tickets with negative amounts increased for the quarter ended September 30, 2013.

Exhibit E

**Napa-Vallejo Waste Management Authority
Comparison of Accounts Receivable Over 90 Days
Quarters Ended December 31, 2011 through September 30, 2013**

Quarter Ended	501		501C		Total	
	# of Accounts	Amount	# of Accounts	Amount	# of Accounts	Amount
12/31/2011	18	\$ 6,068	15	\$ 3,729	33	\$ 9,797
3/31/2012	17	5,993	12	3,354	29	9,347
6/30/2012	8	5,646	12	3,354	20	9,000
9/30/2012	9	3,377	7	2,162	16	5,539
12/31/2012	26	7,904	7	2,162	33	10,066
3/31/2013	11	3,782	7	2,162	18	5,944
6/30/2013	18	5,778	8	2,413	26	8,192
9/30/2013	11	4,702	7	2,336	18	7,038
Average	15	\$ 5,406	9	\$ 2,709	24	\$ 8,115

Historically, delinquent accounts are due to lack of payments on general accounts receivable accounts. The decrease for the quarter ended September 30, 2013 was due to the Board of Directors' approval to write-off four (4) uncollectible accounts.

