



A Tradition of Stewardship
A Commitment to Service

Napa-Vallejo Waste Management Authority

Internal Audit Report

For the Quarter Ended March 31, 2017

Issued by
AUDITOR-CONTROLLER
Internal Audit Section
August 30, 2017

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
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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 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 March 31, 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 March 31, 2017, we noted the following results and exceptions:

Report Section

- I. Result: Account Balances over 90 Days** – As of March 31, 2017, fourteen accounts had balances over 90 days past due for an amount of \$6,322. See Exhibit A on page 11 for a detail list and Exhibit B on page 12 for the quarterly history of accounts over 90 days from April 1, 2015 to March 31, 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 13 for the detail results of the analysis.
- II.B Exception: Cash (Shortage) Overage** – During the quarter there were four overages and seven shortages as a result of footing errors, a deposit error and drawer shortages. There were two short pays occurrences and one occurrence was paid. One customer was overcharged on a credit card and refunded. Additionally, there were ten instances where Central Collections input the incorrect date and description for cash and credit card deposits. The total net overage was \$405. However, the overage is potentially offset by the amount of credit card refunds that have not yet been recognized in the Authority's General Ledger.
- II.C Exception: Accounts Receivable Analysis** – We noted a vendor who was set up incorrectly in the system as an inbound customer, resulting in a charge of \$928. In addition, we noted that an inbound customer's account did not agree to the amount on the Scale Transaction Report for a difference of \$578 due to a clerical error of voiding a ticket from July 2007.

Report Section (Continued)

- III.A** **Exception: Hand Tag Analysis** – During the quarter ended March 31, 2017, 144 hand tags were issued as a result of printers not working and a failure in the SoftPak network connection. We noted two Hand Tags that were incorrectly recorded on the Scale Transaction Report and one Hand Tag that was not listed on the Scale Transaction Report.
- III.B** **Exception: Same Time In and Out** - We noted twenty-eight tickets with the same “Time In” and “Time Out” entries for a cumulative amount of \$1,382. 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.C** **Exception: Negative Tickets/Void Tickets** – During the quarter there were 109 tickets with negative amounts for a cumulative amount of \$47,102. Twelve of the voided tickets were not noted on the Daily Reconciliation Form for the cumulative amount of \$3,733. See Exhibit E on pages 15 and 16 for additional analysis.
- III.D** **Exception: Missing Ticket Testing** – During the quarter we noted that a replacement ticket was back dated for the previous quarter. The remaining missing tickets were either test tickets, voided tickets or tickets that were skipped in the system.

Detailed information of the reported results, exceptions, and recommendations can be found starting on page 5.

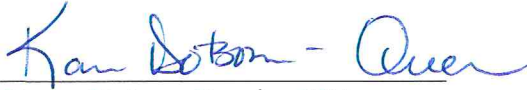
Conclusion

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 recommend 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. For example, if a ticket is required to be voided because it was assigned to the wrong accounts receivable customer, then the scale house attendant would place “AR” in the Comment field then add the replacement ticket number by using “R” and the number of the replacement ticket. This would provide the reason for the void and a trail to the new ticket.

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
August 30, 2017

RESULTS

AND

EXCEPTIONS

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**NAPA-VALLEJO WASTE MANAGEMENT AUTHORITY
FOR THE QUARTER ENDED MARCH 31, 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, two accounts paid off their balances; however, four accounts had balances that went past due in excess of 90 days. All accounts over 90 days at March 31, 2017 and their status have been presented in Exhibit A on page 11 for an aggregate amount of \$6,322 including fees and interest, which is an increase of \$344 compared to the prior quarter balance of \$5,978. Historical data and trends of the accounts receivable balances over 90 days is presented in Exhibit B on page 12.

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.

Exception B: We noted an outbound customer who was set up incorrectly in the SoftPak system as an accounts receivable customer. However, on the day of the transaction the customer rendered payment in full to the scale house in the amount of \$928. Since the customer submitted payment in full, their information was not included in the download to Central Collections, an adjustment was not necessary. Customers must be approved by Northern before being set up in the SoftPak system.

Additionally, during the month of February an employee voided the wrong ticket number. The ticket voided was from July 2007 and pertained to a different customer. This resulted in undercharging another customer with a similar name and the Central Collection’s Transaction Report (501) not agreeing with the Scale Transaction Report for a difference of \$578.

Recommendation B: We recommend that scale house staff exercise greater care when setting up new customer accounts as well as voiding tickets. Additionally, Northern should submit an adjustment form to Central Collections for the amount of \$578 which was voided in error.

Northern’s Response B: Northern Recycling staff is working with Central Collections to address the two exceptions noted. We will submit adjustment forms to clear up the voiding error. Scale house staff have been reminded to review all transaction that require a void and replacement ticket. Any voided transaction should always reference the replacement ticket for tracking and auditing purposes.

**NAPA-VALLEJO WASTE MANAGEMENT AUTHORITY
FOR THE QUARTER ENDED MARCH 31, 2017**

RESULTS AND EXCEPTIONS

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, 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 13 (“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: During the quarter we noted the following exceptions:

- There were four overages and seven shortages as a result of footing errors, a deposit error and drawer shortages for the cumulative amount of \$166.80.
- There were two instances of short-pays and one instance of a short-pay paid for a net shortage of \$11.
- There were three customers over-charged on credit cards for the cumulative amount of \$508.30. The card holders were refunded, but the refunds have not been recognized in the General Ledger’s records.
- There was a deposit processed by the Treasurer-Tax Collector for \$74.40 to clear a deposit in the previous quarter which was incorrectly recorded as a change order.

Recommendation B: We understand that the Devlin Road Transfer Station had staff turnover during the quarter ended March 31, 2017. Therefore, 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

**NAPA-VALLEJO WASTE MANAGEMENT AUTHORITY
FOR THE QUARTER ENDED MARCH 31, 2017**

RESULTS AND EXCEPTIONS

II. REVENUE (Continued)

- Establish policies and procedures that provide for the supervision of those charged with handling money.
 - Voided transactions should be reviewed to ensure they are documented and legitimate
 - Scale House staff must note reasons for any overages or shortages on the end of day reconciliation form. The reasons should include the original ticket number, the replacement ticket number, and any change of date, weight, or origin. All differences should be reviewed by the Supervisor within two to three days.
- Track the process of credit card refunds to the bank once the card holder is refunded.
 - Northern and Central Collections should work together to investigate how credit card refunds are processed to the bank and through the General Ledger system.
 - Northern and Central Collections should submit documentation to the Auditor-Controller's Department for all credit card refunds identified as outstanding in the quarterly Internal Audit.

Northern's Response B: Northern Recycling Staff is working with Central Collections and the company that process's the credit card payments to determine how all parties can be informed of any refunds that are issued as a result of overpayment. Once we have documented the procedure for confirming and tracking refunds we will make sure to include that information in a future quarterly audit. Scale house and office staff has reviewed the procedures for documenting voided transactions, short pays and refunds. Office staff will review all daily reconciliations forms and exceptions noted on the forms on a daily basis.

Central Collection's Response B: NVWMA credit card refunds do not flow through to the county bank, so neither Central Collections nor Treasury have any knowledge of this type of transaction with regard to NVWMA. Central Collections only processes checks and cash made directly to this office and Treasury processes activity at the time it posts to the county bank.

C. Procedure: Hand Tag Analysis – We verified if the Contractor accounted for the manual “hand tag” tickets accurately within the electronic system for the quarter.

**NAPA-VALLEJO WASTE MANAGEMENT AUTHORITY
FOR THE QUARTER ENDED MARCH 31, 2017**

RESULTS AND EXCEPTIONS

II. REVENUE (Continued)

Exception C: We noted the following errors in reviewing the 144 hand tags issued during the quarter ended March 31, 2017 as a result of printers not working and a failure in the SoftPak network connection:

- Hand Tag #4913 was not listed on the Scale Transaction Report in the comment field, but was confirmed to be for Ticket #1034081.
- Hand Tag #4914 should have been recorded to Ticket #1034097 instead of Hand Tag #4919 which should have been recorded to 1034095.
- Hand Tag #4919 was recorded to 2 tickets numbers, #1034095 & 1034097.

Recommendation C: We recommend that scale house staff exercise greater care when recording hand tags in the comment field on the Scale Transaction Report.

Northern's Response C: Scale house staff and office staff have reviewed the procedures for the use of hand tags and how replacement tickets are generated to replace the hand tags and create a system generated ticket/transaction. All hand tags and replacement tickets are reviewed by office staff to ensure accuracy.

III. INTERNAL CONTROLS

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

Same “Time In” and “Time Out” will occur for non-weighted items. We excluded tickets for non-weighted 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 exceptions:

**NAPA-VALLEJO WASTE MANAGEMENT AUTHORITY
FOR THE QUARTER ENDED MARCH 31, 2017**

RESULTS AND EXCEPTIONS

III. INTERNAL CONTROLS (Continued)

Exception A: We noted twenty-eight tickets with the same “Time In” and “Time Out” entries for a cumulative amount of \$1,382. 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. Twenty-seven of the tickets were for cash customers totaling \$1,345 and one ticket was for an accounts receivable customer for \$37. 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 consistently to be 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.

Northern’s Response A: Northern Recycling will explore using a set of codes to help explain any reasons that would cause a same time in and out ticket. The comment section on the scale tickets is restricted by the amount of information that can be placed into that field. Once we have come up with a list of codes that would cover most known issues that would cause manual tickets, we will provide the list to the Auditor Controllers office for input and review.

B. Procedure: Negative Tickets – We reviewed negative amounts from the Scale Transaction Reports for the quarter ended March 31, 2017. 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: During the quarter there were 109 tickets with negative amounts for a cumulative amount of \$47,102. Twelve of the voided tickets were not noted on the Daily Reconciliation Form for the cumulative amount of \$3,733.

Recommendation B: 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 B: Scale house staff have been reminded to note any voided tickets on the Daily Reconciliation form.

C. Procedure: Missing Tickets – We verified that the Contractor accounted for all tickets issued in the quarter ending March 31, 2017 on the Scale Transaction Report.

**NAPA-VALLEJO WASTE MANAGEMENT AUTHORITY
FOR THE QUARTER ENDED MARCH 31, 2017**

RESULTS AND EXCEPTIONS

III. INTERNAL CONTROLS (Continued)

Exception C: There were forty-two tickets not accounted for on the Scale Transaction Report during the quarter ended March 31, 2017. We noted the following exception:

- There was a replacement ticket that was back dated to the previous quarter

The remaining missing tickets were not exceptions:

- There were thirty-one tickets that were used for testing the new kiosk.
- There were nine tickets that were not utilized or accounted for within SoftPak due to the changes occurring at DRTS.
- There was one instance where a ticket disappeared after being entered into the system.

Recommendation C: 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 and potential errors in the information transmitted to the Treasurer-Tax Collector.

Northern's Response C: Northern Recycling did generate several test tickets during the quarter while attempting to install and program the Rice Lake kiosks. The missing and skipped tickets were test tickets and were associated with the Rice Lake kiosk programming and not the Soft Pak programming. Office staff will compare the number of physical tickets issued to the transaction report to insure that all tickets are accounted for.

EXHIBITS

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Exhibit A

Napa-Vallejo Waste Management Authority Status of Accounts Receivable Over 90 Days Per Central Collections March 31, 2017

<u>Account Name</u>	<u>Account Number</u>	<u>Total</u>	<u>Collection Measure</u>
Account 501 - General A/R			
Ashorn Construction	50522	\$ 485	Approved as uncollectible -6/8/17
Buchanan Construction	60745	1,756	Approved as uncollectible -6/8/17
Forbes & Sons	50593	254	Continue collection procedures
North Bay Construction, Inc.	50703	74	Approved as uncollectible -6/8/17
On Time Maintenance Service	55260	727	Continued making payments
Rozco Construction	58390	41	Paid 4/3/17
Unique Recycling	50761	527	Claimed filed
Subtotal 501 - General A/R		<u>3,864</u>	
Account 501B - No Pay A/R			
Gaither, Brian	62713	222	Continue collection procedures
Knosky, Erek	62718	72	Continue collection procedures
Subtotal 501B - No Pay A/R		<u>294</u>	
Account 501C - NSF A/R			
Carmell Carlos A DBA C & C Plumbing	62308	232	Approved as uncollectible -6/8/17
Golden Gate Roofing Service	55442	783	Approved as uncollectible -6/8/17
Grossi Paul E DBA North Bay Roofing	60494	180	Approved as uncollectible -6/8/17
Hernandez, Ruben	57142	678	Approved as uncollectible -6/8/17
Morgan Peabody, Ltd.	55396	291	Approved as uncollectible -6/8/17
Subtotal 501C - NSF A/R		<u>2,164</u>	
Total Accounts Receivable Over 90 Days		<u>\$ 6,322</u>	

Exhibit B

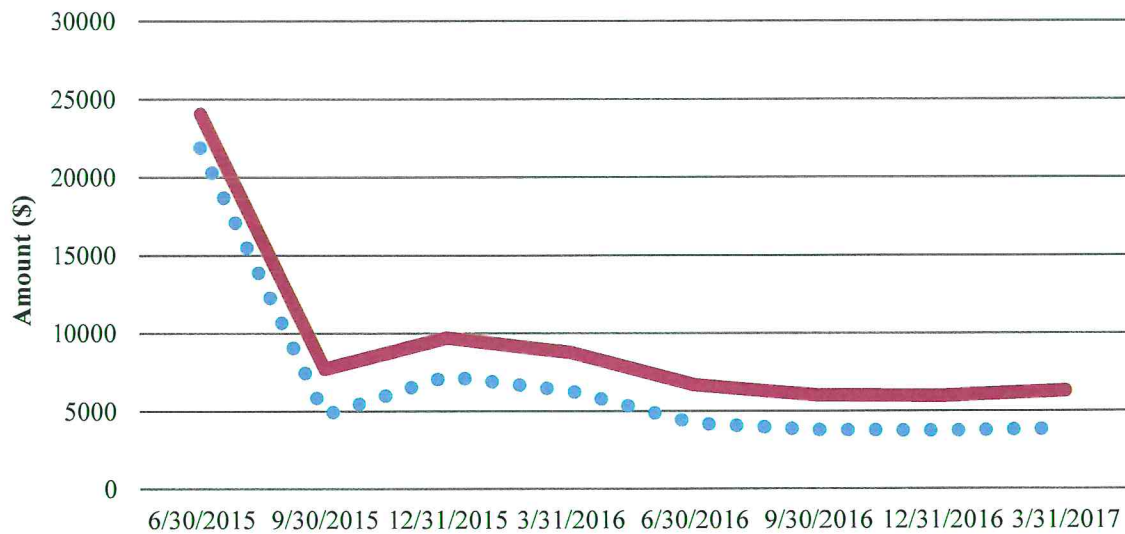
Napa-Vallejo Waste Management Authority Comparison of Accounts Receivable Over 90 Days Quarters Ended June 30, 2015 through March 31, 2017

Table 1

Quarter Ended	501		501B & 501C		Total	
	# of Accounts	Amount	# of Accounts	Amount	# of Accounts	Amount
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
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
Average	<u>7</u>	<u>\$ 6,982</u>	<u>7</u>	<u>\$ 2,435</u>	<u>14</u>	<u>\$ 9,417</u>

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 increase of \$344.

Graph 1
Accounts Receivables Over 90 Days
Quarters Ended June 30, 2015 through March 31, 2017



●●●● General A/R — No Pay & NSF

Exhibit C

Napa-Vallejo Waste Management Authority Analysis of General Ledger Activity January 1, 2017 through March 31, 2017

Table 2

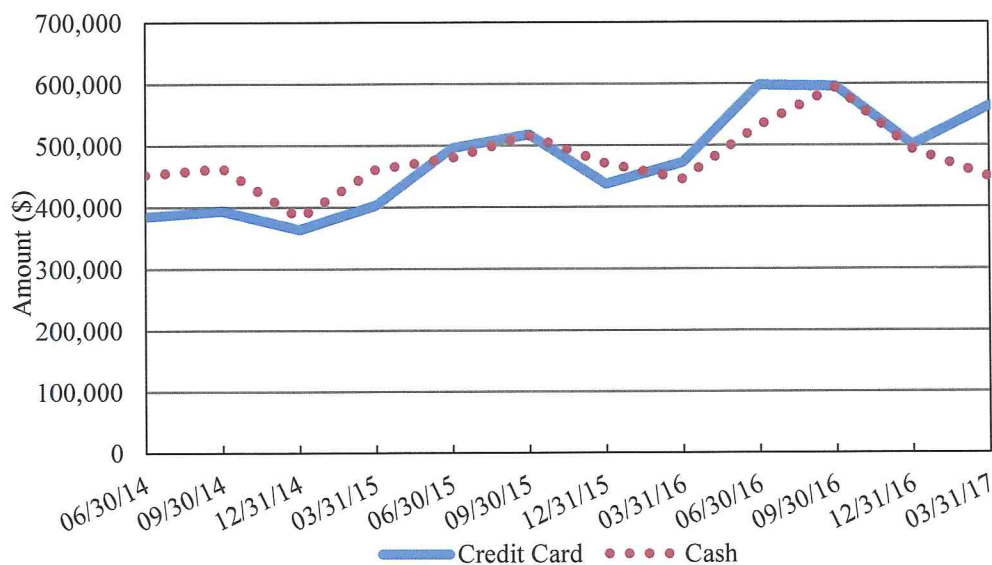
	General Ledger Total	Components				Other
		Visa / MC	Deposit Slip	Accounts Receivable	Bank Adjustments	
JANUARY	\$ 1,134,680	\$ 155,004	\$ 147,192	\$ 833,403	\$ -	\$ (920)
FEBRUARY	1,272,532	161,947	137,095	973,693	-	(203)
MARCH	1,334,840	246,675	163,732	926,119	-	(1,685)
QUARTER	\$ 3,742,052	\$ 563,626	\$ 448,019	\$ 2,733,215	\$ -	\$ (2,808)

Total Bank Adjustments and Other \$ (2,808)

Explanation of Bank Adjustments & Other:	Instances	Amount
Uncollectible Writeoff	2	\$ 325
Refund/Overpayment/Collection	10	(1,311)
Correction - Deposit	1	1
Returned Checks	5	(1,823)
	<u>18</u>	<u>\$ (2,808)</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, 2014 through March 31, 2017



Revenue collected at DRTS decreased approximately \$45,624 for Cash/Checks and increased approximately \$62,996 for Visa/MC in the quarter ended March 31, 2017 compared to the quarter ended December 31, 2016.

Exhibit D

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

Description	Quarter Ended Sep. 30, 2016	Quarter Ended Dec. 31, 2016	Quarter Ended Mar. 31, 2017	Year to Date
Cash	\$ 598,080	\$ 501,995	\$ 447,835	\$ 1,547,910
VISA/MC	602,686	509,752	551,523	1,663,961
Subtotal	1,200,766	1,011,748	999,358	3,211,871
Deposits per Cash Report	1,200,728	1,012,678	998,953	3,212,359
Cash (Shortage) Overage	38	(930)	405	(487)
Returned Checks	(510)	(1,173)	(1,823)	(3,505)
Returned Checks Paid	510	1,173	1,749	3,431
Pending Refunds	-	-	(508)	(508)
Net Cash (Shortage) Overage	<u>\$ 38</u>	<u>\$ (930)</u>	<u>\$ (177)</u>	<u>\$ (1,069)</u>

March 31, 2017 overage is caused by the following:

	Instances	Total
Overage	4	\$ 115
Shortage	7	(207)
Short Pay - Owed	2	(78)
Short Pay - Paid	1	67
Refund issued to Customer but not in G/L	3	508
TTC error-Amount or date incorrectly	10	-
Net Cash (Shortage) Overage	<u>27</u>	<u>\$ 405</u>

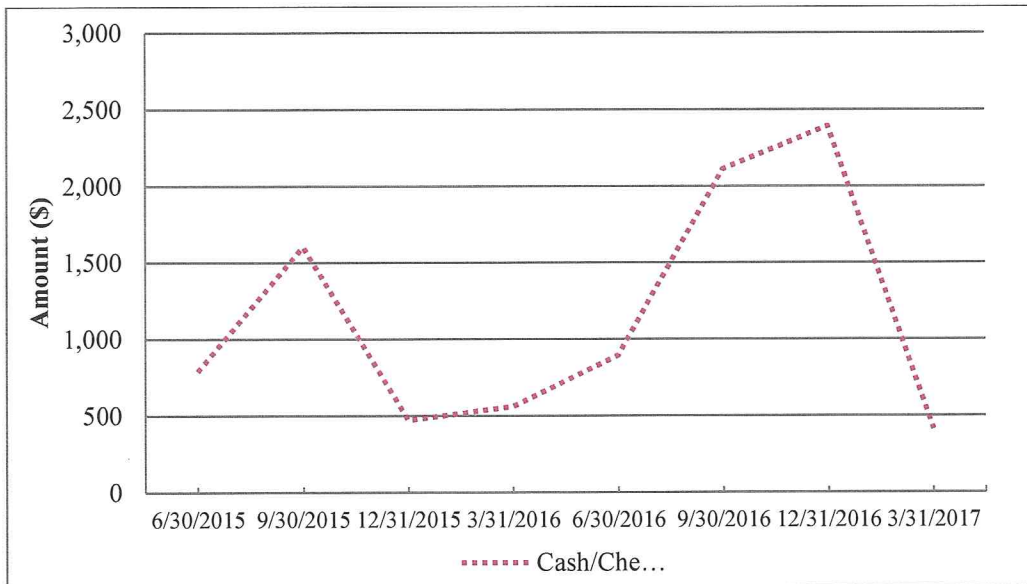
Exhibit E

Napa-Vallejo Waste Management Authority Summary of Tickets with Negative Amounts For Quarters Ended June 30, 2015 to March 31, 2017

Quarter Ended	Cash/Checks		A/R		Total	
	# of Tickets	Amount	# of Tickets	Amount	# of Tickets	Amount
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
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
Average	12	\$ 1,257	26	\$ 9,688	37	\$ 10,945

The above table is a summary of negative tickets by transaction type, month, and totals for the quarter ended March 31, 2017 and also includes totals for the seven prior quarters, for comparison.

Graph 3a
Cash/Check Tickets with Negative Amounts
Quarters Ended June 30, 2015 through March 31, 2017

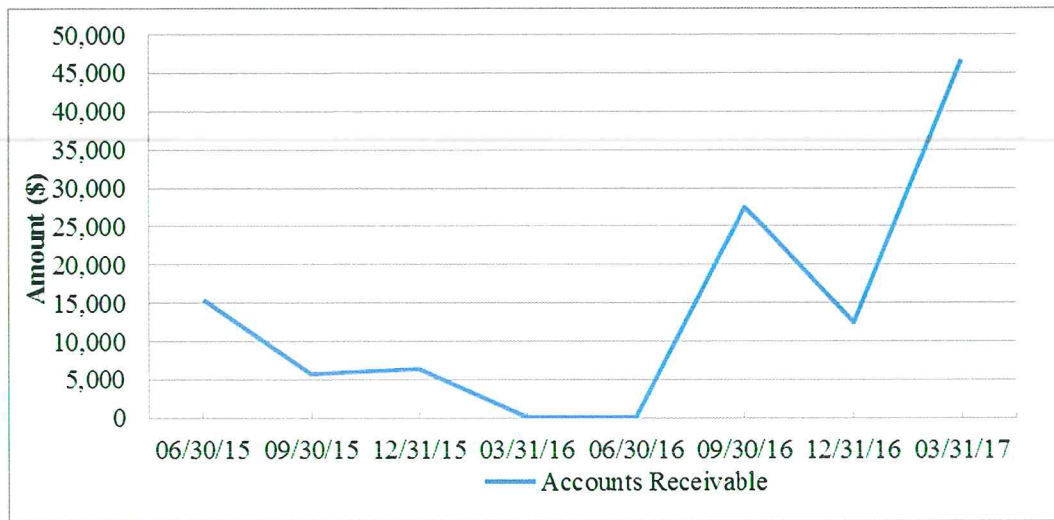


Due to the inherent risk of fraud associated with cash transactions, negative cash/check tickets have been separately shown above. Cash tickets with negative amounts decreased significantly during the quarter ended March 31, 2017.

**Exhibit E
(Continued)**

**Napa-Vallejo Waste Management Authority
Summary of Tickets with Negative Amounts
For Quarters ended June 30, 2015 to March 31, 2017**

**Graph 3b
Accounts Receivable (AR) Tickets with Negative Amounts
Quarters Ended June 30, 2015 through March 31, 2017**



Accounts Receivable tickets with negative amounts increased significantly during the quarter ended March 31, 2017.