AFC Members in Attendance:
County: Mr. Steve Elswick, Ms. Leslie Haley
Schools: Mr. John Erbach, Ms. Dianne Smith

Other Board Members in Attendance:
Ms. Jaeckle*, Mr. Holland

Staff in Attendance:
Dr. Joseph Casey, Dr. Merv Daugherty, Greg Akers, Donna Arrington, Christina Berta, Nancy Brooking, Patsy Brown, Allan Carmody, Meghan Coates, Matt Harris, Mary Martin Selby, Nita Mensia-Joseph, Steve Sanderson, Dr. Thomas Taylor, Scott Zaremba.

*Ms. Jaeckle substituted for Ms. Haley who had to leave prior to the closed session.

Call to Order:
Mr. Elswick called the meeting to order at 2:30 pm.

JOINT ITEMS:

1. FY2019 External Audit Required Communications: Patsy Brown, Director of Accounting
   • Ms. Brown introduced and recognized her staff in attendance, Donna Arrington, Assistant Director of Accounting, and Lindsey Thornton, Financial Reporting Manager.
   • Ms. Brown introduced the external auditor Mr. Rob Churchman, Partner, Government Services Group for Cherry Bekaert to deliver his annual required communications. Mr. Churchman reviewed the Presentation to the AFC of the County of Chesterfield, VA Power Point*.
   • Dr. Casey expounded on the potential impact of GASB 84 effective FY20, noting certain existing financial reporting Fiduciary Activities could be reclassified as Government Activities, including Student Activity Funds. This is a national issue, and Chesterfield will monitor and coordinate with the Auditor of Public Accounts on presentation approach for Virginia.
2. **Employee Healthcare Benefits: Mary Martin Selby, Director of Human Resources**  
   - Ms. Martin Selby introduced the topic and explained these are preliminary projections to the annual report that will be presented in August to the Board.  
   - Ms. Martin Selby acknowledged and thanked County HR, Budget, Finance and General Accounting for their collaborative efforts. She introduced the USI Insurance Broker, Claire Harlin, CEBS.  
   - Ms. Harlin reviewed the *2020 Health/Dental Renewal Preliminary Review handout*.  
   - She responded to Mr. Elswick’s question regarding national average for Employer vs. Employee premium contribution rates. Nationally it is 60% employer and 40% employee; Chesterfield is 65% employer and 35% employee.  
   - Mr. Elswick commented positively on the plan to build health insurance fund reserves.  
   - Dr. Casey clarified what the benefit of claims audit was and the importance for self-insured entities.

3. **FY2019 Year-end Projections/Reserves, County and Schools: Meghan Coates, Director of Budget and Management / Christina Berta, CFO Schools**  
   - Ms. Coates introduced the topic and reviewed the *FY2019 General Fund Budget Projections handout* and Ms. Berta reviewed *FY19 Projections Schools handout*, including planned set-asides for future year budgets. Ms. Berta also provided the *Quarterly Budget Review Memo* with additional detail that had been provided to the School Board.  
   - Mr. Erbach thanked Ms. Berta and her team for recognizing Transportation budget stress early during FY19.  
   - Dr. Casey clarified sales tax basis differences between County and Schools. County local of sales tax is based on Chesterfield sales activity, while Schools receives portion of statewide sales tax (based on school age population).  
   - In response to Ms. Haley, Ms. Berta estimated cost per bus at $100,000.

4. **Internal Audit: Greg Akers, Director of Internal Audit / Steve Sanderson, Audit Manager**  
   a. **Internal Audit Policies 8-1 and 8-2 approval**: Mr. Akers noted *Internal Audit Memo for Approval Request, Internal Audit Proposed Policy Revisions* was provided in advance with the meeting agenda. He briefly reviewed the policy updates and asked for questions. There were no questions. Mr. Erbach called for motion to approve and Ms. Haley seconded the motion.  
   b. **Proposed IA FY20 Work Plan approval**: Mr. Akers noted the *Internal Audit Proposed FY20 Audit Plan* was provided by May 31, 2019 email to Board of Supervisors and School Board members email and placed on Internal Audit’s website. Mr. Akers introduced Mr. Sanderson, who briefly reviewed the IA FY20 Work Plan and
fielded some general questions. Mr. Erbach called for a motion to approve and Ms. Haley seconded the motion.

c. FY2019 Audit Plan and Hotline Activity Update: Mr. Sanderson reviewed Internal Audit FY19 Project Status Update* and Hotline Status Update* handouts, briefly noting recently issued reports and activity.

5. Capital Facilities Forecasting Project Update: Allan Carmody, Finance Director
   • Mr. Carmody thanked and recognized the joint efforts of Schools, Planning, IST, along with the participation of Microsoft and Cooperative Strategies.
   • Mr. Carmody reviewed the Capital Facilities Forecasting Project Update PowerPoint* which focuses on Schools, Fire, and EMS. Rather than using a consultant to forecast once, the County is building tool that can be used in many capacities now and for future forecasting.
   • Mr. Elswick commented that the new tool will really help the Boards to evaluate projects that need to be a part of future referendum(s).

5. Closed Session:
   Mr. Akers asked Committee to modify agenda to hold the closed session as part of the Joint Meeting, for all members to meet with the External Auditor and Internal Auditor. All members agreed. Ms. Haley had to leave meeting, with Ms. Jaeckle serving as alternate.

   Mr. Akers reminded committee of our best practice to meet with the External Auditor, followed by meeting with the Internal Auditor. These meetings started last year, providing an opportunity for direct performance feedback and to share any possible concerns.

   Mr. Elswick asked for a motion to go into closed session for: 1) pursuant to Section 2.2-3711.A.1., Code of Virginia, 1950, as amended, relating to the performance of a specific County employee; 2) pursuant to Section 2.2-3711.A.1., Code of Virginia, 1950, as amended, relating to the performance of departments where such evaluation will necessarily involve discussion of specific individuals. Motion at 4:01 pm, seconded by Ms. Jaeckle and approved by all members.

   Meeting reconvened at 4:33, and to certify that the closed session content was limited to the planned item noted above; followed by a called vote (i.e. Aye/Nay) of the individual Committee members:
   • Mr. Steve Elswick, Aye;
   • Ms. Dorothy Jaeckle, Aye
   • Mr. John Erbach, Aye
   • Ms. Dianne Smith, Aye

   Mr. Elswick adjourned the meeting at 4:35 pm
COUNTY ITEMS:

Due to time constraints, County AFC Members postponed the following agenda items until the next meeting (note - Internal Audit (IA) reports were previously issued to Board Members and posted to IA website).

7. Internal Audit: Mr. Greg Akers, Director of Internal Audit.
   i. Appomattox River Water Authority (ARWA) Billing Special Project, April 23, 2019
   ii. GRTC Billing Analysis Special Project, April 19, 2019
   iii. Real Estate Assessment Processes and Systems, April 10, 2019 FOIA Exempt Material Redacted

8. Next Meeting: Allan Carmody, Finance Director
   • Sept. 20th (joint): Budget/CIP Kick-off/Preview; Capital Facilities Forecasting Project Update; Mjr. Maint. Update; Internal Audit Reports

*All June 14, 2019 meeting handout materials noted above are available on Chesterfield.Gov Audit and Finance Committee webpage.
# AFC MEETING MATERIALS 06-14-19

**Audit and Finance Committee of the Board Of Supervisors**

**Date:** June 14, 2019  
**Time:** 2:30 pm  
**Location:** Room 502

<table>
<thead>
<tr>
<th>Item</th>
<th>Person Responsible</th>
<th>Materials</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Joint Items</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. FY2019 External Audit Required Communications</td>
<td>Patsy Brown</td>
<td>Cherry Bekaert Presentation</td>
</tr>
<tr>
<td>2. Employee Healthcare Benefits</td>
<td>Mary Martin-Selby</td>
<td>Employee Healthcare Benefits</td>
</tr>
<tr>
<td>3. FY2019 Year-end Projections/Reserves, County and Schools</td>
<td>Meghan Coates/Christina Berta</td>
<td>County Presentation Schools Presentation</td>
</tr>
</tbody>
</table>
| 4. Internal Audit:  
  a. Internal Audit Policies 8-1 and 8-2 approval  
     (Proposed revisions presented in 11/09/18 meeting)  
     • January 25, 2019 Internal Audit cover memo with proposed policy revisions marked.  
     b. Proposed FY20 Audit Plan approval  
     c. FY2019 Project Status and Hotline Activity Update | Greg Akers / Steve Sanderson | IA 8-1 & 8-2 Policy Updates Proposed FY20 Work Plan FY19 Project Status and Hotline Activity Update |
| 5. Capital Facilities Forecasting Project Update | Allan Carmody | Capital Facilities Forecasting Project Update |
| 6. Closed Session for: 1) pursuant to Section 2.2-3711.A.1., Code of Virginia, 1950, as amended, relating to the performance of a specific County employee; 2) pursuant to Section 2.2-3711.A.1., Code of Virginia, 1950, as amended, relating to the performance of departments where such evaluation will necessarily involve discussion of specific individuals. | | |

| **County Items** | | |
| 8. Internal Audit:  
  a. Periodic Reports: | Greg Akers | Due to time contraint, this item was postponed. |

**Next Meeting:** 9/20 (Joint): Budget/CIP Kick-off/Preview; Capital Facilities Forecasting Project Update; Mjr. Maint. Update; Internal Audit Reports.  
**Date:** June 14, 2019  
**Time:** 2:30 pm  
**Location:** Room 502
Presentation to
The Audit and Finance Committee of the County of Chesterfield, Virginia

June 14, 2019
Engagement Team
Auditor’s Responsibility
Engagement Services
Audit Planning Considerations:
  ▪ Planned Timing of the Audit
  ▪ Audit Methodology
  ▪ Significant Audit Areas
New Accounting and Reporting Changes
Engagement Team
Auditor’s Responsibility
Auditor’s Responsibility

- Generally Accepted Auditing Standards (GAAS)
- Specifications for Audits of Authorities, Boards and Commissions
- Specifications for Audits of Counties, Cities and Towns
- Government Auditing Standards (GAS)
- Title 2 U.S. Code of Federal Regulations Part 200 (Uniform Guidance)
Cherry Bekaert’s Responsibility Under Required Guidance

- Consider internal control to the extent necessary to design an effective and efficient audit approach, not for the purpose of providing assurance on internal control (e.g. GAAS, GAS, UG)

- Perform tests of compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts (e.g. GAS, Commonwealth)

- Perform tests of compliance with the types of compliance requirements which could have a direct and material effect on the County’s major Federal financial assistance programs (e.g. UG)

- Design and implement audit procedures based on our understanding of the County to gain reasonable, not absolute, assurance as to the absence of material misstatements in the financial statements (e.g. GAAS)

- Opine on the financial statements based on our audit (e.g. GAAS)
Engagement Services
Audit of the financial statements as of and for the fiscal year ended June 30, 2019:
• County, including the Schools and Student Activity Funds *
• Economic Development Authority of the County of Chesterfield
• Watkins Centre Community Development Authority
• Chippenham Place Community Development Authority

Audit of the County’s major federal programs required by the Uniform Guidance

Audit of the compliance with the Auditor of Public Accounts’ (APA)
• Specifications for Audits of Counties, Cities and Towns (Specifications)
• Specifications for Audits of Authorities, Boards, and Commissions (Specifications)

Procedures required by the Commonwealth related to:
• Comparative Report Transmittal Forms (Uniform Financial Reporting Manual)
• Sheriff Office’s internal control (Virginia Sheriffs’ Accounting Manual) *
• Compliance with the Financial Assurance Regulations of Solid Waste Disposal Facilities
• Virginia Retirement System census data testing

* Note - Internal Audit will assist our team in the performance of this work
Audit Planning Considerations
Adherence to Your Timeline

Planning: May

Final Fieldwork: August - October

Issuance of Reports: September and October

Internal Controls and Risk Assessments, Interim Fieldwork: May - July

Review of Draft Reports with Management: September and October
Cherry Bekaert utilizes a top-down, risk based, integrated audit approach delivered in three phases:

**Plan**
- Perform risk assessment procedures to determine the significant audit areas and reporting and compliance requirements

**Execute**
- Select and perform appropriate substantive and analytical procedures, including tests of internal controls, where appropriate

**Complete**
- Evaluate results, communicate with management, and issue the required reports
Cherry Bekaert employs an efficient, effective, compliant and time-tested Single Audit process based on three phases:

**Plan**
- Identify major federal grant programs and their respective compliance requirements based upon a risk-based analysis

**Execute**
- Test internal controls over general and grant specific requirements
- Test for conformance with compliance requirements (e.g., allowable costs, reporting)

**Complete**
- Summarize audit results, report any compliance and/or internal control finding(s) to management and assist in preparation of corrective action plan(s)
- Prepare required reports and the Schedule of Findings and Questioned Costs
Cherry Bekaert specialists are fully integrated members of our audit team purposed with assessing the County’s information technology environment and its impact on the audit procedures and financial statement reports.

We will evaluate the impact of key automated controls and systems utilized within the financial reporting process such as:

- Entity-wide security program planning and management controls
- Access controls
- System development and program change controls
- System software controls
- Segregation-of-duty controls
- Service continuity controls
Significant Audit Areas
Based on our preliminary risk assessment, we have identified the following significant audit areas and our audit test work will include the following example procedures:

**Revenues and Receivables:**
- Update our understanding of controls in place and test accordingly
- Recalculate property taxes, confirm balances with grantors and analytically test revenues (e.g., budget vs. actual)
- Test the collectability of receivables and revenue cut-off

**Payroll and Related Liabilities:**
- Update our understanding of controls in place and test accordingly
- Analytically test payroll expense and related liabilities
- Test underlying data utilized in actuarial calculations and review actuarial assumptions

**Self-insurance Liabilities:**
- Update our understanding of controls in place and test accordingly
- Test underlying data utilized in actuarial calculations and review actuarial assumptions
- Analytically review cost trends
Cash and Investments:
- Update our understanding of controls in place and test accordingly
- Confirm selected balances with external parties and review related reconciliations

Single Audit and APA Compliance:
- Test internal controls over major program operation
- Test compliance with applicable compliance requirements (e.g., allowable costs,
- Current planned programs – Preschool Development and Special Education

Financial Reporting:
- Review journal entries to ensure Net Position and Fund Balance are properly presented
- Review account groupings and disclosures for the financial statements
- Review new GASB requirements for applicability and proper implementation
New Accounting and Reporting Changes
GASB statements effective for FY 2019:

GASB Statement No. 83 – Certain Asset Retirement Obligations

- Establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for asset retirement obligations

GASB statements effective for FY 2020:

GASB Statement No. 84 – Fiduciary Activities

- Establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on:
  - (1) whether a government is controlling the assets of the fiduciary activity, and
  - (2) the beneficiaries with whom a fiduciary relationship exists.

- Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activity
GASB statements effective for FY 2021:

- GASB Statement No. 87 – Leases
  - Establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset
  - Requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract
Your Guide Forward

Rob Churchman
Partner
804.673.5733
rchurchman@cbh.com

Rebecca George
Manager
804.673.5751
rgeorge@cbh.com
CHESTERFIELD COUNTY AND CHESTERFIELD COUNTY PUBLIC SCHOOLS

2020 HEALTH/DENTAL RENEWAL PRELIMINARY REVIEW

June 14, 2019
Claire H. Harlin, CEBS

www.usi.com
2020 Health Plan Preliminary Review

Anthem 2020 Medical/Prescription Drug Renewal

- The recommended renewal increase for the 2020 calendar year based on preliminary projections is 4.6%. This increase will fund expected claims, fixed fees, the C-Fit program, HSA contributions, and includes a margin for claim fluctuations and plan reserve funding.

- Expenses including claim margin for 2018 were projected to be $116.1 million. Actual expenses were $113.0 million or 97.3% of expected. *(Claim margin equal 2%)*

- Expenses including all margins for 2019 are projected to be $123.9 million. Through April, expenses are at 82% of expected. *(Claim margin plus plan reserve margin equal 3.5%)*

- Total projected expense for calendar year 2020 is $130.7 million.

- Administrative fees are being held flat for 2020. This will be the fourth year they are held flat by Anthem.

- Guaranteed pharmacy formulary rebates for 2020 are expected to exceed $5 million which is consistent to projections in years 2018 and 2019.
2020 Health Plan Preliminary Review

- The increase assumes no plan design changes.

- Rates were increased 3.0% at the last renewal and the increase was shared equally by the County, Schools, and employees.

- Adjusted claims paid during the renewal review period ending April 30, 2019 increased 3.1% per member per year compared to the last renewal period. The increase is below average national and regional increases and reflect the relative stability of the plan.

- Specific stop loss fee is increasing 38.6% from $27.92 per employee per month to $38.70. The increase is due a significant increase in claims above the stop loss limit this year plus an overall increase in stop loss rates in the national market place.
  - Chesterfield’s claims above the $300,000 limit increased from 13 to 24 in the most recent experience period. Sixteen of these claims are for individuals who are still active on the plan.

Financial Summary of Specific Stop Loss Reinsurance Coverage

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
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<tbody>
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<td>$200K</td>
<td>$200K</td>
<td>$300K</td>
<td>$300K</td>
<td>$300K</td>
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<tr>
<td>SSL (pep)</td>
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<td>$37.65</td>
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<td>$22.85</td>
<td>$25.10</td>
<td>$27.92</td>
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<td>Annual SSL Premium</td>
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<td>$4,772,891</td>
<td>$4,941,778</td>
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<td>SSL Credit</td>
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<td>Loss/(Gain) to Chesterfield</td>
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<td>$546,783</td>
<td>($551,509)</td>
<td>($1,648,291)</td>
<td>($821,097)</td>
<td>($881,801)</td>
</tr>
</tbody>
</table>

Increase to SSL Fee  
1.8%  5.0%  -42.2%  9.8%  11.2%

Notes:
1. SSL pepm fee for CY 2014 is a first year fee. The equivalent mature year fee was $35.52. CY 2015 increase compared to mature year is 6.0%.
2020 Health Plan Preliminary Review

- Overall employer cost per member per year is $6,134. By benefit plan, this cost is:
  - POS Plan = $6,243
  - HSA Plan = $5,756 (this amount includes Chesterfield’s contribution to the HSA on behalf of enrolled employees)
  - Enrollees in the HSA plan cost Chesterfield 8% less than POS enrollees.

- Enrollment continues to shift to the HSA. Currently, approximately 23% of employees are enrolled in the HSA plan, up from 20% last year. Since employees in the HSA are lower in cost to Chesterfield, as more employees migrate to this plan, Chesterfield’s costs increase more slowly,
  - HSA Enrollment: County - 16%; Schools - 26%
  - Employees are growing balances in their HSA. The average balance is $2,668.
  - Through calendar year 2018, 95% of employees enrolled in the HSA had a balance greater than $0. Of those enrolled, 17.4% (397) have a balance greater than $5,000 with 79 (3.5%) having a balance greater than $10,000.
2020 Health Plan Preliminary Review

- During the renewal experience period, employees paid 12% of the total medical and pharmacy claims expense in out-of-pocket copays, deductibles, and coinsurance. When combined with the employee portion of the premiums, employees are paying approximately 35% of the cost of the health care program while the County and Schools are paying the remaining 65%.

- FY20 budget includes an increase of 8% for the health plan for CY20. It is recommended that some portion of the difference in dollars associated with a 8% increase versus a 4.6% increase for the employer portion of the cost be put into the health plan fund to increase plan reserves to industry-accepted levels.

- This action supports the strategy that was adopted in 2019 to establish funding rates that will allow Chesterfield to fully fund the incurred but not reported claim liability with a goal towards establishing a rate stabilization fund in the future.

- On the following page is a rates and contribution scenario that illustrates implementing a 4.6% increase to total premiums and sharing that increase equally with employees.
## 2020 Health Plan Preliminary Review

### Preliminary Contribution Scenario - 4.6% increase; spread evenly

<table>
<thead>
<tr>
<th>COUNTY</th>
<th>2019 Monthly Rates</th>
<th>2020 Monthly Rates @4.6% Increase; spread evenly across the board</th>
<th>Change</th>
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<tbody>
<tr>
<td>POS</td>
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<td>County</td>
<td>Employee</td>
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<tr>
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<td>$582.00</td>
<td>$67.00</td>
</tr>
<tr>
<td>EE + Child</td>
<td>$1,040.00</td>
<td>$740.00</td>
<td>$300.00</td>
</tr>
<tr>
<td>EE + Children</td>
<td>$1,269.00</td>
<td>$813.00</td>
<td>$456.00</td>
</tr>
<tr>
<td>EE + Spouse</td>
<td>$1,269.00</td>
<td>$813.00</td>
<td>$456.00</td>
</tr>
<tr>
<td>Family</td>
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<tr>
<td>PPO</td>
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<td>$99,432</td>
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<tr>
<td>Total</td>
<td>$43,841,088</td>
<td>$33,248,712</td>
<td>$10,592,376</td>
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</table>

<table>
<thead>
<tr>
<th>SCHOOLS</th>
<th>2019 Monthly Rates</th>
<th>2020 Monthly Rates @4.6% Increase; spread evenly across the board</th>
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<tbody>
<tr>
<td>POS</td>
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<td>Lumenos</td>
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<tr>
<td>POS</td>
<td>Total</td>
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<td>$876.00</td>
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<td>$10,592,376</td>
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### Grand Total

<table>
<thead>
<tr>
<th>Additional Dollars</th>
<th>Total</th>
<th>County/Schools</th>
<th>Employee</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>$124,966,236</td>
<td>$95,396,208</td>
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### Proposed 2020

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<td>$30,921,132</td>
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</table>
2020 Health Plan Preliminary Review

- The benefits department will be conducting an audit of Anthem’s claims in the next six months. A claims audit is one tool Chesterfield can use to responsibly manage both employee and tax payer dollars that are a part of the health care program.

- Recent Successes in Chesterfield’s Benefits Programs:
  - Two years in a row of renewal increases that are below 5% which is below the national and regional averages.
  - The County completed an electronic open enrollment for the first time in the Fall of 2018 for 2019. The Schools is currently working to build electronic enrollment capabilities as well.
  - The County will offer a small group of part-time employees who work between 29 and 40 hours per week employer health insurance in 2020 for the first time and all other part-time employees will be limited to 28 hours per week.
  - Continued growth in the HSA option – almost one in four employees are enrolled in this plan and HSA balances continue to grow.
  - Engagement in the C-Fit program continues to grow.
  - Employees utilizing the Employee Medical Center (EMC) for wellness visits continues to limit the number of visits employees are making to their Primary Care Physicians which reduces healthcare costs. Employees in the County and Schools have visited the EMC over 10,000 times for wellness (minor sick visits) in the last four fiscal years.
2020 Health Plan Preliminary Review

Delta Dental Renewal

- Chesterfield County will begin the fifth and final year of the current contract with Delta Dental on January 1, 2020.

- Rates will increase 2.16% with the upcoming renewal. This rate increase is in line with the negotiated contract where the rate increase is capped at Dental CPI.

- At the last RFP (effective January 2016), USI negotiated on behalf of Chesterfield for a three-year rate cap and the cap in years 4 and 5 tied to the Dental CPI. These negotiations are estimated to have saved Chesterfield County employees approximately $780,000 in dental premiums over the 5-year contract.

- The County and Schools recommend continuing to contribute $10 per employee per month towards the cost of coverage. This contribution sets us apart from other localities.

- Employees will absorb the increase ($176,000).

- Total enrollment in the three plans is 13,872.

- Chesterfield offers three plans with the following enrollment. The Comprehensive plan has 7,769 enrolled (56%), the Basic plan has 4,819 (35%), and the EPO has 1,284 (9%).
THANK YOU.
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Unrestricted contribution to fund balance projected to be $6.9M, predominately the result of strong revenue performance.

Additional restricted revenues and items to be reserved, described below, estimated at $23.2M. Some intentionally unbudgeted so that they can be used in later budgets for the designated purpose.

Expenses coming in right on the mark, variance projected at just 0.05% from adopted budget. Closer than the 0.44% final variance in FY18.

Tightening expense side driven by several factors, most notably increased prices of contractual/subscription services, and lower turnover than recent budgets have anticipated.

Next Steps: June 26th BOS meeting will include a typical year-end item that adjusts among departments/appropriation categories and details any reserve requests; the projected results below are prior to any of these adjustments.

<table>
<thead>
<tr>
<th>Revenues</th>
<th>Revised Budget</th>
<th>Projected</th>
<th>Variance</th>
<th>Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Administration of Justice</td>
<td>$5,711,403</td>
<td>$5,846,961</td>
<td>$135,558</td>
<td>Decreasing court fine collections in General District Court (due to payment plans driven by state legislation) is being offset by greater than budgeted reimbursements from the Compensation Board and Forfeiture revenue, resulting in a slight surplus.</td>
</tr>
<tr>
<td>Community Development</td>
<td>1,172,200</td>
<td>1,044,714</td>
<td>(127,486)</td>
<td>Rezoning activity trending below budget in Planning.</td>
</tr>
<tr>
<td>Debt Service</td>
<td>120,000</td>
<td>240,000</td>
<td>120,000</td>
<td>Rental income.</td>
</tr>
<tr>
<td>General Government</td>
<td>6,739,400</td>
<td>8,538,914</td>
<td>1,799,514</td>
<td>Additional $181k in IST based on reimbursement from other funds for licenses and services; DMV stop collection is up – has offsetting expense.</td>
</tr>
<tr>
<td>Human Services</td>
<td>15,434,600</td>
<td>15,582,711</td>
<td>148,111</td>
<td>Social Services federal pass-through revenue.</td>
</tr>
<tr>
<td>Property Taxes and Other Financing Sources</td>
<td>659,819,863</td>
<td>681,834,917</td>
<td>22,015,054</td>
<td>$12M restricted (VDOT reimbursements, VRF, BPOL, PEG); Personal property $3.5M; investments $4.1M; Public Service Corporation Taxes $1.1M; Convention Center Reimbursements $1.1M</td>
</tr>
<tr>
<td>Parks, Recreation, Cultural</td>
<td>2,239,980</td>
<td>2,435,792</td>
<td>195,812</td>
<td>Portion of this is from tournament fees at River City (to be reserved).</td>
</tr>
<tr>
<td>Public Safety</td>
<td>21,024,276</td>
<td>25,780,322</td>
<td>4,756,047</td>
<td>Building Inspections activity up (specifically commercial permits), revenue projected +$1.3M; Police revenue projected +$1.6M (largely driven by Asset Forfeiture revenue which will be reserved); and Sheriff revenue projected +$1.8m due to Riverside Regional Jail rainy day pass through.</td>
</tr>
<tr>
<td>Public Works</td>
<td>5,606,000</td>
<td>6,423,640</td>
<td>817,640</td>
<td>Increases driven by Building and Grounds and Environmental Engineering revenue from building rental and BMP Maintenance Fees</td>
</tr>
<tr>
<td>Total</td>
<td>$717,867,722</td>
<td>$747,727,972</td>
<td>$29,860,251</td>
<td></td>
</tr>
</tbody>
</table>

Net, less restricted portions: $6,940,687
<table>
<thead>
<tr>
<th>Expenses</th>
<th>Revised Budget</th>
<th>Projected</th>
<th>Variance</th>
<th>Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Admin of Justice</td>
<td>9,824,532</td>
<td>10,129,495</td>
<td>$(304,963)</td>
<td>Fewer vacancies and increased PT expenses in Circuit Court Clerk, Circuit Court Judges, coupled with increased outlay in JDRC for storage solutions. These are offset by transition-related personnel savings in Commonwealth’s Attorney.</td>
</tr>
<tr>
<td>Debt Service</td>
<td>25,164,200</td>
<td>23,776,781</td>
<td>1,387,419</td>
<td>Driven by Principal and Interest savings.</td>
</tr>
<tr>
<td>General Government</td>
<td>59,038,743</td>
<td>55,543,362</td>
<td>3,495,381</td>
<td>Savings primarily in centrally budgeted workers comp; will be redistributed amongst departments as necessary at year-end. Offsetting overages in Treasurer (has revenue source) and includes additional equipment purchases in Registrar.</td>
</tr>
<tr>
<td>Human Services</td>
<td>33,183,666</td>
<td>33,237,327</td>
<td>(53,661)</td>
<td>Primarily driven by personnel savings in Social Services – Medicaid expansion budgeted for full-year, but positions only filled for half-year. Savings offset additional program funding for Tax-Relief for the Elderly and Disabled (+$795K)</td>
</tr>
<tr>
<td>Parks, Recreation, Cultural</td>
<td>22,410,843</td>
<td>22,722,978</td>
<td>(312,135)</td>
<td>Overage in Parks and Recreation and Libraries driven by fewer vacancies exceeding the cut for turnover (addressed in FY2020), and increased worker’s compensation payments in Parks and Recreation.</td>
</tr>
<tr>
<td>Public Safety</td>
<td>180,535,007</td>
<td>182,534,023</td>
<td>(1,999,016)</td>
<td>Fire -$1.8M Primarily Overtime $1.3M, and $683k in Worker’s Compensation. Offset by operating savings; Police- $2.3M Primarily Overtime $1.4M, and $900k in Worker’s Compensation with overage in operating offset by other personnel savings. Juvenile Detention - $510k Primarily overages in salaries and fringes of $162k, $322k in Worker’s Compensation, and $26k in operating. Sheriff savings of $2.5M in Regional Jail Expenditures offsetting other department overages.</td>
</tr>
<tr>
<td>Public Works</td>
<td>19,319,316</td>
<td>20,890,520</td>
<td>(1,571,204)</td>
<td>Overage in Buildings and Grounds and Environmental Engineering primarily driven by fewer vacancies affecting the cut for turnover, and curbside recycling costs in Waste and Resource are contributing to the year-end projection.</td>
</tr>
<tr>
<td>Reserves/Contingency</td>
<td>904,189</td>
<td>894,100</td>
<td>10,089</td>
<td>Contribution to RFCIP to be reserved at year-end.</td>
</tr>
<tr>
<td>Transfers: to Other Funds to Schools</td>
<td>130,892,927 306,654,826</td>
<td>130,892,927 306,654,826</td>
<td>0 0</td>
<td>Includes encumbrances carried forward from prior years.</td>
</tr>
<tr>
<td>Total</td>
<td>$810,819,443</td>
<td>$810,498,254</td>
<td>$321,187</td>
<td></td>
</tr>
</tbody>
</table>
• **General Government:** Accounting, Board of Supervisors, Budget and Management, Clerk to the Board, Commissioner of the Revenue, Communications and Media, County Administration, County Attorney, Employee Benefits, General Services Administration, Human Resources, Intergovernmental Relations, Internal Audit, Information Technology, Document Services, Purchasing, Real Estate Assessor, Registrar, Learning and Performance Center, Treasurer

• **Administration of Justice:** Clerk of Circuit Court, Commonwealth’s Attorney, Courts, Law Library, Magistrate

• **Public Safety:** Animal Services, Building Inspection, Community Corrections, Fire and EMS, Juvenile Detention Home, Juvenile Probation, Police, Riverside Regional Jail, Sheriff

• **Public Works:** Facility Management, Environmental Engineering, Right-of-Way, Streetlights, Waste and Resource Recovery

• **Human Services:** Health, Social Services, Tax Relief, Citizen Information and Resources

• **Parks, Recreation, Cultural:** Community Contracts (donations), District Improvement Funds, Library, Parks and Recreation

• **Community Development:** Economic Development (and related activities), Cooperative Extension, Community Enhancement, Planning, Transportation

• **Transfers** to grants, mental health, schools, airport, comprehensive services, capital projects
FY2019 School Operating Fund Projections

Audit and Finance – June 14, 2019

Projections Overview - Expenditures

- Expenditures as of May 31, 2019 are projected to be approximately 1.3% under the revised budget at year end

<table>
<thead>
<tr>
<th>Expenditures</th>
<th>Revised Budget</th>
<th>Projection</th>
<th>Variance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Instruction</td>
<td>$463,813,040</td>
<td>$459,677,997</td>
<td>$4,135,043</td>
</tr>
<tr>
<td>Administration / Attendance &amp; Health</td>
<td>21,849,063</td>
<td>20,376,079</td>
<td>1,472,984</td>
</tr>
<tr>
<td>Transportation</td>
<td>41,994,074</td>
<td>41,193,283</td>
<td>800,791</td>
</tr>
<tr>
<td>Operations &amp; Maintenance</td>
<td>96,296,577</td>
<td>94,955,433</td>
<td>1,341,144</td>
</tr>
<tr>
<td>Technology</td>
<td>17,664,782</td>
<td>16,947,696</td>
<td>717,086</td>
</tr>
<tr>
<td>Debt</td>
<td>52,968,920</td>
<td>52,968,920</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total projected available</strong></td>
<td><strong>$694,586,455</strong></td>
<td><strong>$686,119,407</strong></td>
<td><strong>$8,467,048</strong></td>
</tr>
</tbody>
</table>

Projections Overview - Revenue

- Revenue side – $(48,979)
  - Student enrollment as of 9/30/2018 was 44 students over budgeted enrollment
    - Virginia Department of Education (VDOE) has provided an average daily membership number of 60,704 or 105 above budgeted ADM
    - Sales Tax projected to budget: Trend is showing unfavorable results through the end of the fiscal year as of the May 31, 2019 budget by ~$1.2M

<table>
<thead>
<tr>
<th>Revenues</th>
<th>Revised Budget</th>
<th>Projection</th>
<th>Variance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Local</td>
<td>$9,857,418</td>
<td>$9,184,781</td>
<td>$(672,637)</td>
</tr>
<tr>
<td>State Sales Tax</td>
<td>65,085,600</td>
<td>63,886,797</td>
<td>(1,198,803)</td>
</tr>
<tr>
<td>State</td>
<td>279,329,902</td>
<td>281,241,702</td>
<td>1,911,800</td>
</tr>
<tr>
<td>Federal</td>
<td>437,424</td>
<td>348,084</td>
<td>(89,339)</td>
</tr>
<tr>
<td>Transfers</td>
<td>312,573,975</td>
<td>312,573,975</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total projected available</strong></td>
<td><strong>$667,284,318</strong></td>
<td><strong>$667,235,339</strong></td>
<td><strong>$(48,979)</strong></td>
</tr>
</tbody>
</table>

Planned set-asides:
- $4.3M for future year budgets, $1M for school bus replacement plan, $2M additional SRP payment based on Plan Document Requirements, $1M contribution for the health insurance fund.
TO: SCHOOL BOARD

FROM: Mervin B. Daugherty, Ed.D.
Superintendent

SUBJECT: FY2019 - QUARTERLY BUDGET REVIEW – YEAR END

SUPPORTING DOCUMENTS
ATTACHMENT A: Financial Reports for the Period Ending May 31, 2019
ATTACHMENT B: Resolution

PERTINENT INFORMATION

On May 14, 2018, the School Board adopted an annual financial plan totaling $712,189,800 in all funds. The FY2019 Financial Report reflecting actual revenues and expenditures as of May 31, 2019 as well as a year-end projection for each fund is attached.

Operating Fund

The net ending balance for the operating fund (revenues vs expenditures) is projected to be $8.4M. The end of year revenue projection includes the receipt of additional revenue from the state for student enrollment in excess of projection as well as from the results of the 2019 General Assembly session impacting FY2019. These are offset by the likelihood of reduced revenue from sales tax and several other revenue sources.

This projected ending balance is 1.3% of the total FY19 adopted budget operating fund amount. From this projected $8.4M ending balance, approximately $3.3M represents a planned set-aside for future year budgets, the $1.0M requirement for the school bus replacement plan, the $2.0M requirement for an additional year end payment to the SRP trust fund, and a $1.0M contribution for the health insurance fund. Taking into account the operating fund changes at Schedule A and the requested reserves at Schedules B and C, the remaining projected operating fund balance is sufficient to meet the $1.0M fund balance requirement included in the FY2020 operating budget.

There are two other areas of note with regard to the status of the operating fund for year end:

1) The current year end projection assumes that, collectively, all operating (non-personnel) funds will be expended by year end with the exception of replacement school buses. At this time, CCPS is unable to purchase of the full complement ($5,935,117) of replacement buses planned for FY2019 (this amount includes the adopted budget amount, FY18 encumbrances carryovers and the $1M reserve amount from FY18. There are two reasons for this limitation: a) the current bus purchase contract expired on May 31, 2019. CCPS and purchasing staff are working collaboratively to identify an alternative purchasing vehicle (this is indicated in the reserve request on Schedule C of $1.7M for replacement buses) and b) taking into account the current financial status of the transportation appropriation category together with overall projected year-end balance, it would not be fiscally prudent to permit the purchase of the remaining $1.4M of replacement school buses prior to year-end. To the extent that year-end results are more favorable than expected, it is the request of the School Board to have remaining funds (above the projected $8.4M) up to $1.4 million...
reserved at year end to purchase replacement buses, which is the amount required to complete the purchase of planned number of replacement buses for the year.

2) The Chromebook lease/purchase for high schools requires a technical adjustment to record the full cost as an expense funded via the lease agreement (Reflected on Schedule A)

This updated projection reflects a balance (after reserves) that is nearly identical to the projection at the third quarter review. We will continue to monitor revenues and expenditures through June 2019; however, at the current time, absent any other changes, the adjustments for the required set asides are expected to consume all projected year end funds remaining. Staff continues to have concerns around revenue streams such as state sales tax – projected at this time to fall short of the budgeted amount by more than $1M.

**Grants Fund**
No change.

**Food Services Fund**
No change.

**Summary**

There are three schedules included below in this agenda item, all of which contain requests for action by the Board of Supervisors. **Schedule A** is an accounting of year end revenue and expenditure adjustments as well as appropriation changes by fund. **Schedule B** delineates required reserves for future budget years. All of these reserves have been identified as part of the 5-year plan, documents such as the SRP Plan Document or other commitments such as the bus replacement plan. **Schedule C** contains reserve requests for FY2019 budgeted activities that will continue into FY2020.

**RECOMMENDED ACTIONS:**

It is recommended that the School Board:

1) Approve the revenue and expenditure adjustments and appropriation changes at Schedule A;

2) Approve the reserve requirements as shown at Schedule B and approve the reserve requests for FY2019 budgeted activities continuing into FY2020 as shown at Schedule C;

3) Request that any remaining ending balance based on the final FY2019 audit up to $1.4 million be reserved and re-appropriated for the purchase of replacement buses in FY2020 and any balance remaining beyond the amount reserved for replacement buses be reserved for Future School Needs in the general fund; and,

4) Approve the resolution to the Board of Supervisors on Attachment B and authorize the superintendent to make other appropriation adjustments to the School Operating Fund, as may be necessary to implement the actions contained in this year-end budget review.
### Schedule A

Revenue Adjustments, Transfers and Final Appropriation Changes

#### FY2019 Revenue Adjustments:

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating Fund</td>
<td></td>
</tr>
<tr>
<td>State Aid</td>
<td>$2,303,900</td>
</tr>
<tr>
<td>Medicaid</td>
<td>(392,000)</td>
</tr>
<tr>
<td>State Sales Tax</td>
<td>(1,198,800)</td>
</tr>
<tr>
<td>Federal</td>
<td>(89,000)</td>
</tr>
<tr>
<td>Local</td>
<td>(672,600)</td>
</tr>
<tr>
<td>Local – HS Chromebook lease proceeds</td>
<td>5,965,705</td>
</tr>
<tr>
<td></td>
<td>$5,917,205</td>
</tr>
<tr>
<td>Grants Fund</td>
<td>none</td>
</tr>
<tr>
<td>School Food Service Fund</td>
<td>none</td>
</tr>
</tbody>
</table>

#### FY2019 Expenditure Adjustments (by appropriation category):

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating Fund</td>
<td></td>
</tr>
<tr>
<td>Instruction</td>
<td>$(48,500)</td>
</tr>
<tr>
<td>Technology</td>
<td>$5,965,705</td>
</tr>
<tr>
<td>Grants Fund</td>
<td>none</td>
</tr>
<tr>
<td>School Food Service Fund</td>
<td>none</td>
</tr>
</tbody>
</table>

#### FY2019 and FY2020 Final Appropriation Changes (technical adjustments)

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating Fund (transfer from CIP)</td>
<td>$100,000</td>
</tr>
<tr>
<td>CIP Fund (transfer to Operating Fund)</td>
<td>$100,000</td>
</tr>
</tbody>
</table>

*The two adjustments above will correct the original FY2019 budget upload after these entries were inadvertently omitted and also amend the FY2020 appropriations resolution which also omitted this appropriation.*
Schedule B

Reserves for Future Budget Years (In Priority Order)

<table>
<thead>
<tr>
<th>Reserve Type</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fund balance requirement included in the FY2020 operating budget (including in original FY20 appropriations)</td>
<td>$1,000,000</td>
</tr>
<tr>
<td>Debt Reserve (held in the general fund)</td>
<td>1,829,300</td>
</tr>
<tr>
<td>SRP payment based on Plan document (re-appropriate to FY2020)</td>
<td>2,000,000</td>
</tr>
<tr>
<td>Bus replacements (re-appropriate to FY2020)</td>
<td>1,000,000</td>
</tr>
<tr>
<td>Contribution to the Healthcare Fund (re-appropriated and transferred to healthcare fund in FY2020)</td>
<td>1,000,000</td>
</tr>
<tr>
<td>FY2021 required funding source (to be held in the general fund)</td>
<td>1,500,000</td>
</tr>
</tbody>
</table>

Total: $8,329,300

*Should results materialize beyond this amount, up to $1.4M is to be reserved for school bus replacements (re-appropriated in FY2020). Any amount above that should be reserved for future school needs and held in the general fund.

Schedule C

Reserves for FY2019 budgeted activities continuing into FY2020

<table>
<thead>
<tr>
<th>Reserve Type</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Textbooks/Digital content</td>
<td>$1,159,000</td>
</tr>
<tr>
<td>Wellness</td>
<td>60,000</td>
</tr>
<tr>
<td>Local match to grants</td>
<td>515,100</td>
</tr>
<tr>
<td>Algebra readiness state funding</td>
<td>259,300</td>
</tr>
<tr>
<td>Private Donation</td>
<td>54,300</td>
</tr>
<tr>
<td>Replacement buses¹</td>
<td>$1,700,000</td>
</tr>
</tbody>
</table>

Total: $3,747,700

¹ The current bus purchase contract expired May 31, 2019. School staff and county purchasing are collaboratively working toward identification of an alternative purchasing vehicle.
VIRGINIA: At a regularly scheduled meeting of the Chesterfield County School Board held Tuesday evening, June 10, 2019, at 6:30 pm in the Public Meeting Room at the Chesterfield County government complex

PRESENT: Rob Thompson, Chair
Javaid Siddiqi, Vice-Chair
Carrie E. Coyner
Dianne H. Smith
John Erbach

RESOLUTION

WHEREAS, there is a need to make the revenue and expenditure adjustments as shown on Schedule A; and, WHEREAS, the ending balance for FY2019 is sufficient as currently projected to meet the reserve requirements (Schedule B) and the requested reserves for budgeted activities continuing into FY2020 identified in Schedule C; NOW, THEREFORE, BE IT RESOLVED, that on motion of _______ seconded by _______, the School Board hereby requests the Board of Supervisors to 1) approve the revenue and expenditure revisions and appropriation changes shown at Schedule A, 2) reserve and re-appropriate the funds identified at Schedules B and C in the School Operating Fund, and 3) request any remaining ending balance in the school operating fund be reserved for replacement bus purchases up to $1.4M and any remaining ending balance be reserved for Future School Needs. This request is dependent upon the final results of FY2019 operations, adjusted according to the county’s financial audit.

Robert McDaniel, Clerk
Mervin Daugherty, Superintendent
DATE: June 4, 2019

TO: Audit and Finance Committee (AFC):
The Honorable Leslie Haley, Midlothian District Supervisor
The Honorable Steve Elswick, Matoaca District Supervisor
The Honorable Robert W. Thompson, Matoaca District School Board
The Honorable John M. Erbach, Dale District School Board

Joseph P. Casey, PhD., County Administrator
Mervin B. Daugherty, Ed.D., School Superintendent

FROM: Greg L. Akers, Director of Internal Audit

SUBJECT: Approval Request, Internal Audit Proposed Policy Revisions

June 14, 2019 will be the first Joint County and School AFC meeting of 2019 and we are requesting approval of proposed Internal Audit (IA) policy revisions. The proposed policy revisions were previously distributed (AFC website) for the cancelled January 29, 2019 AFC Meeting. IA Policy 8-1 requires considering potential policy updates at the first calendar year AFC meeting.

At the November 9, 2018 Joint AFC meeting, proposed Internal Audit (IA) policy revisions were provided for consideration and input. Proposed revisions are attached (blacklined and highlighted) for:

- 8-1, IA Introduction (issued 9/28/18), and
- 8-2, IA Fraud, Waste and Abuse Prevention and Detection (issued 11/15/17).

The proposed revisions are for the recent County AFC membership restructuring and the School AFC created in October 2018. As discussed at the December 7, 2018 County AFC meeting, School Board members requested change to the proposed 8-1 provided on November 9th. The requested modification for audit policy change approval to occur through Joint AFC meetings is included in the attached proposed revisions.

There are no additional proposed revisions for this year.

Attachments
I. INTRODUCTION

The County of Chesterfield, Office of Internal Audit (O.I.A) was established as an independent review and evaluation service function to conduct and evaluate financial, and performance audits of programs, functions, and activities as a service to County and School management.

The Internal Audit Director (Auditor) reports to the County Administrator, School Superintendent, and the County and School’s Audit and Finance Committees (AFCs). The Auditor also provides periodic internal audit reports and updates to the Board of Supervisors and School Board through their respective AFCs. The four member AFC consists of two members of the Board of Supervisors and two members of the School Board appointed by their respective Chairs. Annual performance review feedback for the Auditor is provided from elected officials via their representatives on the Audit and Finance Committees, and through the County Administrator and School Superintendent.

Independence – To be independent in fact and appearance, auditors must be free from conflicts of interest and free from interference in how the work is conducted and reported. The Auditor will comply with Government Auditing Standards to identify, safeguard against, or report threats to independence.

The Audit Director has no direct authority over other persons in the organization whose work he/she reviews. Such authority is vested in the Department head. Further, his review and evaluations do not in any way relieve other persons in the organization of the responsibilities and accountability for duties assigned to them.

Complete objectivity is essential to the audit function. The Auditor, therefore, should not develop and/or install procedures, prepare records, or engage in any activity, which he/she would normally expect to review.

Management Support – The organizational status of the Auditor and the support of his function by County and School Management provides the benchmark for the success of the internal audit program. The Auditor must have access to management at all levels to ensure adequate consideration and satisfactory resolution to all comments, recommendations and findings.

Unique Creation and Update Process for Internal Audit Administrative Policy and Procedure – County Administrative Policy (CAP) 09-01, County Administration – Administrative Policies and Procedures establish guidelines for creating, updating, and rescinding County Administrative Policies and Procedures. Based on Internal Audit’s organizational placement, Internal Audit administrative policy and procedure creation or updates use an alternate approval process to CAP 09-01. Internal Audit policies will be evaluated at least annually for potential update during the Joint (County and School) AFC’s first calendar year meeting. Internal Audit will provide recommended administrative procedure creation or update to the County Administrator and School Superintendent, and present to the Joint AFC for approval.

II. OBJECTIVES AND SCOPE

The Auditor shall have responsibility to conduct audits of all County and School departments, agencies, and activities as stipulated by County Code Chapter 6.12 to independently and objectively determine whether:
A. Activities and programs being implemented have been authorized by either the Board of Supervisors, School Board, County Administrator, School Superintendent, state or federal law or regulations and are being conducted and funds expended in compliance with applicable laws;

B. The department, office, or agency is acquiring, managing, protecting, and using its resources, including public funds, personnel, property, equipment, and space, economically, efficiently, equitably, and effectively and in a manner consistent with the objectives intended by the authorizing entity or enabling legislation;

C. The entity, programs, activities, functions, or policies are effective, including the identification of any causes of inefficiencies or uneconomical practices;

D. The desired result or benefits are being achieved;

E. Financial and other reports are being provided that disclose fairly, accurately, and fully all information required by law, to ascertain the nature and scope of programs and activities, and to establish a proper basis for evaluating the programs and activities including the collection of, accounting for, and depositing of any funds, revenues, and other resources;

F. Management has established adequate operating and administrative procedures and practices, systems or accounting internal control systems and internal management controls; and,

G. During the course of audit work, there are no indications of fraud, waste, abuse or illegal acts.

III. ANNUAL AUDIT PLAN

A. At the beginning of each fiscal year, the Auditor shall submit a proposed annual audit plan to the County Administrator, School Superintendent, and the AFCs for review and approval. This proposed audit plan will be presented for approval by the AFCs. The plan shall include the departments, offices, boards, activities and agencies scheduled for audit during the year. This plan may be amended during the year after review with the County Administrator/School Superintendent. Additionally, the Auditor may initiate and conduct any other audit deemed necessary to undertake.

B. In the selection of audit areas, the determination of audit scope and the timing of audit work, the auditor may consult with the County’s external auditors, Deputy County Administrators, School Division Chiefs and Department Heads so that desirable audit coverage is provided and audit effort may be properly coordinated. Proposed audit plan will allocate resources between County and School projects proportionate to the auditable unit population.

C. Risk Assessment – Internal Audit in developing or revising its Annual Audit Plan shall conduct a County-wide risk assessment. This allows Internal Audit to systematically evaluate risks related to auditable units. It also provides for an audit frequency for each auditable unit based upon a calculated risk score and other relevant factors. Auditable units and the assessed risk levels are subject to change over time.

D. Audit Follow-up – On an annual basis, the Auditor will furnish the County Administrator, School Superintendent and AFC with a summary of all material unresolved comments, recommendations and management responses.

IV. SPECIAL EXAMINATION

The AFCs, County Administrator, School Superintendent, Deputy County Administrator, School Division Chief or Department Head may request the Auditor to perform special examinations or unplanned audits that are not included in the annual audit plan. The Auditor will determine the performance of requested items based on audit plan priorities, professional standards, available staff, and resources.
V. AUDIT PROCESS

A. The Office of Internal Audit will make every effort to inform the auditee about an upcoming audit and be flexible in scheduling. Factors such as auditee’s seasonal workload, or other issues, will be taken into consideration when scheduling audits and developing the timetable for completion. This notification will take the form of an Entrance Conference Memorandum that will outline the general scope, objectives of the audit, a proposed timetable for completion, request for general information, and the responsibility of the Auditor and Department Head. This memorandum will be sent to the Department Head at least two weeks in advance of the Entrance Conference.

B. At the Entrance Conference, the auditee and the auditor will discuss approaches and expectations about the way the audit will be conducted. The Auditor will also determine whom management designates to receive Point Sheets. The Auditor will then conduct a Survey, which enables the Auditor to gain a working understanding of the mission, operations and functions of the entity or function being audited.

C. The Fieldwork will commence after completion of the survey. The fieldwork stage involves testing of transactions, vouching of account balances, and evaluation of administrative and internal policies and procedures and other audit procedures deemed necessary. The fieldwork is conducted generally within the general framework of generally accepted government auditing standards.

D. Upon completion of any function or activity during fieldwork, the In-charge Auditor will prepare Point Sheets. Point Sheets are written documents which list: Criteria, Condition, Cause, Effect and Recommendation(s) for each audit finding. These point sheets will be provided as drafts to management and discussed. The auditor will document point sheet discussion with management, noting if there was agreement and describing any disagreements. Based on supporting information from management, the In-Charge Auditor may revise the draft findings and/or perform additional testing. The evaluation of the Point Sheets by management and concurrence by the In-Charge Auditor only represents acknowledgement that the issues were discussed. It does not indicate approval or any final commitment.

E. An Exit Conference will be scheduled by the Auditor. At the Exit Conference, the auditee and the Audit Director will discuss each comment and recommendation. This conference provides an opportunity for the auditee to produce evidence that may result in changes due to material inconsistencies, omissions, and/or errors in the point sheets. It also provides for a sound evaluation of the recommendations in terms of cost/benefit, timetables for implementation, or other resources that the audit process may not have identified. The Exit Conference takes place after the issuance of all point sheets and discussion with management.

F. Based upon the results of the Exit Conference, the Auditor will provide the auditee with a DRAFT REPORT, which will include revised comments and recommendations. The department must return the Draft Report with responses within 21 days from the draft report date. The Audit Director and auditee will then discuss this Draft with the appropriate Deputy County Administrator or School Division Chief when necessary. If material disagreement remains after this meeting, the Audit Director must document points of disagreement and will be responsible for mutually scheduling a meeting with the Auditee, County Administrator or School Superintendent, and /or appropriate Deputy County Administrator or School Division Chief to resolve the issues.

G. The last stage will result in the issuance of a Final Audit Report. The report will include:

1. An Executive Summary to summarize the audit for top management and an Auditor’s Opinion (if necessary),
2. A precise statement of the objectives and scope encompassed by the audit, as well as, some background information,

3. A statement that the audit was performed in accordance with generally accepted government auditing standards,

4. A statement of material and immaterial audit findings, including a statement of the underlying cause and evaluative effects,

5. A statement that internal control systems were examined and report of any material weaknesses found in the internal control systems,

6. Statements of response submitted by the audited department or agency relevant to the audit findings,

7. A concise statement of corrective actions taken or contemplated as a result of the audit findings and a time table for their accomplishments,

8. Recommendations for additional necessary or desirable action and follow-up procedures,

9. A statement disclosing we are a department within Chesterfield County/Schools.

VI. REPORT OF IRREGULARITIES/FRAUD

If the auditor suspects violations of law or malfeasance, misfeasance, nonfeasance, or dereliction of duty by an officer or employee, the Auditor shall report such irregularities to the County Administrator or School Superintendent. If the irregularity is criminal in nature, the Auditor shall immediately notify the County Administrator or School Superintendent and the Commonwealth Attorney or Police in addition to those previously cited.

VII. CONTRACT AUDITORS, CONSULTANTS, AND EXPERTS

An audit that is performed by contract must be conducted by persons who have no financial interests in the affairs of the governmental units or its officers. The Auditor will coordinate and monitor auditing performed by public accounting or other organizations employed under contract by the County to assist with audit related activities. Contracting for external audits will be awarded in accordance with established procurement procedures.

VIII. ACCESS TO RECORDS AND PROPERTY (COUNTY CODE CHAPTER 6.12)

All officers and employees of the County and School system as designated by the County and School Attorney shall furnish (within legal constraints) the Auditor with requested information and records within their custody regarding powers, duties, activities, organization, property, financial transactions and methods of business required to conduct an audit or otherwise perform audit duties. In addition, they shall provide access for the Auditor to inspect all property, equipment, and facilities within their custody. If such officers or employees fail to produce the aforementioned information, then the Auditor, subject to County Administrator’s or School Superintendent’s approval, may request a search to be made and exhibits to be taken from any book, paper or record of any such official or employee, excepting personal information, and every office having the custody of such records shall make a search and forward such requested information to the Auditor.

The Auditor shall retain in accordance with “the Commonwealth of Virginia Records Retention and Disposition Schedules” all audit reports, including examinations, investigations and reviews made. Audit work papers and other supportive material directly pertaining to the audit report will be retained for 8 years.
IX. AUDIT REPORT DISTRIBUTION

A. **Point Sheets** – Limited between In-Charge auditor and the auditee Management Designee.

B. **Draft Report** – After Exit Conference, distribution will include Department Head, Assistant Department Head, and Audit Director.

C. **Final Audit Report** – Distribution to the Board of Supervisors, School Board AFC, Department Head, appropriate Deputy County Administrator, School Division Chief, and County Administrator or School Superintendent. Audit Director may send courtesy copies of appropriate sections to the Director of Accounting, Budget and Management, Human Resources, Information System Technology (IST) and other departments, if situations warrant Department Head will be notified before release.

X. PEER REVIEW

The Internal Audit activities of the Auditor’s office shall be subject to peer review at least once every three years by a professional, nonpartisan objective group utilizing guidelines endorsed by the Association of Local Government Auditors. A copy of the written report of this independent review shall be furnished to the County Administrator, School Superintendent and the AFCs.

The peer review will use generally accepted government auditing standards to evaluate the quality of audit effort and reporting. Specific peer review areas shall include staff qualifications, preparation and evidence, and the adequacy of systems for reviewing internal controls, fraud, waste and abuse, program compliance, and automated systems. The peer review will also assess the form, distribution, timeliness, content, staff qualifications, independence, due professional care, quality control, fieldwork, planning, evidence, internal control, supervision, legal and regulatory requirements) reporting, and presentation of Internal Audit reports.
I. PURPOSE

Chesterfield County’s Strategic Plan goal “Model for excellence in government” includes an objective to “Require the highest standards of professionalism, ethics, and integrity.” To help achieve this objective, this policy has been developed to prevent and detect fraud. The policy also defines what constitutes fraud and outlines expectations and procedures all employees must follow when fraud, waste or abuse is suspected. This policy also addresses requirements of the Code of Virginia, §15.2-2511.2, Duties of local government auditors for the fraud, waste, and abuse hotline.

II. SCOPE

This procedure applies to all County employees. Chesterfield County School Board Policy 2170 includes similar employee responsibilities to report suspected fraud, waste or abuse.

III. DEFINITIONS

A. Fraud – *Intentional deception* perpetrated by an individual or individuals, or an organization or organizations, either internal or external to local government, *that could result in a tangible or intangible benefit* to themselves, others, or the locality or *could cause detriment* to others or the locality. Fraud includes a false representation of a matter of fact, whether by words or by conduct, by false or misleading statements, or by concealment of that which should have been disclosed, which deceives and is intended to deceive. Specific examples of fraud include but are not limited to:

1. Theft of County Funds.
2. Serious abuse of County time such as unauthorized time away from work or excessive use of County time for personal business.
3. Unauthorized use or misuse of County property or records.
4. Falsification of records.
5. Theft or unauthorized removal of County records, County property or the property of other persons (to include the property of employees, supervisors, consumers, clients, customers, inmates or visitors).
6. Willful destruction or damage of County records, County property or the property of other persons (to include the property of employees, supervisors, consumers, clients, customers, inmates or visitors).
7. Neglecting or subverting job responsibilities in exchange for an actual or promised reward.
8. Improperly influencing or misleading auditors or investigators.
B. Waste – *Intentional or unintentional, thoughtless or careless expenditure, consumption, mismanagement, use, or squandering of resources* owned or operated by the County or Schools to the detriment or potential detriment of the organization. Waste also includes incurring unnecessary costs because of inefficient or ineffective practices, systems, or controls. Specific examples of waste include but are not limited to:

1. Unnecessary spending to purchase items including:
   a. Unneeded items that have no business purpose.
   b. Purchases at inflated prices.
   c. Overstocking inventory.
   d. Replacing functional items without cause.

2. Unnecessary use of resources including:
   a. Wasteful use of government property or equipment.
   b. Performing unnecessary work.
   c. Wasting energy including electricity and fuel.

3. Mismanagement of resources.
   a. Failure to reuse or recycle major resources.
   b. Improper disposal of property or hazardous materials.

C. Abuse – *Excessive or improper use* of something, or the employment of something in a manner *contrary to the natural or legal rules* for its use; the intentional destruction, diversion, manipulation, misapplication, maltreatment, or misuse of resources owned or operated by the County or Schools; or extravagant or excessive use so as to abuse one's position or authority. Specific examples of abuse include but are not limited to:

1. Minor County time misuse, such as unauthorized work absence or conducting personal business, including:
   a. Taking long lunches or other excessive breaks
   b. Arriving to work late or leaving early, not working a complete work day.
   c. Failing to report leave for absences.
   d. Conducting secondary employment activity during work hours (such as selling products, preparing tax returns, selling real estate, scheduling or receiving deliveries).
   e. Conducting significant personal business during work hours.

2. Improper personal use of County resources, including:
   a. Using government vehicle for commercial purposes, personal gain, or advancing or inhibiting religious beliefs or political positions.
   b. Using government equipment, computer, email, services, materials or supplies for commercial purposes, personal gain, or advancing or inhibiting religious beliefs or political positions.
   c. Failure to report damage to government property or equipment.
   d. Unnecessary travel or conference attendance.
   e. Inflated travel or expense reimbursement.
f. Receiving favors for awarding contracts to certain vendors.
g. Using one’s position to gain an advantage over another resident when conducting personal business with the government.

3. Unfair hiring, promotion, and severance practices including:
   a. Pre-selection of candidates.
   b. Selection of unqualified candidates.

4. Intentionally circumventing or overriding policy, procedure or internal controls without appropriate justification or approval.

D. **Internal Controls** – Organization’s system to provide reasonable assurance of effective and efficient operations, reliable financial and performance reporting, compliance with applicable laws and regulations, and safeguarding assets. The fundamental difference between internal control weaknesses resulting in errors and those weaknesses resulting in fraud is intent.

E. **County Funds** – Currency, checks, or other negotiable instruments belonging to the County of Chesterfield or Chesterfield County Public Schools (CCPS), or for which the County or CCPS is the fiscal agent or has a fiduciary responsibility.

F. **County Property** – Any tangible item owned by the County of Chesterfield or CCPS.

G. **Retaliation** – When an individual is discriminated against or penalized for reporting fraud or for cooperating, giving testimony, or participating in any manner in an audit/investigation, proceeding, or hearing.

IV. **BACKGROUND**

A. Studies have shown that “red flags” of fraud within an organization were ignored by the organization in many of the frauds reported. Downsizing and repositioning of an organization increases the risk of fraud. Internal controls are the best method of preventing fraud. Poorly written or poorly enforced internal controls allow most frauds to occur.

B. Fraud occurs for the following reasons (note: there are multiple reasons in some cases):
   1. Poor internal controls
   2. Management override of internal controls
   3. Type of organization (industry with high risk of fraud)
   4. Collusion between employees and third parties
   5. Poor or non-existent company ethical standards
   6. Lack of control over managers by their supervisors
C. Some “red flags” of fraud are:
1. Changes in an employee’s lifestyle, spending habits or behavior
2. Poorly written or poorly enforced internal controls, procedures, policies or security
3. Irregular/unexplained variances in financial information
4. Inventory shortages
5. Failure to take action on results of internal/external audits or reviews
6. Unusually high expenses or purchases
7. Frequent complaints from customers
8. Missing files
9. Ignored employee comments concerning possible fraud

D. Perpetrators of fraud typically live beyond their reasonably available means. Other indicators of fraud include: the borrowing of small amounts of money from co-workers, collectors or creditors appearing at the place of business, excessive use of telephone to stall creditors, falsifying records, refusing to leave custody of records during the day, working excessive overtime, refusing vacations, and excessively rewriting records under the guise of neatness.

E. The following internal controls help prevent fraud:
1. Adherence to all organizational procedures, especially those concerning documentation and authorization of transactions
2. Physical and logical security over assets such as locking doors, firewalls, password protection and restricting access
3. Proper training of employees
4. Independent review and monitoring of tasks
5. Separation of duties so that no one employee is responsible for a transaction from start to finish
6. Clear lines of authority
7. Conflict of interest statements that are enforced
8. Rotation of duties in positions more susceptible to fraud
9. Ensuring that employees take regular vacations
10. Regular independent audits of areas susceptible to fraud

F. To provide opportunities for employees and citizens to report allegations of fraud, waste and abuse, Internal Audit shall administer a telephone hotline, website and other methods through which employees and residents of Chesterfield County may report anonymously any incident of fraud, waste and abuse. Internal Audit will coordinate investigations with other departments as necessary.
V. EXPECTATIONS

A. All County employees should practice the following as it applies to their job:
   1. Know the fraud-related exposures in your area.
   2. Know the symptoms or indicators of fraud.
   3. Put in place methods to identify wrongdoing.
   4. Make sure transactions you personally approve are not fraudulent.
   5. Personally monitor for frauds which only you are in a position to detect.
   6. Question and challenge the unusual.
   7. Set an example of honest and ethical behavior by personal example and by not tolerating dishonest or unethical behavior in others.
   8. Strive to prevent fraud by minimizing the exposures and reducing the opportunities and temptation.
   9. Never inappropriately subordinate the needs of the organization to your own needs.
   10. Recognize and respond to increased exposures.
   11. Do not seek to achieve goals through dishonest or unethical means, and do not tolerate such behavior from others.
   12. After a fraud, initiate corrective action to reduce the risk that fraudulent activity will recur.
   13. Take appropriate disciplinary action.
   14. Immediately refer suspected wrongdoing to Internal Audit or your supervisor for investigation.
   15. Encourage other employees to be vigilant in reporting suspected wrongdoing.
   16. Do the right thing.

VI. PROCEDURES

A. All Employees – Any employee who has knowledge of an occurrence of fraud, waste or abuse, or has reason to suspect that a fraud, waste or abuse has occurred, shall immediately notify his/her supervisor or Internal Audit. If the employee has reason to believe that the employee’s supervisor may be involved, the employee shall immediately notify the Department Director/Chief of his/her department or Internal Audit. Every employee shall cooperate with administrative investigations pursuant to this administrative procedure in accordance with County Personnel Policies and Procedures. The employee shall not discuss the matter with anyone other than his/her supervisor, the Department Director/Chief, the Internal Audit department and the Police Department.

B. Supervisor – Upon notification from an employee of suspected fraud, waste or abuse, or if the supervisor has reason to suspect that a fraud, waste or abuse has occurred, the supervisor shall immediately notify the Department Director/Chief of his/her department or Internal Audit. The supervisor shall not attempt to investigate the suspected fraud or to discuss the matter with anyone other than the Department Director/Chief, the Internal Audit Department and the Police Department. However, if the supervisor has reason to believe that the Department Director/Chief
may be involved in a fraud, the supervisor shall contact the Internal Audit Department or Police Department.

C. Department Director/Chief – Upon notification from an employee or supervisor of suspected fraud, waste or abuse, or if the Department Director/Chief has reason to suspect that a fraud, waste or abuse has occurred, the Department Director/Chief shall immediately contact the Internal Audit Department. The Department Director/Chief shall not attempt to investigate the suspected fraud or to discuss the matter with anyone other than the Internal Audit Department and the Police Department.

D. Internal Audit – Internal Audit logs all Fraud, Waste, and Abuse allegations received and evaluates if conditions warrant: a special project investigation by Internal Audit, referral or consultation of matter with the related County or School department, referral to another entity or jurisdiction (i.e. items not involving Chesterfield County or Schools personnel, resources, or operations), insufficient information to initiate an action, or no action required.

Internal Audit determines if a separate report is necessary for each specific case. If applicable, such separate reports are provided to the County Administrator or School Superintendent, and the Audit and Finance Committees. Internal Audit documents disposition and if the allegation was substantiated for each case. All opportunities to improve internal controls or disagreements with management’s decisions are not necessarily Fraud, Waste or Abuse. Internal Audit provides a fiscal year report to the Audit and Finance Committees summarizing all allegations with dispositions.

When Internal Audit suspects fraud, the Internal Audit Department will investigate the fraud and promptly notify the Chesterfield County Police Department.

E. Record Security – A successful audit/investigation can only be performed if the documentation relating to an alleged fraud is available for review in its original form. Therefore, once a suspected fraud is reported Department Directors/Chiefs and supervisors shall take immediate action to prevent the theft, alteration, or destruction of relevant records. Such actions include, but are not necessarily limited to, removing the records and placing them in a secure location, limiting access to the location where the records currently exist, and preventing the individual suspected of committing the fraud from having access to the records. The records must be adequately secured until Internal Audit obtains the records to begin the audit investigation.

F. Contacts/Protocols – After an initial review and a determination that the suspected fraud warrants additional investigation, Internal Audit will notify the County Administrator or School Superintendent, Appropriate Deputy County Administrator or School Division Chief, Human Resources, County or School Attorney, Police Department, and Commonwealth Attorney of the allegations. Internal Audit shall coordinate the investigation with the appropriate law enforcement officials and shall report its investigative findings as described below.

At the conclusion of such fraud investigations, Internal Audit will document the results in a confidential memorandum report to the County Administrator or School Superintendent with a copy to the appropriate Deputy County Administrator or School Division Chief and Department Director/Chief. If the report concludes that the allegations are founded, the report will be copied to Human Resources, the County or School Attorney, and the Accounting Department. If the
report documents that criminal offenses may have occurred, copies will also be sent to the Chief of Police and the Commonwealth’s Attorney.

If the fraud has resulted in County or School property loss, Internal Audit shall report such loss to the Risk Management Department. Risk Management shall seek restitution for any property loss.

G. **Confidentiality** – All participants in a fraud investigation shall keep the details and results of the investigation confidential except as expressly provided in this administrative procedure. However, Internal Audit and the Police Department may discuss the investigation with any person if such discussion would further the investigation. Internal Audit obtains reports of suspected fraud, waste and abuse in confidence, specific details cannot be released in order to maintain confidentiality and anonymity (Code of Virginia, §2.2-3705.3. (7)). Information for completed investigations will not reveal the identity of the complainants or persons supplying information to investigators. If an investigation does not lead to corrective action, the identity of the person who is the subject of the complaint may be released only with the consent of the subject person.

H. **Personnel Actions** – If a suspicion of fraud is substantiated by the audit investigation, disciplinary action shall be taken in conformance with the County’s Personnel Policies and Procedures. A false and vindictive allegation of fraud is a violation of this administrative procedure. All violations of this administrative procedure, including violations of the confidentiality provisions, shall result in disciplinary actions up to and including termination and loss of retirement benefits and retiree health benefits.

I. **Retaliation** (Whistleblower protection) – It is a violation of this administrative procedure to discriminate against any individual for their reporting, cooperation, testimony, participation, or other activities related to a fraud, waste or abuse investigation. This includes threatening, attempting, taking, or directing others, on any reprisal or personnel action. Any such reprisals by employees will be subject to disciplinary procedures under personnel policies. Reckless accusations of fraud waste, or abuse that an employee or citizen knew, or should have known, were false or malicious are not protected.

**Whistleblower reprisal complaints** should be filed with the Fraud, Waste and Abuse Hotline and describe the:

1. Related original fraud, waste or abuse allegation or investigation,
2. Retaliatory action taken or withheld, and
3. Responsible person(s) performing and/or directing the retaliation.

J. **Media Issues** – If the media becomes aware of an audit investigation, the appropriate supervisor or Department Director/Chief shall refer the media to the Office of Communications and Media. The alleged fraud and audit investigation shall not be discussed with the media other than through the Office of Communications and Media.

K. Upon completion of the audit investigation and all legal and personnel actions, records will be returned by Internal Audit to the appropriate department if acceptable.
Internal Audit Proposed FY20 Audit Plan*

*FY20 Audit Plan was approved in the 6-14-19 Joint Audit and Finance Committee meeting.

TRANSMITTAL LETTER  
INTRODUCTION  
PROPOSED FY20 AUDIT PLAN  
Appendix I: Auditable County Units  
Appendix II: Auditable School Units
DATE: May 31, 2019

TO: Audit and Finance Committees

Joseph P. Casey, Ph. D. Chesterfield County
County Administrator Board of Supervisors

Mervin B. Daugherty, Ed. D. Chesterfield County
Superintendent School Board

FROM: Greg L. Akers
Director of Internal Audit

SUBJECT: Internal Audit Proposed FY20 Audit Plan

Policy requires Internal Audit (IA) provide a proposed audit plan for Audit and Finance Committees (AFCs) input and approval. IA uses a risk-based plan to recommend potential audit units and considers prior audit history and input received from the County and School Administration, Department Heads, and others. Updates are provided to AFCs periodically, and the plan may be amended based on operational needs.

During audit plan development, IA considered coverage by risk level and entity. For FY20, we refined the auditable unit population to match organization department structure. Multiple units were condensed to create a blended risk rating for most departments. This condensed population should promote management input on risk and audit objectives, while increasing overall audit frequency. Included charts compare audit plan coverage for the universe.

Technology remains a growing risk area for Chesterfield County. During FY19, we strengthened technology audit skills through training and professional certification. Last year, we identified certain audit units requiring a technology focus. With the more condensed universe, we will apply a technology focus for all units.

We plan to present the proposed audit plan for approval at the June 14, 2019 Joint AFC meeting. We thank you for your continued support and value your input for proposed projects.
INTRODUCTION

Mission
Provide objective analysis and information to management and those charged with governance to support County and School goals benefiting the community.

About Us
Established September 1978, Internal Audit provides an independent function to conduct performance audits, special projects, and investigate reports of fraud, waste, or abuse. Our quality control system to comply with Government Auditing Standards is evaluated through Triennial Peer Reviews by the Association of Local Government Auditors (ALGA). Our latest peer review, completed October 2017, marks 21 consecutive years of program participation. Internal Audit reports directly to the County Administrator in all county matters and the School Superintendent for all school matters, and to the Governing Bodies through the Audit and Finance Committees.

Team
Greg Akers, CPA  Director
Steve Sanderson, CIA, CFE  Audit Manager
Khara Lounsbury, CPA, CISA, CFE  Technology Audit Manager
Lora Holland, CPA, CGMA  Senior Auditor
Christopher Meade, CPA, CGAP  Senior Auditor
Terry Parker, MBA, CFE  Senior Auditor
Jim Boudreau  Staff Auditor
Sandra Fuentes  Staff Auditor
Christian Wingfield  Staff Auditor
Annette Stinson  Administrative Analyst
Audit Universe and Coverage
Figure 1.1 illustrates audit coverage for County and Schools by division. Certain County services are provided by Constitutional Officers. These Offices have been grouped under Community Operations (Commonwealth’s Attorney, Circuit Court Clerk, and Sheriff) and Finance (Commissioner of Revenue and Treasurer). Auditor access to certain records is subject to Constitutional Officer authorization. See auditable County unit listing (Appendix I, page 6) and auditable School unit listing (Appendix II, page 7).

Figures 1.2 and 1.3 (page 4) document Auditable Units by Risk Level and FY20 Audit Plan Projects by Risk Level.

Figure 1.1 FY20 Audit Plan Coverage by Division

## County Audit Universe

<table>
<thead>
<tr>
<th>Division</th>
<th>Auditable Units</th>
<th>Percentage of Units to County Universe</th>
<th>Percentage of Units to Total Universe</th>
</tr>
</thead>
<tbody>
<tr>
<td>Community Development</td>
<td>9</td>
<td>16%</td>
<td>10%</td>
</tr>
<tr>
<td>Community Operations</td>
<td>14</td>
<td>24%</td>
<td>16%</td>
</tr>
<tr>
<td>Management</td>
<td>8</td>
<td>14%</td>
<td>9%</td>
</tr>
<tr>
<td>Entity-Wide</td>
<td>5</td>
<td>9%</td>
<td>6%</td>
</tr>
<tr>
<td>Finance</td>
<td>10</td>
<td>17%</td>
<td>12%</td>
</tr>
<tr>
<td>Human Services</td>
<td>9</td>
<td>15%</td>
<td>10%</td>
</tr>
<tr>
<td>Non-Departmental</td>
<td>3</td>
<td>5%</td>
<td>4%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>58</strong></td>
<td><strong>100%</strong></td>
<td><strong>67%</strong></td>
</tr>
</tbody>
</table>

## Schools Audit Universe

<table>
<thead>
<tr>
<th>Division</th>
<th>Auditable Units</th>
<th>Percentage of Units to Schools Universe</th>
<th>Percentage of Units to Total Universe</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business and Finance</td>
<td>3</td>
<td>10%</td>
<td>3%</td>
</tr>
<tr>
<td>Operations</td>
<td>6</td>
<td>21%</td>
<td>7%</td>
</tr>
<tr>
<td>Human Relations</td>
<td>7</td>
<td>24%</td>
<td>8%</td>
</tr>
<tr>
<td>School Leadership and Support Services</td>
<td>7</td>
<td>24%</td>
<td>8%</td>
</tr>
<tr>
<td>Student Learning and Organizational Development</td>
<td>4</td>
<td>14%</td>
<td>5%</td>
</tr>
<tr>
<td>Management</td>
<td>2</td>
<td>7%</td>
<td>2%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>29</strong></td>
<td><strong>100%</strong></td>
<td><strong>33%</strong></td>
</tr>
</tbody>
</table>

**County and School Universe Total**

<p>| | | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>87</td>
<td>100%</td>
<td>100%</td>
</tr>
</tbody>
</table>
Figure 1.2 Auditable Units by Risk Levels

<table>
<thead>
<tr>
<th>Risk</th>
<th>Units</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>High</td>
<td>3</td>
<td>5%</td>
</tr>
<tr>
<td>Medium</td>
<td>38</td>
<td>66%</td>
</tr>
<tr>
<td>Low</td>
<td>17</td>
<td>29%</td>
</tr>
<tr>
<td>Total</td>
<td>58</td>
<td>100%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Risk</th>
<th>Units</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>High</td>
<td>3</td>
<td>10%</td>
</tr>
<tr>
<td>Medium</td>
<td>21</td>
<td>72%</td>
</tr>
<tr>
<td>Low</td>
<td>5</td>
<td>17%</td>
</tr>
<tr>
<td>Total</td>
<td>29</td>
<td>100%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Combined</th>
</tr>
</thead>
<tbody>
<tr>
<td>Units</td>
</tr>
<tr>
<td>High</td>
</tr>
<tr>
<td>Medium</td>
</tr>
<tr>
<td>Low</td>
</tr>
<tr>
<td>Total</td>
</tr>
</tbody>
</table>

Figure 1.3 FY20 Audit Plan by Risk Levels

**County Audit Universe**

<table>
<thead>
<tr>
<th>Division</th>
<th>FY20 Audit Plan</th>
<th>High</th>
<th>Medium</th>
<th>Low</th>
</tr>
</thead>
<tbody>
<tr>
<td>Community Development</td>
<td>2</td>
<td>-</td>
<td>2</td>
<td>-</td>
</tr>
<tr>
<td>Community Operations</td>
<td>4</td>
<td>-</td>
<td>3</td>
<td>1</td>
</tr>
<tr>
<td>Management</td>
<td>3</td>
<td>-</td>
<td>3</td>
<td>-</td>
</tr>
<tr>
<td>Entity-Wide</td>
<td>2</td>
<td>1</td>
<td>1</td>
<td>-</td>
</tr>
<tr>
<td>Finance</td>
<td>1</td>
<td>-</td>
<td>1</td>
<td>-</td>
</tr>
<tr>
<td>Human Services</td>
<td>2</td>
<td>-</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>14</strong></td>
<td><strong>1</strong></td>
<td><strong>11</strong></td>
<td><strong>2</strong></td>
</tr>
</tbody>
</table>

**Schools Audit Universe**

<table>
<thead>
<tr>
<th>Division</th>
<th>FY20 Audit Plan</th>
<th>High</th>
<th>Medium</th>
<th>Low</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business and Finance</td>
<td>1</td>
<td>1</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Operations</td>
<td>1</td>
<td>-</td>
<td>1</td>
<td>-</td>
</tr>
<tr>
<td>School Leadership and Support Services</td>
<td>2</td>
<td>1</td>
<td>1</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>4</strong></td>
<td><strong>2</strong></td>
<td><strong>2</strong></td>
<td>-</td>
</tr>
</tbody>
</table>

**FY20 County and School Project Total**

18 3 13 2

**FY20 Audit Plan Percentage of Risk**

17% 72% 11%

*Note: Figure 1.3 totals do not include non-audit services and hotline projects*
## PROPOSED FY20 AUDIT PLAN

### FY20 Carry Over:

<table>
<thead>
<tr>
<th>Hours</th>
<th>Risk</th>
</tr>
</thead>
<tbody>
<tr>
<td>200</td>
<td>Medium</td>
</tr>
<tr>
<td>100</td>
<td>Medium</td>
</tr>
<tr>
<td>300</td>
<td>High</td>
</tr>
<tr>
<td>500</td>
<td>Medium</td>
</tr>
</tbody>
</table>

### In Progress:

1. Accounting, Enterprise System Security
2. HR, Benefits Administration
3. Schools, IT Risk Assessment
4. Emergency Communications Center, Training, Operations, and Expenditures

<table>
<thead>
<tr>
<th>Hours</th>
<th>Risk</th>
</tr>
</thead>
<tbody>
<tr>
<td>200</td>
<td>Medium</td>
</tr>
<tr>
<td>100</td>
<td>Medium</td>
</tr>
<tr>
<td>300</td>
<td>High</td>
</tr>
<tr>
<td>500</td>
<td>Medium</td>
</tr>
</tbody>
</table>

### Remaining:

5. Economic Development, Revitalization
6. IST, Application Security Controls
7. General Services, Security Program
8. Parks & Recreation, Concession Stand Leases and Leases (Softball, etc.)
9. Police, Training
10. Risk Management, Claims Administration and Worker's Compensation
11. Social Services, General Relief
12. Utilities, Customer Information System

<table>
<thead>
<tr>
<th>Hours</th>
<th>Risk</th>
</tr>
</thead>
<tbody>
<tr>
<td>400</td>
<td>Medium</td>
</tr>
<tr>
<td>500</td>
<td>Medium</td>
</tr>
<tr>
<td>400</td>
<td>Medium</td>
</tr>
<tr>
<td>400</td>
<td>Medium</td>
</tr>
<tr>
<td>400</td>
<td>Medium</td>
</tr>
<tr>
<td>400</td>
<td>Medium</td>
</tr>
</tbody>
</table>

### Proposed FY20 Audits/Projects

#### Risk-Based

13. Accounting, Quarterly Expenditure Analysis
14. Accounting, Revenue Collections
15. Schools, Capital Projects and Maintenance
16. Schools, School Activity Funds
17. Schools, Student Enrollment
18. Sheriff, Jail Canteen and Inmate Trust Fund

<table>
<thead>
<tr>
<th>Hours</th>
<th>Risk</th>
</tr>
</thead>
<tbody>
<tr>
<td>300</td>
<td>Low</td>
</tr>
<tr>
<td>300</td>
<td>High</td>
</tr>
<tr>
<td>525</td>
<td>Medium</td>
</tr>
<tr>
<td>125</td>
<td>High</td>
</tr>
<tr>
<td>400</td>
<td>Medium</td>
</tr>
<tr>
<td>325</td>
<td>Low</td>
</tr>
</tbody>
</table>

#### Non-Audit Analysis:

19. APA Comparative Report
20. CDBG & Home Organizations
21. Community Organizations Applying for FY21 Donations
22. Volunteer Fire & Rescue Organizations

<table>
<thead>
<tr>
<th>Hours</th>
<th>Risk</th>
</tr>
</thead>
<tbody>
<tr>
<td>125</td>
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<td>100</td>
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</tr>
<tr>
<td>100</td>
<td>N/A</td>
</tr>
<tr>
<td>50</td>
<td>N/A</td>
</tr>
</tbody>
</table>

#### Recurring:

23. Annual Follow-Up
24. Audit Risk and Work Plan Performance
25. County Affiliated Entities/ERM
26. County Special Projects/Hotline
27. County Special Project: Community Enhancement Internal Control Self-Assessment
28. County Special Project: General Services Internal Control Self-Assessment
29. External Audit Support
30. Internal Audit Systems Maintenance
31. Monitor 3rd Party Audit Results
32. Quality Assurance Review
33. Schools Special Projects/Hotline

<table>
<thead>
<tr>
<th>Hours</th>
<th>Risk</th>
</tr>
</thead>
<tbody>
<tr>
<td>200</td>
<td>N/A</td>
</tr>
<tr>
<td>500</td>
<td>N/A</td>
</tr>
<tr>
<td>400</td>
<td>N/A</td>
</tr>
<tr>
<td>1,300</td>
<td>N/A</td>
</tr>
<tr>
<td>100</td>
<td>N/A</td>
</tr>
<tr>
<td>50</td>
<td>N/A</td>
</tr>
<tr>
<td>50</td>
<td>N/A</td>
</tr>
<tr>
<td>450</td>
<td>N/A</td>
</tr>
</tbody>
</table>

### Total Budgeted Hours

10,600
Community Development
- Building Inspection
- Community Enhancement
  - CDBG & Home Organizations
- Economic Development
- Environmental Engineering
- Planning
- Transportation
- Utilities
  - Capital Projects
  - Capital Maintenance

Community Operations
- Circuit Court Clerk
- Commonwealth’s Attorney
- Cooperative Extension
- General Services
  - Airport
  - Building and Grounds
  - Fleet Management
  - Waste and Resource Recovery
- Information System Technology
  - Application Services
  - Infrastructure Services
- Libraries
- Parks and Recreation
- Risk Management
- Sheriff
  - Jail Canteen and Inmate Trust Fund
  - Riverside Regional Jail

County Management
- Clerk to the Board of Supervisors
- County Administration
- County Attorney
- Fire and EMS
  - Volunteer Fire & Rescue Organizations
- Human Resources
- Intergovernmental Relations

County Management (continued)
- Police
  - Emergency Communications

Entity-Wide
- APA Comparative Report
- Capital Projects
- Capital Maintenance
- Payroll
- Quarterly Expenditure Analysis
- Revenue Collections

Finance
- Accounting
  - Enterprise System Security
- Budget and Management
  - Community Organizations Applying for FY21 Donations
- Commissioner of Revenue
- Communications and Media
- Procurement
- Real Estate Assessor
- Registrar/Electoral Board
- Training/Learning & Performance Center
- Treasurer

Human Services
- Citizen Information and Resources
- Community Corrections
- Courts
- Juvenile Detention Home
- Mental Health Support Services
- Social Services

Non-Departmental
- Tax Relief for the Elderly
- County Affiliated Entities
Division of Business and Finance
- Budget & Management\textsuperscript{M}
- Finance\textsuperscript{H}
- Food Service\textsuperscript{M}

Division of Operations
- Facilities, Maintenance, and Construction\textsuperscript{M}
  - Capital Projects\textsuperscript{M}
  - Capital Maintenance\textsuperscript{M}
- Planning\textsuperscript{M}
- Safety and Security\textsuperscript{M}
- Student Transportation\textsuperscript{M}

Division of Human Relations
- Communications and Community Engagement
  - Communities in Schools\textsuperscript{M}
  - Family and Community Engagement\textsuperscript{M}
  - Government, Policy, and Media Relations
  - Printing Services\textsuperscript{L}
- Constituent Services and Student Leadership\textsuperscript{L}
- Human Resources and Employee Services
  - Compensation and Benefits\textsuperscript{M}
  - Human Resources\textsuperscript{M}

Division of School Leadership and Support Services
- Elementary School A\textsuperscript{M}
- Elementary School B\textsuperscript{M}
- Elementary School C (Title 1)\textsuperscript{M}
- High School\textsuperscript{M}
- Middle School\textsuperscript{M}
- Student Support Services\textsuperscript{H}
- Technology Services\textsuperscript{H}

Division of Student Learning and Organizational Development
- Career and Technical Education\textsuperscript{M}
- Organizational Development\textsuperscript{M}
- Special Education\textsuperscript{M}
- Teaching and Learning\textsuperscript{M}

School Management
- Superintendent\textsuperscript{L}
- School Board Attorney\textsuperscript{L}

\textbf{Note:} Risk rating are listed for auditable units: H – High; M – Medium; L – Low; NA – Non-Audit. Non-Audits are listed for reference and not included in auditable unit counts (\textit{Figures 1.1, page 3 and 1.2, page 4})
Chesterfield County Mission Statement
Providing a FIRST CHOICE Community Through Excellence in Public Service
**Completed:**
- **ARWA Billing Special Project**
- External Audit support
- **Financial Statement Review**
  - *FY18 APA Comparative Report Analysis*
  - CDBG & HOME Applicants
  - Community Organizations Applying for FY20 Donations
- FY18 Audit Follow-up
- Fraud, Waste, and Abuse Hotline Program, FY18 Report
- Internal Audit FY18 Report Card
- MHSS, Medicaid
- Planning, Proffers and Conditions Tracking

*Note 1 – 6.14.19 AFC Meeting*

**In Progress:**
- Annual Audit Recommendation Follow-up (FY19)
- Accounting, Enterprise System Security
- Accounting, Revenue Collection Points
- Accounting, Quarterly Expenditure Analysis
- CDBG Program Compliance
- County/School Special Projects
- Emergency Communications Center, Training, Operations, and Expenditures

*Note 3 – Draft report issued 5.2.19*

**Remaining:**
- County Wide Affiliated Entities/ERM
- Economic Development, Revitalization
- IST, Application Security Controls
- General Services, Security Program
- Peer Review (other organization participation)
- Parks & Recreation, Concessions Stands Leases and Leases (Softball, etc.)

*Note 2 – Denotes IT Focused Projects*

- Financial Statement Review
  - Volunteer Fire & Rescue Organizations
- HR, Benefits Administration
- Schools, School IT Risk Assessment
- Schools, Payroll, HR Classification and Compensation
- Treasurer Tax Billing, Payment Procedures and Balances

- Police, Training
- Risk Management, Claims Administration and Workers Compensation
- Social Services, General Relief
- Utilities, Customer Information System

- Police, Animal Services
- **Proposed FY20 Work Plan**
- **Real Estate Assessor, Assessment Processes & Systems and Expenditures**
- Sheriff, Jail Canteen & Inmate Trust Fund
- Schools, FY18 School Activity Funds
- Schools, Custodial Services
- Schools, Food Service/Vendors
- **Schools, Overtime Special Project**
- Schools, Temporary Work Assignments
- **Transportation, GRTC Billing Special Project**
ALLEGATIONS RECEIVED FY19
There have been 18 allegations received through June 14, 2019, and 3 allegations carried over from Fiscal Year 2018. The annual Hotline Program Fiscal Year report provides additional information on activity.

<table>
<thead>
<tr>
<th></th>
<th>March 29</th>
<th>Activity Since Prior Update</th>
<th>June 14</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>New</td>
<td>Completed</td>
</tr>
<tr>
<td>Investigations</td>
<td>3</td>
<td>-</td>
<td>4</td>
</tr>
<tr>
<td>Referrals</td>
<td>7</td>
<td>-</td>
<td>2</td>
</tr>
<tr>
<td>Open/Pending Items</td>
<td>7</td>
<td>4</td>
<td>(6)</td>
</tr>
<tr>
<td>Total</td>
<td>17</td>
<td>4</td>
<td>-</td>
</tr>
</tbody>
</table>

INVESTIGATION(S) SUMMARY FY19
There have been 3 completed investigations previously reported to the Audit and Finance Committee in Fiscal Year 2019. Investigation(s) completed this period:

<table>
<thead>
<tr>
<th>Department</th>
<th>Allegation (Source)</th>
<th>Allegation Substantiated (Yes/No)</th>
<th>Summary Result</th>
</tr>
</thead>
<tbody>
<tr>
<td>Human Services Division</td>
<td>Retaliation (former employee)</td>
<td>No</td>
<td>No evidence that former employee’s Hotline complaint was a factor in their termination.</td>
</tr>
<tr>
<td>Community Enhancement</td>
<td>Employee Time Abuse Vehicle Policy Violation (management)</td>
<td>Yes</td>
<td>GPS tracking identified employee took excessive personal time during working hours while operating a County vehicle. Employee was terminated. Two recommendations for performance monitoring and vehicle policy adoption.</td>
</tr>
<tr>
<td>School Facilities and Maintenance</td>
<td>Improper Invoice Payment (management)</td>
<td>No</td>
<td>Questioned invoices were paid in compliance with contract terms.</td>
</tr>
<tr>
<td>School Transportation, Finance, and Human Resources (HR)</td>
<td>Excessive Transportation Overtime (management)</td>
<td>Yes</td>
<td>Separate School Overtime Special Project audit report issued. Controls are not functioning to ensure accurate overtime hours reporting and payment. Eight recommendations to strengthen policies and procedures.</td>
</tr>
</tbody>
</table>
Demand Based Forecasting

Purpose: Improve forecasting methods to facilitate the deployment of finite resources

What: The process of predicting future needs based on existing and forecasted demands influenced by area-specific changing demographics

Who:
- IST maintains a centralized county data repository for sharing across business units.
- Detailed data analysis and forecasting occurs in business specific areas such as Planning, Schools, or Fire department
Multi-disciplined project team established

Early project activities focused on organization and discovery

December 2018 - March 2019

1. Project planning
2. Discovery based: historical trends, current state, best practice research
3. Team assembly
**Recent focus areas and efforts**

**Data accumulation and establishing repeatable processes**

1. Identifying influencing factors; sourcing from systems of record; executing data sharing agreements (e.g. CCPS, VA Dept. of Health)
2. Controlled via data cataloging; establishing system interfaces (from/to, refresh frequency); aggregated data repository
3. Source data clean-up in progress

Efforts accomplished thru new technology tools deployment and training

**New technology tools in use**

**Data cataloging**

[Image of data cataloging interface]
New technology tools in use

Machine learning
Code-free / low code experience
For code-free training, try:
- the visual interface for drag-n-drop experimenting and deployment

- The Azure portal option for automated ML experiments

Phase I deliverables
2. General purpose demand report to assist other facility intense departments (before FY2021 CIP cycle)
**Future deliverables**

*Next steps*
1. Provide periodic update to Audit & Finance, Board of Supervisors (Sept. & Oct. 2019)
2. Open government reporting capabilities (Dec. 2019)
3. Incorporate new approach into zoning case reports

**A case study in applied data**

**Data Drives Down Nashville’s Emergency Response Times**

Together with the Vanderbilt Initiative for Smart Cities Operation and Research, the Nashville Fire Department and the city’s IT agency created a tool that uses predictive modeling to forecast emergency response times.

*Abhishek Dubey: The Integrated Safety Incident Forecasting and Analysis project is a collaborative project undertaken by the Vanderbilt Institute for Smart Cities Operation and Research (VIBOR) team, the Nashville Fire Department (NFD), and the Metro Nashville and Davidson County Information Technology Services (ITS) Department as part of a National Science Foundation grant. The objective of this research is to understand and improve the resource coordination and dispatch mechanisms used by first responders in Nashville. The analysis and tools created in this project seek to improve NFD’s ability to respond quickly and effectively to emergencies such as traffic collisions with injuries to humans, medical emergencies, and fire incidents that occur in the Nashville area.

response time for the incident. We integrated this data with other crucial parameters that affect incident occurrence, like pedestrian traffic, road characteristics, traffic congestion and weather, and developed models for different parts of the city. These models predict with high accuracy the likelihood of when and where incidents will happen in the future.*