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FY19 Expenditures (through December 31st)

October 22, 2019

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FY19 Expenditures (through December 31st)



Highlights

ONESolution Security and Verification

We reviewed ONESolution User Verification Reports for five County/School departments and noted ONESolution users cannot both create and approve transactions.

The In Focus Support Team distributes verification reports to confirm system user authorizations remain appropriate semi-annually. We noted all County and 96 of 104 (92.3%) School departments returned completed verification reports.

Commendation: Procedures are in place for departments to establish appropriate ONESolution user access and permissions, based on position responsibilities.

Recommendation: In Focus Support Team consider establishing specific dates to escalate verification report return requests by copying department heads (i.e. 30 days) and division leadership (i.e. 60 days).

Duplicate Payments, Reimbursements, P-Cards and Vendor Contract Payments

We review County/School expenditures (using analytical software) quarterly to locate potential duplicate payments and send to Accounting for further review. Accounting identified two duplicate payments (totaling \$1,000) during our audit period, which they subsequently collected from the vendor.

Additionally, we tested twelve travel and miscellaneous employee reimbursements and ten travel/purchasing card expenditures and noted all expenditures tested were properly documented and followed policy. We also selected ten P-Card statements to ensure departments were reviewing expenditures, noting no discrepancies.

Lastly, we tested 20 payments from the top ten highest-paid vendors and ten software maintenance payments and noted expenditures complied with applicable contract, policy, and procurement requirements.

Commendations: Accounting department has procedures in place to research potential duplicate payments and collect a refund from the vendor for those identified. Additionally, County and School department management for properly following policies and procedures related to reimbursements, travel expenses, P-Card purchases, and vendor contract payments.

Budget and Expenditure Review Processes

We inquired of five County/School departments about their budget monitoring process. We noted the budgets for each department were regularly reviewed by management and the Budget department. We also inquired of five County/School departments to explain their expenditure review process. We noted each department reviewed expenditures, however, the departments' expenditure review processes varied.

Commendation: County and School department management effectively monitor their budgets.

Recommendation: Accounting Department document guidance (i.e. system reports, transaction detail review expectations and recommended review frequency) for County and School departments to comply with required expenditure review per County Administrative Policy 1-5.

Management concurred with 2 of 2 recommendations detailed in the report to be implemented 12/20/19. Internal Audit performs annual follow-up with management to confirm implementation status.

INTRODUCTION

BACKGROUND

This FY19 Expenditures (through December 31st) audit was included in the FY19 audit plan as a regularly scheduled audit. This will be a recurring audit, with the purpose of regularly reviewing County and Schools non-payroll expenditures. We worked with the following key departments to identify risks and refine objectives, which may vary for future audits:

- **Accounting** provides financial services to the County, Schools, and related organizations, while ensuring compliance with legal, regulatory, and professional requirements.
- **County Budget and Management** provides financial guidance to the Administrator, Board of Supervisors, County departments, and various other partners and organizations.
- **Procurement** provides competitive purchasing services and guidance to County and Schools departments to ensure compliance with legal and regulatory requirements.
- **School Management and Budget** coordinates budget preparation for schools/departments and provides management oversight for the adopted budget throughout the year.
- **School Finance** processes a semi-monthly payroll, serves as the purchasing liaison to County Procurement and ensures compliance with all fiscal policies and procedures.

Chesterfield County and Schools budgeted expenditures for FY19 totaled approximately \$1.4 billion, with \$527 million (38%) related to non-personnel costs. Our audit period covered the first six months of FY19, in which County and School non-payroll expenditures totaled approximately \$172 million. We tested transactions across several departments and schools, which gives us broad coverage over County and School expenditures.

OBJECTIVES

Objectives of the audit were to:

- Review expenditures for compliance with policies and procedures.
- Test non-payroll expenditures for proper approvals and potential duplicate payments.
- Test travel, top-vendor, capital, purchasing card, and software maintenance expenditures.
- Identify potential areas of improvement.
- Report results to Management.

SCOPE

Our audit work covered July 1 through December 31, 2018 and the current operating environment. We considered the following policies during our audit:

| | |
|--|--|
| <i>Accounting Policy 01-01 – Travel Policy</i> | <i>Accounting Policy 1-5 – Bill Approval Documentation</i> |
| <i>Accounting Policy 1-15 – Purchasing Card</i> | <i>Accounting Policy 1-19 – In Focus Security and Responsibility</i> |
| <i>IST Policy 7-01 – Acquisition of Computer Equipment</i> | <i>Purchasing Policy 12-15 – Contract Administration</i> |

We conducted this performance audit in accordance with generally accepted government auditing standards (GAGAS). Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. Christian Wingfield and Jim Boudreau, Staff Auditors, performed the audit work. Chesterfield County Internal Audit is a department within the organization of Chesterfield County/Schools.

Professional standards require us to disclose that the Internal Audit Department reports to the County Administrator, School Superintendent, and the County and School's Audit and Finance Committees (AFCs). Audit reports are also issued to the Board of Supervisors and School Board. Since this audit covers entity-wide expenditures, testing could include transactions from Internal Audit's management (Administrator, Superintendent, or Boards). While reporting to management technically impairs our independence under GAGAS for their transactions, we otherwise followed GAGAS standards. Transactions tested this period did not include such items.

METHODOLOGY

Detailed information regarding the methodology can be found in the individual findings listed in the report. Our methodology included the following: interviews, observations, data analysis, detail testing, and documentation review.

INTERNAL CONTROL CONCLUSION

According to Government Auditing Standards, internal controls, in the broadest sense, encompass the agency's plan, policies, procedures, methods, and processes adopted by management to meet its mission, goals, and objectives. Internal controls include the processes for planning, organizing, directing, and controlling program operations. It also includes systems for measuring, reporting, and monitoring program performance. An effective control structure is one that provides reasonable assurance regarding:

- efficiency and effectiveness of operations;
- accurate financial reporting; and
- compliance with laws and regulations.

Based on the results and findings of the audit test work, auditors concluded that internal controls were in place and there were minimal findings to question their ability to assist management in meeting its mission, goals, and objectives. Recommendations specific to improving these controls can be found in detail further in the audit report.

CLOSING

We would like to thank the County departments of Accounting, Budget and Management, and Procurement, and the School departments of Budget and Management and Finance for their cooperation and assistance during this audit.

FINDINGS, RECOMMENDATIONS, RESPONSES

ONESolution Security and Verification

(Point Sheet 1)

CRITERIA:

County Administrative Policy 1-19: Accounting – In Focus Security and Responsibilities outlines the ownership and security requirements for the In Focus Accounting System (IFAS, which has subsequently been updated to ONESolution). The policy includes responsibilities for the user Department Head, In Focus Support Team, Department or School Security Liaison, and In Focus Users.

- The Department Heads will ensure there are processes in place to identify the appropriate personnel as In Focus Users, which users can create transactions and who can approve them at the prescribed dollar thresholds. Creators cannot also be approvers within the system.
- The In Focus Support Team, comprised of both County and School employees, will coordinate semi-annual review of user accesses, including distribution of verification reports to department and school liaisons. Verification reports ensure segregation of duties (i.e. users cannot create and approve transactions) exist.
- The Department or School Security Liaison will facilitate the semi-annual review of security access with department heads and return any required documentation with appropriate approvals or signatures.

CONDITION(S):

ONESolution is Chesterfield County's Enterprise System that provides the following processes: payroll, procurement and payments to vendors, the tracking and spending of bond proceeds held with Trustees, budgetary control, and facilitating financial reporting for the County and School annual expenditures totaling approximately \$1.4 billion.

The In Focus Support Team is responsible for supporting the Enterprise Resource Planning (ERP) software and related ONESolution processes. The System has three application components that use the same database and infrastructure: Employee Online, Timecard Online, and ONESolution. For County and Schools, the In Focus team tracks user access for application modules to ensure appropriate segregation of duties.

ONESolution's design ensures that proper controls exist for financial information security. Security is accomplished in several ways including assigning roles and responsibilities to users which ensures only authorized users can view, edit, or approve financial transactions. ONESolution enforces proper segregation-of-duties to ensure that no user can create and approve transactions. Also, roles are established to ensure that transactions are approved by users with appropriate authority.

Segregation of Duties

We reviewed ONESolution User Verification Reports for five County/School departments to verify ONESolution users cannot both create and approve transactions. No issues were noted.

FINDINGS, RECOMMENDATIONS, RESPONSES

ONESolution Security and Verification

(Point Sheet 1)

Verification Report Tracking

The In Focus Support Team distributes verification reports to County and School liaisons in January and July each year and uses a tracking spreadsheet to monitor which County and School liaisons returned the reports. We obtained the In Focus Support Team's July 2018 tracking spreadsheet and noted that all 58 County departments returned completed verification reports. However, the In Focus Team did not receive 8 of 104 (7.7%) School verification reports. We expanded our testing and reviewed the January 2019 tracking spreadsheet, noting 20 of 104 (19.2%) School verification reports were not returned. For the reports not returned, we confirmed the In Focus Support Team's follow-up communication with those security liaisons which were copied to department heads.

CAUSES:

Segregation of Duties

- ONESolution enforces proper segregation of duties.

Verification Report Tracking

- Certain School In Focus security liaisons did not return verification reports due to reorganization and responsibility transitions which have impacted responses.

EFFECTS(S):

Segregation of Duties

- ONESolution users cannot create and approve transactions.

Verification Report Tracking

- In Focus Support Team is unable to verify the individuals with access to create and approve transactions remains appropriate for areas not returning verification reports.
- Certain department management are not confirming system user authorizations remain necessary, which creates a risk that unauthorized users could create or approve transactions.

COMMENDATION(S):

We commend departments for establishing appropriate ONESolution user access and permissions, based on position responsibilities.

RECOMMENDATION(S):

1. We recommend the In Focus Support Team consider establishing specific dates to escalate verification report return requests by copying department heads (i.e. 30 days) and division leadership (i.e. 60 days).

MANAGEMENT'S RESPONSE(S):

1. *Concur. Assistant Director of Accounting, Mike Dance, implemented 10/10/19. As noted, the In Focus Support Team had a process in place to follow-up with security liaisons and department heads but it did not establish a specific timeframe for follow-up. The Support Team has updated the semi-annual verification report procedures to include these follow up intervals as needed: at 30 days outstanding by copying department head; at 45 days with copy of department head and Accounting Director; and at 60 days by the Accounting Director with a copy to the Deputy County Administrator (DCA)/ Chesterfield County Public Schools (CCPS) Chief Financial Officer (CFO).*

FINDINGS, RECOMMENDATIONS, RESPONSES

Duplicate Payments, Reimbursements, and P-Cards

(Point Sheet 2)

CRITERIA:

County Administrative Policy 1-1: Accounting – Travel Policy and Procedures defines the travel policies and procedures for County and School Board employees, Constitutional Officers, Board Appointees, and any others authorized to travel on behalf of Chesterfield County. Compliance with this policy is necessary to ensure that expenditures of public funds are appropriate and documented to meet legal requirements and maintain public trust.

County Administrative Policy 1-5: Accounting – Bill Approval, Documentation, and Payment defines the policies and procedures for Bill Approval, Documentation and Payment of goods or services for County and School Board employees, elected officials, and Board appointees. Expenditures made with County funds must be properly authorized, documented, and have a legitimate business purpose. Department Heads are responsible to ensure procedures exist to prevent duplicated payment requests from being authorized and submitted for payment.

County Administrative Policy 1-15: Accounting – Purchasing Card Policy and Procedures governs the County's Purchasing Card Program. The Program intends to provide another service to better support County and School employees' needs when making eligible small dollar purchases. The Purchasing Card (P-Card) Program consolidates multiple vendor payments into one monthly payment to the P-Card provider. Expenditures made with P-Cards must be properly authorized and documented, and P-Card statements must be reconciled monthly.

The County requires different card types to be used for various expenses, which enables rules to be established based on expense category. This ensures that expenses are correctly authorized. Also, related expenses can be more easily captured in the County's financial system.

CONDITION(S):

Quarterly, we review County and School expenditures (using analytical software) to locate potential duplicate payments, which we send to Accounting for further review. This ensures County and Schools are not paying multiple times for the same goods or services. If Accounting finds a duplicate payment, they work with the vendor to get a refund. Accounting's review of 52 potential duplicate transactions determined there were two duplicate payments (totaling \$1,000) during our audit period, which they subsequently collected from the vendor.

We reviewed twelve travel and miscellaneous employee reimbursements and ten Travel and P-Card expenditures to test for accuracy and compliance with policy. We noted all items tested were properly documented and followed policy. Additionally, we selected ten P-Card monthly statements to ensure departments were properly reconciling expenditures; we noted no discrepancies.

FINDINGS, RECOMMENDATIONS, RESPONSES

Duplicate Payments, Reimbursements, and P-Cards

(Point Sheet 2)

CAUSE(S):

- Procedures are in place for Accounting to research potential duplicate payments.
- Department management and employees are following applicable Accounting policies and procedures related to employee reimbursements, travel expenses, and P-Card expenditures.

EFFECT(S):

- Refunds are collected from vendors who receive duplicate payments.
- Employee reimbursements, travel expenses and P-Card purchases are properly authorized, documented, and have a legitimate business purpose.

COMMENDATION(S):

We commend:

1. Accounting Department for researching potential duplicate payments and collecting a refund from the vendor for those identified.
2. County and School department management for properly following Accounting policies and procedures related to employee reimbursements, travel expenses and P-Card purchases.

FINDINGS, RECOMMENDATIONS, RESPONSES

Budget and Expenditure Review Processes

(Point Sheet 3)

CRITERIA:

Best practice for proper fiscal management includes department management, with assistance from the Budget Department, periodically reviewing budgets and accumulated expenditures (preferably monthly) to ensure there are no budget overruns and changing business priorities are met.

County Administrative Policy 1-5: Accounting – Bill Approval, Documentation, and Payment states that County or School Department Heads must ensure procedures exist to review departmental expenditures for any discrepancies or inaccuracies.

CONDITION(S):

We inquired of five County and School departments about their budget monitoring process. We noted the budgets for each department were regularly reviewed by management and the assigned Budget analyst.

We asked five Department Directors to explain their expenditure review process. The five departments included: Learning and Performance, Communications and Media, General Services – Building and Grounds, General Services – Administration, and School Organizational Development. We noted each department reviewed expenditures, however, the departments' expenditure review processes and documentation varied.

CAUSE(S):

- Procedures are in place to regularly monitor budgets and expenditures.
- Accounting provides expenditure review training to departments upon request, however, there is no formal documented guidance on system reports, transaction detail review expectations and recommended review frequency.

EFFECT(S):

- Department budgets are being effectively managed.
- Expenditure accuracy review processes and documentation vary between departments.

COMMENDATION(S):

We commend County and School department management for effectively monitoring their budgets and expenditures.

RECOMMENDATION(S):

2. We recommend the Accounting Department document guidance (i.e. system reports, transaction detail review expectations and recommended review frequency) for County and School departments to comply with required expenditure review per County Administrative Policy 1-5.

MANAGEMENT'S RESPONSE(S):

2. *Concur. Assistant Director, Mike Dance, is responsible for implementing 12/20/19. Accounting will document guidance for County and School departments to use to comply with the expenditure review per County Administrative Policy 1-5.*

FINDINGS, RECOMMENDATIONS, RESPONSES

Vendor Contract Payments

(Point Sheet 4)

CRITERIA:

County Administrative Policy 1-5: Accounting – Bill Approval, Documentation, and Payment requires that payment from County funds will not be initiated unless the payment request is represented by one or more of the following: contracts or other documentary evidence of obligations incurred by the County or its agencies.

County Administrative Policy 7-1: Information Systems Technology – Acquisition of Computer Equipment, Software, Forms and Services states that the responsibility and authorization resides with the Director of Information Systems Technology for the approval of any agreement or contract between a county department and an outside vendor for the acquisition of all computer related equipment, software, forms, and services.

County Administrative Policy 12-15: Procurement – Contract Administration states that Using Departments are responsible for contract administration to ensure that the vendor fulfills the obligations of the contract. County policies and procedures require goods/services to be furnished, received, invoiced and paid in accordance with contract terms and conditions.

CONDITION(S):

We selected a sample of 20 payments from the top ten highest-paid vendors during our audit period and reviewed expenditures to ensure compliance with applicable contract and procurement requirements. We noted no discrepancies during this test. The table below illustrates the top ten highest-paid vendors:

| Vendor Name | Amount |
|--------------------------------------|---------------------|
| Dominion Energy Virginia | \$11,938,293 |
| Southwood Building Systems, Inc. | 8,253,937 |
| County of Henrico | 5,932,391 |
| Oyster Point Construction Company | 5,049,501 |
| Blue Bird Bus Sales | 4,847,276 |
| Riverside Regional Jail | 4,160,760 |
| Kenbridge Construction Company, Inc. | 3,840,985 |
| Curtis Contracting, Inc. | 3,688,347 |
| Branch and Associates, Inc. | 3,421,871 |
| Branscome Richmond | 3,324,427 |
| Total: | \$54,457,788 |

We also reviewed ten software maintenance payments to determine compliance with applicable contract and policy requirements and noted that the payments appeared reasonable and agreed with related contracts and policies.

FINDINGS, RECOMMENDATIONS, RESPONSES

Vendor Contract Payments

(Point Sheet 4)

CAUSE(S):

- Departments ensure that contract payments comply with related contract and policy requirements.

EFFECT(S):

- Contract payments are paid in accordance with contract terms and conditions.

COMMENDATION(S):

We commend County and School department management for properly following Accounting policies and procedures and ensuring contract payments are accurate.