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CHESTERFIELD COUNTY
Internal Audit

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FY19 Expenditures (January 1st through June 30th)

January 27, 2020

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FY19 Expenditures (January 1st through June 30th)



Highlights

Our [prior expenditure audit](#) covered the first half of FY19. For recurring expenditure audits, certain objectives may vary.

Duplicate Payments, Wire Transfers, Top Vendors, Local Vendors, Budget Monitoring

We review County/School expenditures (using analytical software) quarterly to locate potential duplicate payments and send to Accounting for review. Accounting identified one duplicate payment of 101 reviewed (\$200) during our audit period (January 1 through June 30, 2019), which they subsequently collected from the vendor.

The Treasurer's Office acts as the banking services administrator for Chesterfield County which includes processing wire transfers. We tested 15 wires totaling \$45.7M during our audit period for supporting documentation, proper approval, accuracy, and timeliness of posting without exception.

We tested eight payments from four of the top ten highest-paid vendors and noted expenditures complied with applicable contract, policy, and procurement requirements.

Chesterfield County Procurement strives to increase Local and Diversity Vendor participation, and requires all vendors register in the County's e-procurement system (PInG) for business opportunity notifications. We performed analytics over all vendors used during the audit period and determined 410 of 3,514 (11.67%) vendors were registered as Chesterfield Businesses and 819 of 3,514 (23.31%) were registered as Diversity Vendors. We also tested ten purchase orders (five less than \$10,000 and five more than \$10,000) for policy compliance regarding the solicitation of Chesterfield Businesses and Diversity Vendors, without exception.

We performed analytics over all department operating budgets and inquired with County/School Budget departments for any operating expenditure accounts that exceeded budget. We noted appropriate actions and monitoring were in place for all account-level overages.

Commendations: Audited departments for evidence of properly functioning internal controls related to expenditures.

Non-Cash Awards

County departments non-cash awards were \$49,635 during the audit period. Only certain awards are taxable, and County Payroll reported \$28,782 as taxable fringe benefits. We selected five County departments with award expenses, but not reporting taxable fringe benefits, for further review. We tested 14 purchase transactions for these departments totaling \$3,058 and identified \$1,075 that should have been reported as taxable fringe benefits. The departments submitted required employee recognition award forms for tax reporting to AP. However, Payroll confirmed related payroll tax withholding had not been performed.

Action(s) Taken: Payroll department reviewed the non-cash awards identified, and properly taxed them in the December 6, 2019 paycheck. Additionally, on September 15, 2019, the Human Resource Management department updated Policy 6-14. It now states that if an award is taxable, departments must complete the Notice to Payroll Taxable Non-Cash Award form and submit directly to Payroll. This helps ensure that Payroll withholds payroll taxes for all taxable non-cash employee recognition awards.

INTRODUCTION

BACKGROUND

This FY19 Expenditures (January 1st through June 30th) audit was included in the FY20 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:

- **County 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.
- **County Procurement** provides competitive purchasing services and guidance to County and Schools departments to ensure compliance with legal and regulatory requirements.
- **Treasurer** acts as the banking services administrator for Chesterfield County working with departments and public for receiving and disbursing funds.
- **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 last six months of FY19, in which County and School non-payroll expenditures totaled approximately \$215 million. We tested transactions across several departments and schools, which gives us broad coverage over County and School expenditures.

For these recurring expenditure audits certain objectives will vary, and some will be repeated (i.e. duplicate payment testing and top-ten vendor testing). Our [prior expenditure audit](#) covered the first half of FY19. Specific audit objectives included: review expenditures for compliance with policies and procedures; test non-payroll expenditures for proper approvals and potential duplicate payments; and test travel, top-vendor, capital, purchasing card, and software maintenance expenditures. Current period objectives are listed below.

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.
- Review budget monitoring for departments.
- Test wire transfers, employee recognition awards (gift cards), Chesterfield/Diversity Vendor initiative, and top-vendor expenditures.
- Identify potential areas of improvement.
- Report results to Management.

SCOPE

Our audit work covered January 1 through June 30, 2019 and the current operating environment. We considered the following policies during our audit:

<i>Accounting Policy 1-5 – Bill Approval, Documentation, and Payment</i>	<i>Human Resources Policy 6-14 – Employee Recognition Program</i>
<i>Procurement Policy 12-10 – Small Purchase Procedures</i>	<i>Procurement 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.

CLOSING

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

FINDINGS, RECOMMENDATIONS, RESPONSES
Duplicate Payments, Wire Transfers, Top/Local Vendors, Budget Monitoring

(Point Sheet 1)

CRITERIA:

County Administrative Policy 1-5: Accounting – Bill Approval, Documentation, and Payment covers requirements to acquire goods or services for County and School Board employees, elected officials, and Board appointees, including:

- Expenditures 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.
- All wire transfer requests must contain proper authorization, backup documentation and be approved by Accounting before the requests are given to the Treasurer’s office for processing.
- Payment will not be initiated unless the 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 12-10: Procurement – Small Purchase Procedures defines that departments may make individual purchases up to the single quote limit (\$10,000) and within their delegated authority by obtaining at least one quote from a vendor. Using departments are strongly encouraged to obtain a quote from a Chesterfield Business for each purchase requirement. Additionally, for purchases expected to exceed the \$10,000 single quote limit, but not expected to exceed the \$100,000 small purchase limit (\$25,000 for transportation-related Construction purchases and \$80,000 for Professional Services purchased), the Procurement department is solely responsible for executing the purchase on behalf of the using department. Procurement department staff solicit a minimum of one Chesterfield Business and one Diversity Vendor if available.

County Administrative Policy 12-15: Procurement – Contract Administration makes using departments responsible to ensure that the vendor fulfills contract obligations. It also includes requirements that goods/services be furnished, received, invoiced and paid in accordance with contract terms and conditions.

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.

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’s evaluation finds a duplicate payment, they work with the vendor to get a refund. Accounting’s review of 101 potential duplicate transactions determined there was one duplicate payment (totaling \$200) during our audit period (January 1 through June 30, 2019), which they subsequently collected from the vendor.

FINDINGS, RECOMMENDATIONS, RESPONSES
Duplicate Payments, Wire Transfers, Top/Local Vendors, Budget Monitoring

(Point Sheet 1, continued)

The Treasurer’s Office acts as the banking services administrator for Chesterfield County which includes processing wire transfers. We selected 15 wires (\$45.7 million) out of 142 total wires (\$120.9 million) during our audit period and tested supporting documentation, proper approval, accuracy, and timeliness of posting without exception.

We compared the top ten highest-paid vendors during our audit period (January 1 through June 30, 2019) to the top ten vendors from our previous expenditures audit (July 1 through December 31, 2018). Six of the ten top vendors this period were tested in our prior audit. We selected eight payments from the four different vendors this period and tested applicable contract and procurement requirements compliance without exception. The table below illustrates the top ten highest-paid vendors this period:

Vendor Name	Amount
Oyster Point Construction Company ¹	\$15,518,824
Kenbridge Construction Company, Inc. ¹	12,752,702
Southwood Building Systems, Inc. ¹	11,486,008
Dominion Energy Virginia ¹	9,839,348
Riverside Regional Jail ¹	6,433,363
Appomattox River Water Authority	5,604,030
City of Richmond	5,191,388
Curtis Contracting, Inc. ¹	4,839,078
Sysco of Hampton Roads	3,123,622
ABM	3,021,538
Total:	\$77,809,901

¹ – Also included in top ten vendors in prior period.

Chesterfield County Procurement strives to increase Local and Diversity Vendor participation, and requires all vendors register in the County’s e-procurement system (PInG) for business opportunity notifications. Solicitation of Chesterfield Businesses for departmental purchases under \$10,000 is encouraged. Purchases over \$10,000 require solicitation of a Chesterfield Business and Diversity Vendor if available. Chesterfield Businesses are any private business enterprise, located within the County’s jurisdictional boundaries, including headquarters or branch offices. Diversity Vendors businesses include small, women-owned, minority-owned, service-disabled veteran-owned, and employment services organizations.

We performed analytics over all vendors used during our audit period (January 1 through June 30, 2019) and determined 410 of 3,514 (11.67%) vendors were registered as Chesterfield Businesses and 819 of 3,514 (23.31%) were registered as Diversity Vendors. We also selected a sample of ten purchase orders (five less than \$10,000 and five more than \$10,000) to test policy compliance regarding the solicitation of Chesterfield Businesses and Diversity Vendors, without exception.

We performed analytics over all department operating budgets and inquired with County/School Budget departments for any operating expenditure accounts that exceeded budget. We noted appropriate actions and monitoring were in place for all account-level overages.

FINDINGS, RECOMMENDATIONS, RESPONSES
Duplicate Payments, Wire Transfers, Top/Local Vendors, Budget Monitoring

(Point Sheet 1, continued)

CAUSE(S):

- Procedures are in place for Accounting to research potential duplicate payments.
- Procedures are in place for Accounting and Treasurer's Office to properly process wire transfers.
- Using departments and Procurement department ensure contract payments comply with related contract and policy requirements.
- Using departments and Procurement department solicit bids from Chesterfield Businesses and Diversity Vendors when available.
- Procedures are in place to regularly monitor operating budgets.

EFFECT(S):

- Refunds are collected from vendors who receive duplicate payments.
- Wire transfers are processed timely and accurately and include documentation and proper approval.
- Contract payments are paid in accordance with contract terms and conditions.
- Departments are utilizing Chesterfield Businesses and Diversity Vendors when available.
- Operating budgets are being effectively managed.

COMMENDATION(S):

We commend audited departments for evidence of properly functioning internal controls related to expenditures.

FINDINGS, RECOMMENDATIONS, RESPONSES

Non-Cash Awards

(Point Sheet 2)

CRITERIA:

County Administrative Policy 6-14: Human Resource Management – Employee Recognition Program requires County departments to determine if the non-cash award is taxable to the employee. De minimis (\$60 or less), length of service, safety and personalized awards are not reported; however, gift cards or certificates are always taxed, regardless of the dollar amount. When awards are purchased, departments must notify Accounts Payable (AP) using an employee recognition award form. AP sends form copy to Payroll for employee tax withholding. (As noted in Actions Taken below, this policy was updated on September 15, 2019.)

CONDITION(S):

For the audit period (January 1 through June 30, 2019) County departments expensed \$49,635 for non-cash awards. Only certain awards are taxable, and County Payroll reported \$28,782 as taxable fringe benefits. We selected five County departments with award expenses, but not reporting taxable fringe benefits, for further review. We tested 14 purchase transactions for these departments totaling \$3,058 and identified \$1,075 that should have been reported as taxable fringe benefits. The departments submitted required employee recognition award forms for tax reporting to AP. However, Payroll confirmed related payroll tax withholding had not been performed.

CAUSE(S):

All employee recognition award forms received by AP with taxable awards were not processed by Payroll.

EFFECT(S):

Required payroll tax withholding was not initially completed.

ACTION(S) TAKEN:

After the Payroll department reviewed the non-cash awards identified above, the department properly taxed them in the December 6, 2019 paycheck.

On September 15, 2019, the Human Resource Management department updated Policy 6-14. Section IV(A) states if an award is taxable, the notice to Payroll Taxable Non-Cash Award form must be completed and submitted to the Payroll department. This will help to ensure the Payroll department withholds payroll taxes for all taxable non-cash employee recognition awards.