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CHESTERFIELD COUNTY
Internal Audit

Khara L. Durden, Director
Steve Sanderson, Assistant Director
Ryan Gartin, Audit Manager
Lora Holland, Senior Auditor
Terry Parker, Senior Auditor
Christian Wingfield, Senior Auditor
Aline Bright, Staff Auditor
Audrey Weatherholtz, Staff Auditor
Kristen Ramey, Administrative Analyst

Shared Services

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Shared Services

Highlights

Shared Services

Chesterfield County and Chesterfield County Public Schools (CCPS) participate in a shared services model and provide/receive services within each organization. Every two years, Budget reviews shared services to determine if adjustments are needed and periodically assesses other shared service efficiencies.

Internal Audit sent a survey to County departments who provide shared services, inquiring about charge methodology, policies and procedures, service tracking and reporting, feedback, and opportunities for improvement. 7/12 surveys received noted six departments track services provided, three do not report services provided or receive feedback, and all departments indicate shared services provide program efficiencies. Internal Audit surveyed CCPS divisions who receive shared services, inquiring about charge methodology, County reporting, feedback opportunities, process efficiencies, and other opportunities for potential shared services. Three of five responses were received, and one noted concern related to fuel charges and Police overtime charges. After reviewing charge methodology for fuel and overtime, charges appear reasonable. All respondents stated services received are efficient and effective.

Internal Audit reviewed policies for departments and programs providing shared services to determine if policies exist and indicate those policies apply to both County and CCPS. Four County departments have policies in place that apply to both County and CCPS. Seven departments/programs without policies are reasonable based on services provided. CCPS has four policies indicating compliance with County policies.

Internal Audit analyzed the FY22 General Fund shared services transfer to CCPS. Budget provided documentation for agreed-upon shared service charges, totaling \$6,467,200, and the net General Fund transfer of \$344,744,300. We were able to trace the net transfer to the general ledger.

Internal Audit evaluated each department's methodology for shared service charges. Calculation methods varied by department, which is reasonable considering service variability. We compared budgeted expenditures to total shared service charges by department and determined they were reasonable based on actual services provided. Internal Audit compared two departments' shared services charges to market rates and determined shared service charges were reasonable. Lastly, Parks and Recreation staff could not fully describe how shared service charges were developed; however, Budget personnel provided the methodology.

Commendation(s): We commend Budget and Management for appropriately reducing the FY22 General Fund transfer to CCPS and accurately recording in the general ledger, and shared services departments for having appropriate policies in place.

Recommendation(s): We recommend the County Budget and Management department develop shared services documentation that follows best practices, including documented department responsibilities, program policies/procedures, provide clear/measurable results of services, periodic communication to key personnel, and clarify that departments receiving shared services follow applicable provider policies. We also recommended Parks and Recreation department update their shared service calculation detail documentation to ensure accuracy and reasonableness.

Management concurred with 2 of 2 recommendations detailed in the report to be implemented from 9/15/22 to 6/30/2023. Internal Audit performs annual follow-up with management to confirm implementation status.

INTRODUCTION

BACKGROUND

The Shared Services audit was a regularly scheduled audit on the FY22 audit plan approved by the Audit and Finance Committees.

Shared services, the consolidation of business operations used by multiple sections of the same organization, assist in cost-efficiency, centralizing operations, and eliminating redundancy. Shared services allow each business division to focus its limited resources on activities that support their strategic objectives and goals. Chesterfield County and CCPS participate in a shared services and provide/receive services within each organization.

During the July 2021 County and Schools Liaison Committee Meeting, the Accounting, Procurement, Internal Audit, Parks and Recreation, Police, Risk Management, General Services and Budget and Management (Budget) departments presented shared services information to the Board of Supervisors and School Board Members. Each department presented an overview of provided shared services and Budget provided a detail of cost methodology, FY22 transfer reduction, and direct charges. Additionally, Budget presented the 2019 State Cost Allocation Plan which demonstrates an additional \$1,669,887 of County indirect shared service costs not charged to CCPS. The following chart outlines shared services provided by County departments to CCPS.

Accounting	<ul style="list-style-type: none"> • Accounts Payable, Financial Systems, Fixed Asset, and General Accounting Services • Audit Fees • ERP System Support
General Services	<ul style="list-style-type: none"> • Maintenance services and fuel for CCPS fleet • Radio charges and maintenance • Energy Management Program
Information Technology	<ul style="list-style-type: none"> • ERP hardware and software maintenance • Telephone and voice mail services
Internal Audit	<ul style="list-style-type: none"> • Audit services and special projects • External audit support • Fraud, Waste, and Abuse Hotline Program
Parks and Recreation	<ul style="list-style-type: none"> • Grounds maintenance for school and athletic facilities
Police	<ul style="list-style-type: none"> • School resource officers • Child safety officers • School crossing guard program
Procurement	<ul style="list-style-type: none"> • Processes CCPS operating and construction contracts
Risk Management	<ul style="list-style-type: none"> • Employee/student health and safety programs • Manages costs incurred for property, liability, and workers compensation claims

Chart 1: County Shared Services

CCPS provides shared services to the County as follows:

C-Fit Program	<ul style="list-style-type: none">• Employee health and wellness program
Schools Space Rental	<ul style="list-style-type: none">• Parks and Recreation rents CCPS gyms
Purchasing Card Rebates	<ul style="list-style-type: none">• Rebate amount from purchasing card
Postal Services	<ul style="list-style-type: none">• Mail and delivery services
Print Shop	<ul style="list-style-type: none">• Printing, copying, and related services

Chart 2: CCPS Shared Services

The Board of Supervisors approves the annual budget. After budget approval, a large transfer is made to CCPS for the local funding portion of operations. The FY22 General Fund transfer to schools totaled \$344,744,300 and is net of shared services charges. Shared services charges include two categories: transfer reduction costs characterized by fixed costs that are consistent from year to year, and charges for services that utilize interdepartmental transfers (IDTs).

Departments submit shared services charges to Budget for review. Every two years, transfer reduction charges are updated, verified, and included in a funding memorandum shared between County and CCPS. The last charge approval was during the FY22 budget process. During FY22, the \$7,229,400 County shared services transfer reduction and the \$762,200 CCPS services transfer increase resulted in a net transfer reduction of \$6,647,200.

Department/Program	Reduction to Transfer	Increase to Transfer	Total
County Shared Services			
Accounting	\$ 813,300	\$ -	\$ 813,300
Information Technology	343,900	-	343,900
Internal Audit	107,300	-	107,300
Parks and Recreation	2,312,400	-	2,312,400
Procurement	1,046,000	-	1,046,000
Police	2,606,500	-	2,606,500
CCPS Shared Services			
C-Fit Program	-	(63,600)	(63,600)
P-Card Rebate	-	(117,600)	(117,600)
Parks Rental of School Spaces	-	(149,000)	(149,000)
Postal Services	-	(184,300)	(184,300)
Print Shop	-	(247,700)	(247,700)
Total:	\$7,229,400	\$ (762,200)	\$6,647,200

Table 1: Shared Service Net Transfer Reduction

IDTs are used to record periodic charges for routine goods and services exchanged between a billing department and receiving departments. Routine charges are for goods or services that occur regularly in fixed or varying amounts. Charges are agreed upon through the budget process or at the time services are provided and are based on the receiving departments' usage and standard rates. Total FY22 IDT charges to CCPS were \$15,702,050.

Department	IDT
County Shared Services	
Accounting	\$ 109,300
General Services	10,188,550
Information Technology	51,500
Risk Management	5,352,700
Total:	\$15,702,050

Table 2: County Shared Service IDT Charges

OBJECTIVES

The objective of the audit was to evaluate County and Schools shared services to determine if current services are efficient and effective for both organizations.

SCOPE

Our audit work covered FY22 and the current operating environment. We considered the following code, policies, and procedures during our audit:

County Administrative Policy 1-2: Accounting – Interdepartmental Transfers and Crossdepartmental Charges – Billing and Recording

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. Aline Bright, Staff Auditor, and Christian Wingfield, Senior Auditor, 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 is considered a shared service since we provide services to County and Schools. While providing shared services technically impairs our independence under GAGAS for those transactions, we otherwise followed GAGAS standards. Transactions tested for this project did not include Internal Audit items.

METHODOLOGY

Detailed methodology information can be found in the individual point sheets. Our methodology included the following:

- Survey departments that offer and receive shared services to determine methodology for charges, reporting results, feedback, and effectiveness of the process.
- Analyze total transfer between County and CCPS to determine reasonableness and accuracy.
- Evaluate department shared services calculation methodology to determine reasonableness.
- Evaluate available policies and procedures for departments to determine existence and if applicability to both organizations is defined.

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 Budget and Management department for their cooperation and assistance during this audit.

FINDINGS, RECOMMENDATIONS, RESPONSES

Shared Services

(Point Sheet 1)

CRITERIA:

Shared services create an opportunity for an efficient organizational operating environment. Establishing collaborative relationships by using shared services can create cost savings, increase quality of services, improve working relationships, and enable better decision making. The following best practices can assist in creating an efficient and effective shared services model:

- Documented responsibilities
- Established policies and procedures
- Identify strengths within the organizations to best serve as shared services
- Assess and update shared services periodically
- Provide clear and measurable results on services provided
- Periodic communication and monitoring on services to key personnel

CONDITION(S):

Every two years, Budget reviews shared services with charging departments to determine if adjustments are needed. They also periodically assess for processes that would gain efficiencies from adopting the shared services model.

Shared Services Surveys

Using Budget shared services contacts, we surveyed twelve County employees and one CCPS employee from departments that provide shared services. The survey asked about shared service charge methodology, department policies/procedures, IDT process efficiencies, tracking and reporting of services provided, receipt and utilization of feedback, and general shared service process inefficiencies. We received 7/12 (58%) County and no CCPS survey responses and noted:

- 6/7 (86%) stated they have a process in place to track actual services provided to CCPS.
- 4/7 (57%) stated they do report to CCPS shared services performed.
- 5/7 (71%) stated they do receive feedback for shared services provided.
- All respondents indicated an efficient shared services process.

We sent five surveys to CCPS Division chiefs that receive shared services. The survey asked about reasonableness of charges, verification of services received, reporting from County departments, ability to provide feedback, efficiencies of shared service process, and opinions of other services that could be shared between organizations. We received 3/5 (60%) survey responses and noted the following:

- One response noted a concern related to high fuel charges. Fleet charges all customers a \$0.20 per gallon mark-up on fuel which helps pay for administration of the fuel program. The fuel program provides a discounted fuel rate, so even with the mark-up, customers pay less market price.
- One response noted a concern related to Police overtime charges. CCPS and Police have an agreement for off-duty officers providing traffic services at elementary schools to be paid overtime.
- All respondents stated that shared services received are efficient and effective.

FINDINGS, RECOMMENDATIONS, RESPONSES

Shared Services

(Point Sheet 1)

Policies and Procedures

Auditor searched County SharePoint (intranet) and CCPS BoardDocs® to determine if policies and procedures exist for departments who provide shared services and confirm they outline applicability to County and CCPS. At the date of our testing, the County was migrating to SharePoint (web-based collaborative platform) and we could not confirm all issued policies were posted. Four departments have policies outlining applicability to both County and CCPS and are shown in the chart below.

Accounting

- 1-1 - Travel
- 1-2 - IDT and CDC Charges
- 1-5 - Bill Approval Documentation
- 1-6 - Fixed Assets
- 1-8 - Cash Receipts
- 1-15 - Purchasing Card
- 1-19 - In Focus Security and Responsibility
- 1-20 - Post-issuance Compliance for Tax-exempt Bond Issues

General Services

- 5-1 - Vehicle Operation
- 5-3 - Vehicle Fuel Cards
- 5-7 - Facilities Management

Procurement

- Chesterfield County Procurement Manual

Risk Management

- 13-1 - Driving Requirements
- 13-2 - Insurance and Bond Responsibilities
- 13-7 - Unmanned Aerial Vehicles

Chart 3: County and CCPS Policies

Other shared services do not apply to all employees or departments have other agreements. We also noted that four school policies indicate the County policies should be followed.

FINDINGS, RECOMMENDATIONS, RESPONSES

Shared Services

(Point Sheet 1)

Shared Services Financial Analysis

We reviewed budget documentation to determine if the FY22 General Fund transfer to CCPS had supporting documentation to demonstrate agreed-upon amounts. We confirmed supporting documentation existence to support the net transfer amount of \$344,744,300 and traced the transfer to the general ledger. The net transfer includes a shared services transfer reduction totaling \$6,467,200.

Budget provided calculation methodology for County and CCPS shared services charges. Departments submit calculations to Budget for review. We analyzed the calculations to determine if charges appear reasonable based on services provided. Shared service calculation methodology varies among departments due to the variety of services provided. For example, departments determine charges using hours worked, transactions processed, product consumed, or measurement of space. We determined department calculation methodologies and total charges were reasonable. Parks and Recreation staff could not fully describe how shared services charges were developed; however, Budget personnel provided the methodology.

We compared FY22 County department charges for shared services to FY22 department expenditure budgets to determine if shared services charges were reasonable based on the services provided to CCPS. General Services (44.1%), Procurement (47.8%), and Risk Management (51.2%) had the highest percentage of shared services charges to budgeted expenditures. After review of annual department reports, shared service charge calculation methodologies and other documentation, we determined shared services charges were reasonable based on the services provided to CCPS.

We compared current shared services charges to market rates to determine if shared services charges were reasonable. Based on our ability to obtain an accurate market rate we evaluated two County departments that provide shared services. Market rate estimates are from Financial Services Specialist position from Virginia's eProcurement site (eVA) and position estimates from Virginia government localities and the Economic Research Institute. Table 4 below shows the comparison between current shared services charges and market rate estimates.

Department	Current Shared Services Charges	Market Rate Estimate	\$ Difference
Accounting	\$ 922,600	\$1,160,397	\$237,797
Police	2,606,500	2,770,197	163,697

Table 4: Shared Service Value Analysis

Although we could not determine market rate estimates for all shared services provided, Accounting and Police charge reasonable shared service amounts when compared to market rate estimates.

FINDINGS, RECOMMENDATIONS, RESPONSES

Shared Services

(Point Sheet 1)

CAUSE(S):

- The shared services program does not follow best practices for documentation and reporting.
- Some departments have policies that cover both County and Schools; those without policies have other agreements in place.
- Shared services charges appropriately reduced the General Fund transfer to Schools and the transfer was accurately recorded in the general ledger.
- Shared services charges align with the services provided and are lower than market rates.
- Parks and Recreation staff turnover caused loss of shared services charge methodology understanding.

EFFECT(S):

- Departments may not be aware of shared services responsibilities, which may result in duplicate efforts, inconsistencies in services, and lack of accountability.
- Current policies and agreements in place are reasonable.
- Shared services costs are accurately reflected in the system.
- Charges for shared services are fair and reasonable which results in reduced expenditures.
- Parks and Recreation shared service charges have not been recently re-evaluated and updated based on current operations.

COMMENDATION(S):

We commend:

1. Budget for appropriately reducing the General Fund transfer to Schools and accurately recording the transfer in the general ledger.
2. Shared services departments for having appropriate County-wide and CCPS policies.

RECOMMENDATION(S):

We recommend:

1. Budget develop shared services documentation that follows best practice, including:
 - a. Documented department responsibilities
 - b. Program policies and procedures
 - c. Providing clear and measurable results on services
 - d. Periodic communication and monitoring on services to key personnel
 - e. Clarification that departments receiving shared services will follow the providers policies
2. Parks and Recreation update shared services calculation detail documentation to ensure accuracy and reasonableness.

FINDINGS, RECOMMENDATIONS, RESPONSES

Shared Services

(Point Sheet 1)

MANAGEMENT RESPONSE:

- 1. Concur. David Oakley, Budget Manager, is responsible for implementing 6/30/2023. This will be implemented as part of the FY2024 budget development and beyond.*
- 2. Concur. Neil Luther, Director of Parks and Recreation, is responsible for implementing 9/15/2022. Beginning with FY2024 budget development, the grounds maintenance charge for school sites will be zero-based every two years. This cycle is concurrent with Budget's biannual shared services review and will ensure allocated Parks and Recreation resources and corresponding costs are thoroughly examined and justified on a regular fiscal cycle.*