



Chesterfield County, Virginia Internal Audit

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GREG L. AKERS
Director

DATE: February 22, 2018

TO: Joseph P. Casey, Ph.D.
County Administrator

FROM: Greg L. Akers 
Director of Internal Audit

SUBJECT: Chesterfield Emergency Planning Committee Audit

The Office of Internal Audit completed an audit of the Chesterfield Emergency Planning Committee, and the final report is attached.

We would like to thank the Fire and EMS Department's Emergency Management staff and the Chesterfield Emergency Planning Committee for their cooperation and assistance during this audit.

Attachment

Copy: Edward "Loy" Senter Jr., Fire Chief
Emily Ashley, Emergency Management Coordinator
Sherri Laffoon, Deputy Emergency Management Coordinator
Jason Bassett, Chair of Chesterfield Emergency Planning Committee
James F. Lane, Ed.D., School Superintendent
Audit and Finance Committee



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Chesterfield Emergency Planning Committee

February 22, 2018

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February 2018

Highlights

Internal Audit Report to the Board of Supervisors/School Board

Why We Did This Review

Internal Audit conducted this review as part of our FY18 audit plan (project carried over from prior plans) approved by the County Administrator, School Superintendent, and the Audit and Finance Committee.

The audit focused on reviewing Chesterfield Emergency Planning Committee (CEPC) records for accuracy and compliance. Our objectives were to:

- Test receipts and disbursements for supporting documentation, compliance with policies and procedures, and accurate reporting.
- Review bank reconciliations for accuracy and timely completion.
- Report results to management.

What We Recommend:

Implementing internal control and operational improvements if the CEPC directly handles funds in the future.

Chesterfield Emergency Planning Committee



What We Found

Background

The CEPC was formed as a Local Emergency Planning Committee in 1987 under the Federal “Superfund Amendments and Reauthorization Act of 1986.” The CEPC is comprised of members from local and state government agencies, elected officials, private industry, and citizens. They work with the County’s Emergency Management staff to review local emergency plans, maintain a list of all hazardous substances and materials in the county, and identify the facilities in which the chemicals are housed. In addition, they provide public education, training, and volunteer opportunities to communities for family safety.

The CEPC has maintained a checking account for handling grant funds primarily used for certain studies and training programs. Annual receipts have been as high as \$29,000 in FY 1995. However, in recent years financial activity has been minimal as these training programs have been conducted through participating organizations via other funding streams. Currently, the CEPC is a means for the local government emergency responders to network and train with safety personnel in county businesses that use hazardous materials. Since the fiscal year ended August 31, 2013, the CEPC’s checking account had maintained a balance of approximately \$500. The only recent disbursements have been an annual \$34 P.O. box rental fee, which became unnecessary with automation of hazardous materials reporting. Per unanimous vote at the April 7, 2016 CEPC meeting, the checking account was dissolved and officially closed on July 21, 2016.

Financial Transactions and Bank Reconciliations

Internal Audit reviewed and tested the CEPC’s FY 2014 – 2016 financial statements and supporting schedules, checkbook register, receipt and disbursement transactions, bank statements, and monthly bank reconciliations with minimal exceptions. Our observations and recommendations are included in our detailed report.

Management concurred with 7 of 7 recommendations to be implemented if a bank account is re-opened in the future.

We appreciate the cooperation received from management and staff while conducting this audit.



For more information, please contact
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INTRODUCTION

BACKGROUND

The Chesterfield Emergency Planning Committee (CEPC) audit was a regularly scheduled audit on the FY18 audit plan (project carried over from prior plans) approved by the County Administrator, School Superintendent, and the Audit and Finance Committee. The CEPC was formed as a Local Emergency Planning Committee from the enactment of Federal Public Law 99-499, the “Superfund Amendments and Reauthorization Act of 1986,” under Title III, Section 301. The Committee was enabled by action of the Chesterfield Board of Supervisors on August 12, 1987 and organized on February 28, 1988 with members from local and state government agencies, elected officials, private industry, and citizens. They work with County’s Emergency Management staff to review local emergency plans, maintain a list of all hazardous substances and materials in the county, and identify the facilities in which the chemicals are housed. In addition, they provide public education, training, and volunteer opportunities to communities for family safety.

The CEPC has maintained a checking account for handling grant funds primarily used for certain studies and training programs. Annual receipts have been as high as \$29,000 in FY 1995. However, in recent years financial activity has been minimal as these training programs have been conducted through participating organizations via other funding streams. Currently, the CEPC is a means for the local government emergency responders to network and train with safety personnel in county businesses that use hazardous materials. Since the fiscal year ended August 31, 2013, the CEPC’s checking account had maintained a cash balance of approximately \$500. The only recent disbursements have been an annual \$34 P.O. box rental fee, which became unnecessary with automation of hazardous materials reporting (*Tier II Emergency and Hazardous Chemical Inventory Form*). Per unanimous vote at the April 7, 2016 CEPC meeting, the checking account was dissolved and officially closed on July 21, 2016.

OBJECTIVES

Objectives of the audit were to:

- Test receipts and disbursements for supporting documentation, compliance with policies and procedures, and accurate reporting.
- Review bank reconciliations for accuracy and timely completion.
- Report results to management.

SCOPE

Our audit work covered all transactions from September 1, 2013 to July 21, 2016 (bank account closure date).

We considered the following policies and procedures during our audit:

Bylaws Of The Chesterfield Emergency Planning Committee

We conducted this performance audit in accordance with generally accepted government auditing standards. 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. Lora Holland, Senior Auditor, performed the audit work. Chesterfield County Internal Audit is a department within the organization of Chesterfield County/Schools.

METHODOLOGY

Detailed information regarding the methodology can be found in the individual findings listed in the report. Our methodology included:

- Performing an analytical review of receipts and disbursements.
- Reviewing supporting documentation for all receipts and disbursements to verify compliance with the CEPC Bylaws' requirements and accurate reporting.
- Reviewing all bank reconciliations for timely completion, review/approval, and clearing of outstanding items.
- Re-performing a sample of bank reconciliations to verify accuracy.
- Inquiring of management and staff where necessary.

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 there are several opportunities for improvement to internal control procedures to better provide reasonable assurance to assist management in meeting its missions, 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 Fire and EMS Department's Emergency Management staff and the Chesterfield Emergency Planning Committee for their cooperation and assistance during the course of this audit.

FINDINGS, RECOMMENDATIONS, RESPONSES

Financial Transactions

(Point Sheet C-1.2)

CRITERIA:

The Chesterfield Emergency Planning Committee (CEPC) Bylaws document provides the following guidance for the Committee's financial activity:

Excerpt from Article IV, Section 4—Secretary/Treasurer:

“The Secretary/Treasurer will be responsible for overseeing all funds allocated to the Committee and shall submit an audited financial statement to the Committee at the October meeting. The fiscal year shall be September 1 – August 31. Should the Committee be dissolved, all assets of the Committee shall revert to the General Fund of Chesterfield County.

The Secretary/Treasurer will oversee the checking account. All expenditures will be approved by a majority vote. The Chair and the Secretary/Treasurer will sign checks.”

Excerpt from Article V, Section 1.b—CEPC Steering Subcommittee:

“The CEPC Steering Subcommittee shall:

1. Annually review goals and objectives established by the CEPC.
2. Adopt and establish new policies or directives as the situation dictates.
3. Approve the upcoming month's agenda.
4. To ensure that the financial records of the committee are audited annually, or after a change in Secretary/Treasurer in accordance with good financial practices.”

Cash receipt best practices include documenting procedures, deposit timeliness requirements, and using a controlled receipt process.

CONDITION(S):

The CEPC was formed as a Local Emergency Planning Committee from the enactment of Federal Public Law 99-499, the “Superfund Amendments and Reauthorization Act of 1986,” under Title III, Section 301. The Committee was enabled by action of the Chesterfield Board of Supervisors on August 12, 1987 and organized on February 28, 1988 with members from local and state government agencies, elected officials, private industry, and citizens. They work with County's Emergency Management staff to review local emergency plans, maintain a list of all hazardous substances and materials in the county and identify the facilities in which the chemicals are housed. In addition, they provide public education, training, and volunteer opportunities to communities for family safety.

Much of the CEPC's work is accomplished with minimal funding. Committee members donate their time and other resources, and local businesses and agencies are also known to contribute their services. The CEPC has had few direct financial transactions and maintained approximately a \$500 balance since the fiscal year ended August 31, 2013. Expenses were limited to maintaining a P.O. Box with occasional receipts for training activities. Financial activity became so minimal

FINDINGS, RECOMMENDATIONS, RESPONSES

Financial Transactions

(Point Sheet C-1.2, Continued)

in recent years that the CEPC was able to coordinate with participating organizations to eliminate their post office expense and host other activities.

Cash Receipt Procedures:

The CEPC does not have documented procedures for cash receipting/depositing and does not use prenumbered multi-copy receipt books. Currently, there are no segregation of duties in the cash receipting/depositing process; that is, one person controls the transaction from receipt to deposit. One person receives and opens the mail, prepares the deposit slip for any monies received, and makes the deposits.

High Level Review of Checking Account Ledgers & Financial Statements:

We obtained and reviewed fiscal years (FY) 2014 – 2016 checking account ledgers and financial statements to ensure sequential check numbers, agreement of beginning balances to the prior year financial statements and ledgers, and agreement of beginning and ending balances among the current year financial statements, ledgers, and the bank statement less outstanding items per bank reconciliation. Only one minor clerical error was noted.

Detailed Transaction Testing:

We performed detailed testing for all FY 2014 – 2016 checking account transactions for internal controls over cash receipts and disbursements and compliance with CEPC's Bylaws. There were 7 transactions—2 cash receipts, 4 cash disbursements, and 1 voided check. Audit exceptions and observations included a \$25 lost check and a \$75 untimely deposit, one check signed by the "Chair and former Chair" instead of the "Chair and Treasurer," and a voided check was not maintained.

CAUSE(S):

- The misplaced funds/untimely deposit was due to an inadvertent oversight by the person responsible for cash receipting/depositing.
- A new Treasurer was elected for FY 2014, but he did not fulfill his duties. The former FY 2013 Chair voluntarily fulfilled Treasurer duties during FY 2014 without an official Committee vote/approval.
- The CEPC does not have any documented internal control procedures for financial transactions other than the limited guidance provided in the Bylaws (*see Criteria above*).

EFFECT(S):

- The Committee absorbed a loss of \$25 due to the misplaced cash receipts.
- There was non-compliance with the Bylaws due to the FY 2014 Treasurer not fulfilling his duties.
- Lack of segregation of duties and documented internal control procedures for cash receipting, increases the risk of fraud, errors, or irregularities in financial transactions.

FINDINGS, RECOMMENDATIONS, RESPONSES

Financial Transactions (Point Sheet C-1.2, Continued)

COMMENDATION(S):

We commend CEPC for having no or minimal exceptions in the following detailed transactions testing areas: (1) transactions agreed to supporting documentation, (2) transactions agreed to and cleared the bank statements timely, (3) transactions were properly recorded in the financial statements, (3) cash receipts were deposited intact, and (5) disbursements were for a legitimate purpose/activity and properly approved.

RECOMMENDATION(S):

If a bank account is re-opened in the future, we recommend the Chesterfield Emergency Planning Committee (CEPC):

1. Document the process and internal control guidelines for cash receipting/depositing.
2. Implement internal control improvements over cash receipting/depositing, including:
 - a. Utilize controlled pre-numbered receipts that identify source and purpose.
 - b. Agree receipts to intact bank deposit documentation.
 - c. Establish expectations for timeliness of deposits.
 - d. Create segregation of duties such that one person does not control transactions from receipt to deposit.
3. Ensure the Treasurer fulfills his/her duties or officially elect an immediate replacement.
4. Ensure voided checks are properly maintained and defaced/mutilated by marking them as void and removing signature blocks and account numbers.

MANAGEMENT'S RESPONSE(S):

1. *Concur. CEPC Executive Committee is responsible for implementing. If a bank account is opened in the future, the CEPC Executive Committee will create procedures for cash receipting/depositing.*
2. *Concur. CEPC Executive Committee is responsible for implementing. If a bank account is opened in the future, the CEPC Executive Committee will create procedures for cash receipting/depositing and segregation of duties.*
3. *Concur. CEPC Chair is responsible for implementing. The CEPC Chair will ensure the treasurer fulfills the duties of the elected position.*
4. *Concur. CEPC Treasurer is responsible for implementing. Procedures will be implemented on properly maintaining voided checks should the CEPC open another bank account in the future.*

FINDINGS, RECOMMENDATIONS, RESPONSES

Bank Reconciliations

(Point Sheet C-1.1)

CRITERIA:

Until its closure on July 21, 2016, Chesterfield Emergency Planning Committee (CEPC) had one bank account to reconcile monthly. The reconciliation process in effect at the beginning of FY 2014 was outlined in the May 2, 2013 CEPC meeting minutes. However, the process changed when CEPC signed up for online banking (*between September 5, 2013 and October 3, 2013 per monthly committee meeting minutes*) as detailed below.

Bank Reconciliation Procedure Prior to Online Banking:

Upon receipt by Chesterfield Fire & EMS Department's Emergency Management staff, the bank statement is scanned and emailed to both the Chair and Treasurer of CEPC. The Treasurer reconciles, dates, and signs the statement, then scans and emails it to the Chair for review. The Chair signs, dates, scans, and emails the reconciled statement to the Treasurer and Emergency Management to maintain copies of the statement with both dated signatures.

Bank Reconciliation Procedure Upon Implementation of Online Banking:

The bank statement is downloaded and reconciled by the Treasurer at the first of each month, prior to the monthly meeting, and approved by the Chair at the monthly meeting.

CONDITION(S):

Segregation of Duties Observation:

Ideally the person who performs the bank reconciliations should not have access to the recording of transactions in the accounting records or processing of cash disbursements or receipts. With the CEPC being a small organization, ideal segregation of duties is difficult or perhaps even impossible to achieve. However, prior to online banking a compensating control was in place such that bank statements were received by other individuals besides the Treasurer. With the implementation of online banking, this compensating control no longer exists as the Treasurer is now the only individual with access to the online bank statements.

Review of Bank Reconciliations:

We reviewed all monthly bank account reconciliations (*September 2013 to June 2016*) for timely completion, review/approval, and clearing of outstanding items. The following exceptions were noted:

- For 10 of 34 (30%) months—bank reconciliations were not completed and/or reviewed timely (*within 30 days as recommended in the prior audit report dated January 7, 2014*).
- For 2 of 34 (6%) months—the bank reconciliation documentation was not sufficient, as it did not identify/document reconciling items to be monitored for clearing or resolution on future bank statements.

FINDINGS, RECOMMENDATIONS, RESPONSES

Bank Reconciliations

(Point Sheet C-1.1, Continued)

CAUSE(S):

- When online banking was implemented, bank statements were no longer received via mail and online access was set up for the Treasurer since it is his responsibility to oversee funds per CEPC's Bylaws.
- Bank reconciliations are generally performed and reviewed in correlation with the monthly CEPC meeting dates, since members are voluntarily serving on this committee outside of their regular jobs. So long as there are no gaps in the monthly meetings and both the preparer and reviewer are regularly in attendance, this practice ensures reconciliations are done within 30 days. We found the majority of untimely reconciliations occurred when there was no monthly CEPC meeting or when the individuals responsible for reconciling and reviewing were not in attendance at a monthly meeting.
- For most months, there were no outstanding items or other differences (*reconciling items*) between the bank and checkbook balances, so CEPC just wrote "Reconciled" followed by signature/date on the face of the monthly bank statements. While this may be appropriate for months where the bank and checkbook balances agree, it is not sufficient for months where there are differences. Since there is minimal financial activity for CEPC, it would be reasonable to use the simple reconciliation form provided on the back of the bank statements to document differences in the checking account ledger versus the bank statement balances.

EFFECT(S):

There is an increased risk that fraud, errors, or irregularities may occur and not be detected/resolved within the bank's statute of limitations.

COMMENDATION(S):

The CEPC should be commended for all bank reconciliations being documented and signed by both the preparer and reviewer.

RECOMMENDATION(S):

If a bank account is re-opened in the future, we recommend the Chesterfield Emergency Planning Committee (CEPC):

5. Ensure the person who reviews/approves bank reconciliations has direct access to online bank statements to affirm accuracy/legitimacy of the bank statements used in monthly bank reconciliations.
6. Improve bank reconciliation processes to consistently reconcile and review bank statements within 30 days (**repeat finding from report dated January 7, 2014**).
7. Use the simple bank reconciliation form pre-printed on the back of bank account statements to document reconciliation, as done in the past.

FINDINGS, RECOMMENDATIONS, RESPONSES

Bank Reconciliations

(Point Sheet C-1.1, Continued)

MANAGEMENT'S RESPONSE(S):

5. *Concur. CEPC Chair and Treasurer will be responsible for implementing. If a bank account is opened in the future, the CEPC Chair and Treasurer will ensure they both have access to the online statements. (This will be included procedures)*
6. *Concur. CEPC Chair and Treasurer will be responsible for implementing. If a bank account is opened in the future, the CEPC Chair and Treasurer will ensure statements are reconciled within 30 days. (This will be included procedures)*
7. *Concur. CEPC Chair and Treasurer will be responsible for implementing. If a bank account is opened in the future, the CEPC Chair and Treasurer will implement a process for reconciling and documenting the account each month. (This will be included procedures)*