

Internal Audit Report on Public Utilities Expenditures FY14

County of Henrico



*Proud of our progress;
Excited about our future*

**Internal Audit Report #248
August 7, 2015**

HENRICO COUNTY INTERNAL AUDIT
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Internal Audit Report on Public Utilities Expenditures FY2014



Report #248
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Summary

- Scheduled Audit
- Conclusions on Audit Objectives:
 - ▲ Determine controls exist and are operating effectively to ensure compliance with policies and procedures for non-personnel expenditures including travel
 - Determine that controls exist and are operating effectively to ensure Agency Head transactions are properly approved
 - ▲ Determine adequate controls exist over fixed assets
 - Determine adequate controls exist over inter-departmental transfers
- Exception Oriented
- 1 Reportable Issue and 2 Other Observations
- Management Action Plans have been developed to address all risks identified


● Insufficient-Immediate Attention ▲ Improvement Needed ■ Sufficient

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Contents

- Introduction and Background
- Scope, Objectives and Methodology
- Conclusions on Audit Objectives
- Issues and Management Action Plans
- Closing and Report Distribution




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Introduction

- Auditor III Joyce Aikor-Richardson performed audit work
- Used professional auditing standards
- Examined controls & tested for selective compliance
- All exceptions given to Agency
- Reported control design issues & significant test exceptions
- Work for same Government we audit



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Background On Water and Sewer

- The Public Utilities' Water and Sewer Fund is an enterprise fund, supporting its operating and capital infrastructure expenditures with revenues derived from customer charges and water and sewer revenue bonds.
- In FY2013-14, projected operating resources of \$102,298,175 will support water and wastewater operations and reflects an increase of 2.4 percent from the FY2012-13 approved budget, which includes a proposed 5.0 percent increase in water and sewer rates.
- Payments and transfers from the General Fund in FY2013-14 total \$1,931,608 for debt service, all of which will support the debt service costs related to the Elko Tract infrastructure improvements.

Excerpt from FY2013-14 Approved Annual Fiscal Plan

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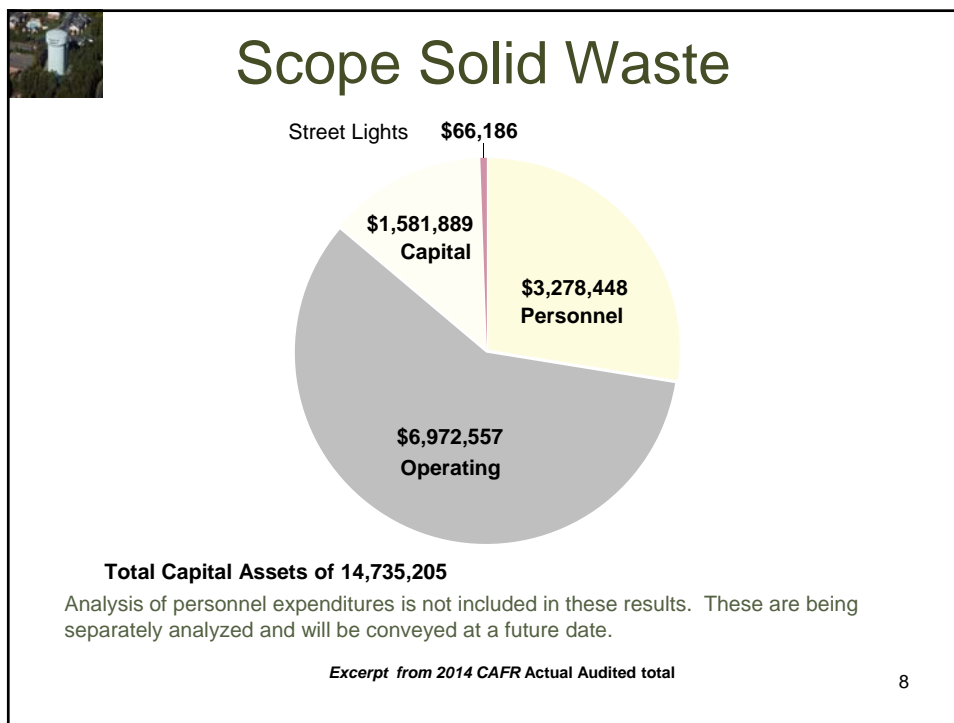
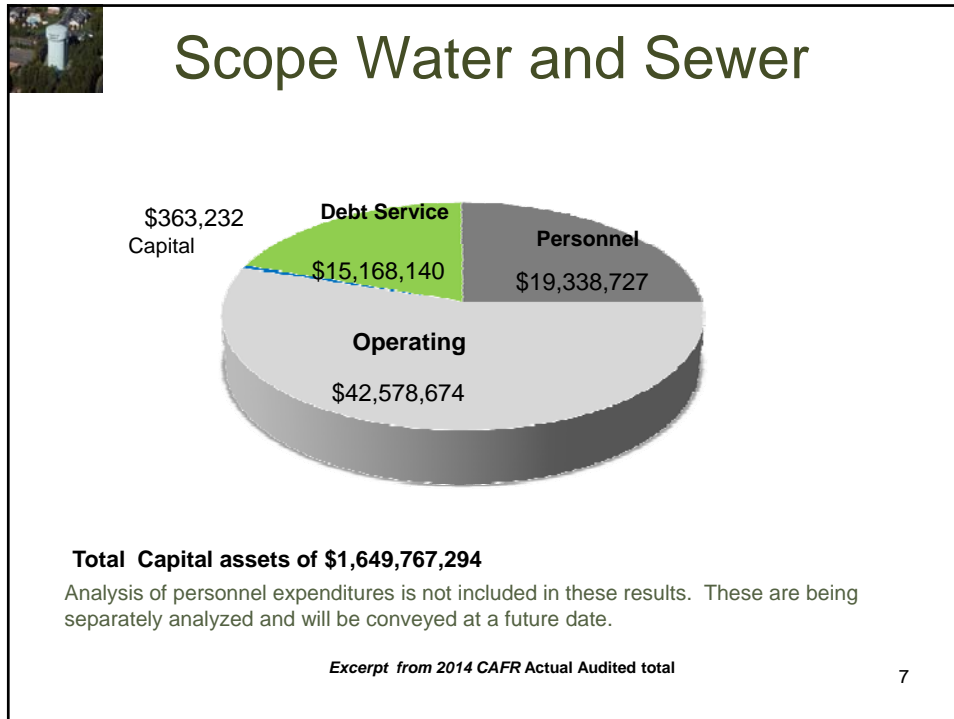


Background on Solid Waste

- The Department of Public Utilities also provides solid waste disposal, limited refuse collection, and street lighting services to residents of Henrico County.
- Projected revenues in FY2013-14 are \$12,345,699, inclusive of a General Fund subsidy of \$3,049,001. Outside of the General Fund transfer, locally generated revenues are projected to decrease \$69,365 or 0.6 percent as compared to the prior fiscal year.
- The General Fund subsidy for FY2013-14 is decreasing by \$15,000, or 0.5 percent from the prior fiscal year. Revenues are sufficient to cover all operating expenditures for Solid Waste in FY2013-14. Total expenditures of \$12,345,699 reflect a decrease of \$69,365, or 0.6 percent compared to the FY2012-13 approved budget.

Excerpt from FY2013-14 Approved Annual Fiscal Plan

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Internal Controls *Objectives*

- Reliability and integrity of information
- Compliance with policies, procedures, laws and regulations
- Safeguarding of assets
- Effectiveness and efficiency of operations



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Internal Controls Cont'd *General Limitations of any Controls*

- Errors and irregularities may go undetected
- Inherent limitations in any control structure
- Limitations include resource constraints, legislative restrictions, etc.
- Projection to future subject to risk of change in effectiveness
- Compliance may deteriorate




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Audit Methodology

- Determined expenditure-related processes and control procedures
- Evaluated strengths and weaknesses of control procedures
- Randomly sampled recorded transactions and traced to supporting documents for accuracy and compliance with policy
- Randomly sampled capital assets and verified existence



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Conclusions on Audit Objectives

	Audit Objectives	Issues and Other Observations Identified
▲	Determine controls exist and are operating effectively to ensure compliance with policies and procedures for non-personnel expenditures including travel	Ensure all travel is settled within 14 days of return (<i>Other observation 1</i>) Ensure all invoices submitted for scanning and attachment into Oracle Financials are initialed and dated (<i>Other observation 2</i>)
■	Determine that controls exist and are operating effectively to ensure Agency Head transactions are properly approved	None
▲	Determine adequate controls exist over fixed assets	Improve controls over Capital Assets (<i>Issue 1</i>)
■	Determine adequate controls exist over inter-departmental transfers	None

● Insufficient-Immediate Attention
 ▲ Improvement Needed
 ■ Sufficient

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Issues

1. Improve controls over Capital Assets

Other Observations

1. Ensure all travel is settled within 14 days of return
2. Ensure all invoices submitted for scanning and attachment into Oracle are initialed and dated

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Issue 1

Improve controls over Capital Assets




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Issue 1

Condition

- Some assets had incorrect serial numbers and some had no serial numbers listed which had to be updated in Oracle. [5 of 44 (11%) sampled Landfill assets. 22 of 297 (8%) sampled Water and Sewer assets.]
- Some assets were physically replaced with new assets, however the old ones were not removed and the new assets were not updated on the asset inventory. [1 of 44 (2%) sampled Landfill assets.]
- Some assets could not be located because they had been disposed of but were still on the inventory listing and some we could not find and confirm. [5 of 44 (14%) sampled Landfill assets. 22 of 297 (8%) sampled Water and Sewer assets.]
- Agency staff confirmed the asset inventory for the Division of Accounting for year-end but when we went to observe the assets they could not be easily found. [5 of 44 (11%) sampled Landfill assets. 22 of 297 (8%) sampled Water and Sewer assets.]



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Issue 1


Effect

Assets are incorrectly listed and/or misstated in the accounting records, or the description is not complete.

Cause

Not every asset uses a serial number for identification.
Tracking of paperwork was insufficient.

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Issue 1

Criteria

Henrico County Capital Assets Manual

Establish and maintain procedures to ensure that proper reconciliations and corrections are made on a timely basis.


This include Correctly enter and/or correct the asset description, serial and capital asset identification tag numbers.

Note: In DPU's case, these would be done on Capital Asset Information Forms (AIF).

Timely completion and distribution of Capital Asset Information Forms (AIF) and supporting documentation to the Surplus Property Coordinator for disposals and inter-departmental transfers.

<http://virtual.henrico/genserv/CAIF.doc>


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Issue 1

Recommendation

Improve controls over Capital Assets to ensure they can be easily located and are timely updated in the accounting records



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graph TD; A("Where we are?  
(measurement)") --> B("Where we  
planned to be?  
(evaluation)"); B --> C("How can we  
get on track  
again?  
(correction)"); C --> A;
```

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Management's Action Plan

...In a continuing effort to improve this process, the Accountant IV is sending out the inventory now for FY2015 and is requiring that each division head sign off on each item as having found it and that the description and markings on the item are adequate to find it in the future. Department of Public Utilities (DPU) Accounting will be reviewing the lists that are returned carefully and following up with the divisions on any questions and forwarding all AIF's for additions or retirements or updates to Finance. DPU accounting will make sure all AIF's are updated properly in ORACLE fixed assets. DPU Accounting will do random and surprise counts next fiscal year to assure the divisions are properly following these procedures.

BY WHOM : Controller

EXPECTED COMPLETION DATE: January 4, 2016



Other Observations

The following slides include additional observations noted during our audit which were considered less critical in reaching our conclusions on our audit objectives.



Other Observation 1

Ensure all travel is settled within 14 days of return

In a test of 49 staff travel expenditures, 19 items related to expenditures greater than \$300 in total (including registration costs). Review revealed that 6 of the 19 (32%) were related to the parking fee portion of the costs (\$6-\$18) and were settled more than 14 days after return.

This is the required timeframe per County policy designed, in part, to help ensure any advanced travel funds not spent are returned timely. No advanced funds were to be returned to the County for any of these instances of employee travel.

Recommendation

Ensure all travel is settled within 14 days of return in compliance with travel policy.

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Other Observation 1

Management's Action Plan

We are going to strictly enforce the 14 day window for reconciling travel expenditures. Anyone not adhering to the policy may have future requested travel denied or severely restricted as appropriate.

BY WHOM : Department of Public Utilities' Director

EXPECTED COMPLETION DATE: September 1, 2015



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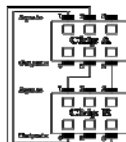
Other Observation 2

Ensure all invoices submitted for scanning and attachment into Oracle are initialed and dated

Review of invoices approved in Oracle revealed:

- 49 of 158 (31%) purchase order invoices and
- 63 of 158 (40%) direct pay invoices

were not initialed on the support scanned into Oracle but were check marked to indicate review for goods and services received prior to payment.



ORACLE

Recommendation

To improve efficiency, ensure all invoices submitted for scanning and attachment into Oracle Financials are those that are initialed and dated to indicate review and accountability for goods and services received prior to payment. Not documenting approvals on the scanned support reduces efficiency of review and retrieval should questions about approval arise.

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Other Observation 2

Management's Action Plan

We are now signing and dating the invoices that are being scanned into ORACLE.

BY WHOM : Controller for Department of Public Utilities

EXPECTED COMPLETION DATE: May 9, 2014 (Completed)



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Closing

- Appreciate Agency's cooperation
- Follow up on open Action Plans will be performed as completion dates are reached or after sufficient time has passed to ensure the actions are effective and on-going.



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Report Distribution

Audit Committee (Mr. Glover, Mrs. O'Bannon, County Manager)	Board of Supervisors, Non-Committee Members
Deputy County Manager for Community Operations	Director of Public Utilities
Internal Audit Staff	

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