

Internal Audit Report on Agency Head Turnover Procedures- Human Resources

County of Henrico



*Proud of our progress;
Excited about our future*

**Internal Audit Report #279
March 4, 2021**

HENRICO COUNTY INTERNAL AUDIT

<http://henrico.us/audit>

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Internal Audit Report on Agency Head Turnover Procedures- Human Resources



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Summary

- Turnover procedures initiated before the former agency head left the County's employment
- Conclusions on Objectives (refer to Slide 12)
- Exception Oriented
- 5 reportable Issues and 2 Other Observations
- Management Action Plans have been developed to address all risks identified.



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Contents

- Introduction and Background
- Scope of Procedures
- Internal Controls and Methodology
- Conclusions on Objectives
- Issues and Management Action Plans
- Closing and Report Distribution



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Introduction

- Auditor III, Sharon Cherry, performed turnover procedures
- Used professional auditing standards as a general guideline
- Tested for selective compliance
- All exceptions given to Agency
- Reported significant test exceptions only
- Work for same Government we audit



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Background

The Human Resources (HR) Department provides a variety of services to County agencies:

- Employment and compensation management
 - Includes job classification; employee and applicant records; Internship Program
- Organizational learning and talent development
 - Includes the Volunteer Program
- Benefits administration
 - Includes voluntary benefits such as Accident Insurance, Cancer Insurance, Critical Illness Coverage, Hospital Indemnity
- Fitness and wellness
- Employee health services
- Employee relations
- Information systems
 - Includes personnel and payroll transactions
- Financial and administrative services
 - Includes employment verification
- Senior citizen support
 - "EngAGE in Henrico" initiative

HR Vision:
**"Communication,
Collaboration,
and Credibility"**

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Scope of Procedures

General Fund Actual Expenditures (FY20 through January 2020)

	Actual
Personnel	\$2,294,732
Operating	\$342,320
Capital Outlay	\$0
Total	\$2,637,052

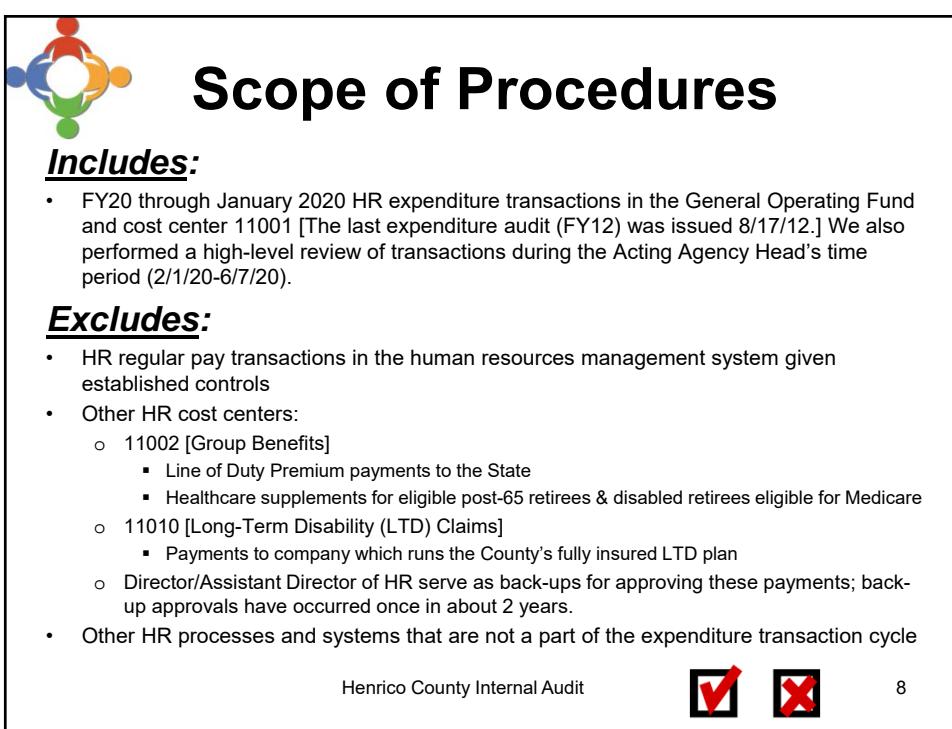
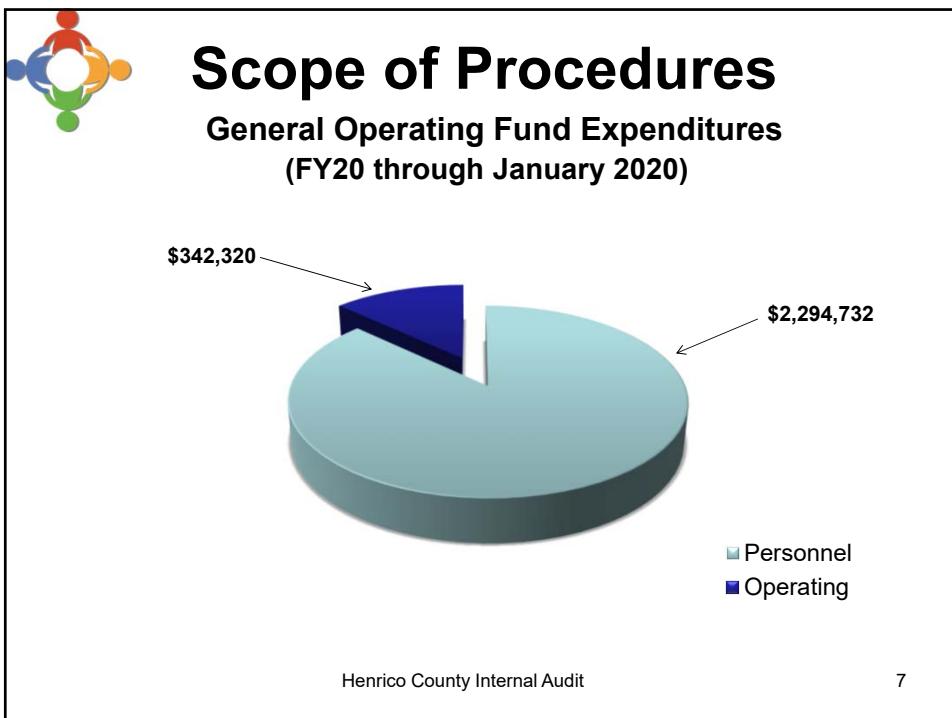
Total Capital Assets at 2/26/20 - \$8,986,518*
(Remained unchanged since FY19)

* Note: Human resources management system software costs make up \$8,972,941 or 99.8% of this total.

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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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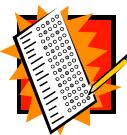
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Methodology

- Judgmentally sampled recorded expenditure transactions and traced to supporting documents for accuracy and compliance with policy
- Confirmed existence of capital and leased assets
- Ensured valuable property below the capital assets threshold is tracked and monitored



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Conclusions on Objectives

Rating	Audit Objective	Issues/Other Obs. Identified
▲	Determine that controls exist and are operating effectively to ensure compliance with policies and procedures related to non-personnel expenditures, including travel.	Issues 1, 3 & 4
■	Determine that controls exist and are operating effectively to ensure agency head transactions are properly approved.	N/A
■	Determine that controls exist and are operating effectively to ensure compliance with personnel expenditures other than regular pay (i.e. OT, temporary services, etc.).	N/A
▲	Determine that adequate controls exist over fixed assets and certain valuable property that is below the capital assets threshold.	Issue 5
▲	Determine that adequate controls exist over other miscellaneous processes (IDT's, CAM, PIV Imports, Internal Charges, Spreadsheet and Manual journal entries) including Accounts Receivable, system controls and the posting of credit transactions.	Issue 2; Other Obs. 1 & 2

● Insufficient-Immediate Attention

▲ Improvement Needed

■ Sufficient

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Issues

1. Strengthen Controls Over the Processing of Non-Personnel Expenditures
2. Properly Post Credit Transactions
3. Ensure Proper Account Codes Used
4. Enhance Controls Over the Processing of Travel and Purchasing Card Expenditures
5. Confirm the Accuracy and Completeness of the Fixed Asset Listing

Other Observations:

1. Verify Financial Access Needed Prior to Approving User Access Reviews
2. Strengthen Accounts Receivable Controls

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Issue 1

Strengthen Controls Over the Processing of Non-Personnel Expenditures



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Issue 1

Condition

We judgmentally selected for testing 25 direct payments, 25 payments against purchase orders (PO's) and 3 expenditures against the Technology Replacement Fund and noted the following:

1. In 44 cases (83%), no one signed and dated the invoice submitted for scanning into the financial system to document the receipt of the goods/rendering of the service and to confirm the accuracy and completeness of the amount billed. Subsequent to our testing, documentation saved outside of the financial system was provided showing approvals in 4 of these cases.
2. 32 invoices (60%) had no date stamp or other indication of the date received on the supporting documentation submitted for scanning into the financial system. Subsequent to our testing, documentation saved outside of the financial system was provided showing dates received in 13 of these instances.
3. In 4 cases (16%), the incorrect direct payment reason code was selected.
4. Two instances where procurement was not made in accordance with applicable policies and procedures as the vendors involved have a contract with the County. In a third instance, an optional purchasing agreement exists which should have been utilized.
5. In one case, the department paid \$271 in taxes on meals, equipment and banquet room fees when the County is tax-exempt.

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Issue 1

Effect

The potential for:

1. payment of goods not received or services not rendered
2. late payment penalties or fees being assessed, especially if the invoice receipt date is not documented
3. non-compliance with County policies
4. overpayments to vendors if State/County contracts are not used in order to pay the negotiated prices/rates or if the County's tax-exempt status is not communicated with the proper supporting documentation

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Issue 1

Cause

1. Unaware of some existing contracts and some of the best practices regarding payments and what should be included on documents submitted for scanning into the financial system
2. Business Supervisor has some saved emails documenting approvals and receipt dates stored outside the financial system
3. Oversight
4. Evolved processes that need to be formalized

Criteria

1. Common business practices dictate that, prior to payment approval, invoices should be reviewed, initialed and dated by an individual who can confirm that the goods/services were received as well as the accuracy and completeness of the amount billed. Additionally, invoices should be date stamped upon receipt.
2. Henrico County Procurement Manual dated 2/12/18
3. County of Henrico Accounts Payable Manual dated 12/20/18

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Issue 1

Recommendation

The HR Director should ensure that:

1. documentation submitted for scanning into the financial system includes date and name/initials of a person more closely involved in the transaction indicating review and accountability for goods and services prior to payment.
2. invoices are date stamped upon receipt.
3. the correct direct payment reason code is entered into the system.
4. staff members involved in the procurement and payment processes fully understand the requirements set forth in the VPPA of the Code of Virginia, the Henrico County Code and the County's Procurement Manual. In addition, the Purchasing Division of Finance should be consulted on how to handle extraordinary circumstances such as how to pay an invoice associated with a PO that has been closed as a part of the year-end process.
5. sales tax is not paid

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Issue 1

Management Action Plan

#	Management Action Plan	Completed By	Date
1.1	New process initiated with all approvers (email sent to Leadership Team)	Business Supervisor	12/30/20 & ongoing
1.2	New process initiated – date stamps purchased (email sent to Leadership Team)	Business Supervisor	1/11/21 & ongoing
1.3	Extra attention will be paid to this.	Business Supervisor	12/30/20 & ongoing
1.4	Manuals read and used for reference. We will consult the Purchasing Division of Finance when extraordinary circumstances arise.	Business Supervisor	12/30/20 & ongoing
1.5	Will not pay sales tax and we will consult with the Revenue Division of Finance when in doubt.	Business Supervisor	12/30/20 & ongoing

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Issue 2

Properly Post Credit Transactions



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Issue 2

Condition

The County's contract with Anthem provides for a yearly communication credit of \$25,000 for a five-year period to offset communication-related costs. We found that \$15,000 of the 2019 communication credit was credited against 50270 (Other Contractual Services) and \$10,000 was credited against 50209 (Other Professional Services).

Similarly, agencies are charged and HR is given a credit to cover flexible spending account (FSA) program administration and re-enrollment costs. We found that \$90,299 of the FY20 FICA/FSA credit was applied to 50270 (Other Contractual Services) which appears proper as this is the account where the FSA vendor payments are charged. However, the remaining credit of \$35,500 was applied to 50455 (Tuition).

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Issue 2

Effect

Potential for artificially reducing actual expenditures in accounts unrelated to the credits which could make it difficult to budget future activity and could impact reporting and decision-making based on those numbers

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Issue 2

Cause

Historically, credits have been charged against operating expense accounts where needed.

Criteria

In order to accurately reflect expenditure activity, associated credits are to be applied against the account where the original expenditure was charged.

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Issue 2

Recommendation

We recommend that HR contact the Office of Management and Budget (OMB) and Accounting, if necessary, to determine the proper posting of these credit transactions.

At a minimum, controls should be implemented to ensure that these credits are posted against the account(s) where the original or associated expenses were charged.

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Issue 2

Management Action Plan

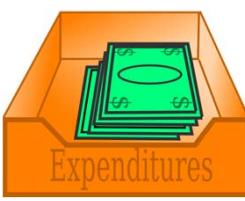
#	Management Action Plan	Completed By	Date
2	Will work with OMB to ensure proper posting of credit transactions	Business Supervisor and Assistant Director	12/30/20 & ongoing

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Issue 3

Ensure Proper Account Codes Used



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Issue 3

Condition

We tested 25 direct payments, 25 payments against purchase orders (PO's), 3 expenditures against the Technology Replacement Fund, 5 expenditures coded to the Education and Training (travel) account; 6 purchasing card transactions (5 of which were coded to Education and Training), and 10 IDT transactions.

We noted that expenditures were charged to the incorrect GL account codes as follows:

1. 13 instances in direct payment and PO transactions were noted where the expenditure was charged to the incorrect GL account, including one case where excise tax of \$11 was not charged to the proper account. Additionally, there was one case where \$1,675 in labor charges and three instances where \$150 in freight charges were not applied to the correct accounts.
2. 3 travel transactions where the incorrect GL account was selected.
3. 2 IDT's which paid Mental Health & Developmental Services for fitness equipment cleaning by Hermitage Enterprises' staff were coded to the wrong GL account.

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Issue 3

Effect

The potential for:

1. unnecessary budget transfers if invoices are not charged to the correct GL accounts
2. improper budgeting in the future if it is based on past activity
3. inaccurate financial reporting for miscoded transactions which could result in ineffective management decision-making

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Issue 3

Cause

1. Oversight
2. Natural accounts not set-up in HR's budget, some of which relate to one-time or infrequent situations
3. These are the accounts that have always been charged.

Criteria

County of Henrico Revised Budgetary Chart of Accounts-
Expenditure Accounts Descriptions dated 1/14/16

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Issue 3

Recommendation

The Director of HR should ensure that the Business Supervisor reviews the Revised Budgetary Chart of Accounts dated 1/14/16 and becomes familiar with the expenditure account explanations provided.

If she has any questions, the Business Supervisor should contact:

- 1) the Accounting Division of Finance for clarification and/or direction and
- 2) their Budget Analyst to determine if the proper GL accounts should be set-up in their budget for transactions that are anticipated to be recurring.

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Issue 3



Management Action Plan

#	Management Action Plan	Completed By	Date
3	Business Supervisor reviewed the revised budgetary chart of accounts and will work with Accounting and OMB to discuss proper natural accounts	Business Supervisor	1/11/21 and ongoing

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Issue 4

Enhance Controls Over the Processing of Travel and Purchasing Card Expenditures



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Issue 4

Condition

We tested five expenditures coded to the Education and Training (travel) account and six purchasing card transactions (5 of which were coded to Education and Training) and noted the following:

1. Seven cases where travel forms (i.e., T-1, T-3 or Travel Justification Addendums) were not completed as required. In another instance, the T-1 and T-3 forms were completed just prior to the trip which was over two months after the registration and workshop payment was made.
2. Three instances where a conference agenda was not attached.
3. One instance where an employee reimbursement (RN license renewal) had no documentation of approval prior to payment although we acknowledge that this required industry certification must be maintained.
4. One instance where the incorrect direct payment reason code was selected for a travel-related prepayment.

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Issue 4

Effect

The potential for:

1. Unnecessary travel or travel costs higher than anticipated if the proper travel forms are not completed and approved in a timely manner and supported with required back-up such as conference/training agendas
2. Improper payments if prior approval is not obtained
3. Non-compliance with County policies

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Issue 4

Cause

Unfamiliar with some of the specific, fine points in the County's Travel Policies and Procedures

Criteria

County Travel Policies & Procedures dated 10/1/15

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Issue 4

Recommendation

The Director of HR should ensure that:

1. All HR staff members who travel and members of management who approve travel estimates and actual expenses are refreshed on the requirements set forth in the County's Travel Policies and Procedures.
2. Travel forms are properly completed in a timely manner with all required supporting documentation attached. These forms should be signed by the traveler and properly approved by the agency head or her designee. Consideration should be given to utilizing the Travel Checklist to help ensure conformance with travel documentation and other requirements.
3. Invoices have documented approval prior to payment.
4. The correct direct payment reason code is entered into the system.

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Issue 4

Management Action Plan

#	Management Action Plan	Completed By	Date
4.1	Email sent to HR Leadership Team regarding travel requirements and policy	Assistant Director	2/11/21
4.2	Will ensure travel forms are completed properly and we will consult with Finance when questions arise.	Business Supervisor	12/30/20 & ongoing
4.3	Email sent to Leadership Team instituting new invoice approval process	Business Supervisor	12/30/20
4.4	Will take extra care in entering payment reason code	Business Supervisor	12/30/20

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Issue 5

Confirm the Accuracy and Completeness of the Fixed Assets Listing



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Issue 5

Condition

While trying to confirm all HR assets (both capitalized and leased) based on a 2/26/20 fixed assets system listing, we noted the following:

1. Six printers were physically located; however, two were not on the 2/26/20 Capital Asset Listing from the fixed assets system provided by Accounting. HR management could not find the related purchase documentation to determine if these assets met the capitalization threshold.

The four printers located that were in the system were purchased between 2004 and 2007. HR management believed that all six printers are the same model and the two printers not in the system were purchased around the same time period as the other four. It should be noted that for one of these two color printers not on the asset listing, the decision was made to not add this asset to the fixed assets system after Accounting personnel researched and could not find documentation of its purchase.

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Issue 5

Condition

2. Five leased copiers were located and matched to the quarterly lease confirmation for the 2nd quarter of FY20; however, this listing did not agree to the fixed assets system listing as of 2/26/20 as follows:
 - a. two of the six leased copiers in the system were not located
 - b. one leased copier that was located was not listed



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Issue 5

Effect

1. The potential for undervalued capital assets and inflated expenditures on the financial statements (although all six printers may now be fully depreciated)
2. Loss of accountability, including improper disposal or missing assets, if purchases meeting the capitalization threshold are not added to the fixed assets system
3. Incorrect valuation of capital leases if the fixed assets system is not properly updated

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Issue 5

Cause

1. The Capital Asset Coordinator and her alternate need additional training on some of the specifics of the capital asset processes.
2. Accounting personnel have updated lease information in the subsystem used to generate the quarterly lease confirmations but have not updated this data in the fixed assets system.

Criteria

Henrico County Capital Assets Manual effective 4/15/09

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Issue 5

Recommendation

1. The Director of HR should ensure that:
 - a. the Capital Asset Coordinator consults with Accounting regarding the best and most time-efficient way to proceed given the estimated age of the two color printers found but not listed in the fixed assets system. At a minimum, these printers should be added to HR's listing of valuable property below the capitalization threshold so that they can be tracked and periodically inventoried.
 - b. the Capital Asset Coordinator and her alternate receive refresher training on capital asset processes.
2. The Accounting Division Director should ensure that a control procedure is initiated in the quarterly leased asset verification process to ensure that all changes reported as a result of the verification process are updated timely in both the subsystem used to initiate these inventories and in the fixed assets system.

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Issue 5

Management Action Plan

#	Management Action Plan	Completed By	Date
5.1a	Informally spoke with Finance and will be following up on a more formal basis.	Assistant Director	3/31/21
5.1b	Will schedule refresher training	Assistant Director	3/31/21

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Issue 5

Management Action Plan

#	Management Action Plan	Completed By	Date
5.2 (Accounting)	Accounting personnel have controls in place to verify information reported on the manually prepared lease schedules. In addition to serial numbers, the lease schedule contains the manufacturer, model, vendor, lease cost, leasing period, location, and Agency. All information is manually entered into the fixed assets system and reviewed by a second party. We will continue to work to refine our controls to improve the accuracy of the manual inputs from the lease schedule into the fixed assets system by re-emphasizing our existing process. In addition, with the implementation of GASB 87, we are considering leasing software that will hopefully automate the reporting process.	Accountant III	6/30/21

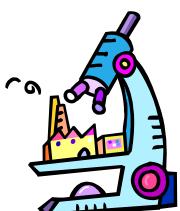
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Other Observations

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



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Other Obs. 1

Verify Financial Access Needed Prior to Approving User Access Reviews

A review of HR's Financial User Access Report approved by the former HR Director revealed that the former Director of Finance was included on the listing as he returned to the County in a Senior Leadership Advisor role reporting organizationally to HR while working in the Office of Management and Budget, a Division of Finance. It did not appear that the Budget Division Director and the IT Project Manager were consulted about the appropriateness of the assigned responsibilities until after Internal Audit asked how HR management was able to verify that the accesses assigned were correct prior to approval. During the audit, the Acting HR Director confirmed that three of the Senior Leadership Advisor's assigned responsibilities were deleted as they were determined to be unnecessary.

Recommendation:

For Senior Leadership Advisor roles that organizationally report to HR management but physically work in another department, HR management should ensure their access review process includes, prior to approval, consultation with the department's management team to determine the appropriateness of the assigned responsibilities.

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Other Obs. 1

Management Action Plan

#	Management Action Plan	Completed By	Date
OO1	Will ensure proper system access for special hires reporting to HR	Director and Assistant Director of HR	12/30/20 & ongoing

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Other Obs. 2

Strengthen Accounts Receivable Controls

PIV transaction testing revealed that required billings are manually generated.

Recommendation:

HR management should consider using the Accounts Receivable System for all required billings so that amounts owed to the County are recorded in the financial records and can be tracked until collected.

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Other Obs. 2

Management Action Plan

#	Management Action Plan	Completed By	Date
OO2	Will consider getting the AR Responsibility in the system to generate invoices. We will consult with the Accounting Division of Finance about options for invoicing.	Business Supervisor, Assistant Director and Director	6/19/21

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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 (Mrs. O'Bannon, Mr. Thornton, County Manager)	Board of Supervisors, Non-Committee Members
Deputy County Manager for Administration	Directors of Human Resources and Finance
Internal Audit Staff	

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