



COMMISSION FINANCE COMMITTEE
MEETING MINUTES
October 19, 2017

PRESENT: Commissioners Elofson, Lakdawala, Levenston, Lynch, Rodriguez (by phone) and Templeman.

No. Topic

1. **ANNUAL AUDIT REPORT**

Independent Auditor presentation by KPMG (Steve Whetstine, Managing Director and Daniel Coccoli, Senior Manager)

- The Comprehensive Annual Financial Report (CAFR) and two other areas were reviewed:
 - CAFR will receive an unmodified (“clean”) opinion. There were no instances of noncompliance noted, nor any significant deficiencies or material weaknesses.
 - KPMG has issued a report of no findings, a “clean report”, on the completeness and accuracy of employee census data reported to the Virginia Retirement System as of June 30, 2017.
 - KPMG will issue a report of no findings, a “clean report”, on the sufficiency of HRSD’s ability to provide liability coverage for biosolids contamination. This report provides assurance to the state that HRSD has sufficient financial reserves and does not need to obtain insurance to cover biosolids risks.
- KPMG noted that the inventory counts were good this year with all items selected from inventory lists agreeing to the number counted in the field, and the selections made in the field agreeing to the lists. They also noted that pricing documents for some of the inventory items did not agree to the amount in the inventory records.
- There were no audit misstatements that required correction. There were two uncorrected audit misstatements discovered during statistical sampling procedures, including the inventory pricing documents item discussed above and one that recurs due to HRSD’s election to not capitalize bond interest from some prior years. The net effect of the differences does not have a material impact on the financial statements or the audit opinion.



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2. **FINANCIAL ITEMS OF INTEREST**

- Affordability Plan
 - The number of houses below the poverty level by census tract and locality was discussed
 - The impact of economic drivers on account collections was presented
 - Possible revenue sources for assistance to low-income households was presented
- Plan of Finance (Capital Improvement Financing)
 - Four financing options were presented
 - Financing flexibility choices were described

3. **COMPREHENSIVE ANNUAL FINANCIAL REPORT (CAFR) 2017 REVIEW**

- Revenues & Water Consumption
- Net Pension Liability
- Retiree Health Trust (OPEB)
- Financial Statement Overview
- Key Financial Policy Indicators

4. **INTERNAL AUDIT REPORTS**

Internal Audit Team presentation by SC&H Group (Matthew Simons, Engagement Principal; Anthony DiGiulian, IT Audit Principal; and Ryan Kohan, Manager)

Completed Audits presented:

- [Inventory Management Review](#)
- [Procurement \(Finance\) and ProCard Management](#)

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Upcoming Audits:

- Procurement (Engineering) and ProCard Management
- IT – Network security/cybersecurity
- Organization-wide – Corporate governance: ethics function
- Operations – Treatment plants
- Finance – Customer Care: billing, mail center & payments, accounts receivable and delinquent accounts
- Follow-up audits to review implementation of recommendations for previously completed audits.

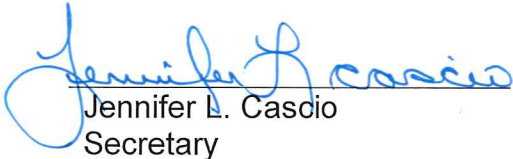
Attachments: [Internal Audit Reports](#)

Public Comment: None

Next Committee Meeting Date: TBD

Meeting Adjourned: 11:30 am

SUBMITTED:


Jennifer L. Cascio
Secretary

APPROVED:


Stephen Rodriguez
Committee Chair



Expertise that Works

Inventory Management Review

Hampton Roads Sanitation District

April 20, 2017

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I. Executive Summary

Background

SC&H conducted an audit of the management procedures for the Hampton Road Sanitation District's (HRSD) Inventory Program.

HRSD processes and treats wastewater at 13 treatment plants, which integrate with more than 100 pump stations and more than 500 miles of pipe around the Hampton Roads region. Throughout this system, HRSD holds approximately \$28 million of inventoried parts to be used for the maintenance and repair of operational assets. Operational inventory used for maintenance and repair is stored at various storerooms across the work centers.

Inventory records are tracked and maintained through a computerized maintenance management system (CMMS). Each work center staff includes authorized personnel who are responsible for retrieving inventory from the storeroom and replacing unused inventory. One of the authorized individuals is the Inventory Champion who is responsible for receiving and stocking new inventory. The Inventory Champion is the only individual at the work center with system access rights to add new items in CMMS. A new inventory item is an item that has not been previously purchased and logged in CMMS.

The CMMS Analyst is responsible for implementing, maintaining, and coordinating activities associated with the Operations Department CMMS. This includes classroom and one-on-one training for all HRSD employees, as well as coordinating upgrades with IT. This position is also responsible for the operation of the CMMS Help Desk.

CMMS is used to schedule and document maintenance performed on equipment. Work orders are assigned in CMMS for maintenance (preventive, corrective, etc.) to ensure that all equipment is properly maintained. Assets are maintained and new assets are created in CMMS with an assigned equipment identification (EID). Inventory items such as replacement parts for assets are tracked using the Parts functionality of CMMS. HRSD has defined parts as "items that are used to repair an asset or system. Replacement parts typically do not have a serial number and are often considered spare parts. Once the part is used, it is typically discarded." Parts are stored physically in store rooms across the work centers and are tracked in corresponding bins and store rooms in CMMS.

Parts are assigned via work order in CMMS when they are physically removed from a store room and used in maintenance. Shop personnel select parts from the appropriate bin in CMMS and assign them to the work order. CMMS then automatically updates the carrying amounts in the sub ledger.

Each work center performs periodic or spot counts as well as an annual inventory audit of all store rooms. Variances between amounts on hand and recorded amounts in CMMS are researched and corrected as needed.

Objectives

The following audit objectives were established by SC&H based upon the understanding gained during the audit's planning procedures.

- A. Identify and document key management procedures, process risks, and controls within the Inventory Process.
- B. Ensure inventories are subject to effective custodial accountability procedures and physical safeguards.
- C. Ensure significant variances between physical inventory counts and CMMS are brought to the attention of management.
- D. Ensure inventoried items are appropriately valued in CMMS.
- E. Ensure inventory is being monitored for obsolescence and identified surplus inventory is appropriately removed.
- F. Ensure that the Inventory Management complies with HRSD processes and procedures, as well as applicable laws and regulations.

Scope

The audit process was initiated in November 2016 and completed in February 2017. The procedures performed focused on the policies and procedures in place at the time of this review with samples selected from calendar year 2016 for the operational inventory.

Methodology and Approach

In order to achieve the objectives of this review, SC&H performed the following procedures.

Process Walkthrough and Flowchart Creation

SC&H began the audit by conducting multiple meetings with members of the HRSD Finance, Engineering, and Operations Departments, including inventory personnel at sampled work centers, to identify and walk through the core sub-processes of the Inventory Management process. These discussions focused on process flow, required approval, inputs/outputs, and other control points. Additionally, relevant policy and procedure documentation was obtained and reviewed. Based on these discussions and review of the procedural documentation, SC&H created summarized flowcharts to document our understanding of the process. The processes identified and documented include:

- Inventory Removal from Storeroom
- Work Order Completion
- Inventory Returns
- Inventory Counts
- Identification and Removal of Scrap/ Surplus Inventory

Audit Program Creation

Based on the understanding of the processes, risks, and related controls, SC&H developed an audit program to achieve the objectives described above. This program included detailed steps to

address each objective with the goal of assessing risk and identifying opportunities for improvement, where necessary.

Audit Program Execution

SC&H executed the audit program by completing the following tasks:

- Observed and toured five of 13 work centers
- Inspected pertinent process documentation and reports
- Reviewed a sample of completed and closed work orders
- Reviewed documentation for periodic counts
- Reviewed forms for scrapping and writing off surplus inventory
- Inspected cost information for a sample of parts in inventory

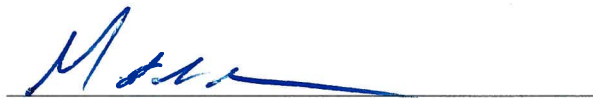
Summary of Work

After reviewing the processes in place and evaluating the current control environment, SC&H concludes that there are improvement opportunities within the inventory process to increase the overall efficiency and accuracy of inventory counts. SC&H notes that, while opportunities for improvement exist, no material weaknesses or significant deviations from process were noted throughout the review.

The following section provides detailed observations and recommendations regarding five separate topics.

We appreciate the assistance and cooperation of the management and staff involved in HRSD's inventory management process. Please contact us if you have any questions or comments regarding any of the information contained in the audit report.

SC&H Group, Inc.



Matthew Simons, CPA, CIA
Principal

II. Detailed Observations and Recommendations

Observation 1

HRSD does not maintain formalized policy and procedural documentation pertaining to the internal management of the inventory management process.

Observation Detail

Policy and procedure documentation has not been formally established or documented for a consistent inventory management process across all HRSD work centers. This includes standard operating procedure documents with regard to inventory valuation, timelines for review and approval, and utilizing CMMS to perform periodic cycle counts to appropriate personnel.

Risk

Non-standardized processes can result in an overall reduction in efficiency, as functional steps may be improvised or recreated with each performance. Additionally, insufficient policy and standard operating procedural documentation creates a risk of interruption in business continuity, should the current inventory champions leave their positions. This can result in reduced efficiency in establishing a new team and can impact HRSD’s ability to maintain pipelines and equipment.

Recommendation 1.1

HRSD should document the standard operating procedures for essential internal management functions within the inventory management process. The flowcharts created in conjunction with this audit may serve as an initial starting point in documenting these procedures. Operating procedures should include detailed descriptions for periodic cycle counts of inventory, steps to resolve count discrepancies, valuating inventoried parts, checking out parts, and recording movement of parts to/ from inventory.

Management’s Action Plan and Implementation Date

Action Plan	Date of Completion	Responsibility
Establish an inventory committee comprising of Finance, Asset Management, Operations, and IT staff.	7/1/2017	Director of Operations
Coordinate with existing inventory work center champions group to develop standard procedures.	1/1/2018	Chief of Asset Management

Action Plan	Date of Completion	Responsibility
Develop HRSD Inventory Guidelines and Procedures Manual,	7/1/2018	Chief of Asset Management / Chief of Accounting

Observation 2

Inventory in store rooms is not physically secured from unauthorized access.

Observation Detail

SC&H performed site visit, observation, and inquiry procedures of the processes and personnel at the storerooms of five work centers. The following observations were noted regarding physical access at the storerooms:

- South Shore Interceptors: The shop storeroom is accessible throughout the day to all individuals
- EEM: There are approximately 60 access keys issued for the store room. Additionally, the automotive shop and the IT department have access to this store room and the work center's inventory is not segregated from the other department's inventory.
- North Shore Interceptors: The shop mezzanine storeroom is accessible throughout the day to all individuals. It is noted that there are plans currently in place to secure the two entrances with fences, gates, and locks with manual keys.

Risk

Unauthorized access to store rooms can result in a misappropriation of HRSD assets. Theft or other fraud may be facilitated with lack of barriers to inventoried parts. In addition, parts used for legitimate reasons and maintenance may be removed but not recorded in CMMS resulting in excess time required for reconciling quantities on hand to the recorded amounts in CMMS.

Recommendation 2.1

HRSD should review the access and physical security at each storeroom and implement procedures appropriate to the individual location to reduce the risk of unauthorized entry or inventory removal. The overall goal is to limit the storeroom access to only those with a business need.

HRSD should consider the following for implementation into improved security procedures:

- Where physical keys are used, a log should be maintained to track custody of keys.
- Storeroom access should be limited only to necessary staff.
- Where possible, consider the implementation of electronic key card access. The use of a system such as this will also allow for electronic tracking of staff who enter the storeroom.

- Doors should be kept locked at all times and opened upon request from an authorized individual with an appropriate business need.

Management’s Action Plan and Implementation Date

Action Plan	Date of Completion	Responsibility
Establish a parts criticality criteria based on cost and operational value.	1/1/2018	Operations QST
Evaluate methods of securing critical parts to restrict access and select a method that would reduce inventory risk without compromising operational risk.	7/1/2018	Operations QST

Observation 3

Cycle counts are not formalized at certain work centers.

Observation Detail

Two of the work centers sampled utilize CMMS to facilitate cycle counts. CMMS issues a work order to assigned staff with bins to be counted and the CMMS amount. The appropriate personnel count the amounts on hand and explain any variances. A separate employee must complete the work order to evidence review and approval.

We did not receive any evidence of periodic counts for one work center and determined that the CMMS work order feature is not being utilized through inquiry.

Another plant does not utilize CMMS for counts. This plant provided the Store Room Checkout Sheet which spot checks quantities on hand and any variances are corrected following research.

Risk

Inconsistent performance of periodic counts can result in discrepancies between actual amounts on hand and amounts recorded in CMMS, which increases the risk of an incomplete/ inaccurate inventory asset valuation. Relying on the identification of variances during the annual audit can result in excessive time being used to research discrepancies. In addition, misappropriation of stock could occur without timely detection. Further, inaccurate counts can result in the order of additional, unnecessary parts. Conversely, repairs may be delayed if an expected part is not present upon attempted retrieval from the store room.

Recommendation 3.1

HRSD should implement a uniform procedure of counts at all work centers. Small Communities and North Shore Interceptors currently utilize the CMMS feature and Small Communities has documented the process. When assigning personnel to count, segregation of duties should be taken into consideration. Individuals who order, receive, or have write access in CMMS should not be responsible for counting actual items on hand. Evidence of any variance explanation should be maintained and each counter should sign and date the count sheet.

Management’s Action Plan and Implementation Date

Action Plan	Date of Completion	Responsibility
Verify all work centers are using CMMS for physical counts.	7/1/2017	Chief of Asset Management
Provide training for inventory champions and work center supervisors on performing periodic checks.	1/1/2018	CMMS Analyst / Maintenance Specialist
Include physical count procedures and responsibilities to the new Guidelines and Procedures Manual.	7/1/2018	Chief of Asset Management

Observation 4

Work orders are not consistently reviewed by an individual separate from the initiator and may not be reviewed timely.

Observation Detail

We identified five instances out of the nine samples tested where the same individual completed and closed a work order. We also noted one instance where a work order was reviewed and closed in CMMS 142 days subsequent to the completion of the work order.

Risk

A lack of independent review may result in parts being removed and not being applied to a work order, causing a variance between CMMS and the amount on hand. Further, an individual may misappropriate assets by assigning them inappropriately to a work order, then subsequently closing the work order without performing the work.

Recommendation 4.1

We recommend that access rights in CMMS be updated to create a segregation of duties between the work order initiator/ person completing the work and the individual who approves and closes the work order, when possible. Alternatively, when segregation of duties is not feasible, HRSD should consider a periodic review of closed work orders on a sample basis for appropriate performance to serve as a detective risk mitigation control.

Additionally, a timeframe for work order review and closing should be determined and incorporated into procedure. If possible, automated reminders should be incorporated into CMMS.

Management’s Action Plan and Implementation Date

Action Plan	Date of Completion	Responsibility
Segregation of duties is already in place with limited exceptions. Provide training to CMMS champions and work center supervisors on the importance of periodic review of completed work orders.	7/1/2017	Maintenance Specialist
Implement the email notification functionality in CMMS.	7/1/2018	Chief of Asset Management
Create a CMMS report based on a total work order cost and/or cost of parts for routine work center supervisor review.	7/1/2018	CMMS Analyst

Observation 5

Maintenance may be performed by one work center using parts from the storeroom of another work center.

Observation Detail

We noted one instance in nine work orders reviewed where parts were assigned from the store room of another work center without having been transferred to the work center performing the repair within CMMS. Upon further inquiry, it was noted that the parts were ultimately not used in the performance of the repair and were returned to the original work center.

Risk

Parts physically used from a work centers store room, but assigned to the work order in CMMS from another work center may result in discrepancies between quantities on hand and amounts noted in CMMS. Additionally, this may create confusion as to the actual location of a part at given time, particularly in the event that a part is not used and must be returned to the storeroom.

Recommendation 5.1

We recommend that CMMS restrict access to work center store rooms to only authorized users from that work center. Additionally, the process for updating the location of parts within CMMS when they are transferred between work centers should be adhered to in order to ensure appropriate counts and provide additional confidence in the availability of parts noted on hand.

Management's Action Plan and Implementation Date

Action Plan	Date of Completion	Responsibility
Add CMMS restrictions to limit users' ability from adding other work center's parts to a work order until the part is properly transferred to the other work center's store room in CMMS for tracking purposes.	7/1/2018	CMMS Analyst
Update standard operating procedures (SOP) documentation to reflect the updated CMMS restrictions and expectations regarding work center parts transfers. Communicate SOP updates to relevant process owners.	7/1/2018	CMMS Analyst



SC&H

GROUP

Expertise that Works



Internal Audit

Procurement and ProCard Management

Hampton Roads Sanitation District

August 23, 2017

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I. Executive Summary

Background

SC&H conducted an internal audit of the management procedures for the Hampton Roads Sanitation District's (HRSD) Procurement and ProCard Programs.

The Procurement Division (Procurement) is a component of HRSD's Finance Department. Procurement is responsible for purchasing, renting, leasing, or acquiring goods, professional and non-professional services, and certain construction services for HRSD. Purchasing of specialized, technical services, including construction and design-build acquisitions, is generally performed by the Engineering Department procurement function. In addition to traditional purchasing procedures, Procurement manages HRSD's procurement card (ProCard) program, which provides access to a line of credit for small dollar purchasing to staff throughout HRSD.

The HRSD Procurement function follows the authority of the Virginia Public Procurement Act (VPPA). The VPPA communicates a detailed framework for purchasing, which HRSD has incorporated into its Procurement policies and procedures.

The initiation of most procurements begins at the department, or work center, level. Upon the identification of a need, the work center staff determines the appropriate channel of purchase or requisition. Purchases of \$10,000 or less may be made using a ProCard. Requisitions greater than \$10,000 are administered by the Procurement Division through competitive solicitation when competition is practicably available. Competitive solicitations are prepared using standard pre-determined templates in which the requirements, terms, and conditions are modified based upon the procurement. Types of solicitations include the following:

- Invitation for Bid (IFB): Formal IFBs are created for requisitions for goods and non-professional services \$100,000 or greater and require formal competitive sealed bidding. The IFB is posted publicly to the HRSD website for a minimum of 10 business days.
- Request for Proposal (RFP): Formal RFPs are created for requisitions for goods and non-professional services \$100,000 or greater and for professional services \$60,000 or greater. The RFP is posted publicly to the HRSD website for a minimum of 10 business days, but may vary depending upon the procurement. In addition, the RFP is advertised in the newspaper for one to two calendar days.
- Request for Quote (RFQ): Informal RFQs are created for requisitions for goods and non-professional services under \$100,000 and for professional services under \$60,000. The RFQ is posted publicly to the HRSD website for five to seven business days or less. It is the discretion of the Procurement Official to adjust this as necessary depending on the urgency of the procurement.

The workflow and procedures performed for these solicitations occur in Oracle enterprise resource planning (ERP) system, HRSD's fully integrated, comprehensive suite of business applications.

Since its inception in April 2015, the ERP system has been used to administer all aspects, both internal and external, of the Procurement and ProCard functions. This includes a systematic workflow which was created to guide requestors, approvers, and Procurement staff through the complete process. This workflow is designed to include application controls and approval thresholds to ensure required information is entered into the system and procurements follow HRSD policy. The ERP system is also used as the system of record for Procurement and ProCard data.

Daily management of the ProCard program is the responsibility of the ProCard Administrator who uses the Bank of America (the third party provider responsible for administering ProCards and tracking transactions) Works application and the ERP system to monitor and review ProCard transactions. This includes transaction auditing, violation monitoring, card issuance, and cardholder termination.

Objectives

The following audit objectives were established based on the internal audit's planning procedures.

- A. Identify and document key management procedures, process risks, and controls within the Procurement and ProCard processes.
- B. Assess the process design and compliance with regulation of the current Procurement procedures, including solicitation creation and contract awards.
- C. Perform data analysis over the complete FY16 ProCard transactions to identify usage trends and potential variation from policy.
- D. Evaluate ProCard transactions on a sample basis to ensure compliance with HRSD ProCard policies and procedures and the effectiveness of process controls.
- E. Evaluate the cardholder violations monitoring and tracking process to ensure compliance with policy.
- F. Analyze ProCard transactions to identify whether ProCard purchases are also being submitted for personal expense reimbursement by employees.
- G. Ensure terminated employees' ProCards are appropriately deactivated in a timely manner.
- H. Examine the Procurement Division ProCard auditing and administration procedures to evaluate whether ProCard transactions are appropriately tested and reconciled.
- I. Examine the user access rights for the Procurement system to ensure they are current and appropriate.

Scope

The internal audit was initiated in January 2017 and fieldwork procedures completed in May 2017. The internal audit focused on the policies and procedures in place at the time of this review with samples selected from the most recent twelve months at the time of sample selection (4/1/16

through 3/31/17). Analytical procedures were performed over all available ProCard data from the date of ERP implementation in April 2015.

Methodology and Approach

In order to achieve the objectives of this internal audit, SC&H performed the following procedures.

Process Walkthrough and Flowchart Creation

SC&H obtained and reviewed current Procurement/ ProCard process documentation from department contacts at the outset of this review. Eighteen key process areas were identified, 11 within the Procurement function and seven within the ProCard function, based upon this initial review. SC&H then met with members off the Procurement/ ProCard management teams to conduct detailed walkthrough discussions of their procedures. These discussions focused on process flow, required approval, inputs/ outputs, and other control points. Based on these discussions and review of the procedural documentation, SC&H created summarized flowcharts to document our understanding of the process. The processes identified and documented include:

- **Procurement Flowcharts**
 - New Requestor Set-up
 - Request Initiation
 - Blanket Agreements
 - Change Requests
 - Sole Source
 - Contract Renewal
 - Assignment of Requisition
 - Solicitation Creation
 - Acceptance/ Award of Bid
 - Purchase Order Creation
 - New Supplier Set-up

- **ProCard Flowcharts**
 - New Cardholder Application
 - Card Issuance
 - Card Usage
 - Monthly Reconciliation
 - Improper Usage
 - Card Suspensions/ Terminations
 - Card Data Changes

Audit Program Creation

Based on the understanding of the processes, risks, and related controls, SC&H developed an audit program to achieve the objectives described above. This program included detailed steps to address each objective with the goal of assessing risk and identifying opportunities for improvement, where necessary.

Audit Program Execution

SC&H executed the audit program by completing the following tasks:

- Inspected pertinent process documentation and reports
- Inquired about the processes and met with process owners to document process understanding
- Examined compliance of policy with state law
- Performed detailed, desk-side walkthroughs of key Procurement processes
- Analyzed complete ERP ProCard transaction data for approximately 80,000 transactions executed from FY15 through FY17
- Inspected a sample of ProCard transactions for policy and procedural compliance
- Examined the process for internal auditing of card violations and usage
- Examined terminated cardholders for timely deactivation
- Reviewed Procurement and ProCard ERP module user access for appropriateness


Summary of Work

After reviewing the processes in place and evaluating the current control environment, SC&H concludes that there are improvement opportunities within the Procurement/ ProCard processes which can help to increase process efficiency and effectiveness and reduce risks.

The following section provides detailed observations and recommendations regarding six separate topics.

We appreciate the assistance and cooperation of the management and staff involved in HRSD's Procurement and ProCard management processes. Please contact us if you have any questions or comments regarding any of the information contained in the internal audit report.

SC&H Group, Inc.



Matthew Simons, CPA, CIA, CGAP
Principal

II. Detailed Observations and Recommendations

Observation 1

Cardholders' single transaction spending limits appear higher than necessary given the nature and dollar value of the majority of transactions executed with ProCards.

Observation Detail

ProCard holders are assigned both a single transaction spending limit and monthly spending limit when their ProCard account is created in the Bank of America system. Presently, the single transaction spending limit is \$10,000 and the monthly spending limit is \$100,000 for all cardholders. These limits were established in accordance with HRSD Procurement policy to ensure that all cardholders are able to make the necessary purchases of goods/ services to facilitate the day-to-day operations of their departments.

SC&H performed an analysis of ProCard spending data for FY15, FY16, and FY17 through March 31, 2017. This analysis included a stratification of ProCard transactions by dollar amounts. SC&H found that approximately 90% of ProCard transactions occurring during the years under review were for \$1,000 or less, indicating most cardholders do not reach the current spending limits. Based upon benchmarking of similar organizations, SC&H has noted that single transaction limits are typically \$2,500 to \$3,000, or approximately 70-75% less than HRSDs standard single transaction limit.

Risk

Higher spending limits may increase HRSD's exposure to inappropriate spending via ProCards. Spending is reconciled and reviewed on a monthly basis. A cardholder may spend large dollar amounts on inappropriate transactions over the course of a month, up to the monthly limit, and leave the organization before the spending is noted by a reviewer. HRSD would then incur additional funds and effort to attempt to recover the amount misappropriated. Additionally, there is a risk of excessive use of a ProCard due to the fact that the high spending limit allows cardholders to be less conservative with spending habits.

Recommendation 1.1

Procurement should consider lowering the single transaction and monthly transaction limit for most ProCard holders. Different thresholds can be created in order to meet the day-to-day needs of various members of each department. Updating the spending limits of cardholders may reduce the risk of excessive high-dollar value transactions and misappropriation of funds.

Management's Action Plan and Implementation Date

After an extensive evaluation by management in March 2014, HRSD's Commission approved the increase of HRSD's small purchasing limit from \$5,000 to \$10,000. This change was based on the volume of requisitions submitted less than \$10,000 and the efficient use of Procurement

Division staff to manage workload with a focus on more complex procurements requiring formal and informal competition.

To date, HRSD has not had any issues with the increased exposure on our ProCards, but we agree that we should evaluate a tailored approach to ProCard limits to reduce our risk. We plan to analyze the spend data and work with the departments on understanding their ProCard needs.

We plan to implement an annual recertification process. Both cardholders and approvers will be required to sign the cardholder or approver agreement and completion of a re-certification quiz. This will be implemented in October 2017.

The evaluation of the spend data will be completed in the next six months (January 2018) as it will take a significant amount of time. An implementation schedule will be developed when the evaluation is completed.

Recommendation 1.2

In conjunction with lowering the single and monthly transaction limits for the majority of the employees that have a ProCard, Procurement may consider implementing a process to allow for temporary increases in spending limits to accommodate unexpected or unusual business needs. This would allow for flexibility in ProCard usage while reducing the current standard limit to mitigate the risk of employees making inappropriate purchases of high-dollar value goods/services.

Management's Action Plan and Implementation Date

We will evaluate this process in conjunction with Recommendation 1.1.

Observation 2

Terminated cardholders' access may not be deactivated in a timely manner in order to prevent unauthorized usage following the end of employment.

Observation Detail

SC&H reviewed the Card Status Report for fifteen terminated cardholders to verify that card access was deactivated in a timely manner. Access was not deactivated in a timely manner for two of the fifteen employees.

Specifically, the first of the two employees ended employment on April 29, 2016, yet their card was not deactivated until July 11, 2016 (73 days later). The second of the two employees left HRSD on July 9, 2016, yet their card was not deactivated until August 18, 2016 (40 days later).

Additionally, SC&H noted two cardholders whose ProCards were deactivated after their termination dates, but within one business week of termination. One employee left HRSD on June 30, 2016 and their card was deactivated on July 1, 2016. Likewise, another employee left HRSD on May 12, 2016 and their card was deactivated on May 17, 2016. For the second employee, SC&H noted that only three business days transpired between the date the employee left employment and the card was deactivated.

SC&H reviewed spending activity for each of the cardholders above and noted that none used their ProCard following termination.

Risk

Delayed deactivation of a ProCard following termination increases the risk of misappropriation through unauthorized purchases. As the cardholder is no longer an employee, obtaining reimbursement for inappropriate expenses may be difficult.

Recommendation 2.1

Procurement should work with the Human Resources Division to implement policies and procedures which ensure that the Procurement Division is notified of an impending employee termination as soon as Human Resources is made aware. Immediate notification of terminations by the Human Resources Division will allow the Procurement Division to deactivate or suspend cardholder accounts as soon as an employment status change occurs. This will help to mitigate the risk of cardholders retaining access to their ProCards beyond the appropriate period of time.

Management's Action Plan and Implementation Date

This concern has been addressed with the Human Resources Division in the past. The delay in getting this information from Human Resources is due to the confidentiality required in some situations.

We will work with the Human Resources Division to develop a formal process that can be put in place for sensitive situations where the information can be given to the Chief of Procurement instead of the ProCard Administrator so the ProCard can be suspended until a final decision is reached regarding the employee's final status.

Implementation of a new process will be made in the next 90 days (October 2017).

Recommendation 2.2

In conjunction with the above recommendation, Procurement should work with the Human Resources Division to update off-boarding paper work to include the collection and destruction of an employee's ProCard. While conducting the standard off-boarding procedures, Human Resources can inquire as to whether the employee possesses a ProCard and can take the necessary action to collect the card and provide it to the Procurement Division for appropriate destruction and deactivation. This will further help to mitigate the risk of employees retaining access to their ProCards after employment.

Management's Action Plan and Implementation Date

During implementation of the ERP, a section was built in the system to accommodate this type of process. We will work with the Human Resources Division to determine if this process can be fully implemented at this time, and if not, come up with a manual process for tracking this information.

Implementation of this new process will be in conjunction with the above recommendation in 2.1.

Observation 3

ProCard holders may not be providing adequate support in conjunction with purchases made on ProCards, specifically with regard to the payment of utility expenses.

Observation Detail

SC&H reviewed the supporting documentation for 30 ProCard transactions executed in FY17. Of the 30 transactions reviewed, one was not appropriately supported in the ERP system. When paying the Verizon Wireless phone bill on a monthly basis, the ProCard holder creates an Excel spreadsheet reconciliation document that tracks the expenses by individual account number. These individual expenses are entered as separate line items when reconciling the transaction within the ERP system. The Excel spreadsheet is attached as support of the transaction within the system, but the invoice from Verizon is not maintained. The line item selected for testing was \$109.44, while the entire bill totaled \$16,211.73. Annualizing the total bill over 12 months results in approximately \$200,000 of ProCard spending that is not supported in the ERP system by original third party documentation each year.

Upon further discussion with the ProCard Administrator, it was noted that several other types of utility payments were made via ProCard. It was noted that detailed invoice support was maintained for all utility payments except the Verizon Wireless bill.

Risk

The lack of original, third-party support creates an opportunity for inappropriate purchase of goods or services that are not for a valid business purpose. By only provided supporting documentation created by the cardholder, information about the purchase can be omitted and/ or manipulated. Without the presence of original third-party support, the purchase cannot be appropriately validated and approved. Additionally, there is the potential for human error, specifically related to account coding. When creating a reconciliation, the cardholder may enter an incorrect account string which could result in funds being incorrectly applied to the wrong department. Similarly, without original third-party support, the account coding cannot be validated as appropriate.

Recommendation 3.1

Procurement should ensure that all ProCard transactions are appropriately supported with independent documentation. Employees should be reminded that a receipt or invoice must be provided as support in addition to any internal reconciliations or schedules that are prepared. This will help to ensure that all purchases being made with a ProCard are appropriate, complete, accurate, free from manipulation, and serve an immediate business purpose.

Management's Action Plan and Implementation Date

This was a unique situation. Due to the very large size of this particular bill and some system limitations, it was agreed that the spreadsheet would be scanned and uploaded to the ERP system as documentation for this transaction instead of a copy of the bill. This process has been re-

evaluated and we are now able to load a copy of the bill to the transaction in the ERP. This process was changed in June 2017 and now our current practice.

Observation 4

Formal policy and procedures have not been implemented to reflect current audit practices and violation tracking performed by the Procurement Card Administrator.

Observation Detail

SC&H noted that procedures surrounding transactional audits and violation tracking have not been formalized and performed on a regular basis. SC&H obtained the audit documentation for a series of audits performed in February and March 2017. In examining the documentation, the criteria used by various members of Procurement to determine if transactions were reasonable was inconsistent. In addition, audit forms were not fully completed and the results of each audit were not made apparent. SC&H determined that the documentation was insufficient to effectively complete an audit and was unable to recreate the performed procedures.

Additionally, SC&H obtained the most current version of the Violation Tracker used to monitor ProCard misuse at HRSD. Based on inspection of the document and inquiry with HRSD, this tracker was not regularly updated to document various instances of cardholder misuse.

Risk

Without adequate documentation and formalized procedures surrounding violation tracking and transactional auditing, employees with multiple instances of ProCard misuse may continue to make inappropriate purchases without repercussions. Additionally, Procurement may not be able to consistently and effectively monitor ProCard usage across all departments at HRSD.

Recommendation 4.1

Procurement should develop detailed policy and procedure documentation describing the duties required to perform the ProCard transactional audit and effectively track violations by cardholders. Recommendations include, but are not limited to:

- Developing detailed policy and procedure/ SOP documentation detailing HRSD auditing policies and day-to-day responsibilities.
- Developing uniform audit testing and violation tracking documentation to detail the results of each individual audit and monitor violations by individual cardholders.
- Evaluating the functions of the ERP system to determine if auditing of transactions can be tracked within the system. For example, ERP may have functionality to denote whether a transaction has been audited and the results of the audit.

Management's Action Plan and Implementation Date

Due to the lack of Procurement staffing over the last year and a half and the new data retrieval process in our ERP system, it has been very difficult to perform proper ProCard audits. Audits were not being performed timely and consistently. A detailed SOP has been recently developed and the audit procedures have been updated in the ProCard policy as of July 2017 and will be

implemented in August 2017. Staffing resources will be evaluated to ensure timely and consistent audits are performed as outlined in the SOP and audit procedures. This will be completed by September 2017.

Recommendation 4.2

Procurement should re-evaluate the number of transactions reviewed for each cardholder. At present, up to four years of transactions are subject to audit for each cardholder reviewed, which may result in unnecessary effort for the member of Procurement conducting the transactional audit for a particular month. HRSD should consider reducing the audit scope to more recent transactions to ensure relevance of findings, as well as efficiency in review. This decision will likely be based on the amount of risk HRSD is willing to accept and the cost vs. benefit of evaluating extended amounts of time.

Management's Action Plan and Implementation Date

We have discussed this recommendation and will make the appropriate adjustments to our audit procedures. We have discussed looking at only three months of data for 40% of our cardholders, however the updated scope has not been finalized at this time.

Final determination of audit scope and implementation of revised audit procedures will be made in the next 90 days (October 2017).

Observation 5

Adequate documentation is not maintained to support the transactional audit performed by the Accounts Payable Division to verify that ProCard expenses are not being submitted for duplicate expense reimbursement.

Observation Detail

SC&H obtained the reimbursement spreadsheet generated by the Accounts Payable Division for January 2017, but, upon request, was unable to obtain similar documentation for additional months. Per Procurement staff, Accounts Payable investigates a sample of expenses to determine if they are reasonable and will include information about the expense type. SC&H was unable to recreate these testing procedures as documentation was not maintained. As such, SC&H is not able to confirm that a review is being performed to ensure ProCard expenses are not being duplicated as expense reimbursements.

Risk

Without adequate procedures and documentation to support a review of expenses to ensure ProCard expenses are not duplicated as expense reimbursements, HRSD is at risk of paying more than once for ProCard expenses. There is currently an opportunity for an employee to purchase an item with a ProCard and submit the receipt for additional reimbursement on an expense report, resulting in a misappropriation of funds.

Recommendation 5.1

Procurement and Accounts Payable should formalize the process of reviewing ProCard transactions against expense reports to identify potential duplicate submissions. Additionally, process owners should ensure that detailed documentation is maintained for all audits conducted regarding expense reimbursements and ProCard transactions.

Management's Action Plan and Implementation Date

This is currently a function performed by Accounts Payable. Procurement and Accounts Payable will work to develop a formal and efficient process for ensuring there are no duplicate submissions and detailed documentation is maintained.

Implementation of a new process will be made in the next six months (January 2018).

Recommendation 5.2

Procurement and Accounts Payable should consider combining the expense reimbursement audit with the current audit procedures conducted by the Procurement Card Administrator. The Procurement Card Administrator has more knowledge as to which employees possess ProCards and may be more efficient in identifying transactions that were submitted as part of the ProCard reconciliation as well as for expense reimbursement.

Management's Action Plan and Implementation Date

Expense reports are a function managed by Accounts Payable and ProCard transactions are a small purchase method managed by Procurement. Procurement and Accounts Payable will evaluate this recommendation to find the most effective and efficient process based on available resources.

A decision to implement or not will be made in the next 90 days (October 2017).

Observation 6

Individuals may have access to aspects of the ERP system that do not serve a necessary function with regard to conducting their day-to-day job responsibilities.

Observation Detail

SC&H obtained the user access rights and abilities within the Procurement module of the ERP system. We reviewed user capabilities for each user profile and considered whether the employees listed had access to the module based on their daily job requirements. SC&H identified multiple users outside of the Procurement Division with access to the ERP Procurement Super User profile. Per discussion with HRSD staff, the majority of the users are members of the IT Department who require access in order to troubleshoot errors reported within the system. However, based on review and discussion, the following access right issues were noted:

- Additionally, one user is a member of the Accounts Payable Division. This user has access in order to open and close accounting periods. However, the user does not require access to any of the other functions associated with a Super User.
- There is not a formalized, periodic user access rights review within Procurement that assesses for appropriateness or user activity via a system audit trail.

Risk

If access to certain functions within the ERP system are not appropriately restricted to only those that require access to complete their daily job requirements, someone can make unauthorized changes within the system that could impact the procurement functions.

Recommendation 6.1

Procurement should review all user access listings to determine whether access is appropriate for all employees that utilize the Procurement functions within the ERP system. Periodic access reviews should be performed to re-evaluate whether individuals' access and rights should be removed if they are not required to conduct day-to-day job responsibilities. This will help to mitigate the risk of individuals having inappropriate access and making unauthorized updates within the ERP system.

Management's Action Plan and Implementation Date

Procurement does not have the ability to view who has access to different roles/responsibilities in the ERP system. This task would need to be performed by an ERP Business Analyst or someone from the Information Technology Department.

We will work with the ERP Team to develop a standard process for periodic reviews of ERP roles/responsibility access.

Implementation of a formal review process will be completed in the next 90 days (October 2017).

Recommendation 6.2

HRSD has the capability to create customized user groups and restrict access within the system in order to create a group specific to the functions needed by the Accounting Division. Procurement should work with the IT Department to create more specialized user groups derived from capabilities available to Super Users. This will help to mitigate the risk of individuals having inappropriate access and making unauthorized updates within the ERP system.

Management's Action Plan and Implementation Date

Procurement will work with an ERP Business Analyst and/or Information Technology Department to determine if a special role can be created for this function.

A decision to implement or not will be made in the next 90 days (October 2017).