



Fairfax County

Internal Audit Office

DPWES Wastewater Management

- **Wastewater Collection Division**
- **Wastewater Treatment Division**
- **Wastewater Planning and Monitoring Division**

Business Process Audit Final Report

May 2020

"promoting efficient & effective local government"

Executive Summary

We performed a business process audit covering procurement, reconciliation, and personnel/payroll administration within the Department of Public Works and Environmental Services (DPWES), Wastewater Management (WWM). DPWES WWM consists of three divisions that were covered in our audit: Collection, Treatment, and Planning and Monitoring. The audit included review of procurement cards, FOCUS marketplace cards, purchase orders, non-purchase orders, monthly reconciliations, limited review of accounts receivable and revenue collections, and verifying compliance with Personnel/Payroll Administration Policies and Procedures (PPAPP). The areas covered in PPAPP included time/attendance system and controls, attendance/absence reporting, employee clearance record processing, and credit check requirements for positions of trust.

We noted the following areas where controls will be strengthened as a result of this audit:

- The agency's Billing and Collection plan was never submitted to the Department of Tax Administration (DTA) for review and approval. DPWES WWM has submitted the Billing and Collection plan to DTA for review and approval.
- The agency did not have approved p-card Internal Control Procedures on file for two divisions. DPWES WWM has updated and submitted the p-card Internal Control Procedures for all three divisions to the Department of Procurement and Material Management (DPMM) for review and approval.
- The agency did not complete the Using Department Director's Statement of Responsibility for one division director, and it was not properly maintained on file for two division directors. DPWES WWM completed the Director's Statement of Responsibility for the Collection division and informed the AP team to maintain statement of responsibilities on file.
- There were four instances of split purchases across p-card transactions and purchase orders. DPWES WWM will provide reminders of County policy to all authorized P-Card users on a regular basis to prevent split purchases.
- In ten instances, three employees at DPWES WWM did not accurately record, or account for statutory holidays while working a compressed schedule. DPWES WWM HR will inform employees working a compressed schedule that they are required to comply with the County policy for statutory holiday leave reporting.
- In nine instances across nine employees, a delegate approved time in FOCUS without documented evidence of supervisor approval. DPWES WWM HR will maintain written documentation evidencing supervisor approval of Overtime/Comp earned.

- Individuals identified on the positions of trust with significant information security responsibility did not have credit checks performed. DPWES WWM will inform incumbents in positions with significant information security responsibility that credit checks will be performed upon hire and every 4 years after, in accordance with County Policy.
- For two terminated employees, an employee clearance record checklist was not completed; for two terminated employees, the checklist was only partially completed; for one terminated employee, the agency's internal checklist was used, which was missing some elements from the county checklist. In addition, the responsibility for completing the checklist was not included in the job/position description for staff assigned to this function. DPWES WWM will notify all WWM supervisors and HR staff that they all are required to use and fully complete the County's Employee Clearance Record Checklist. Supervisory position descriptions were updated to include statement requiring completion of employee clearance record checklist upon subordinate's notification of exiting job.
- The agency did not maintain documented evidence that a monthly reconciliation of purchase orders and non-purchase orders occurred. In addition, for its monthly expenditure reconciliation, the agency used an internally generated reconciliation certification form which was missing several elements from the reconciliation certification form provided in Accounting Technical Bulletin (ATB) 020. Finally, the monthly reconciliation was not completed timely for 2 of the 3 months sampled, ranging from one to three months late. DPWES WWM started using the required reconciliation form and will continue to ensure that monthly reconciliations are completed as required by County policy.
- There was lack of evidence to indicate that a weekly review of Marketplace transactions was being completed. DPWES WWM started reviewing and ensuring that weekly and monthly Marketplace reviews and reconciliations are being performed in a timely manner.
- Eight technical review items were purchased using p-cards, without documented evidence of technical review prior to the purchase. DPWES WWM reminded authorized p-card users of the technical review policies to ensure compliance.

Scope and Objectives

This audit was performed as part of our fiscal year 2019 Annual Audit Plan and was conducted in accordance with Generally Accepted Government Auditing Standards (GAGAS). Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. Our audit objectives were to review DPWES WWM's compliance with county policies and procedures for purchasing processes, personnel/payroll administration, and financial reconciliation. We performed audit tests to determine internal controls were working as intended and transactions were reasonable and did not appear to be fraudulent.

The audit population included procurement card, FOCUS marketplace, purchase order, and non-purchase order transactions that occurred during the period of June 1, 2018, through May 31, 2019. For that period, the department's purchases were \$1,252,137 for procurement cards, \$42,354 for FOCUS marketplace, \$8,688,014 for purchase orders that were received, and \$175,263,602 for non-purchase order payments.

Methodology

Audit methodology included a review of the department's business process procedures with analysis of related internal controls. Our audit approach included an examination of expenditures, records and statements; interviews of appropriate employees; and a review of internal manuals and procedures. We evaluated the processes for compliance with county policies and procedures. Information was extracted from the FOCUS and PaymentNet systems for sampling and verification to source documentation during the audit.

Findings, Recommendations, and Management Response

1. Billing and Collection Plan

Although DPWES WWM had a written Billing and Collection plan, the plan was never submitted to DTA for review and approval. The agency's billable revenues include monthly, quarterly, or annual charges to other jurisdictions and private companies for disposal and treatment of wastewater, sludge, and leachate and for analysis of wastewater samples. Revenue is also generated by repairs to sewer lines and manholes due to damage caused by construction contractors and others.

Per Financial Policy Statement (FPS) 436, *Billing and Collection Procedures (Non-Tax Accounts)*: "County departments that generate billable revenues are responsible for developing, implementing and updating a plan of action to support the county's policy and achieve timely collection of all revenues." The plan for all non-tax receivables should be submitted to the Non-Tax Collections Team in DTA for approval.

Having an approved Billing and Collection plan decreases the risk of having billing procedures that are not compliant with the county's requirements; supports the county's goal of achieving timely collection of all revenues; and decreases the risk of fraud or errors.

Recommendation: DPWES WWM should submit its Billing and Collection plan to DTA for approval. Once approval is received, DPWES WWM should maintain the approval on file with the plan. In addition, DPWES WWM should review the plan on an annual basis for potential updates.

Management Response: Fairfax Water is the department's Billing and Collection agent and most invoices generated by WWM are for governmental customers with minimum risk of non-payment. The Billing and Collection plan was sent to DTA for approval on April 28 and is pending approval. DPWES WWM anticipates completing this action by June 30, 2020.

2. P-Card Internal Control Procedures and DPMM Approval

DPWES WWM did not have Internal Control Procedures, approved by DPMM, for the Collection division and the Planning and Monitoring division. During the audit, the agency developed the procedures for both divisions and submitted them to DPMM for approval.

Procurement Technical Bulletin (PTB) 12-1009, *Use of the County Procurement Card*, requires that all using agencies establish procurement card internal control procedures that govern card security, use, and accounting specific to their operations. These procedures are to be submitted to the DPMM program administrator for approval.

Failure to obtain approval for departmental internal control procedures increases the risk that operating procedures might not be in compliance with county policy and procedures.

Recommendation: We recommend DPWES WWM follow-up with DPMM to obtain approvals for its internal control procedures and then maintain the procedures and approvals on file.

Management Response: The internal control procedures were submitted to DPMM for review in September 2019 and are still pending approval. DPWES WWM anticipates completing this action by August 31, 2020.

3. Using Department Director's Statement of Responsibility

The Using Department Director's Statement of Responsibility was not completed for the Collection division, and it was not maintained on file for the Planning and Monitoring and Treatment divisions. IAO had electronic copies of the Statement for the Planning and Monitoring and Treatment divisions from the previous audit and provided them to DPWES WWM to maintain on file going forward.

PTB 12-1009 states that: "The agency director is required to sign this form prior to the agency's initial participation in the p-card program. When the director leaves the agency, the Program Manager should have the new director sign the form and forward the original to DPMM."

Failure to have a signed Using Agency Director's Statement of Responsibility on file decreases accountability and increases the risk of operating the p-card program outside of County guidelines.

Recommendation: We recommend DPWES WWM forward the signed Using Director's Statement of Responsibility for the Collection division to DPMM and maintain a copy on file for each of the three divisions.

Management Response: During the audit, the Director's Statement of Responsibility for the Collection division was completed. The AP team was informed to obtain and maintain updated statement of responsibility on file, especially when a new director is appointed.

Note: *During the audit, DPWES WWM provided IAO a copy of the completed Director's Statement of Responsibility for the Collection Division. The agency was prompt in responding to and following-up on this matter. No follow-up will be performed for this item.*

4. Split Purchases

Our review noted three instances in which split purchases were made in excess of the department's card limit for individual p-cards. Furthermore, we noted one instance in which a split purchase was made using purchase orders. The split purchases made using p-cards were for supplies/parts from the same vendor and shipped to the same location. The split purchases using purchase orders were for related installation services at the same location from the same vendor.

PTB 12-1009 prohibits split purchases and notes that these types of transactions are usually done to circumvent a card's single purchase or cycle spending limit. Procedural Memorandum 12-09, *Delegated Purchasing Procedures for Orders under \$10,000*, notes that split purchases are created to circumvent the delegated purchasing dollar threshold. Requirements which are divided for other purposes, such as to accommodate accounting needs or to facilitate delivery to separate locations are also considered split purchases.

Recommendation: DPWES WWM should utilize proper purchasing methods in accordance with county policy. When exceptions to policy are made, they should be clearly documented and approved. In addition, p-card usage should be reviewed to determine if monetary limits need to be modified.

Management Response: Management will continue to review procurement practices to ensure compliance with County policy. Reminders of County policy will be provided to all authorized P-Card users on a regular basis to prevent split purchases. DPWES WWM anticipates completing these actions by May 29, 2020.

5. Statutory Holiday Reporting

In a sample of four employees, we noted ten instances in which three employees at DPWES WWM did not accurately record, or account for statutory holidays while working a compressed schedule. The three employees did not enter ten hours (over seven holidays). In addition, in one instance, an employee entered time on their

compressed day off. However, for all the instances noted, no documentation was maintained by the agency to evidence a schedule change for the employees.

Employees who work a compressed schedule (with 9 or 10 hour days), must account for the extra hour(s) on statutory holiday leave reporting. When a holiday falls on the day that an employee is scheduled to work more than 8 hours, the employee is eligible for 8 hours of paid holiday leave. To account for the employee's total work hours for that day, either annual leave or compensatory leave must be taken. If an employee adjusts their schedule for the week of a holiday, it should be documented in FOCUS or email.

PPAPP 13, *Attendance/Absence Reporting for All Employees Except 24-Hour Shift Fire Protection and Law Enforcement Personnel*, requires agencies to comply with Personnel Regulations and with the Fair Labor Standards Act (FLSA) as it applies to local government. The policy states: "If an employee's scheduled hours for a day on which a holiday falls are greater than the maximum number of holiday hours that the employee may be granted, the employee must take annual or compensatory leave to receive a full day's pay. This applies to employees who elect to work a compressed workweek or flex schedule." Furthermore, PPAPP 45, *Flextime/Compressed Work Schedules*, states: "Work schedules associated with positions and individual employees are recorded in FOCUS and must be kept current to ensure proper payroll processing."

Failure to accurately record statutory holiday leave allows an employee to be paid for hours for which they did not work due to overstated leave balances.

Recommendation: We recommend DPWES WWM require employees working a compressed schedule to comply with the County policy for statutory holiday leave reporting. In addition, the overstated employee leave balances should be corrected, as applicable.

Management Response: WWM HR Staff will notify the employees and their supervisors of the audit findings and request proof of approval of the time being "flexed off" or a substitute schedule request, otherwise leave will need to be adjusted. WWM HR will inform employees working a compressed schedule that they are required to comply with the County policy for statutory holiday leave reporting, to include sending an email as documentation to WWM HR staff to temporarily modify their compressed work schedule and create a substitution schedule to a "Standard" work schedule during holiday pay periods.

Note: Management has stated that they have completed these actions as of May 1, 2020. IAO will follow up on these actions after sufficient time has passed to be able to review enough transactions to determine that the new process is consistently applied.

6. Approval of Compensatory Time/Overtime Earned

In our review of approvals of compensatory time/overtime earned, for a sample of 20 entries, we noted nine instances across nine employees in which a delegate approved time in FOCUS, and there was no documented evidence of supervisor approval.

Per PPAPP 8, *Time and Attendance System Controls*, “Managers are responsible for approving in advance (verbally or in writing) all employee requests to work overtime (hours above the regular schedule), and for documenting that approval in a manner that can be audited by internal and external auditors. Approval of the employee’s timesheet via MSS is adequate documentation that advanced approval for overtime was granted.” In addition, it states, “When advance approval of overtime is not possible, supervisory approval should be obtained and documented, to the extent possible, within one business day of the employee's overtime.”

Failure to document supervisor’s time approval increases the risk of inaccurate time being approved and waste or loss of County funds.

Recommendation: For situations where a delegate approves compensatory time or overtime earned in FOCUS, DPWES WWM should maintain documentation evidencing supervisor approval.

Management Response: Due to the need to provide urgent responses for inclement weather events including snow and floods, schedules are disrupted as the result of emergency events. The supervisors are not always available to approve the overtime because the staff and the supervisor work on different shifts. WWM HR will maintain written documentation evidencing supervisor approval of Overtime/Comp earned after the approval of overtime due to the emergencies.

Note: *Management has stated that they have completed these actions as of May 1, 2020. IAO will follow up on these actions after sufficient time has passed to be able to review enough transactions to determine that the new process is consistently applied.*

7. Positions of Trust and Credit Checks

Although the agency had positions identified as having significant information security responsibility, those individuals did not have credit checks performed.

PPAPP 56, *Credit Check Requirements for Positions of Trust*, states: “Employees who occupy positions of trust are subject to a credit check. Positions of trust include all Director, Deputy/Assistant Director and Division Director Positions as well as positions identified by the department director as having significant fiscal or information security responsibility.” PPAPP 56 further states: “Credit checks will be conducted after a conditional offer of employment has been extended and accepted (new hire or promotion/transfer/demotion), and every four years thereafter. The department director or designee should complete Attachment A to delineate the positions in the department designated as positions of trust subject to the credit check requirement and retain in the department files.”

Obtaining credit checks for those in Positions of Trust decreases the risk of potential for abuse or fraud.

Recommendation: DPWES WWM should have credit checks performed for the positions identified as having significant information security responsibility.

Management Response: Incumbents in positions with significant information security responsibility will be informed that credit checks will be performed upon hire and every 4 years after, in accordance with County Policy.

***Note:** Management has stated that they have completed these actions as of May 1, 2020. IAO will follow up on these actions after sufficient time has passed to be able to review enough transactions to determine that the new process is consistently applied.*

8. Employee Clearance Record Checklists

Of the five terminations tested, two employee clearance record checklists were not completed, two checklists were only partially completed (i.e., required checkboxes were left blank), and one termination was supported by the agency's internal checklist, which did not have some elements from the county checklist. In addition, the responsibility for completing employee clearance record checklists was not included in the job/position description for staff assigned to this function.

PPAPP 33, *Employee Clearance Record*, states: "An employee transferring from one department to another or leaving County service is required to meet with a person designated by the department head to complete the Employee Clearance Record Checklist." PPAPP 33 further states: "Responsibility for completing Employee Clearance Record Checklists must be included in the job description(s) for staff assigned to this function."

Failure to maintain adequate controls over the process for completing employee clearance record checklists increases the risk of county property not being returned; failure to terminate access to county systems; and unresolved disputes between the county and prior employees, should an issue arise later.

Recommendation: DPWES WWM should fully complete and retain employee clearance record checklists for employees transferring to another department or leaving the County service for any reason, and a copy of the signed checklist should be provided to employees upon departure. An agency-specific checklist may be used, but it should have all the elements/checkboxes from the example checklist provided in PPAPP 33. Finally, the responsibility for completing the checklist should be included in the job/position description of the staff who is/are responsible for completing the checklist.

Management Response: All WWM supervisors and HR staff will be notified that they all are required to use and fully complete the County's Employee Clearance Record Checklist form rather than the DPWES Employee Record Checklist form found on the

DPWES website if it is missing any county required elements. Supervisory position descriptions will be updated to include statement requiring completion of employee clearance record checklist upon subordinate's notification of exiting job.

Note: *Management has stated that they have completed these actions as of May 1, 2020. During the audit, DPWES WWM provided IAO copies of updated position descriptions for staff responsible for completing the checklist. The agency was prompt in responding to and following-up on this matter. IAO will follow up on the first part of the management response after sufficient time has passed to be able to review enough transactions to determine that the new process is consistently applied.*

9. Monthly Reconciliations

In our review, we noted that the agency did not maintain documented evidence that a monthly reconciliation of purchase orders and non-purchase orders occurred. The p-card and Marketplace reconciliation were documented and available for review. However, for its monthly expenditure reconciliation, the agency used an internally generated reconciliation certification form which was missing several elements from the reconciliation certification form provided in ATB 020; the internal form did not clearly indicate what was captured in the reconciliation, such as the types of expenditures. Finally, the monthly reconciliation was not completed timely for 2 of the 3 months sampled, ranging from one to three months late.

ATB 020, *Reconciliation of Financial Transactions*, states: "County management has fiduciary responsibility, as custodians of public funds, to ensure the integrity of financial transactions posted to FOCUS. To ensure the integrity of the county's financial records, county departments are responsible for performing monthly reconciliations on a timely basis at the transaction level. These reconciliations are to be carried out in accordance with a department reconciliation plan that has been approved by DOF." Additionally, ATB 020 requires departments to complete a Reconciliation Certification Form. The form should be signed and dated by the director or designee indicating the reconciliation that was completed for a specific period. This is to verify that the department's transactions have been reconciled timely and authorizer/approver verified.

Failure to perform and properly document a monthly reconciliation of all expenditure documentation to data in FOCUS increases the risk that erroneous or inappropriate charges go undetected.

Recommendation: On a monthly basis, DPWES WWM should develop documentation to substantiate that the complete population of purchase orders and non-purchase orders have been reconciled from FOCUS records to the source documents. DPWES WWM should update its current reconciliation certification form to include all the elements from the form provided in ATB 020, and the preparer and reviewer of the reconciliations should sign and date the reconciliation certification form to evidence a timely preparation and review process. The forms and reconciliation documentation should be maintained on file by the agency.

Management Response: During the audit, WWM started using the required reconciliation form and will continue to ensure that monthly reconciliations are completed as required by County policy. Management has already implemented the requirement of monthly PO reconciliations to be performed as required.

***Note:** Management has stated that they have completed these actions as of this audit report. IAO will follow up on these actions after sufficient time has passed to be able to review enough transactions to determine that the new process is consistently applied.*

10. Weekly Transaction Reviews – FOCUS Marketplace

There was lack of evidence to indicate that a weekly review of FOCUS Marketplace transactions was being completed.

PTB 12-1009 requires that all agencies review weekly transaction reports for unusual or unauthorized transactions. The reviewer should then sign and date the transaction report to document that the review was performed in a timely manner.

Failure to review weekly transaction reports increases the risk that inappropriate purchases will not be identified in a timely manner.

Recommendation: We recommend DPWES WWM perform weekly reviews of FOCUS Marketplace transaction reports which contain all items posted to the bank for the prior week. Once the review is performed, the reviewer should sign and date the report to document the completion of a timely review.

Management Response: Many key management positions were vacant during the audit period. Once these positions were filled, management started reviewing and ensuring that weekly and monthly Marketplace reviews and reconciliations were being performed in a timely manner.

***Note:** Management has stated that they have completed these actions as of this audit report. IAO will follow up on these actions after sufficient time has passed to be able to review enough transactions to determine that the new process is consistently applied.*

11. Technical Review

We noted eight instances in which technical review items were purchased using p-cards, without documented evidence of technical review prior to the purchase of the items.

PTB 12-1010, *Technical Review Program*, states: “Unless formally exempted by the responsible technical review department, no department may purchase an item or service requiring technical review without first completing the review process. For this reason, items and services requiring technical review may not be purchased using a procurement card or any other non-FOCUS purchasing process without

documentation of approval from the responsible technical review department.”

Items purchased without going through the required technical review process increases the risk of overpayment for goods, purchasing items that are not compliant with the county’s standards, items incompatible with the county’s systems or security requirements, and purchasing from a vendor that does not offer proper technical support.

Recommendation: We recommend that DPWES WWM utilize the technical review matrix for applicable p-card purchases and maintain documentation of approval from the responsible technical review department. If exemptions from technical review are granted by a technical review agency, then documentation of the exemption should be maintained on file.

Management Response: All authorized p-card users have been reminded of the technical review policies to ensure compliance and advised that failure to comply could result in losing p-card privileges until the on-line p-card training is retaken and passed.

Note: *Management has stated that they have completed these actions as of this audit report. IAO will follow up on these actions after sufficient time has passed to be able to review enough transactions to determine that the new process is consistently applied.*