

**19-02 Sewer Fund Internal Controls Audit Follow-up**

**Follow-up Status of Management Responses**  
**As of August 2020**  
**Original Report Issuance - October 2019**  
**Follow-up result: Items 1 and 5 require additional follow-up.**



**City Auditor's Office**  
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**Internal Auditor**

City Manager's Office

Finding	Recommendations	Management Response	Follow-up Status
<b>1 Expenditures Assigned to the Sewer Fund Were Note Solely for O&amp;M</b>			
On three occasions, the expenditure was assigned as an expense from the Enterprise Sewer Fund for Operations & Maintenance (O&M) although it was not specifically for an O&M function. Reno Municipal Code Section 12.16.160 includes, "The proceeds from the sewer charges shall be used solely for the operation, maintenance and replacement of the wastewater facilities and stormwater facilities..." The dedicated fund is depleted unnecessarily for improper purchase types and full revenues collected may not be available for future needs of the enterprise fund, wastewater and stormwater facilities' operation and maintenance.	We recommend expenses from the Sewer Fund O&M account be used solely for qualifying expenses, as was the intent of the Enterprise Fund.	A policy determination will be made regarding the types of expenditures that are necessary and reasonable expenses from the Sewer Fund Operations and Maintenance Enterprise Fund.  Measures will be taken by January 2020.	Policy determination will be made in consultation with the new City Manager appointment by City Council. New City Manager appointment is anticipated to occur at the end of August with possible start in October 2020.  <a href="#">Audit Comment to Follow-up</a> Follow-up is scheduled in 6 months.
<b>3 Segregation of Duties Could be Improved With Policy Implementation</b>			
We examined payroll system report for five key employees to determine if they have taken leave from the workplace and analyzed for patterns in leave times. Requiring key employees to take vacation time that spans consecutive dates can aid in detecting and ongoing fraud scheme because the employer is more likely to discover such a scheme when the perpetrator is removed from the scene. Noted four of the five employees tested took vacation time that spanned at least four days in a row. One of the five key employees tested did not have any documented consecutive vacation leave days during the audit scope although 23 vacation days were used. The employee's responsibilities included processing unusual sewer transactions that, per inquiry, were frequently left idle when the employee was out of the office, as those duties were not assigned to remaining staff.	We recommend management determine the feasibility of implementing a policy to require key employees to be removed from their area-of-work for consecutive days to allow for possible discoveries of fraudulent schemes.	CMO will determine the feasibility of implementing a policy to require key employees to be removed from their area-of-work for consecutive days to allow for possible discoveries of fraudulent schemes.  Measures will be taken by December 2019.	In consultation with Human Resources, implementing policy is not feasible. Vacations to be encouraged.  <a href="#">Audit Comment to Follow-up</a> No additional follow-up needed.
<b>4 A Systematic Screening Procedure for Key Finance Employees is Not in Place</b>			
Key employees entrusted with financial management do not undergo any additional screening once they have been hired and processed with a standard pre-employment background check. Key employees who have bankruptcies on record represent a potential fraud risk to the organization and additional monitoring by management may be appropriate. Noted three of the five employees tested have not had an employer initiated background check in over 13 years. Without an ongoing and systematic screening procedure for these key positions, it is unknowable if additional monitoring is prudent.	We recommend management determine the feasibility of implementing a policy to run background checks for employees promoted into a key financial position or after a predetermined time has elapsed.	CMO will determine the feasibility of implementing a policy to run background checks for employees promoted into a key financial position or after a predetermined time has elapsed.  Measures will be taken by December 2019.	In consultation with Human Resources and current policies, implementing policy is not achievable.  <a href="#">Audit Comment to Follow-up</a> No additional follow-up needed.
<b>5 Ownership Split of Capital Costs at TMWRF is Not Clear</b>			
An adjustment to the "Division of Capacity Ownership" was last documented in the second addendum to the Reno-Sparks-TMWRF Agreement dated February 14, 1983 upon the completion of the 40 MGD Master Project. Upon completion, however, the MGD Master Project resulted in a larger total capacity of 46.48 MGD. The Agreement was not updated to reflect the ownership amount of this increased capacity. However, a separate agreement referred to as Reno, Sparks and Washoe Phase III Wastewater Facilities dated November 8, 1999 does detail the capacity ownership split that agrees to the monthly billing calculations for capital costs issued to the City of Reno.	We recommend the capacity ownership split (capital cost split) be documented in the next iteration of the Reno-Sparks-TMWRF Agreement.	CMO will oversee that the capacity ownership split (capital cost split) be documented in the next iteration of the Reno-Sparks-TMWRF Agreement.  Measures taken by June 2020.	Agreement being accessed in the City Attorney's Office.  <a href="#">Audit Comment to Follow-up</a> Follow-up is scheduled in 6 months.

	Finding	Recommendations	Management Response	Follow-up Status
<p>2 <b>Expense Assigned to an Inaccurate Account</b>                      On two occasions, the expense was applied to an inaccurate account. Two were identified as Supplies while they were Machinery &amp; Equipment. Improper classification of expenses degrades the value of financial reports, equipment tracking, and the ensuing analysis and decision-making.</p>	<p>We recommend greater care be taken when assigning accounts to expenditures during the purchasing process for more accurate financial reporting and equipment tracking.</p>	<p>The two expenditures were charged to supplies where they should have been charged to Equipment due to the amount of the purchase (&gt; \$10,000). A training for Supervisors, Managers, and Administrative staff will take place at the next All Staff meeting planned for late October. Training to occur at All Staff meeting in late October 2019.</p>	<p>Public Works held an All Staff meeting on November 19, 2019 and one of the items was a reminder on items that need to be capitalized (&gt;\$10k) and to ensure that those expenditures are coded correctly.</p>	