AUDIT SERVICES DEPARTMENT

ANNUAL STATUS REPORT

JULY 1, 2008 THROUGH JUNE 30, 2009

DATE OF PREPARATION: AUGUST 3, 2009

Audit Services Department
306 Cedar Road
Post Office Box 15225
Chesapeake, Virginia 23328
(757) 382-8511
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August 3, 2009

The Honorable Alan P. Krasnoff and
    Members of the City Council
City of Chesapeake
City Hall - 6th Floor
Chesapeake, Virginia 23328

Dear Mayor Krasnoff and Members of the City Council:

Enclosed is the Audit Services Department's <u>Annual Status Report</u> for the period July 1, 2008 to June 30, 2009. The following is a summary of some of the report's highlights.

A. <u>COMPLETED PROJECTS</u>

1. <u>Audits and Analytical Reviews</u>

We completed performance and special audits of the Chesapeake Sheriff's Office, Neighborhood Services Department, Public Utilities Department, and follow-up reviews of fiscal year 2006 and prior year performance and special audits. These audits were conducted for the purpose of determining 1) whether services were being provided in an economical, efficient, and effective manner, 2) whether stated goals and objectives were being achieved, and 3) whether City policies and contracts were being complied with. The reports contained recommendations which we believe will improve operations, reduce costs, or otherwise enhance the department's operations.

- The Sheriff's Office audit evaluated operations, administration, work release, and canteen management. The report contained 15 recommendations, all of which the department agreed to implement.

- The Neighborhood Services Department audit evaluated operations, inspections, cash, revenues, fees, information technology, and grants management. The report contained 15 recommendations, all of which the department agreed to implement.

- The Public Utilities Department audit evaluated contractual services, operations, billings, cash, revenues, fees, and information technology. The report contained 14 recommendations, 13 of which the department agreed to implement.

The actual managerial summaries, including specific findings, recommendations, and responses are detailed within this report.

2. Technical Assistance

We provided technical assistance to the City and its affiliated organizations on 9 projects. Of these, the most significant was the Maximo system implementation, which significantly enhanced the ability of Public Utilities and the City to monitor and manage Utility projects, and created the potential to extend these benefits to other departments as well.

B. PROJECTS IN PROGRESS

At year-end, we were working on performance audits of the Libraries and Research Department, Public Procurement Department, and technical assistance projects related to the City's soon-to-be-implemented Human Resources Information System and P-Card programs.

Very truly yours,

 (Signed)

Jay Poole
City Auditor
City of Chesapeake, Virginia

c: William E. Harrell, City Manager

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Jay Poole
City Auditor
City of Chesapeake, Virginia

c: William E. Harrell, City Manager

CITY OF CHESAPEAKE, VIRGINIA

AUDIT SERVICES DEPARTMENT
ANNUAL STATUS REPORT
JULY 1, 2008 TO JUNE 30, 2009

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A. SUMMARY

AUDITS & ANALYTICAL REVIEWS

August 29, 2008

The Honorable Alan P. Krasnoff, and
Members of the City Council
City of Chesapeake
City Hall--6th Floor
Chesapeake, Virginia 23328

Dear Mayor Krasnoff and Members of the City Council:

        We have completed our follow-up of the City of Chesapeake's (City) Public Works, Clerk of the Circuit Court, Mosquito Control, Human Services, Community Services Board, and Police Departments for Fiscal Years 2002 to 2006. These prior year audits were selected to evaluate the status of recommendations that had not been fully implemented. The reviews were conducted in July 2008. The status of 28 open recommendations from these reports was as follows:

        <u>15</u> had been implemented
         <u>8</u> were in the process of being implemented
         <u>1</u> was planned but not yet implemented
         <u>1</u> was partially implemented
         <u>2</u> will not be implemented
         <u>1</u> is no longer applicable

        A copy of each review is included in this report. Please contact us if you have and questions.

                                Sincerely,

                                (Signed)

                                Jay Poole
                                City Auditor
                                City of Chesapeake, Virginia

C: William E. Harrell, City Manager

FOLLOW-UP REPORT

**PUBLIC WORKS DEPARTMENT
PERFORMANCE AUDIT**

August 2008

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PUBLIC WORKS DEPARTMENT PERFORMANCE AUDIT

STORMWATER OPERATIONS

B1. Need for Inspectors

Finding – Stormwater Management inspectors have not been able to conduct the required number of inspections of individual building lots for potential erosion and sediment control violations.

Recommendation – The City should upgrade the inspector position to full time and hire a full-time Construction Inspector II to fulfill the Stormwater Management's Technical Services erosion and sediment control inspection requirements as expeditiously as possible.

Response - The current permit requires inspections of active building sites once every two weeks and 48 hours following runoff producing storm events. The vacant Stormwater Construction Inspector I position was filled on July 19, 2004, and it has been reclassified to a full-time position. Routine inspections will resume by September 1, 2004, once he has completed his training and received provisional E&SC Inspector Certification from the Virginia Department of Conservation & Recreation (DCR). Currently, funding is not adequate to hire a full-time Construction Inspector II.

2007 Status – This recommendation has been in the process of being implemented. We now have 3 full-time Construction Inspector II positions that are in the process of being filled. The City does not have an approved Alternate Inspection Program with DCR in place. This issue will need to be revisited in the near future.

2008 Status – This recommendation has been implemented. Three inspectors have been hired. DCR does not require the position of an Alternate Inspector or program, and none will be pursued at this time.

B3. Inspection Data for VDPES Annual Report

Finding - Inspections data was not readily available to satisfy the Virginia Pollutant Discharge Elimination System (VDPES) reporting requirements for land disturbing erosion and sediment control activities.

Recommendation - Public Works should require that each inspector that inspects erosion and sediment control maintain a current accounting of the number of (1) site inspections completed, (2) notices of non-compliance, and (3) stop work orders pertaining to erosion and sediment control. The statistics should be maintained in a Department-wide database by the Stormwater Management Division.

Response - A new multi-part form has been developed and printed for use by all inspectors, both in Public Works and in Neighborhood Services. Inspectors have been

trained on basic erosion and sediment control by DCR, the regulatory agency, and in the standard procedure established for enforcement. This documentation should allow accurate reporting of inspections.

2007 Status – This recommendation has been in the process of being implemented. The City's newly purchased Asset Management System software should aid in the tracking of data required for the annual report.

2008 Status – This recommendation has been implemented. The multi-part form is in place and being used.

B5. Use of Stormwater Enterprise Fund

Finding - The Stormwater Enterprise Fund was used to pay selected staff's salaries for time that was not spent on stormwater activities.

Recommendation – To comply with Section 26-372 of the Chesapeake City Code, Public Works should apportion the use of the Stormwater Enterprise Fund to pay staff members' salaries depending on the percentage of work actually done on stormwater activities.

Response – The recommendation to apportion the use of the Stormwater Enterprise Fund to pay staff salaries in relation to the percentage of time they spend working on stormwater activities will be implemented as soon as the necessary accounting and payroll changes can be made. Note that Public Works disagrees with the finding that the Drainage Engineer I spends 0% of his time on Stormwater issues. We believe that he actually spends 100% of his time working on Stormwater issues, as stormwater and drainage are essentially the same.

2007 Status – This recommendation was partially implemented. No change from initial response.

2008 Status – The employees whose status was questioned have since left City employment. A new budget is in place that allocates costs in a proportional manner, so no further follow-up is required for this matter.

FOLLOW-UP REPORT

**CLERK OF THE CIRCUIT COURT
PERFORMANCE AUDIT**

August 2008

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CLERK OF THE CIRCUIT COURT PERFORMANCE AUDIT

2. Payroll Benefits

Finding – Employees of the Clerk's Office did not receive certain payroll benefits that were enjoyed by employees of other local Clerk's and Constitutional Offices.

Recommendation – The City and the Clerk's Office should explore alternatives that would allow the Clerk's employees to be compensated for accumulated leave balances similarly to other Clerk and Constitutional Offices.

Response - A review of the level of payroll benefits received by the staff of the Clerk's Office clearly shows a disparity in services when compared to the City's other constitutional offices. The impact to the employees has been manifested in the areas of:

- Inclusion in the pay performance plan;
- Accumulated vacation leave pay upon retiring or resigning;
- Accumulated sick leave pay (up to $7,000) upon retirement;
- Maintenance and reporting of individual leave records;
- Securing of new City funded positions to support an increased workload.

2008 Status – This recommendation was partially implemented. After a period of negotiations between the City and the Clerk's Office, a compromise was reached that allowed the Clerk's Office employees to be included in the pay for performance plan. However, the Clerk's employees with 15+ years of service were only partially compensated for their accumulated leave balances. All other Clerk's employees received no compensation for accumulated leave balances.

FOLLOW-UP REPORT

**MOSQUITO CONTROL COMMISSION
PERFORMANCE AUDIT**

August 2008

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MOSQUITO CONTROL COMMISSION PERFORMANCE AUDIT

C1. Excess Revenues Projected in Future Years

Finding – Mosquito Control was likely to receive revenues in future years that exceeded its foreseeable expenditure requirements.

Recommendation – Mosquito Control should consider transferring funds not needed for mosquito control expenditures to the City.

Response – We have reviewed the finding and we concur. We plan to work with the City's Budget Office annually to determine amounts of future transfers.

2007 Status – This recommendation has been in the process of being implemented. Mosquito Control continues to work with Budget to develop strategies for maintaining funding reserves for operations, emergencies, and capital projects while adjusting for cost-of-living increases and inflation. They were planning to propose moving the fund transfer to the end of the year when excess revenue and reserve requirements were fully known.

2008 Status – This recommendation has been implemented. In FY 2006, FY 2007, and FY 2008, Mosquito Control transferred $300,000 to the City. Beginning in FY 2009, the Mosquito Control tax rate was cut to one cent, with the City agreeing to cover any emergency spraying costs, and the transfers will be discontinued.

C2. Staffing Levels and Deployment

Finding – Mosquito Control utilized full-time staff in situations where the use of part-time staff may have been more optimal.

Recommendations - As vacancies occur, Mosquito Control should explore opportunities for converting full-time positions to part-time positions.

Response – The Commission is already in the process of recruiting more part-time staff; ads and notices have been posted. Most of these staff would be utilized as ULV Operators for the night time truck spraying during the mosquito season (this is where Virginia Beach utilizes their part-time staff).

2007 Status – This recommendation has been in the process of being implemented. While the Commission recruited six to eight more part-time staff, they have had problems retaining them due to the inability to guarantee steady part-time employment. There also had been some difficulty in finding part-time employees who could be state certified (in applying the chemicals) and were willing to be on standby without pay. When part-time staffing levels dropped, the Commission relied on overtime from full-time employees to compensate for work required. The Commission plans to implement a recruiting campaign to increase the level of part-time staff. However, unless the

Commission is given permission to guarantee a minimum number of hours for part-time employees, this situation will continue to be an issue.

2008 Status – This recommendation is still in the process of being implemented. There have been four permanent positions removed. However, Mosquito Control and the City had not yet worked out an arrangement to share staff resources for mutually beneficial projects related to stormwater or drainage operations.

D1. Operations Manual

Findings – Mosquito Control had not yet developed a formal operations manual.

Recommendation – Mosquito Control should develop an operations manual as soon as feasibly possible.

Response –The Mosquito Control staff are and have been working to develop an Operations Manual and have recently attended a training seminar on February 24, 2005 with Public Works emphasizing how to properly develop an Operations Manual. The development will proceed and will hopefully be completed in the near future.

2007 Status – This recommendation has been in the process of being implemented. The progress in development of the Operations Manual had stopped due to the retirement of a key employee who had been working on updating the document. They will continue to work on the manual after newly assigned employees have been acclimated to their job responsibilities.

2008 Status – This recommendation is still in the process of being implemented. During the process of developing a manual, Mosquito Control discovered that many of the policies, procedures, and practices that would normally be associated with an operations manual had been incorporated into Mosquito Control's employee handbook. Consequently, the manual could be created by reorganizing the information in the handbook and incorporating new and updated operating procedures. Mosquito Control hopes to have this project completed by Fall 2008.

D2. Tracking Workload Indicators

Finding - Due to changes in data collection procedures, Mosquito Control did not track and record data separately for one workload indicator and had not recorded all pertinent data for three other indicators.

Recommendation – Mosquito Control should take steps to ensure that the Commissioners are aware of changes that impact workload indicators.

Response - Mosquito Control is already taking the steps indicated, Information Technology's staff are working with us to make changes in our database to help track these needed indicators. Also, in a RFP that is currently out for proposals, we hope to

help address this issue in a great way. These indicators are reported to the Board of Commissioners monthly via our monthly work report and the additional indicators will be included as soon as the changes in the data base are completed.

2007 Status - This recommendation has been in the process of being implemented. Information Technology has worked with the Commission to complete a tracking system that tracks time and other significant items; however, the GIS system is still not functioning as intended as it was still not able to accurately track their equipment. They hope to acquire an improved system shortly.

2008 Status – This recommendation is still in the process of being implemented. There have been several service agreement updates with the vendor due to delays from the vendor in order to provide the best product to Mosquito Control and a product that is usable. The Director has been coordinating with the vendor to ensure that the software and hardware fit the needs of the City and Mosquito Control.

D3. Responding to Service Requests

Finding - Mosquito Control had not developed a formal policy requiring a response to all service requests within 48 hours. In addition, the database system was not configured to collect information verifying response times.

Recommendation – Mosquito Control should develop a formal policy statement implementing the 48 hour response requirement, and should ensure that its database system is configured to record and report response times.

Response – Though the Commission has always taken pride in being able to respond to service requests within the first 48 working hours, a written policy will be proposed to the Board in the near future to establish what an unwritten policy is already. Information Technology staff are also working with us to develop a reporting mechanism to track these responses through our service request database.

2007 Status - This recommendation has been in the process of being implemented. The progress of the Operations Manual stopped due to the retirement of a key employee who had been working on updating the document. They will continue to work on this written policy as part of the manual after newly assigned employees have been acclimated to their job responsibilities.

2008 Status – This recommendation is still in the process of being implemented. Once completed, the Operations Manual will also include the formal policy for timely responses to service requests.

FOLLOW-UP REPORT

HUMAN SERVICES DEPARTMENT
PERFORMANCE AUDIT

August 2008

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HUMAN SERVICES DEPARTMENT PERFORMANCE AUDIT

1. Performance Measures (Human Services)

Finding – The performance measurements and indicators used for City budget purposes related to Human Services' programs were not as meaningful as those established for State reporting purposes.

Recommendation – Human Services should incorporate the more meaningful state reporting indicators into its City budget-related performance measurements.

Response - The Division of Social Services will provide performance measures, which have been defined by the Virginia Department of Social Services, for our major programs which will be more meaningful to the City budget process.

2008 Status – This recommendation has been implemented. Human Services has instituted trend analysis of various metrics that measure the effectiveness of service program delivery for its major programs.

2. Cost Reimbursement Reconciliation (Human Services)

Finding – There were no policies and procedures established to ensure reconciliation of LASER report reimbursements received from the State to the City's general ledger expenditures.

Recommendation – Human Services should develop a procedure for reconciling LASER reports against the City's general ledger expenditures.

Response - We are developing a method of reconciling the City's accounting system expenditures back to the State report and subsequent reimbursements from the State. However, with the new PeopleSoft accounting system, this task has become more difficult. We can coordinate with the Finance Department to minimize posting discrepancies, but the two situations mentioned above will still exist unless there is a change to those processes.

2008 Status – This recommendation has been implemented. As of June 1, 2008, the State required localities to perform this reconciliation, and Human Services was complying with the requirement.

3. Special Investigation Case Files Documentation (Human Services)

Finding – Human Services did not have a procedure to ensure that all case files contained the required documentation for a special investigation.

Recommendation – Human Services should develop a procedure that ensures that all case files contain the required documentation for special investigations.

Response - Special investigations of employees receiving disaster food stamp benefits were mandated by the Food and Nutrition Services. Localities were instructed by the Virginia Department of Social Services to verify income, resources, household composition and expenses declared on the disaster application. No other guidance was given. In order to comply with the findings in this report (certain) procedures will be put in place to ensure that there is consistency when cases are reviewed

2008 Status – This recommendation has been implemented. The state has enacted new disaster assistance, and Human Services has developed policies and procedures to ensure compliance as evidenced by the *Chesapeake Department of Social Services – Food Stamp Disaster Program Plan*.

4. Application Security Access (CIC)

Finding – CIC did not have policies and procedures to document authorized users and their access to both the Harmony Program and the Comprehensive Services Act (CSA) website. Additionally, the administrative identification name and password were known to users of Harmony.

Recommendation – The CIC should develop policies and procedures to document system access and grant authorization to the Harmony application and CSA website based upon job function and management's objectives.

Response - The Harmony software system utilized for data collection provides each CIC staff to have access to a different level of usage (access to various groupings of information and review capabilities). All information for data collection purposes is password protected. The administrative password is only given out on an as needed basis at the discretion of the coordinator. There is a tracking system for the program. It documents who uses and makes changes to or updates the system. There is the capability available to enter into the tracking log and determine if anyone else is on the system.

2008 Status – This recommendation has been implemented. Human Services has enacted a disclosure form that is signed/witnessed and filed. The form states that 1) the user is responsible for reading and abiding by the standards established up by the CIC, and 2) all databases and files are confidential information. The completed form is retained by the Chesapeake Interagency Consortium (CIC) Office Management Team.

5. Policies and Procedures for RMDI Accounts (Human Services)

Finding – There did not appear to be policies and procedures for the reconciliation of RMDI accounts against the program administrators' records for the Foster Parent Appreciation Banquet (Banquet) and the Social Work Crisis Intervention Program (SWCIP).

Recommendation – Human Services should develop policies and procedures to reconcile the RMDI fund against the Banquet and the SWCIP.

Response - Written policies and procedures will be written to include various program allocation of funds. Spreadsheets have been developed for several of the program allocation of funds including Crisis Intervention, Banquet, CPS Psychological Service and Foster Care Tutoring, and APS Enhancements, Services Training. These reports list the transactions and purpose of expense with dollar amounts and balances. Reports are given to supervisors for review. As supervisors also have a list, their reports are returned to the Fiscal Administrator for review. Differences in the two reports are compared and the reports are adjusted based on conclusion of the two parties. Reports are compared no less than once a quarter and usually once a month.

2008 Status – This recommendation has been implemented. The specific items were from a 2004 grant which has been reconciled, and the department has implemented a periodic reconciliation procedure.

6. Management of Charitable Solicitations (Human Services)

Finding – There did not appear to be a centralized process established to collect Christmas sponsorship monetary donations. Additionally, the bank account established for the Social Work Fund Program had been accruing a monthly fee of $11 since Fall 2004 because of the inactivity in the account.

Recommendation – Human Services should develop a cash/receipts tracking process for incoming donations.

Response - It was found that the donations were being handled off the City books. The Social Work Fund Program was closed and funds were deposited with the City in a Grant Fund account. Procedures for handling donations have been written. An appropriation of funds will be necessary in order for the Department to spend these funds. Tracking incoming donations will be through the City's accounting system as well as payments out.

2008 Status – This recommendation has been implemented. Human Services closed the bank account, and all transactions are conducted through the City's accounting system.

7. Staffing Issues

Finding – Several divisions within Human Services indicated they were being adversely impacted by vacancies.

Recommendation – Human Services should work with Human Resources to ensure that vacancies are filled in a timely manner.

Response - The administrative team has met and pulled together a list of vacancies that can be filled. There are several things going on in the Department that impact the vacancies for each unit and timeliness is not always the only criteria. The Department must also review the impact of promotions, retirements, and resignations as well as payouts, position freezes, and availability of funds which is impacted by vacancy savings. Each of these items has been addressed as to the impact and several positions have been advertised.

2008 Status – This recommendation will not be implemented. Budget constraints have restricted hiring, and this situation is likely to continue for the foreseeable future. This finding will be deleted from future follow-up audits.

8. Administrative Petty Cash Fund

Finding – There had been no activity since approximately June 2004 in one of the two petty cash funds.

Recommendation – Since there has been no activity for one petty cash fund totaling $150 since approximately June 2004, we recommend that its cash be returned to the Finance Department.

Response – A memo was drafted and the mentioned petty cash fund was returned to the City's Treasurer's Office to close this item. Petty Cash on the General Fund would be reduced by this amount.

2008 Status – This recommendation has been implemented. The unused petty cash fund has been returned to Finance.

FOLLOW-UP REPORT

**COMMUNITY SERVICES BOARD
PERFORMANCE AUDIT**

August 2008

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CHESAPEAKE COMMUNITY SERVICES BOARD PERFORMANCE AUDIT

HIPAA Privacy Issues

1. Memorandum of Understanding with Business Associates

Finding – CCSB had not finalized a Memorandum of Understanding with three of its Business Associates - the Departments' of Finance and Information Technology and the City Treasurer – as required by HIPAA.

Recommendation – CCSB should seek approval of individual Memorandum of Understanding with the City's Departments of Finance and Information Technology and with the City Treasurer as Business Associates.

Response - The Memorandums of Understanding with the Departments of Finance and Information Technology have been finalized and signed as of August 31, 2005. The Deputy City Attorney is working with the City Treasurer's attorney to finalize this Memorandum of Understanding, and we hope to have this completed within a month.

2008 Status – This recommendation is the process of being implemented. The City Attorney's Office is still evaluating whether or not there is a legal need to have the City Treasurer sign a Memorandum of Understanding, since most of the localities in the state do not require it.

2. Quality Assurance Checklist

Finding - The Infant Intervention Service did not use the approved CCSB agency Quality Assurance Checklist when doing its supervisory audits of staffs' client charts.

Recommendation - CCSB should assure itself that all program supervisors use the approved Quality Assurance Review Checklist form when performing audits of staffs' client charts.

Response - The program supervisor for Infant Intervention Services has a completed quality assurance checklist that includes all the universal, standardized criteria of the agency including those individualized for the unique stream of funding received in that program area. Please see attached checklist. *(Audit Services did not include the checklist in this Report.)* During the annual audit of Infant Intervention Services, scheduled September 2005, the QA Office staff will assure that the program supervisor is utilizing the standardized section of the Quality Assurance Review Checklist.

2008 Status – This recommendation has been implemented. CCSB is using a revised Infant Intervention QA Checklist for chart reviews and the agency's universal checklist. The Infant checklist includes the universal items that pertain to an infant population and adds items individualized for the regulations pertaining to that program's revenue source at the end of the matrix. There are some universal items such as suicide risk and co-occurring criteria (e.g. alcohol and mental health) that would not pertain to infants.

HIPAA Security Issues

1. Risk Analysis Methodology

Finding – The City had not developed a risk analysis methodology to determine the risks and vulnerabilities to clients' electronic protected health information.

Recommendation - To ensure the safeguard of client's electronic protected health information, CCSB should assist the Department of Information Technology to expeditiously move towards completion of the outsourcing process for developing a risk analysis.

Response - As of May 12, 2005, CCSB has not created a Risk Analysis methodology to determine the risks and vulnerabilities to electronic protected health information. Thus no documentation exists. Prior to May 2005 the City's Information Technology Department approved a Management Analyst position and was in the process of conducting interviews. The Analyst was to do the risk assessment to identify technical and non-technical threats and vulnerabilities to electronic protected health information. However, on May 12, 2005, the CCSB MIS Administrator said that they would not hire a Management Analyst to do this work; but, would outsource the work regarding the creation, performance, and documentation of a risk assessment during the next fiscal year (2006). In addition the outsourced company would implement a process to perform periodic updates to the risk analysis. The MIS Administrator indicated that they would follow the NIST guide exclusively to create the risk assessment. The RFP has been written to contract for the services of a Risk Manager. Once this position has been outsourced, we will be able to move forward with the risk analysis and implement a risk methodology that will bring us into compliance with HIPAA.

2008 Status – This recommendation is in the process of being implemented. CCSB contracted with a vendor to evaluate the electronic security, and the vendor did not identify any penetrable areas. Information Technology was planning to assign its recently hired Network Specialist the task of conducting a HIPAA risk analysis.

2. Written Policies and Procedures

Finding – CCSB had not developed written policies and procedures for several administrative and physical safeguards concerning HIPAA security.

Recommendation – CCSB should establish written policies and procedures as required by the HIPAA security standards.

Response - Due to limited resources in funding and staff, have not been able to further develop and complete HIPAA security policies and procedures.

2008 Status – This recommendation has been implemented. CCSB has drafted and implemented written policies and procedures for administrative and physical safeguards concerning HIPPA security.

3. Disaster Recovery Plan Requirements

Finding – CCSB had not completed HIPAA disaster recovery plan requirements for electronic protected health information.

Recommendation – CCSB should work with the City to address its disaster recovery plan needs, hardware and software services, and identify a temporary alternate location.

Response - The CCSB by nature of services provided could continue to function and capture data on paper, the consumers' charts are kept in paper mode thereby allowing the clinical staff to have access to pertinent data. Any long term lost of the computer resources in excess of two weeks would disable the CCSB's ability to bill its payers, and access to the City Financial System would not be available, thereby restricting ability to properly pay employees. However, if the disaster event is City wide, where emergency shelters are open, all clinical staff are required to man those sites so the CCSB would not be able to provide services to consumers until the shelter were closed. The CCSB MIS Administrator will meet with the City's Information Technology Communications Coordinator in late September 2005 to discuss a cooperative effort in the event of disaster.

2008 Status – This recommendation has yet to be implemented. While the CCSB has undertaken the necessary steps to develop a contingency plan from its end, it still needs the City to develop a Citywide contingency plan. Starting in FY 2009, the City is developing a plan to meet the requirements of 45 CFR §164.308(a)(7)(ii)(B) (Contingency Plan Implementation Specifications).

FOLLOW-UP REPORT

CHESAPEAKE POLICE DEPARTMENT
PERFORMANCE AUDIT

August 2008

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CHESAPEAKE POLICE DEPARTMENT PERFORMANCE AUDIT

B. Performance Information - Implementation of Strategic Plan

B1. Management of Strategic Plan

Finding - The Police Department (Department) did not have an individual to manage the Strategic Plan to assure that the targeted measures, initiatives, and statistical measures were developed and implemented in a timely manner. Also, several of the targeted measures, initiatives, and statistical measures had not been developed or implemented.

Recommendation – The Police Department should designate an individual to oversee the entire Strategic Plan to ensure its implementation and to evaluate the progress the Department has made towards meeting the Plan's goals. Also, the Department should evaluate the unimplemented measures and initiatives, deciding which ones to implement and which ones to eliminate or revise.

Response – While the Department did not assign any one person to manage the Strategic Plan, the plan was reviewed frequently and discussed at various staff meetings. Additionally, each Bureau Commander submitted an annual report on their efforts in developing initiatives and meeting the targeted measures. In the future, the Department's Planner will be responsible for the coordination and management of the Strategic Plan. A meeting has been scheduled to review and make appropriate changes to the existing Strategic Plan that will provide the framework for initiatives/changes for the upcoming fiscal year.

2008 Status – This recommendation is in the process of being implemented. The Department has received a consultant report from Carroll Buracker & Associates, Inc., released to the City Manager on August 12, 2008, that extensively addresses management and operational issues, including the strategic plan. The existing plan's actions and milestones will be compared and updated as necessary and implemented consistent with the consultant's recommendations.

C. Administrative and Operational Issues

C1. Vehicle Replacement Policy

Finding – The City's informal fleet replacement policy did not meet the needs of the Police Department's fleet of cars.

Recommendation – The Police Department should work with the City's Fleet Manager to establish a vehicle replacement policy and procedures that better reflect the needs of the Police Department and should consider requesting that the City increase its budget to accelerate the replacement of older high mileage cars that have high maintenance costs. The City's annual maintenance budget could be reduced by replacing cars with the highest maintenance costs.

Response – The Department has worked with the Fleet Manager and has made the replacement of high mileage vehicles a part of the Department's supplemental budget annually. The lack of funding for this has prohibited the Department from establishing a more formal plan and moving forward in this area. The Department also evaluates the type of use and mileage of vehicles to ensure proper utilization and then rotates vehicles among various assignments to meet our needs. We will establish a more formal policy concerning this, focusing on the needs of the Department, vehicle age, mileage, and replacement history in rotating or assigning vehicles among police personnel or units. We have been moving towards obtaining smaller, less expensive, sedans to assist in this area.

2008 Status – This recommendation has been implemented. The Department is working with the Fleet Manager to remove older vehicles and replace them with newer models. The Department has been allocated $850,000 in FY 2008-09 to replace existing older vehicles, and is proposing (with the support of the Fleet Manager) a reduction in the waiting time from five years to three years for officers to receive a Community Resource Vehicle. This action will reduce the number of shift vehicles and improve normal operating conditions.

C2. Assignment of Vehicles

Finding – The Police Department assigned at least 71 unmarked full-sized and upper mid-sized cars to sworn officers and non-sworn staff that did not require vehicles of that size to carry out their daily duties.

Recommendation – In addition to its annual purchase of full-sized and upper mid-sized cars for the Police Department, the City should begin to purchase unmarked mid-sized cars for those sworn officers and non-sworn staff that do not use the cars for patrol and pursuit. The current practice of decommissioning the old full-sized cars when new cars are purchased should be continued.

Response – The utilization of the full-sized vehicles throughout the Department has enabled the Department to prolong the life expectancy of vehicles by rotating vehicles among assignments. This rotation is completed after the evaluation of the needs of the Department, vehicle age, mileage, and history. The mixing of various sizes of vehicles into the Department's fleet will prohibit this ability. Full-size vehicles allow officers who are assigned collateral duties, such as SWAT, Underwater Search and Rescue, and Special Incident Response Team, to carry the extra equipment required for these assignments. Smaller vehicles, with limited trunk space, severely limit the amount of extra equipment that can be carried in addition to the routine equipment required. It must be noted that the patrol vehicles are an officer's office during their tour of duty. As such, they must carry a multitude of items from summons books to patrol rifle. Chesapeake officers work solo except during field training when the recruit officer accompanies the Field Training Officer. The laptop computers take up a portion of the passenger compartment in the front passenger area and pose additional safety and comfort risks for the passenger. We have currently placed several smaller vehicles

throughout the Department and additional vehicles are on order for this coming year. These vehicles have been assigned to more experienced officers not normally involved in routine patrol duties. We have experienced several mechanical problems with the smaller vehicles that will be further compounded when the small vehicles are placed into general use. The vehicle is low to the ground and tends to bottom out in some circumstances, increasing the chance of damage. The move from the rear wheel drive vehicles to the front wheel drive vehicles will involve training in high-speed maneuvers for all officers having access to these vehicles. This is due to the difference in handling characteristics and is both a time and cost factor for the Department.

2008 Status – This recommendation has been implemented. The Department is reducing the size of unmarked and marked vehicles being purchased to reduce costs and improve gas mileage. The Department plans a continued vehicle size reduction, although some vehicles will have to remain in the full-size range.

C3. Separation of Duties for Record Management Fees

Finding – Reconciliation duties for certain Records Management fees were not always separated from transaction handling, fee receipt and customer transaction data entry duties.

Recommendation – The Police Department should follow written standard operating procedures and maintain staff scheduling that would prevent the staff from handling counter and fee receipt duties and daily reconciliation duties for those same transactions and fee receipts.

Response – The Department has a Standard Operating Procedure for this but it was not followed. Appropriate action has been taken to ensure adherence and a copy of the existing SOP is attached. (We did not show the SOP in this report.)

2008 Status – This recommendation has been implemented. Corrective steps were initiated to ensure a daily reconciliation was conducted by someone other than the individual collecting funds. Once the daily reconciliation is conducted, either the Sergeant or Lieutenant in the Records Section reviews the record, confirms the entries, and signs off on the Reconciliation Report for the Treasurer.

C4. Budget for Worker's Compensation

Finding – The Police Department had been budgeting significantly less then it expended on Worker's Compensation claims.

Recommendation – The Police Department should work with the City's Budget Department during the next budget cycle to obtain an allowance to increase its Worker's Compensation line items.

Response – This is an issue that has been presented annually during our budget presentations. The Department has no control on how much money is allocated for the Workers Compensation line items. In FY95-96 the Department's total authorized strength was 382 employees and our appropriated funds for Workers Compensation and Risk Management totaled $177,761. This was a per-capita appropriation of $465.34 per employee. In FY05-06 the Department's total authorized strength was 524 employees and our appropriated funds for Workers Compensation and Risk Management totaled $85,426. This was a per-capita appropriation of $163.00 per person. The amount allocated for these line items has steadily decreased while expenses have increased. From FY95-96 to FY04-05 the Department had to absorb over $3,695,478.70 in from our operating budget to cover the unbudgeted costs. In this year's FY05-06 budget a total of $85,426 was appropriated for the Workers Compensation and Risk Management line items. Our expenses through March 2006 already total $575,114.30 with three more months remaining in the budget. These line items are already over budgeted by $489,688.30.

2008 Status – This recommendation has not been implemented. The Department has not received and does not expect to receive any additional allocation for workers compensation.

C5. Administration of Community Oriented Policing (COPS) Grant

Finding – The Police Department had experienced delays in the receipt and administration of the COPS Technology Grant by the Police Department.

Recommendation – The Police Department's management should assure itself that the completion of the project will meet the grant's requirements and the Department's expected results.

Response – The Department is working to ensure the project meets the needs of the Department while at the same time meeting the grant guidelines. The Information System Manager is working full time with the vendor to finalize specifications for the grant contract. We have also appointed a Lieutenant to be the project manager. Once the contract has been finalized and signed, work can begin and the Project Manager will oversee the installation process. We are expecting to meet all requirements prior to the expiration of the grant.

2008 Status – This recommendation was still in the process of being implemented. The grant deadline had been extended several times to August 2008. The original vendor had gone out of business, and the City's Purchasing Division was working with the Police and Fire staff to finalize a scope of services for the contract.

Managerial Summary

A. Objectives, Scope, and Methodology

We have completed our review of the Chesapeake Sheriff's Office (Department) for July 1, 2006 to June 30, 2008. Our review was conducted for the purpose of determining whether the Department was providing services in an economical, efficient, and effective manner, whether its goals and objectives were being achieved, and whether it was complying with applicable City and Department procedures in areas of operations, administration, work release, and canteen management.

We conducted this performance audit in accordance with generally accepted government auditing standards. 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.

The Department operated and maintained the Chesapeake Corrections Center (CCC) and the jail work force and work release programs. In addition, the Department served criminal warrants, orders, summons, and other civil processes issued by the courts, as well as probation and parole violations issued by the Probation and Parole Offices. The Department was responsible for maintaining order and security within the City's court buildings and provided support services to judges as situations dictated. Extraditions and the transportation of inmates also fell under the purview of the Department.

For Fiscal Year (FY) 2007-2008, the Department had an operating budget of over $33.2 million and an authorized compliment of 392 full time personnel. The Department received funds from Federal, State, and local sources. The Department's administration building and the CCC are located in the Chesapeake Municipal Complex in Great Bridge.

To conduct this audit, we reviewed and evaluated policies, procedures, and operational documents and reports. Also, we reviewed the Auditor of Public Accounts – The Virginia Sheriff's Accounting Manual Audit Specifications (APA), Code of Virginia, Compensation Board policy and procedure manual, and other applicable policies. We conducted site visits of the jail. We discussed these audit areas and conducted interviews with the Sheriff, Under-Sheriff, Chief Deputy, Administration Office Manager, Work Release Office Assistant, Community Correction's Director, Administrative Assistant, and various other Department personnel and contractors.

Major Observations and Conclusions

Based on our review, we determined the Department had accomplished its overall mission of operating, and maintaining, the CCC, providing security services to the various courts, and process and warrant service. However, we did identify several significant issues that needed to be addressed. These issues involved lack of timely and effective tracking of jail maintenance requests, staffing standards, check endorsements, Community Corrections Agency (CCA) fees, separation of duties, reconciliation process, management oversight, verification of canteen commissions, and various contractual and code compliances.

This report, in draft, was provided to Department officials for review and response. Their comments have been considered in the preparation of this report. These comments have been included in the Managerial Summary, the Audit Report, and Appendix A. The Department's management, supervisors, staffs, and contractors, were very helpful throughout the course of this audit. We appreciated their courtesy and cooperation on this assignment.

Methodology

To conduct this audit, we reviewed the Department's policies, procedures, and practices. This review included testing and evaluation of certain financial aspects of the work release inmate trust fund accounts to ensure the integrity of the funds. We conducted extensive analysis of the financial processes utilized in work release and home electronic monitoring to determine if the internal controls were adequate, if best accounting practices were being utilized, and if the Auditor of Public Accounts (APA), Sheriff Accounting Manual, and applicable laws and regulations were being adhered to. We reviewed aspects of the CCC maintenance procedures by requesting information to evaluate the effectiveness of the internal maintenance request system and determine if it summarized the maintenance requests and provided needed follow-up information in a timely fashion. The deputy to inmate ratio was also evaluated by requesting various inmate population numbers as well as the Department compliment assigned to the CCC. In addition to these items, various contracts including Medical Pharmaceutical and Commissary (Canteen) were reviewed. These reviews were to determine if the contracts and Request For Proposals (RFP) were effective, contained the appropriate projections, price increases tied to the Consumer Price Index, contained a statement of work, and protected the financial interests of both the inmates and the Department. The Canteen RFP was reviewed to determine if it contained a formula for commission calculations.

B. Performance Information

As one of the City of Chesapeake's constitutional offices, the Department was a multi-faceted department whose positions were funded primarily by the State Compensation Board. The City of Chesapeake provided the Department much needed subsides to fund their operations. Also, the Department received Federal funding from the U.S. Marshall's Office for housing federal prisoners.

The Department operated and maintained the CCC and the jail work force and work release programs. In addition the Department served criminal warrants, orders, summons and other civil processes issued by the courts, as well as probation and parole violations issued by the Probation and Parole Offices. The Department was responsible for maintaining order and security within the City's court buildings and provided support services to judges as situations dictated. Extraditions and the transportation of inmates also fell under the purview of the Department.

C. Operational and Administrative Findings

While the Department appeared to be effectively accomplishing its overall mission, we did identify some areas where operational and administrative practices could be enhanced. We observed issues regarding jail maintenance, maintenance requests, staffing standards, and home electronic monitoring. We noted that the contract with the Medical Pharmaceutical contractor did not completely address the CPI increases for the entire duration of the five year term. Finally, we noted that the CCA did not have an adequate standard operating procedure for the collection of supervision fees.

1. CCC Building Maintenance and Repair

Finding – During our jail tour, we identified several items which needed ongoing maintenance and repairs at the CCC.

Recommendation – The Department should work with Facilities Management to complete the open maintenance requests.

Response – We agree with the findings above. Regarding the leaks in the domestic hot water system, a coordinated effort between CCC maintenance and Facility Management resulted in Southern Steel being contracted to complete the work. The repair work has been completed.

Regarding the medical unit ceiling, the medical housing unit, including the holding cell was treated and painted by an outside contractor, French Painting. The repair work has been completed.

Regarding the peeling paint in the gym, a coordinated effort between CCC maintenance and Facility Management resulted in French Painting being contacted to complete the work. The repair work has been completed.

Regarding the missing heating coils for the variable air volume boxes, efforts to remedy this condition required a coordinated effort between CCC maintenance and Facility Management. Tim Winslow, General Services Facilities Manager, is aware of the existing problem. Plans for a new facility and renovation of the existing facility have been presented to the City Manager for review. Until a decision is determined on the expansion project, Tim Winslow has requested that we stand by for a decision.

2. Maintenance Requests

Finding - We noted the need for a more efficient maintenance request system that could summarize the trouble calls and record maintenance requests so that that they could be tracked and addressed in a timely fashion.

Recommendation – The Department should establish a more efficient internal maintenance request system that could summarize the maintenance requests and provide needed follow-up information in a timely fashion.

Response - We agree. The standards/compliance division is designing a spreadsheet that will meet the needs addressed and will greatly improve tracking methods. Completion/implementation is set to take place September 1, 2008.

3. Staffing Standards

Finding – The Department was not adequately staffed to service the ongoing inmate population.

Recommendation - The City should continue to work with the Department to attempt to obtain additional state funded jail deputy positions.

Response - We agree. The Sheriff's Office has been aware of the staff shortages, (Deputy v. Inmate ratio.) The Sheriff's Office has been working closely with the City Manager and Facility Management in reference to the expansion of our existing facility. The expansion addresses our staffing needs. The City obtained a consultant that conducted a Jail Needs Assessment and their findings concur with the auditors noting that we are understaffed and 186% over our rated bed capacity. A decision from the City Managers Office in reference to our expansion is forthcoming. The required timeline is to be determined by the City Manager's Office.

4. Home Electronic Monitoring

Finding – The Department was not endorsing money orders immediately upon receipt as required.

Recommendation – The Department should require the duty deputy to endorse the money orders with the City Treasurer's deposit stamp immediately upon receipt.

Response - We agree. The Deputy on duty who receives the money orders from the HEM participants will stamp each money order upon receipt with the City Treasurer's deposit stamp. The Sheriff's Office Standard Operating Procedure will be updated in order to include this requirement**.** The Standard Operating Procedure will be approved and updated by September 1, 2008.

5. Inmate Medical/Pharmaceutical Contract

Finding – The medical/pharmaceutical contract with the new contractor incorporated a cap on price increases in the second and third years of the contract. However, a cap on price increases was not incorporated into the fourth and fifth years of the contract.

Recommendation – The City should attempt to negotiate a cap on the rate of the contract's increase for the fourth and fifth years. While it may be difficult for the City to negotiate a cap in a medical/pharmaceutical contract for the fourth and fifth years of the contract, an attempt should be made regardless even if it involves negotiating a cap slightly higher than the four percent cap agreed to for the second and third years of the contract. Negotiating such a contract will allow the City and the Department to more accurately budget for these costs.

Response - Forwarded to Purchasing at the attention of the Purchasing and Contract Manager. We agree in principle that we should attempt to negotiate caps on the 4th and 5th years of the contract. In fact, we did attempt to place caps on these two years, but were unsuccessful. The contractor was reluctant to negotiate the 4% on years one through three, but we insisted that a cap be placed, or no contract. Our original plan was to revisit after year two, and before exercising the option for year three to negotiate caps. At that time, we will have some price history with this contractor, and a better view of industry trends in prices for this marketplace. We have found through other contracts that involve chemicals and medical supplies that the industry is so volatile that some vendors are insisting that they cannot predict with any certainty prices beyond a few months. As recently as a year ago, we were able to cap prices for a year or more, but no longer. For example, chemical based products for the Water Treatment Plant and Garage are being adjusted in increments as short as three months. We pushed very hard to cap years one through three and were successful. Therefore, while it might be desirable to cap the two remaining years, it is difficult to do so at this time. We will attempt again, but please be assured that we will pursue this issue both now, and in the future.

6. Review of CCA Supervision Fees

Finding - The Chesapeake Community Corrections Agency (CCA) did not have an approved standard operating procedure in place to facilitate the collection of supervision fees from offenders placed with the agency.

Recommendation - The CCA should implement and follow the approved standard operating procedure for the collection of supervision fees.

Response – The CCA staff has worked very diligently with the Department of Criminal Justice Services (DCJS) and the Chesapeake City Treasurer, Ms. Barbara Carraway, to develop a Collection of Fees Procedure. The Department of Criminal Justice Services has approved our procedure for the Collection of Fees, in accordance with Policy Number 7.1, Part III, Standard 3.8. Date reviewed was June 1, 2008. DCJS approved this version on 06-17-08.

D. Work Release Issues

In reviewing Work Release operations we noted that the Department staff assigned to carry out the Work Release functions was very organized. However, we did note a number of instances where they were not in full compliance with APA internal control guidelines. Specifically, we identified issues related to separation of duties regarding the Department's deposit process, disbursement process, reconciliation process and management oversight, payments of inmates' personal bills, and inmate authorization for enrollment into the Work Release program.

1. Separation of Duties and the Deposit Process

Finding - The Department's deposit process for incoming Work Release funds did not separate the collection, reconciliation, and deposit of funds from the bookkeeping function. Deposits were also not made within one business day of receipt. Additionally, pre-numbered receipts were not issued to inmates when checks were submitted to the Work Release staff.

Recommendation – The Standard Operating Procedure should be changed to clearly separate key functions, adopt a one-day deposit requirement, and incorporate the issuance of pre-numbered receipts when wages are received.

Response - We agree. As required by the accounting guidelines, collection, reconciliation, and the deposit of funds will be separated using the following process.

1. Security Deputies/Counselors will accept all paychecks as they are brought in by the residents, they will then stamp the back "For Deposit Only" and make copies of the checks and the stubs.
2. These copies will be forwarded to the Work Release Counselor who will prepare the distribution sheets which will be identified by the inmate number.
3. The SOP will be revised to reflect this change. (J 30.03)
4. When all checks are collected, the final deposit will be tabulated by a Work Release Counselor on Monday morning, or the next available business day.
5. After the balances are verified the Counselor will then proceed to the bank and make the physical deposit.
6. This procedure is currently in place.
7. The Standard Operating Procedure will be approved and updated by September 1, 2008.

2. Separation of Duties and the Disbursement Process

Finding – The disbursements process did not include an adequate system of controls as required by the APA Guidelines.

Recommendation – Update SOP J190.01c to implement the applicable APA requirements and include additional management oversight.

Response – We agree. As required by the accounting guidelines, the collection, reconciliation, and deposit of funds will be separated using the following process.

1. Security Deputies/Counselors will accept all paychecks as they are brought in by the residents, they will then stamp the back "For Deposit Only" and make copies of the checks and the stubs.
2. These copies will be forwarded to the Work Release Counselor who will prepare the distribution sheets which will be identified by the inmate number.
3. The SOP will be revised to reflect this change. (J 30.03)
4. When all checks are collected, the final deposit will be tabulated by a Work Release Counselor on Monday morning, or the next available business day.
5. After the balances are verified, the Counselor will then proceed to the bank and make the physical deposit.
6. This procedure is currently in place.
7. The Standard Operating Procedure will be approved and updated by September 1, 2008.

3. Reconciliation Process & Management Oversight

Finding – SOP J20.04a specified that the Work Release Commander would be responsible for fiscal control, yet the SOP did not define how the position would monitor the financial activities of the function, resulting in the absence of an independent cash reconciliation process.

Recommendation – The Work Release Commander should be responsible for fiscal control, and the SOP should define how the position will monitor the financial activities of the function, so that cash reconciliation process will be enhanced.

Response - We agree. The SOP will be updated to include how management will monitor the financial activities of the unit. Additionally, the SOP changes will define the methods in which the Work Release Commander will monitor fiscal control of all funds as follows:

1. The Work Release Commander or his AOIC will review the final transaction report to ensure that the weekly transaction report coincides with the actual disbursements.
2. The financial process has been addressed by separating the disbursement and deposit process to alleviate any potential misappropriation or loss of funds.
3. Any disbursement checks will require dual signatures, a Work Release Supervisor, and the counselor who received the disbursement sheets.
4. With the exception of the dual signatures, (new checks were ordered) this procedure is currently in place.
5. The Standard Operating Procedure will be approved and updated by September 1, 2008.

4. Inmate Personal Bills

Finding – The Department's practice of making personal payments to family or friends or paying personal bills for inmates was inconsistent with Code of Virginia §53.1-131 (referenced in SOPJ190.01c) and the Work Release Court Order Agreement.

Recommendation – The Department should comply with the Agreement and Virginia Code and discontinue this practice.

Response - We agree. In the future it will be standard practice to follow the Va. Code when disbursing any and all inmate funds. (53.1-60). The Chesapeake Sheriff's Office Standard Operating Procedure will reflect this mandate. Counselors will closely monitor the court fines as indicated in relation to their savings. This procedure is currently in place.

5. Inmate Authorization for Enrollment into the Work Release Program

Finding – Work Release Orders located in inmate files did not always include a judge's signature as required by APA guidelines.

Recommendation – The Department should establish a follow-up procedure to ensure all Orders requiring judge's signatures are maintained with the inmate files.

Response - We agree. Counselors have been instructed to review and audit all case files on a monthly basis and ensure that releasee has authorization (i.e. a signed court order) to validate his participation in the Work Release Program. DOC-Jail contract bed (JCB), and Re-entry Program (REP), do not require authorization for enrollment; therefore, judges signature will not be on the court order. To provide consistency and ensure compliance pertaining to authorization, the files that do not require signed orders will be designated on the front cover with (JCB) or (REP). This procedure is currently in place.

E. Canteen Operations

At the time of our audit, the Department had issued an RFP to solicit vendors for the renewal of the Commissary contract. In reviewing the RFP in conjunction with the Department's operations, we identified a number of issues that could impact the success of the contract. These issues included verification of commissions and return of inmate files.

1. Review of Canteen RFP No. 8081

Finding – The Department did not have a process to verify the accuracy of the monthly commissions submitted by the Canteen contractor. The RFP also did not require the vendor to define how commissions were to be determined.

Recommendation – The Department should obtain an understanding of the methodology used to determine the basis for the sales figures when calculating commissions from the contractor. An SOP should also be developed and implemented that would require Department personnel to periodically verify the commissions.

Response – We agree. It is important to note that during this audit our canteen service provider for the past 3 years was A.B.L. Management. As of July 2008 Keefe Group has taken over the canteen contract.

The verification of commissions will be overseen by the Compliance Officer who will conduct monthly audits of inmate accounts. The Compliance Officer will prepare findings on a quarterly basis and file such documents for review. The scope of the audit will be a random selection of inmates that will encompass 15% of the average daily population or approximately 175 inmate accounts annually.

Attached in Appendix A is a billing practices manual that clearly defines how Keefe calculates commissions. According to the final contract the 27.5% commission is paid on total sales less sales tax and non-commissionable postage items. These funds are deposited to the inmate program account on a monthly basis.

The Standard Operating Procedure will be approved and updated by September 1, 2008.

2. Inmate Files

Finding - The canteen RFP did not address the return of inmate files upon completion of contract.

Recommendation - We recommend an addendum to the final contract which would include a statement requiring the return of all inmate files upon completion of the contract.

Responses – Forwarded to Purchasing at the attention of the Purchasing and Contract Manager. We agree with the findings for these two items [E.2. and E.3.] and will ensure the contracts are amended to include the audit comments. We will forward copies upon completion.

3. Compliance with Accounting Guidelines

Finding - The RFP did not require the vendor to comply with APA accounting guidelines pertaining to canteen operations and inmate trust funds.

Recommendation - The final contract should specifically require the contractor to comply with the <u>Auditor of Public Accounts Virginia Sheriff's Accounting Manual</u> pertaining to internal controls, canteen operations, and inmate trust funds, should the contractor be responsible for the management of such funds.

Response – Forwarded to Purchasing at the attention of the Purchasing and Contract Manager. We agree with the findings for these two items [E.2. and E.3.] and will ensure the contracts are amended to include the audit comments. We will forward copies upon completion.

4. Inmate Trust Funds Managed by the Contractor

Finding – The Department allowed the contractor to be responsible for the handling of all inmate funds including their custody and deposit.

Recommendation – The Department should limit the contractor's responsibilities pertaining to inmate trust funds to only the accounting or tracking of incoming receipts and disbursements to and from inmate accounts.

Response - We agree. The recommendation was for the Sheriff's Office to maintain control of the inmate program account to maximize interest revenues. The account does not accrue interest as these funds must always remain readily available due to the volatility of inmate relocation to other facilities and releases. This section also recommends that someone, other than the contractor should receipt and deposit all funds. The Sheriff's Office has specifically contracted with a professional canteen corporation to prevent us from having to hire someone to handle these funds on a day to day basis. Keefe meets with every accounting standard required by the Commonwealth of Virginia. Based on that we are satisfied with our internal auditing standards as a means to track and control this inmate trust fund. The Sheriff's Office will develop oversight procedures which will include a review of account reconciliations to inmate accounts for accuracy quarterly.

The Standard Operating Procedure will be approved and updated by September 1, 2008.

Managerial Summary

A. Objectives, Scope, and Methodology

We have completed our review of the City of Chesapeake's Neighborhood Services Department (Neighborhood Services) for January 1, 2008 to December 31, 2008. Our review was conducted for the purpose of determining whether Neighborhood Services was providing services in an economical, efficient, and effective manner, whether its goals and objectives were being achieved, and whether it was complying with applicable City and Department procedures in areas of operations, inspections, cash, revenues, fees, information technology, and grants management. In addition, both the Deputy City Manager for Human Development/Community Initiatives and the Director of Neighborhood Services requested the audit due to the merger and addition of the Office of Youth Services, Customer Contact Center and the Office of Housing into the Department. Also, the Director requested the review to ensure that the level of fiscal management and oversight of these offices was appropriate.

We conducted this performance audit in accordance with generally accepted government auditing standards. 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.

Neighborhood Services provided core services within the 353 square miles of the City of Chesapeake (City) that improved the quality of life and protected the health, safety and welfare of the community. It enforced code compliance, zoning regulations, issued building and occupancy permits, took corrective actions to remove debris, weeds, grass, and abandoned structures, and coordinated community revitalization programs across the City. Neighborhood Services also coordinated the City's interactions with other governments and public and private entities, centralized grant administration activities, oversaw Community Initiative/Human Development Block Grants, and provided staff and technical support to the Chesapeake Youth Committee and the Chesapeake Council on Youth Services, Community Development Block Grant, and the Wetlands Board. It also served as a resource center for housing programs for the elderly, homeless, disabled, and the affordable workforce housing initiatives. As such, it administered numerous Federal and State grants from the Community Development Block Grant and American Dream Down Payment Initiative to Continuum of Care and Section 108 Loan Guarantees.

For Fiscal Year (FY) 2007-2008, Neighborhood Services received funds from Federal, State, and City sources, had an operating budget of just under $5 million, and also had an authorized compliment of 65 personnel plus an additional part-time position, an intern, and two temporary positions, all deployed across six divisions. Neighborhood Services occupied offices primarily on the second floor of the City Hall Municipal Building, with additional offices on the fifth floor, and also utilized detached office space at the Customer Contact Center.

Major Observations and Conclusions

Based on our review, we determined Neighborhood Services had accomplished its overall mission of improving the quality of life and protected the health, safety and welfare of the community through code compliance, zoning ordinances, Customer Contact Center and Neighborhood Coordination. However, we did identify several significant issues that needed to be addressed. These issues included not having up-to-date policy and procedure manual(s), having permit forms available on the public website that were not accurate, and a customer service process that needed improvement. Also, there was no effective process for the collection and tracking of proffers, inadequate segregation of duties for collecting funds, inadequate cash control and safeguards, and a failure to use the "City Travel Log" or monitor the use of fuel gas keys. There were insufficient monitoring practices for inspection performance, lack of standardized inspection documentation, and a lack of timely and effective tracking of elevator inspections. Also, we found inconsistencies among the fees listed on various forms and web sites, as well as inconsistencies with the collection of re-inspection, late, and additional fees.

This report, in draft, was provided to Neighborhood Services officials for review and response. Their comments have been considered in the preparation of this report. These comments have been included in the Managerial Summary, and the Audit Report. Neighborhood Services concurred with most of the report's recommendations and has either implemented or begun the process of implementing many of them during the course of the audit. Neighborhood Service's management, supervisors, and staffs were very helpful throughout the course of this audit. We appreciated their courtesy and cooperation on this assignment.

B. Performance Information

Neighborhood Services generally achieved its' mission of improving the quality of life and protecting the health, safety and welfare of the community in an efficient and effective manner. It did this by coordinating its activities with other departments to benefit the City as a whole and reduced service overlap and waste.

The Department was divided into five functional divisions and seven service areas: Code Compliance (which was subdivided into Building Inspections, Property Maintenance and Zoning Inspection, and Plan Review); Zoning Administration; Neighborhood Coordination; the Customer Contact Center; and Youth Services and Housing. Each division works in tandem with one another to assist and support the

department's processes and duties. Neighborhood Services also completed major improvement initiatives related to its Automated Receipt System and the City's Development Review Process.

1. Automated Receipt System (ARS)

In early 2008, the ARS was implemented in Neighborhood Services. This system automated the receipt system when permits and service files were created. The project was a joint effort of several departments including the Treasurer's Office, Information Technology, Finance, and Neighborhood Services and, at the request of Neighborhood Services; Audit Services provided advice and feedback throughout the project.

The ARS saved an estimated $1,000 to $1,500 a year on the cost of pre-printed receipts, saved 3 to 5 minutes per customer transaction, and provided for multiple cashiers, allowing more time by other staff to begin and finish a process. The new system cut the time it took to reconcile the General Ledger from two weeks to less than one hour, cut the time it took to process a refund request from two weeks to twenty-four hours, and provided for increased accountability and security of fees owed and collected. Plans were being made to utilize the ARS for permit processing, tracking proffer payments, elevator inspections, zoning variances, and other functions currently monitored using spreadsheets and manual methods.

2. Neighborhood Services/Public Works Reorganization

Under direction from the Mayor and City Council, the City Manager commissioned a panel to review and make recommendations streamlining the construction approval processes. The panel recommended several changes (some of which have already been incorporated) to the review of the approval processes, such as improved communication of the format of the construction plan review so that it included all stakeholders, and incorporated changes to the public website to keep all parties informed of required information and project status. In addition other changes included customer service training, cross-training of employees between functions, and hiring additional building plan review staff. Neighborhood Services was, with the support of the development community, successful in revising permit fees to provide funding for one additional Assistant Plan Examiner within Neighborhood Services and one additional Fire Plans Examiner for the Fire Prevention Bureau.

In an effort to reduce wait times for approval of businesses' construction projects the City Manager reorganized portions of the Neighborhood Services and Public Works Departments. The reorganization, which occurred in February 2009, would bring key elements of the plan review process under one organizational grouping and improve customer service. A part of this reorganization was the creation of the position of Plans Review and Codes Administrator. The new, reorganized, Neighborhood Services Department will be renamed the Department of Development and Permits and was proposed to be effective July 1, 2009.

C. Administrative Findings

While Neighborhood Services appeared to be effectively accomplishing its overall mission, we did identify some areas where administrative practices could be enhanced. For example, Neighborhood Services did not have an up-to-date policy and procedure manual. Also, forms placed on the public website were not sufficiently reviewed and tested.

1. Policy and Procedures Manual

Finding – With the exception of Code Compliance and the Customer Contact Center, Neighborhood Services did not have an up-to-date policy and procedure manual for daily operations.

Recommendation – Neighborhood Services should develop written policy and procedure manuals for each of its operating divisions that define responsibilities and expected practices of the different positions and functions. Because of the diversity in services provided by the various Neighborhood Services divisions, each will likely have to develop its own procedure manual.

Response – Agree. The department staff has begun the creation and accumulating the information for these manuals. The manuals are to be prepared and stored in an electronic file for the various routine procedures for each division. This procedural manual will provide the policy and/or procedure for the majority of situations.

2. Review of Permit Applications

Finding – The Adobe PDF versions of Neighborhood Services' permit application forms published on the public website needed additional review and testing prior to being placed on the website. Also, the employee responsible for developing the forms needed additional training.

Recommendations – Neighborhood Services should ensure that forms placed on the City's website are reviewed and properly tested to ensure they work as designed prior to placement on the website for public use. In addition, the employee responsible for creating the forms should be provided the necessary training to perform their technological duties.

Response – Agree with findings. Upon discovery that the on-line forms on the Department's website were not calculating the state levy correctly, the forms were removed from the site temporarily until fixed. A new practice of double reviews will be instituted to ensure that calculations are correct and function as expected. Additionally, applications shall undergo an intensive re-design study for simplicity, flow and instructions with a deadline for completion of the first of 2010. (Note: The full text of the response is included in the body of the audit report.)

D. Operations

We identified some areas where managerial and operational practices could be enhanced. For example: 1) it appeared that the permit issuance process needed to be enhanced to improve customer service; 2) the Department did not track or monitor issued permits; 3) one employee was assigned to monitor proffers with no back-up and no written procedures; 4) for the Rental Program, inspectors accepted checks in the field without adequate safeguards and controls. Additionally, customers were given a manual receipt evidencing their transaction instead of an automated receipt. Furthermore, there did not appear to be adequate controls concerning cash and vehicles.

1. Permit Issuance Process

Finding – The effectiveness and efficiency of the permit issuance process needed to be improved to better meet customer expectations.

Recommendation – Neighborhood Services needs to observe, analyze and reengineer the permit issuance process so that it is effective, efficient, and meets the expectations of customers.

Response – Agree. The permit issuance process at the front counter has been studied and initial modifications have been made. Additional modifications have been suggested and will be implemented incrementally on a trial basis. (Note: The full text of the response is included in the body of the audit report.)

2. Permit Monitoring Process

Finding – Neighborhood Services had not established a monitoring process to ensure that required inspections were being performed when permits were issued.

Recommendation – Neighborhood Services should consider developing and implementing a monitoring process that will ensure that permit inspections are performed as required by the Virginia Uniform Statewide Building Code.

Response – We agree. Policies, procedures and a monitoring process for permits over six months old will be developed. (Note: The full text of the response is included in the body of the audit report.)

3. Proffer Entry and Tracking

Finding – The Department's process for initial entry of proffers for collection and the tracking of proffer payments needed to be improved.

Recommendation – Neighborhood Services should develop an automated process to monitor the entry, payment collections, and tracking of related expenses for City proffers.

Response – Agree. Written procedures have been developed for the proffer tracking process currently in place. The manual procedures have been implemented to assure a reasonable effectiveness until the requested automated system can be completed. (Note: The full text of the response is included in the body of the audit report.)

4. Rental Certificate of Approval Controls.

Finding – The Rental Certificate of Approval (RCA) issuance process lacked adequate segregation of duties. Code Compliance Inspectors were directly collecting fee payments themselves from owner/agent for the RCAs at the inspection site. Inspectors issued the owner/agent an unnumbered RCA for the payments they received. Finally, rental inspection fee payments collected by the inspectors were not reconciled to the rental inspection fees general ledger account each month.

Recommendation – Appropriate segregation of duties should be established for the RCA process.

Response – Agree to most findings. All rental inspection fees are only accepted by mail or in person by office staff. No payments of any kind are accepted by inspectors. Training is currently underway to allow the Treasurer's Office to invoice for inspection fees. (Note: The full text of the response is included in the body of the audit report.)

5. Cash Controls.

Finding – Neighborhood Services' cash controls needed to be improved and safeguards over cash needed to be enhanced.

Recommendation – Neighborhood Services should establish and document cash control policies and procedures so that cash is adequately safeguarded. In addition, management should develop an ongoing monitoring process to ensure adherence to cash control policies and procedures.

Response – Agree with findings. A new safe with dual controls has been purchased, secured and installed. Procedures for controls of cash have been created to include procedures for the personnel who will conduct the internal surprise audits. Specific staff members have been issued either a key or a combination to the new safe. One of each will be required to open the safe which should normally be only once a day. All other uses of the safe will be to drop deposits at the close of the day using Bank of America tamper-proof deposit bags. The new procedures are clear and provide for the easy monitoring of compliance.

6. Processed Work, Permit Application, and Payment Controls.

Finding – Neighborhood Services' controls over processed work, permit applications and payments received in the mail or by fax needed to be improved. In addition, Neighborhood Services did not reconcile revenue accounts against the General Ledger.

Recommendation – Neighborhood Services should take steps to improve controls over the transaction process and ensure that revenue accounts are periodically reconciled.

Response – Agreed with most findings. The creation and implementation of the Automated Receipt System (ARS) has eliminated the use of manual receipts which was the main contributor to most issues noted in this area of the audit report. All permit applications received by fax, mail or dropped off at the front counter are logged, assigned to an individual to process and are checked at the end of the day to assure completion. ARS has provided a means to reconcile to the GL in less than 1 hour through reports created by Information Technology. The reports not only shorten the length of time to reconcile but also allows for multiple persons to monitor revenues. (Note: The full text of the response is included in the body of the audit report.)

7. Use of City Travel Log

Finding – Neighborhood Services did not use the "City Travel Log" as required by Administrative Regulation 4.07 and did not adequately control the use of fuel keys. In addition, control practices related to the use of vehicles needed improvement.

Recommendation – Neighborhood Services should begin requiring usage of the City Travel Log; establish controls over chip key use; and request and review the vehicle fuel and mileage reports produced by Fleet Management.

Response – Agree. As a cost saver, Neighborhood Services will continue to use the existing department travel log while supplies last and have requested the ability to transition to a modified City Travel Log subject to the City Manager's approval. The new travel log will incorporate both NS's and PW's data tracking requirements for use by the new Department of Development and Permits. The information regarding fueling information will be added to the travel log form. Inspectors are required to note the odometer readings for each trip. This information is now added and captured on our existing forms. (Note: The full text of the response is included in the body of the audit report.)

8. Use of Signature Stamps

Finding – The Zoning Administrator and Code Compliance Manager utilized signature stamps for document approval. In addition, the stamps were uncontrolled and accessible to unauthorized personnel**.**

Recommendation – Neighborhood Services should discontinue the use of signature stamps.

Response – Agreed with findings. (Completed Implementation) - Signature stamps were available for the purpose of endorsing certificates of occupancy without requiring the physical signature of the Code Official and Zoning Administrator.

A legal opinion of the City Attorney's Office has resulted in a modification to the certificate of occupancy form whereby the signature blocks have been deleted since they are not required. Accordingly, the signature stamps have been destroyed.

E. Inspections

The Neighborhood Services inspection processes that governed buildings, elevators and monitoring of third party inspection agencies needed improvement to effectively and efficiently meet the expectations of customers. For example, there was an inordinate amount of time and labor to manually transfer inspection information from one automated system to another due to the inability of the systems to "talk" with one another. In addition, code inspectors and supervisors did not have a consistent standard for documenting inspections or review of documentation. Additionally, we noted that procedures governing third party agencies inspecting elevators and other people-moving devices did not have adequate review of reports which resulted in repeat discrepancies.

1. Permit Inspection Process

Finding – The effectiveness and efficiency of the permit inspection process needed to be improved to ensure the quality of inspections.

Recommendation – Neighborhood Services should review, analyze and reengineer the inspection process so that it is effective, efficient and ensures that all inspections of commercial and residential projects are properly documented and reviewed.

Response – Agree with most findings. Although the recommendations will lead to better productivity there are limitations to the City's data base system that will not allow full implementation. The Department has determined the phased-in use of laptop computers can greatly enhance the productivity and accuracy of the current paper system. The Department plans to implement the first phase of laptops in FY09-10 and the second phase is projected to be mid year of FY09-10 or early FY10-11. (Note: The full text of the response is included in the body of the audit report.)

2. Elevator Inspection Process

Finding – The effectiveness and efficiency of the elevator inspection process needed to be improved to provide adequate public safety over City and commercial elevators.

Recommendation – Neighborhood Services should review, analyze and reengineer the elevator inspection process so that it effective, efficient and ensures that all commercial

and City elevators and other people/equipment moving devices are identified and inspected in accordance with current State and City Codes.

Response – Agreed with most findings. SOP's are under development for the elevator inspection program. (Note: The full text of the response is included in the body of the audit report.)

F. Fees

It did not appear that Neighborhood Services sufficiently reviewed the basis for fees take action to ensure that published forms were correct and reflected the established fee. We also noted that all fees were not collected.

1. Fee Discrepancies

Finding – The fees from Neighborhood Services' forms, the public website (http://www.chesapeake.va.us/services/depart/neighborhood/index.shtml), and the fee schedule booklet were not the same as City code and ordinances or those allowed by State Code.

Recommendation – Neighborhood Services should establish a system to ensure that published fee information is accurate and represents what is allowed by Code.

Response – Agree with findings. (Completed Implementation) - Staff has pulled the web-site information that displayed inaccurate information. Implementation of the ARS system of receipting has improved the collection and accuracy of fees during the issuance of the permits.

Staff is in the process of reviewing and updating the web and printed forms to verify accuracy and correctness. Anticipate completion within the first quarter of FY09-10. (Note: The full text of the response is included in the body of the audit report.)

2. Re-Inspection Fees

Finding – The process for collecting re-inspection fees, late fees and additional fees when the project scope exceeded the permit was not consistent.

Recommendation – Neighborhood Services should develop a system that ensures consistent collection of the above noted of fees.

Response – Agree. (Completed Implementation) - Inspectors for each division have been provided additional training to pre-review the Inspection Detail Sheet for outstanding Re-inspection Fees or Late Fees prior to performing the inspection.

(Completed Implementation) - The policy and procedure has been updated and placed into effect placing a hold on inspections, within the affected discipline, until payment is made. The policy and procedure as to when a re-inspection fee and late fee is applied

has been updated for consistency. (Note: The full text of the response is included in the body of the audit report.)

G. Grants

Although Neighborhood Services generally monitored and controlled grant funds, we noticed that at least one grant required reprogramming. For example, the City had identified eight program activities where there were relatively small discrepancies between amounts listed on the Integrated Disbursement and Information System (IDIS) and the City's general ledger.

1. Reprogramming of Grant Funds

Finding – Neighborhood Services had not yet reprogrammed several significant balances from the Community Development Block Grant (CDBG) program.

Recommendation – The City should take steps to reprogram available CDBG funding as soon as is feasibly possible.

Response – Agree. (Completed Implementation) - The department has reprogrammed available CDBG funding for the program years identified. (Note: The full text of the response is included in the body of the audit report.)

Managerial Summary

A. Objectives, Scope, and Methodology

We have completed our review of the City of Chesapeake's Public Utilities Department (Public Utilities) for July 1, 2008 to March 31, 2009. Our review was conducted for the purpose of determining whether Public Utilities was providing services in an economical, efficient, and effective manner, whether its goals and objectives were being achieved, and whether it was complying with applicable City and Department procedures in areas of operations, billings, cash, revenues, fees, and information technology. This Public Utilities audit focused significantly on contractual services, billing, and customer service related controls and issues.

We conducted this performance audit in accordance with generally accepted government auditing standards. 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.

Public Utilities provided essential services within the 353 square miles of the City of Chesapeake (City). It provided the citizens and the businesses of Chesapeake a reliable and sufficient supply of safe drinking water as well as a reliable wastewater collection system. Public Utilities was an enterprise fund and operated in a responsive, efficient and cost effective manner. The Department maintained thousands of miles of pipeline to deliver potable water and receive wastewater. Public Utilities treated its own raw water and serviced the majority of Chesapeake with City water. Bulk purchases of water were made from the Cities of Norfolk and Portsmouth for resale in portions of northern and western Chesapeake, while several private firms supplied water to a small percentage of City residents.

The City did not treat its own wastewater; rather, the sewer lines delivered the wastewater from City feed lines to larger mains owned and operated by the Hampton Roads Sanitation District (HRSD), which treated the wastewater. In order to facilitate cost savings and be more customer friendly, the City and Public Utilities entered into an agreement with HRSD to provide customer invoicing. Under this contract, HRSD included Public Utilities' water charges and wastewater collection on the same invoice with the customers' HRSD wastewater treatment charges and collected both payments. The agreement was intended to provide Public Utilities with cost savings as a result of not having to maintain a duplicate invoicing system and allowed customers to receive only one invoice instead of two.

For Fiscal Year (FY) 2008-2009, Public Utilities had an operating budget of over $38 million excluding debt service, and an authorized compliment of approximately 209 full-time personnel and 6 part-time personnel, with the majority located in either Maintenance and Operations or Water Productions. Debt service added almost $13 million to the budget. As an enterprise fund, Public Utilities generated its own revenue. Public Utilities occupied offices on the second floor of the City Hall Municipal Building and at the Butts Station Operations Center. In addition, Public Utilities operated two water treatment plants and numerous pump stations.

To conduct this audit, we reviewed and evaluated City and Public Utilities Department policies, procedures, and operations, contract documents and reports. Also, we reviewed HRSD meeting records, data related to staffing levels and turnover, and conducted surveys of other local Public Utilities Departments. We conducted site visits of both water treatment plants and "ride-a-longs" with both Field Forces and Maintenance and Operations. We discussed these audit areas and conducted interviews with the Financial and Customer Service Administrator, Customer Service Manager, Customer Service Supervisor, Water Resources Administrator, Fiscal Administrator, and various other Public Utilities personnel.

Major Observations and Conclusions

Based on our review, we determined that Public Utilities had accomplished its overall mission of providing the citizens of Chesapeake a reliable and sufficient supply of safe drinking water and a reliable wastewater collection system through responsive, efficient and cost effective operation. However, we did identify several significant issues that needed to be addressed. These issues included insufficient system controls during the implementation of the agreement between the City and HRSD, Public Utilities water usage adjustments that were not recognized by HRSD and resulted in delays of up to eight months in recognizing customer account adjustments, an HRSD invoice format that was difficult to understand, lack of a contingency plan if HRSD did not satisfy all of the provisions of its contract, changes to customer account records without prior management review, and other system billing control and cash handling issues.

This report, in draft, was provided to Public Utilities officials for review and response, and their comments have been considered in the preparation of this report. These comments have been included in the Managerial Summary, the Audit Report, and Appendix A. Public Utilities management, supervisors, and staffs were very helpful throughout the course of this audit. We appreciated their courtesy and cooperation on this assignment.

B. Performance Information

Public Utilities impacted the lives of most of Chesapeake's residents through its provision of water services. The Department's goal was to provide a reliable and sufficient supply of safe drinking water and a reliable wastewater collection system. Public Utilities did this in almost a completely transparent manner. Every time a resident turned on a faucet or flushed a toilet, Public Utilities was involved. This involvement could have been anything from maintaining sufficient water pressure in the system to ensuring wastewater pump stations were operating, to detecting and solving bacterial irregularities in the drinking water. If the need to fight a fire occurred, Public Utilities was able to monitor the system to ensure that sufficient water pressure was available at the scene.

Public Utilities was divided into five functional divisions and eight service areas: Administration; Water Production (Lake Gaston and Northwest River); Engineering; Maintenance and Operations (which was subdivided into M&O – Sewer and M&O - Water); and Billing and Customer Service, which handled the meter reading service. Each division carried out an essential function independent from the others.

Despite an oftentimes adverse public opinion, Public Utilities met or exceeded all quality standards for a municipal water system. Public Utilities used state-of-the-art methods to purify the drinking water and maintained a laboratory designated solely for the continuous monitoring of the water quality. Public Utilities also completed a software implementation in its Maintenance and Operations (M&O) division that had the potential to significantly improve how that division did business.

C. Contractual and Vendor Issues

We identified a number of critical issues related to the contract between HRSD and the City that needed to be addressed. First, the Customer Payment Agreement between HRSD and the City did not adequately control invoicing and cash handling processes. Second, HRSD did not always recognize water usage adjustments made by Public Utilities, and customers sometimes had to wait as long as eight months to receive HRSD account credits due them. Third, Public Utilities' Customer Service Representatives experienced difficulty explaining the HRSD invoice adjustments to customers. Fourth, HRSD was not contractually obligated to give Public Utilities customer billing histories at the end of the contract term.

1. Contract System Implementation and Control Difficulties

Finding - The implementation of the <u>Customer Payment Agreement</u> (Agreement) between HRSD and the City did not adequately control billing and cash handling collections processes. In addition, HRSD did not adequately test its new billing software, creating billing discrepancies for over 5,500 Chesapeake customers.

Recommendation – The City should take steps to ensure that HRSD satisfies its internal control obligations as stated in the Agreement. The City should also take steps to make sure that future billing discrepancies are minimized.

Response – During the May 14, 2009 conference call with HRSD, we asked about the current status of the HRSD internal control procedures and documentation. The HRSD Director of Information Services stated the internal control documentation has not been updated to reflect the implementation of the CC&B system. He indicated that they have focused on correcting billing concerns with the multiple jurisdictions and could not commit to a schedule to complete the documentation for a review. (Note: The full text of the Public Utilities response is included in the body of the audit report)

2. Delays in Processing Customer Credits

Finding - HRSD did not always recognize adjustments made by Public Utilities for reduced water consumption. As a result, customers sometimes had to wait as long as eight months to receive HRSD account credits due them.

Recommendation – Public Utilities should take steps to ensure that its adjustments for reduced water consumption are reflected in HRSD's sewer charge adjustments in a timely fashion.

Response - A process has been initiated to sample the timeliness of HRSD's adjustment processing to their customers. Two weeks after the adjustment to our charges has been made, accounts will be randomly selected to see if HRSD has processed their side of the adjustment.

While this process will let us know if HRSD is adjusting the accounts in a timely fashion, it may not affect how HRSD processes their respective adjustments. HRSD has internal policies and procedures for processing their own adjustments.

3. Invoice Format Confusion and Adjustment Discrepancies

Finding - Public Utilities' Customer Service Representatives found it difficult to explain the invoices because of the HRSD invoice format and inconsistency between methods used by HRSD and Public Utilities to apply adjustments. HRSD also back-dated adjustments in the customer history, creating discrepancies in customer balances.

Recommendation – Public Utilities should clearly define its invoice format expectations and to continue to explore new billing system alternatives that would work with the Customer Information System to provide Public Utilities with accurate data to address customer questions regarding their invoice adjustments.

Response – We have constantly informed HRSD about the confusing bill format. We have been successful in convincing HRSD to make minor clarifications; but those are still far from resolving the issue. (Note: The full text of the Public Utilities response is included in the body of the audit report)

4. Provision of Customer Histories

Finding - HRSD was not contractually obligated to provide Chesapeake with customers' service billing history and notes at the end of the contract term.

Recommendation – If Public Utilities continues to outsource the customer and billing activity, it should ensure that the new Agreement include a requirement for customer billing history and notes to be transferred to the department.

Response – When the City executed the contract with HRSD, only the mailing of the bills was transferred out of our hands. The only two observable changes were the originator of the mailed bills and that there was now one combined bill.

We have always maintained our original Customer Information System. So, no Chesapeake information would be expected to be lost should we disengage from HRSD. (Note: The full text of the Public Utilities response is included in the body of the audit report)

D. Operational Information Technology Issues

While HRSD was contracted to handle customer invoicing, Public Utilities was still heavily dependent on Information Technology for its legacy systems that were still used to service customer accounts. Areas where improvements were needed included the lack of a contingency plan in the advent of a problem with HRSD's invoicing, programming changes which allowed automated processing updates to and from HRSD files, and a situation which created the appearance of a conflict of interest.

1. Contingency Plan

Finding - At the inception of the Agreement, the Information Technology Department disabled the Public Utilities Department's ability to print Chesapeake invoices, leaving Public Utilities without a contingency plan or recourse if HRSD did not satisfy all of the provisions of the Agreement.

Recommendation – Public Utilities should continue to work with Information Technology either to (1) make necessary upgrades to the existing system (to include creating printing capacity), or (2) evaluate the acquisition of a new system to provide a contingency plan in the advent of unanticipated issues with the existing billing and payment arrangements.

Response - Our current Customer Information System was identified in an early IT Master Plan as obsolete and at risk of failure. It is written in an obsolete language (COBOL) similar to the Human Resources program currently being phased out. The last such programmer has retired from the City.

AAC Utility Partners were brought on board as our consultants in January 2009. Our goal is to objectively evaluate all possible CIS alternatives and identify the best solution(s) for our business environment. (Note: The full text of the Public Utilities response is included in the body of the audit report)

2. Programming Changes and Potential Conflict of Interest

Finding - Information Technology programming changes allowed HRSD files to automatically upload adjustment and payment changes into internal customer account records without prior Public Utilities management review, validation, or authorization. In addition, HRSD hired a former City programmer who continued to have access to production changes on the City's Public Utilities Billing System. This situation created the appearance of a conflict of interest.

Recommendation – Public Utilities should continue to address technology in their overall strategic plans. Within those plans, Public Utilities should take steps to ensure that adjustments and payment changes from HRSD to customer accounts receive appropriate management review, validation, and authorization prior to uploading data to City records. In addition, any programming changes should be well documented, reviewed, and authorized by both Public Utilities and Information Technology management, and management should review the accuracy and completeness of data transmitted. These actions should help mitigate the risks associated with the potential conflict of interest.

Response – Technology is a key part of the Department's strategic plan and has continuously been addressed. This can be evidenced by many examples throughout the Department. Our water treatment plants use advanced treatment technology to function. Three operators monitor the processes at each plant. Our water distribution system and sanitary sewer system are both monitored with telemetry.

Our field forces are converting to the Maximo software system and laptop computers. These will allow more efficient work flow and information transfer. The MISS Utility group uses laptops and air cards to receive marking notices via WiFi. This eliminates trips in to the office to retrieve e-mails. They also utilize the date from GIS in their work. (Note: The full text of the Public Utilities response is included in the body of the audit report)

E. Public Utilities' Billing System

While Public Utilities provided HRSD with electronic billing data, the Department continued to use other facets of Chesapeake's original billing system to calculate the bills and maintain customer history. It was also used to capture meter and tap data, and manually calculated billing adjustments and adjustment history for HRSD. In reviewing the system, we identified issues related to bill monitoring, records retention, and system access.

1. Bill Monitoring Processes

Finding - The bill-monitoring processes that Public Utilities used after the inception of the Agreement needed improvement.

Recommendation – Public Utilities should take steps to enhance its bill monitoring processes. Also, Public Utilities should consider expanding its customer history.

Response – Public Utilities considers its bill monitoring system as very effective. We suspected the HRSD problem months before it was divulged.

Our customer screens go back six billing periods; further info is available but not on-line. This is probably a result of the age of our software and will probably desist once a new Customer Information System is acquired. The process of evaluating the entire system is underway (see #D1 above). (Note: The full text of the Public Utilities response is included in the body of the audit report)

2. Records Retention Procedures

Finding - Hundreds of pages of billing reports were printed by Information Technology and distributed to Public Utilities weekly. However, very few of these pages were ever needed in hard copy format. Additionally, hundreds of manually hand written application forms and adjustment forms were also maintained, cluttering office areas.

Recommendation - Public Utilities should continue its efforts to implement the City's Record Retention Plan by periodically reviewing Public Utilities report processing, retention, and usage requirements. Also, the City's Records Management Plan should be used to assist in developing alternative storage methods for older reports.

Response – Recent lawsuits had resulted in the Department of Public Utilities being advised by Legal Counsel to neither destroy existing records or reports, nor to revise how they were scheduled. Since the conclusion, we have been advised that those requirements are no longer in effect. The Department is resuming the maintenance of records as defined in the City's Record Retention Plan.

3. Former Employee System Access

Finding - Four individuals continued to have access to the Public Utilities Billing System even though they were no longer employed by the City.

Recommendation – Public Utilities should consider establishing procedures that would require periodic review of system access to ensure the list of individuals who have access is up-to-date.

Response - A system has been implemented to terminate system access as soon as they leave the Department. As a check and balance, the list of authorized system users will be checked quarterly.

F. Other Operational Issues

We noted that Public Utilities connection and disconnection fees were generally lower than amounts charged by other localities. We also identified operational issues related to meter equipment and warranties, meter re-reads and back checks, cash handling processes, and controls over items in the departmental safe.

1. Connection Fee Charges

Finding - Public Utility water connection and disconnection fees appeared to be lower than amounts charged in other localities.

Recommendation – Public Utilities should conduct a cost analysis to determine if fees associated with connecting or disconnecting water services should be increased.

Response - Public Utilities rates and fees are established to allow the department to be self-sufficient. The Public Utilities Department has a Rate Study/Financial Plan done approximately every five years. Additionally, the City had a cost of services study done several years ago. As the chart reflects, each municipality apparently has a unique method for calculating the fees. This recommendation will be kept in mind for the next review/study.

2. Meter Replacement

Finding - According to a water service representative, antiquated and out-of-warranty meters were not being replaced in a timely manner.

Recommendation – When funds become available, Public Utilities should take steps to ensure that meters are replaced in a timely fashion.

Response - One of the tasks of our current CIS consultant is to also recommend a schedule/plan to possibly implement a system of automated meter reading. This will identify likely candidate meter vendors as well as systems. The intention of slowing down the meter replacement program was to avoid locking the Department to a meter contract that may not be compatible with the eventual CIS and AMR systems selected. All meters will eventually be replaced via the AMR program. (Note: The full text of the Public Utilities response is included in the body of the audit report)

3. Meter Reading Verification Processes

Finding – Customer service staff was behind on tab re-reads of meters and back checks to confirm the readings.

Recommendation – Public Utilities should explore options that will allow the customer service staff to maintain their re-read and back check schedules.

Response – This function is subject to the influence of weather conditions and personnel. Overtime is one tool at our disposal to catch up with the schedule. Due to vacancies, we are also employing temporary employees. In addition, two critical vacancies have recently been filled - the Crew Supervisor and the Crew Leader (Meter Reader Supervisor). Currently our experience is that the number of corrected bills due to misreads vs. total number of bills issued total 0.52% per year. (Note: The full text of the Public Utilities response is included in the body of the audit report)

4. Timeliness of Deposits

Finding - While the tellers' cash drawers were balanced at the end of their business day, the funds collected were at times held in the office instead of being submitted to the Treasurer's Office in the afternoon.

Recommendation – Public Utilities should adhere to the City's standard operating procedures that require all funds collected by tellers be deposited with the City Treasurer within the same business day, but no later than the next business day.

Response – Deposits to the City Treasurer's Office are now made daily.

5. Controls Over Department Safe

Finding - Public Utilities did not have adequate control processes to protect the contents of its safe.

Recommendation - Public Utilities should develop adequate controls for the use of the safe.

Response – Proper safe procedures have been developed, stringent controls for access implemented, and a review of the contents is under way. An over/short account has been established. (Note: The full text of the Public Utilities response is included in the body of the audit report)

B. SUMMARY

TECHNICAL ASSISTANCE

Finance Department Interview Panel – August 2008

We assisted the Finance Department with their selection process for an Accounting Technician position.

Wexford Medical Contract – August 2008

We provided technical assistance to the Purchasing Department and the Sheriff's Office in reviewing the Jail's medical contract.

Human Services Department Interview Panel – September 2008

We assisted the Human Services Department with their selection process for a Community Correction Agency Director position.

Maximo – January 2009

We assisted Public Utilities during their implementation of the new Maximo software system. Maximo was an asset management software program that allowed the department to better monitor ongoing projects.

Budget Department Interview Panel – February 2009

We assisted the Budget Department with their selection process for a Budget Analyst position.

Sheriff's Office Account Implementation – March 2009

We assisted the Sheriff's Office in their efforts to revise their accounting and collection procedures for work release payments.

Finance Department Interview Panel – May 2009

We assisted the Finance Department with their selection process for a Benefits Technician position.

Fire Department Payroll – June 2009

We assisted the Fire Department and the Human Resources Department in verifying the pay adjustment for an employee who had previously been misclassified.

C. SUMMARY

OTHER PROJECTS

<u>Training – FY 2008</u>

We attended the following Professional Training Sessions during FY 2009:

- AGA - Data Integrity: The New World Order
- ACFE - Fall Training Workshop
- VSCPA - Accounting & Auditing Day
- AGA - Earned Value Mgmt
- VLGAA - 2008 Fall Meeting
- VSCPA - Business Development & Information Technology Day
- VSCPA - Tax Day
- AGA - "Around the World" (Internal Accounting)
- IIA - 2008 Tax Update
- VSCPA - Economic Forecast
- IIA - CAE Audit Risk Roundtable
- IIA - Introduction to IT Audit
- IIA - Fraud Examiners Conference
- ALGA - CPE Quizzer
- CBH - Accounting & Auditing Update
- VLGAA - 2009 Spring Meeting
- ALGA - 2009 Annual Conference
- VSCPA - Not-for-Profit Conference
- IIA - 2008 IIA Mid-Atlantic District Conference

We attended the following City Training Sessions during FY 2009:

- The Road to Abilene
- Identity Theft
- Deep Sea FISHin - PLAY
- Multi-tasking Management for Support Staff
- Basic & Intermediate Records Management
- Accounting 101

<u>Professional Organizations</u>

One auditor is active in the Association of Local Government Auditors (ALGA) and serves on the National Board of Directors. Another auditor is the President of the local chapter of the Association of Certified Fraud Examiners, President of the Virginia Local Government Auditors Association, and serves on the Board of the local chapter of the Institute of Internal Auditors.

<u>Honors and Awards</u>

The Audit Services Department won an ALGA Knighton Award, receiving an Honorable Mention Award for the 2008 Fire Department Audit. The Knighton Awards program recognizes audits judged to be among the best in the country. This is the first time any audit shop in the Commonwealth of Virginia has won a Knighton Award.

A member of our staff received the City Manager Award for providing technical assistance to the Neighborhood Services Department in their implementation of an Automated Receipt System.

D. SUMMARY

PROJECTS IN PROGRESS

Libraries & Research Services Department

The Libraries & Research Services Department audit was in progress at year end. The audit is looking at cash handling, fine collection, information technology and building security issues, and other items.

Public Procurement Department

The Public Procurement Department audit was in progress at year end. The audit is looking at purchasing procedures and contracting practices. The audit is also reviewing several specific contracts including the City's new recycling contract.

External Audit Contract Oversight

We are continuing to provide administrative oversight for the external audit contract with Cherry, Bekaert, & Holland, including making contract payments. This arrangement enhances the independence of the external audit contract.

Fleet Utilization

One of our auditors continues to serve on the City's Fleet Utilization Committee. This committee is seeking ways to improve usage and reduce costs of the City's fleet.

Parks & Recreation Parking

We are providing technical assistance to Parks and Recreation as they implement a new program where they charged a parking fee for attendance at certain Department-sponsored events. The first such event was the City's Fourth of July concert and fireworks celebration.

Payroll System

We are working with members of the City's Information Technology, Finance, and Human Resources Departments to improve controls over a number of payroll processes in the City. We have provided technical assistance on the bi-weekly payroll transition and plan to provide additional assistance during the implementation of the new Human Resources Information System.

Purchasing Cards

We continue to provide assistance to the City has it implements the new Purchasing Card Program. The first permanent cards should be issued by Fall 2009.

Southeastern Public Service Authority (SPSA)

We continue to provide technical assistance related to SPSA financial issues as requested by the City Attorney and City Manager.

E. FRAUD HOTLINE

FRAUD, WASTE, AND ABUSE HOTLINE REPORT

During Fiscal Year 2009, we received 4 complaints through the City's Fraud, Waste, and Abuse Hotline (Hotline). The Hotline was created by the City in Fiscal Year 2006 utilizing the City's Customer Contact Center and its 382-CITY telephone number. In July of 2006, a State Law took effect that required the City Auditor to authenticate (i.e., evaluate the validity of) all complaints received on the Hotline and provide an annual report on the status of complaints received to the City Council. These complaints were as follows:

Complaint #1 – We received a citizen complaint that a City employee was using a City vehicle for personal use. We forwarded the complaint to Public Works. The Department gave the employee a verbal reprimand.

Complaint #2 – We received a citizen complaint regarding a Virginian-Pilot article discussing the expenditure of $50,000 for the review of the Police Department promotion process. The citizen's complaint was satisfactorily addressed by the Human Resources Department.

Complaint #3 – We received a complaint from a vendor regarding the City's non-compliance with the terms of a contract. Initially, the Purchasing and Contracts Manager made a temporary contract adjustment to correct the problem. In March 2009, the contract was rebid based upon the joint desire of both vendors involved for greater contract clarity, and one of the vendors was successful in winning the contract.

Complaint #4 – We received a citizen complaint about food stamp fraud. The complaint was researched using Human Services Fraud Investigation staff. The review determined that the allegation was unfounded and the complaint was not authenticated.

F. SUMMARY

TIME (HOURS) EXPENDED DURING YEAR

A. COMPLETED PROJECTS - AUDITS & ANALYTICAL REVIEWS

Fire Department - Administrative	29.00
Follow-up Review (FY06) - Administrative	16.00
Follow-up Review (FY06) - Planning	10.50
Follow-up Review (FY06) - Testwork	24.00
Follow-up Review (FY06) - Reporting	1.00
Neighborhood Services - Administrative	152.50
Neighborhood Services - Planning	468.00
Neighborhood Services - Testwork	509.75
Neighborhood Services - Reporting	962.50
Public Utilities - Administrative	290.00
Public Utilities - Planning	1,342.75
Public Utilities - Testwork	165.25
Public Utilities - Reporting	234.00
Sheriff's Office - Administrative	284.75
Sheriff's Office - Planning	16.00
Sheriff's Office - Reporting	315.25
Special Police Audit	24.50

B. COMPLETED PROJECTS - TECHNICAL ASSISTANCE

Fire Department Payroll	14.00
Information Technology Report	4.50
Interview Panel - Budget Department	5.00
Interview Panel - Finance Department	26.00
Interview Panel - Human Services	8.00
Maximo	26.00
Proffer Meeting	1.00
Sheriff's Office Account Implementation	38.50
Wexford Medical Contract	5.50
Total Hours - Completed Projects	4,974.25

C. PROJECTS IN PROGRESS - AUDITS & ANALYTICAL REVIEWS

Libraries - Administrative	1.00
Libraries - Planning	658.75
Libraries - Testwork	83.25
Public Procurement - Testwork	252.25

D. PROJECTS IN PROGRESS - TECHNICAL ASSISTANCE

Cherry, Bekaert, & Holland Contract Oversight	85.75
Fleet Utilization	30.00
Fraud Hotline	20.50
Parks & Recreation Parking	9.00
Payroll System	427.00
Purchasing Card	38.00
SPSA	54.00
Total Hours - Projects in Progress	1,659.50

E. OTHER

Administrative	3,115.00
Annual Status Report	18.00
Audit Procedures Work	44.50
Holiday	760.00
Leave - Annual	691.00
Leave - Funeral	16.00
Leave - Sick	319.25
Meetings	98.25
Miscellaneous	66.50
Professional Organizations	441.75
Records Management	26.00
Semi-Annual Status Report	15.75
Training	397.50
Total Hours - Other	6,009.50
Total Hours	12,643.25