Chesapeake VIRGINIA

AUDIT SERVICES DEPARTMENT

ANNUAL STATUS REPORT

JULY 1, 2010 THROUGH JULY 30, 2011

DATE OF PREPARATION: AUGUST 31, 2011

Audit Services Department
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August 31, 2011

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 Annual Status Report for the period July 1, 2010 to June 30, 2011. The following is a summary of some of the report's highlights.

A. Completed Projects

1. Audits and Analytical Reviews

We completed performance and special audits of Central Fleet Management, the American Recovery and Reinvestment Act, the Economic Development Department, and follow-up reviews of fiscal year 2008, fiscal year 2009, 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 would improve operations, reduce costs, or otherwise enhance the department's operations.

- The Central Fleet Management audit was conducted for the purpose of evaluating whether 1) Central Fleet's processes were effective and efficient, and 2) goods and services were procured in accordance with applicable City and State guidelines. The report contained eight recommendations and the department agreed to implement seven of them.

- The American Recovery and Reinvestment Act (ARRA) audit was conducted to 1) evaluate the City's operational expenditure practices related to ARRA and 2) to the extent that ARRA programs were underway or had been completed, evaluate program compliance and results. The report contained one recommendation and the department agreed to implement it.

Mayor Krasnoff

- The Economic Development Department audit evaluated City and Economic Development policies, procedures, and operations. 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 related to their tax increment financing (TIF) district oversight, management oversight, and conference center operations. This report contained 12 recommendations, all 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 organization on 13 projects. Of these, the most significant was assistance we provided on an internal administrative investigation in the Police Department which ultimately resulted in a successful prosecution.

3. Projects in Progress

At year-end, we were working on a performance audit of the Public Works Department and still providing ongoing technical assistance projects related to the city's new Human Resources Information System implementation.

4. Peer Review

In June, Audit Services underwent its fifth peer review. All five reviews have resulted in "full compliance" opinions.

Sincerely,

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, 2010 TO JUNE 30, 2011

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A. SUMMARY

AUDITS & ANALYTICAL REVIEWS

November 30, 2010

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) Mosquito Control Commission, Community Services Board, Citywide Credit Cards, Emergency Communications, Public Utilities, Neighborhood Services, and the Sheriff's Office for Fiscal Years 2005, 2006, 2007, 2008 and 2009. These prior year audits were selected to evaluate the status of recommendations that had not been fully implemented. The reviews were conducted in September, October and November 2010. The status of 53 open recommendations from these reports was as follows:

33	had been implemented
14	were in the process of being implemented
	was planned but not yet implemented
	was partially implemented
1	had not been implemented
5	will not be implemented
	is no longer applicable

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

Sincerely,

(Signed)

Jay Poole
City Auditor
City of Chesapeake, Virginia

C: William E. Harrell, City Manager

FOLLOW-UP REVIEW

MOSQUITO CONTROL COMMISSION

PERFORMANCE AUDIT

REPORT ISSUE DATE: MARCH 2005

FOLLOW-UP REVIEW DATE: NOVEMBER 2010

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Mosquito Control Commission

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.

2009 Status - This recommendation is still in the process of being implemented. Mosquito Control plans to utilize part-time employees for use in their ULV spraying operations, similar to what is done in the City of Virginia Beach. They are awaiting word from their insurance company as to whether their insurance will cover part time workers whose primary responsibility is spraying chemicals.

2010 Status – This recommendation has been implemented. To reduce staffing costs, Mosquito Control will restrict overtime to exempt supervisory personnel, thereby reducing overtime expenses. Mosquito Control also plans to implement the following;

- Provide a pool of employees that were cross-trained for all the ULV routes in all four districts, instead of using the same small group of employees per district.
- Maintain a call back list from the pool of employees when ULV operations are needed, and start with Field Technicians before hiring back higher paid staff
- Assign overtime scheduling to the operations Director, to ensure that the more controlled overtime procedures are followed.

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.

2009 Status - This recommendation is still in the process of being implemented. The vendor was continuing to experience difficulties and delays in providing a usable product. The Director has continued to work with the vendor and believed that most of the implementation issues had finally been resolved. The vendor was beginning to test the functionality of the software with some of the Mosquito Control staff.

2010 Status - This recommendation has been implemented. Mosquito Control purchased a functioning data management product (VCMS) in 2009. As of January 2010, 42 employees had been trained and were successfully utilizing the product in the field and/or office. Benchmark Indicators were implemented and in effect, and the Mosquito Control Commission was receiving Benchmark Indicator reports on a monthly basis.

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.

2009 Status - This recommendation is still in the process of being implemented. Mosquito Control plans to incorporate tracking of these requirements into the software that they are in the process of acquiring.

2010 Status - This recommendation has been implemented. Mosquito Control purchased a functioning data management product (VCMS) in 2009. As of January 2010, 42 employees had been trained and were successfully utilizing the product in the field and/or office. Benchmark Indicators were implemented and in effect, and the Mosquito Control Commission was receiving Benchmark Indicator reports on a monthly basis.

FOLLOW-UP REVIEW

COMMUNITY SERVICES BOARD

PERFORMANCE AUDIT

REPORT ISSUE DATE: SEPTEMBER 2005

FOLLOW-UP REVIEW DATE: NOVEMBER 2010

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Community Services Board

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.

2009 Status – This recommendation is still in the process of being implemented. CCSB participated in the City Information Technology Security/Vulnerability and penetration test in August 2008. No HIPAA-related risks were identified. Also, the CCSB Network Specialist has completed 75% of the "CCSB Risk Analysis and Control Plan". The projected completion date is estimated to be October 1, 2009. Testing, verification, and any necessary modification of control procedures will occur throughout FY 2010.

2010 Status – This recommendation has been implemented. CCSB has completed a "Risk Analysis Assessment and Control Plan" to ensure the safeguard of client's electronic protected health information. The Risk Analysis Assessment and Control Plan was effective October 1, 2009.

2. 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).

2009 Status – This recommendation is in the process of being implemented. CCSB has a "CCSB System Disaster Recovery Plan" which was put in place in 2003 but has not been fully tested. CCSB will be using the aforementioned "Risk Analysis Assessment and Control Plan" to fulfill their disaster recovery/business continuity needs. Also, CCSB is providing input to the City's disaster recovery plan, including information related to off-site backup and disaster recovery-related documents.

2010 Status – This recommendation has been implemented. CCSB has completed a "Risk Analysis Assessment and Control Plan" to determine their disaster recovery/business continuity needs. The Risk Analysis Assessment and Control Plan was effective October 1, 2009.

FOLLOW-UP REVIEW

CITYWIDE CREDIT CARDS 2005

SPECIAL AUDIT

REPORT ISSUE DATE: AUGUST 2006

FOLLOW-UP REVIEW DATE: NOVEMBER 2010

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Citywide Credit Cards

B. Administrative and Operational Issues

1. Number of Credit Card Programs

Finding - The City had three different credit card programs, and this led to confusion over rules governing the individual programs. Also, no one in the City was keeping track of all of the cards issued.

Recommendation – The City should consolidate its three card programs into one program with one set of requirements that governed all credit card purchases, and should also create a comprehensive list of all card users.

Response - The City will implement a comprehensive single purchase card program in the near future governing card usage including the draft Administrative Regulation for Chesapeake Purchase Card (P-Card) Procedures Manual. The existing Administrative Regulation 1.17 will be rescinded, as will the existing fuel credit cards. A comprehensive list of card holders will be maintained at the Purchasing Division of General Services.

2009 Status – This recommendation is in the process of being implemented. The City has completed a pilot program that consolidates credit card usage into a single P-Card program and will begin implementing the program throughout the City in October 2009.

2010 Status – This recommendation is in the process of being implemented. The City is gradually transitioning the existing Travel Card and Business Card programs into the P-Card program. The City Manager's office has directed the Purchasing Department to work with Central Fleet to develop a process to eliminate fuel cards and issue P-cards for fuel only to employees who require refueling outside the limits of city-fueling facilities.

3. Credit Card Limits and Cash Advances

Finding – At least 25 employees were given Purchasing Cards with credit limits of least $10,000, with seven additional employees receiving Purchasing Cards in the range of $25,000 to $100,000. Also some employees were authorized to receive cash advances against their Business Cards.

Recommendation – Limits should be lowered on credit cards with unnecessarily high balances. Also, future credit cards should eliminate the option of obtaining cash advances.

Response – Since March 6, 2006 all P-cards have been suspended except travel cards. The draft Administrative Regulation for Chesapeake Purchase Card (P-Card) Procedures Manual stipulates the maximum expenditure limit of $4,999.99 including $2,500 for travel unless specifically authorized in writing by the City Manager. The draft Administrative Regulation specifically prohibits cash advances via P-cards.

2009 Status – This recommendation is in the process of being implemented. The City has initially limited P-Cards to limits of $1,000 and $4,999 respectively. While there may be some future adjustments to the limit amounts based upon need, any such adjustments would have to be approved by the City Manager's Office.

2010 Status – This recommendation has been implemented. On September 5, 2008 the City issued Administrative Regulation 1.23 entitled Chesapeake Purchase Card (P-Card) Policy. The policy governs the use of the P-Cards and states that P-Card limits shall be less than $5,000 per billing cycle and shall not exceed $1,000 per transaction, unless a higher limit is authorized by the City Manager. This Administrative Regulation also specifically prohibits cash advances via P-Cards.

FOLLOW-UP REVIEW
CHESAPEAKE SHERIFF'S OFFICE
PERFORMANCE AUDIT

REPORT ISSUE DATE: OCTOBER 2008
FOLLOW-UP REVIEW DATE: NOVEMBER 2010

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Sheriff's Office

C1. 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.

2010 Status – This recommendation is in the process of being implemented. The hot water system leak, medical unit ceiling repair, and peeling paint have been addressed. As for the replacement of the five Variable Air Volume (VAV) boxes, the Sheriff's Office will continue discussions with the City's Facilities Manager to include this project within the Energy Efficiency and Conservation Block Grant Program funding the City received in 2009 under the American Recovery & Reinvestment Act (ARRA).

C2. 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.

2010 Status – This recommendation has been implemented. The Sheriff's Department has developed and implemented maintenance procedures, and utilizes a Maintenance Support Work Order form to facilitate the tracking of maintenance requests and response times. A full time staff member has been given the responsibility of overseeing the tracking of work orders to ensure timely completion of all maintenance requests.

C3. 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 Manager's Office in reference to our expansion is forthcoming. The required timeline is to be determined by the City Manager's Office.

2010 Status – This recommendation has not been implemented. The state has denied additional funding for jail deputy positions due to current state budgetary limitations. The Sheriff's Department will continue to work with the City Manager's Office to address the staffing shortages and develop solutions that address staffing concerns.

C4. 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.

2010 Status – This recommendation has been implemented. The Standard Operating Procedure, effective June 5, 2009, includes the requirement for the work center staff on duty to enter all payments from Home Electronic Monitoring participants into the Treasurer's Office Mainframe System. Before the end of each business day, all money orders, mainframe receipts, and a mainframe balance sheet shall be reconciled and forwarded to the Treasurer's Office.

C5. 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.

2010 Status – This recommendation has been substantially implemented. Although the Purchasing Department was unsuccessful in negotiating a cap on the 4th and 5th years of the medical/pharmaceutical services contract with Conmed, Inc; they were successful in negotiating a 4% cap for years one through three. A price increase of 2% was authorized September 8, 2009, via Contract Modification No. 1; and an increase of 2.5% was authorized April 15, 2010, via Contract Modification No. 2. Both increases remain within the 4% cap limit.

C6. 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.
2010 Status – This recommendation has been implemented. This program is now administered by the Department of Human Services, and is no longer the responsibility of the Sheriff's Department.

D1. 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.

2010 Status – This recommendation will not be implemented. The Work Release Program was officially discontinued April 1, 2009, due to lack of funding availability.

D2. 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.

2010 Status – This recommendation will not be implemented. The Work Release program was officially discontinued April 1, 2009, due to lack of funding availability.

D3. 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.

2010 Status – This recommendation will not be implemented. The Work Release Program was officially discontinued April 1, 2009, due to lack of funding availability.

D4. 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.

2010 Status – This recommendation will not be implemented. The Work Release Program was officially discontinued April 1, 2009, due to lack of funding availability.

D5. 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.

2010 Status – This recommendation will not be implemented. The Work Release Program was officially discontinued April 1, 2009, due to lack of funding availability.

E1. 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.

2010 Status – This recommendation has been implemented. The Sheriff's Department has contracted with Keefe Commissary Network to provide Inmate Commissary Services. Keefe has provided the Sheriff's Department with an explanation of its billing practices and methodology in calculating commissions.

The Sheriff's Department has also approved Standard Operating Procedures for Commissary Accounting effective October 7, 2008, detailing accounting procedures for the inmate commissary funds. Audits of inmate accounts will be conducted periodically by the Sheriff's Compliance and Accreditation Office, in accordance with APA guidelines, with reports forwarded to the Chief of Corrections.

E2. 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.

2010 Status – This recommendation has been implemented. Pursuant to Contract Modification Agreement No. 1 issued on October 8, 2008, to the Inmate Commissary Service Contract, Section 2, Statement of Work, Commissary Operations, sub-paragraph (d) indicates "All inmate files (current and released) are the property of the City of Chesapeake, and shall be maintained on an on-going basis by the contractor for the duration of the contract. Upon termination of this contract, the contractor must provide the City of Chesapeake Sheriff's Department all inmate files and contents therein."

E3. 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 Auditor of Public Accounts Virginia Sheriff's Accounting Manual 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.

2010 Status – This recommendation has been implemented. Pursuant to Contract Modification Agreement No. 1 issued on October 8, 2008, to the Inmate Commissary Service Contract, Section 2, Statement of Work, Contractor's Responsibilities, sub-paragraph (m) indicates "The Contractor shall comply with the Auditor of Public Accounts Virginia Sheriff's Accounting Manual pertaining to internal controls, canteen operations, and inmate trust funds, should the contractor be responsible for the management of such funds."

E4. 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.

2010 Status – This recommendation has been implemented. The Sheriff's Department has approved Standard Operating Procedures effective October 7, 2008, establishing accounting procedures for the inmate commissary fund. Additionally, audits of inmate accounts will be conducted periodically by the Sheriff's Compliance and Accreditation Office, in accordance with APA guidelines, and with reports forwarded to the Chief of Corrections.

FOLLOW-UP REVIEW

EMERGENCY COMMUNICATIONS (DISPATCHERS)

SPECIAL AUDIT

REPORT ISSUE DATE: JUNE 2007
FOLLOW-UP REVIEW DATE: NOVEMBER 2010

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Emergency Communications

B1. Staffing Shortages and Working Conditions

Finding – During the past four years, the staffing level of Emergency Communications has been short by an average of 9 people. This condition was exacerbated by a 35 percent turnover rate among new hires. As a result, there was a lack of fully trained personnel, and Emergency Communications experienced mandatory overtime, high stress levels, and lowered morale. Also, the dispatchers indicated that the working environment contributed to the morale issue.

Recommendation - We recommend that Emergency Communications take immediate action to attempt to hire sufficient qualified candidates to bring Emergency Communications up to the total number of authorized full time equivalents (FTEs) and develop a contingency plan in the advent that the current staffing level drops below the functional minimum. Steps should also be taken to improve working conditions.

Response - In Section B. Staffing, Shortages and Working Conditions, the second paragraph states the staffing requirement was set at 30 people per day. This is incorrect as the minimum staffing requirement is 27 persons per day composed of 10 each for day and evening shift and 7 for midnight shift. While the minimum staffing level is 27, a staffing level of 30 is suggested to allow personnel to take meal breaks, restroom breaks and perform necessary administrative duties (i.e. cycle sheets, training evaluations, etc.). Without the addition of 1 person per shift, the inability or very decreased capability for personnel to have meal or restroom breaks only adds to the stress and environmental discomfort. Without the additional person, administrative duties would have to be performed on overtime after normal work hours, again adding to discontent. Additionally, scheduling at minimum staffing levels was attempted, but only caused more severe issues when personnel who called out had to be replaced by keeping someone over from the previous shift. This meant employees had to work unplanned double shifts as a common practice.

2009 Status – This recommendation is in the process of being implemented. The Department is continuing to fill dispatcher vacancies and had made procedural arrangements with Human Resources that initially helped expedite the hiring process. However, as a result of additional procedures necessitated by the citywide hiring freeze, the Department is no longer able to utilize the expedited process, and an additional delay that has averaged averaging approximately one month has been added to the process.

2010 Status – This recommendation has been substantially implemented. EDC had a reduced turn-over rate for the last year. It is currently only 2 employees below allotted positions and will be hiring those 2 within the next month. During the last vacancy posting the City received (323) applications for Dispatcher Trainee and (97) for Dispatch Call Taker. The Department is still working with Human Resources on ideas to reduce the time needed to hire new personnel and would like to have the over hire of 5 persons reinstated (as recommended in the Matrix and Burracker reviews). One negative working condition that was addressed last year was mandatory overtime. Overtime still exists, however significantly reduced to the point it is very rarely mandatory. This was accomplished mainly through the implementation of 12-hour shifts. The work environment is expected to improve dramatically in the next couple of years when the new facility is built on S. Military Highway.

C1. Hiring Process

Finding - Emergency Communications hiring process was not as streamlined as it could be.

Recommendation - Emergency Communications management should develop and implement a streamlined hiring process. In addition, recruitment efforts should be expanded to increase the population of quality candidates.

Response - The audit report states that our hiring process takes between 4 and 9 months which is not consistent with the actual times (Auditor's Note: The report language has since been revised) A. While the hiring process taken one piece at a time may take months, several parts are often combined or overlap to cut the actual hire time as much as possible. The table below shows the Emergency Communications employees hired from 7/1/06 to the one that will start next Monday, 4/16/07.

2009 Status – This recommendation is in the process of being implemented. The Department is continuing to fill dispatcher vacancies and had made procedural arrangements with Human Resources that initially helped expedite the hiring process. However, as a result of additional procedures necessitated by the citywide hiring freeze, the Department is no longer able to utilize the expedited process, and an additional delay that has averaged averaging approximately one month has been added to the process.

2010 Status – This recommendation is in the process of being implemented. The Department is still working with Human Resources on ideas to reduce the time needed to hire new personnel and would like to have the over hire of 5 persons reinstated (as recommended in the Matrix and Burracker reviews). Previously all applicants who took the Critical Pre-Employment Test were interviewed. With the permission of Human Resources, they streamlined this process so that they only interview the top (5) applicants for each vacancy. Recruitment does not seem to be an issue at this point. During our last vacancy posting we received (323) applications for Dispatcher Trainee and (97) for Dispatch Call Taker.

FOLLOW-UP REVIEW

NEIGHBORHOOD SERVICES DEPARTMENT

PERFORMANCE AUDIT

REPORT ISSUE DATE: JUNE 2009

FOLLOW-UP REVIEW DATE: NOVEMBER 2010

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Neighborhood Services

C1. 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.

2010 Status – This recommendation has been implemented. The Department of Development and Permits has completed policy and procedure manuals for the following daily operations: Front Counter Building Permit Issuance, Commercial Plan Review, Residential Plan Review and Field Inspector Handbooks for the Building, Electrical, Mechanical and Plumbing Divisions. The policy and procedure manuals and handbooks were effective January 1, 2010.

C2. 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.)

2010 Status – This recommendation has been implemented. The online forms have been modified to calculate the state levy correctly and reflect the revised state levy fee of 2%. Pursuant to the Mayor's initiative to improve effectiveness and efficiencies within the Development and Permits Department, staff is working with IT to have all permit forms accessible through the ezPermit process. The plumbing permit is currently accessible by ezPermit and staff anticipates launching the gas permit by the end of November. Forms will be consolidated into three categories: temporary pole, new house - new service and alterations or additions, all accessible by ezPermit.

D1. 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.)

2010 Status – This recommendation is in the process of being implemented. The Department of Development and Permits and Information Technology are currently working with City elected officials and staff, professional building organizations, and business community partners to assess the needs to effectively and efficiently improve the permit issuance process. The Department has also assigned staff to consistently provide oversight of the customer service counter and provide customers with a referral sheet to be utilized for contacts within the Department to address their requests and/or concerns. The Director of Development and Permits is also working closely with the City Manager's office to continually improve customer service and satisfaction as well as organizational efficiency.

D2. 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.)

2010 Status – This recommendation has been implemented. The Department has adopted a policy, effective July 30, 2009, to ensure the monitoring of necessary inspections for completion of permitted projects, and ensure the closure of inactive or revoked permits that have become idle for greater than 6 months and work has never commenced. The Department, with the assistance of IT, has completed a batch closure of over 92,000 inspection requests from the system due to inactivity dating back to August, 1994.

D3. 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.)

2010 Status – This recommendation has been implemented. A Standard Operating Procedure for Proffer Tracking was adopted July 21, 2010, which provides policy and procedures for the Development and Permits staff to enter and track payment of proffers. Effective, October 15, 2010, proffer payments are deferred until the final inspection or issuance of Certificate of Occupancy.

As of FY 2010, Proffer tracking was incorporated within the Project Management module of the PeopleSoft Financial System. Proffer revenue accounts are maintained and expenses are tracked to ensure proffer revenue is expended according to the State mandated expenditure deadline. Reconciliation of proffer revenue is performed monthly through the General Ledger module to ensure proffer fees collected reconcile to the specific project ledger accounts.

D4. 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.)

2010 Status – This recommendation has been implemented. All rental inspection fees are accepted by mail or in person by office staff and are invoiced in the Treasurer's billing system. Development and Permits staff reconcile to the PeopleSoft General Ledger by reviewing the Service Request Activity Management Record and Treasurer's invoicing database to ensure accuracy. This reconciliation process takes place on a quarterly basis.

D5. 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.

2010 Status – This recommendation has been implemented. A new safe was purchased, secured and installed. Standard Operating Procedures for Safe and Cash Controls, effective June 1, 2009, have been developed to ensure proper controls of cash and compliance monitoring for adherence to policies and procedures.

D6. 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.)

2010 Status – This recommendation has been implemented. Permit applications received by fax, mail or in person at the front counter are logged and assigned to an individual staff person to process. The implementation of the ARS has been completed allowing the processing of automated receipts for permit fees paid. Manual receipts are no longer utilized.

D7. 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.)

2010 Status – This recommendation has been implemented. The Department of Development and Permits currently utilizes the old "City Travel Log" form and a Quality Control Vehicle Checklist. The checklist provides fueling information, including odometer readings, and notes the vehicle's mechanical condition upon return and ensures the return of the fuel chip key.

D8. 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.

2010 Status – This recommendation has been implemented. The Certificate of Occupancy form has been modified to remove the signature blocks for the Code Official and Zoning Administrator, pursuant to the City Attorney's legal opinion. Additionally, all signature stamps have been destroyed.

E1. 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 midyear of FY09-10 or early FY10-11. (Note: The full text of the response is included in the body of the audit report.)

2010 Status – This recommendation is in the process of being implemented. The Department of Development and Permits and Information Technology are currently working with City elected officials and staff, professional building organizations, and business community partners to assess the needs to effectively and efficiently improve the permit issuance process. Based on this collaboration, the Department will work with Information Technology to purchase and install an Application Hub that will reconcile inspection requests generated through the Customer Call Center (C3) and Development and Permits AIS system, and provide expanded customer service for permit issuance.

E2. 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.)

2010 Status – This recommendation has been implemented. Standard Operating Procedures have been completed for the elevator inspection program for new and remodernized elevators, annual elevator and routine elevator inspections. The new SOP was adopted on January 1, 2010. Additionally, the latest edition of the ASME Standards have been obtained and incorporated into the Department's elevator inspection program.

F1. 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.)

2010 Status – This recommendation has been implemented. Staff has updated and reviewed the printed forms and fees for accuracy. Additional permits and fees have been added to the website which were not included originally and reconciled to the City Code for consistency.

F2. 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.)

2010 Status – This recommendation has been implemented. The Department of Development and Permits has adopted "Permit Alert Program" procedures effective August 1, 2009. This process allows stop work orders, late fees, etc., to be captured in the database and provides a "warning notice" that fees are owed when entering a permit transaction. Staff has been trained to pre-review the Inspection Detail Sheets for outstanding re-inspection or late fees prior to performing the inspection.

G1. 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.)

2010 Status – This recommendation has been implemented. Prior year CDBG funding has been reprogrammed for current activities. In May 2008, oversight of the Office of Housing, which is responsible for CDBG program administration, was transferred from Neighborhood Services (now the Department of Development and Permits) to the City Manager's Office.

FOLLOW-UP REVIEW

PUBLIC UTILITIES DEPARTMENT

PERFORMANCE AUDIT

REPORT ISSUE DATE: JUNE 2009

FOLLOW-UP REVIEW DATE: NOVEMBER 2010

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Public Utilities

C1. 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)

2010 Status – This recommendation is in the process of being implemented. An RFP for Customer Information System (CIS) Software and Implementation Services was issued by the City on October 14, 2010 (RFP no. 11021). This RFP indicates that Public Utilities desires to alter the agreement with HRSD and calculate, print and present their own bills. Additionally, the RFP indicates that Public Utilities will require a new bill format including scan lines, historical usage, usage graphs and customer messages. Offerors are requested to provide multiple standard bill print samples with their proposals which are due on November 15, 2010. This alternative would minimize billing discrepancies.

In the interim, the Department of Public Utilities has a monitoring process in place. Adjustment and payment files received from HRSD contain control records for the number of records and dollar value of adjustments or payments to be received on the nightly interface. The files are processed through a pre-load edit process that verifies the number of records and dollar value of transactions as well as a validation of key data fields to insure data validity. Only after these edits/audits are completed are the payment and adjustment files processed to customer accounts.

C2. 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.

2010 Status – This recommendation is in the process of being implemented. As previously stated, the RFP for the selection of a new CIS has been issued by the City, and provides for the alternative of in-house customer billing processes.   In the interim, Public Utilities has established a monitoring process to ensure adjustments for reduced water consumption are reflected in HRSD's sewer charge adjustments in a timely fashion.

C3. 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)

2010 Status – This recommendation is in the process of being implemented.   The RFP for the new CIS has been issued, and offerors are requested to provide multiple standard bill print samples with their proposals, to minimize billing discrepancies and invoice confusion.

C4. 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)

2010 Status – This recommendation is in the process of being implemented.   As was previously noted, an RFP has been issued by the City to request proposals from vendors for the purchase and implementation of a new Customer Information System (CIS).

D1. 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)

2010 Status – This recommendation is in the process of being implemented. As was previously noted, an RFP has been issued by the City to request proposals from vendors for the purchase and implementation of a new Customer Information System (CIS).

D2. 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)

2010 Status – This recommendation is in the process of being implemented. An RFP has been issued by the City to request proposals from vendors for the purchase and implementation of a new Customer Information System (CIS), and explore in-house billing as an alternative to minimize billing discrepancies.

In the interim, the Department of Public Utilities has a monitoring process in place. Adjustment and payment files received from HRSD contain control records for the number of records and dollar value of adjustments or payments to be received on the nightly interface. The files are processed through a pre-load edit process that verifies the number of records and dollar value of transactions as well as a validation of key data fields to insure data validity. Only after these edits/audits are completed are the payment and adjustment files processed to customer accounts.

E1. 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)

2010 Status – This recommendation is in the process of being implemented. As was previously noted, an RFP has been issued by the City to request proposals from vendors for the purchase and implementation of a new CIS. Public Utilities will be exploring the possibility of in-house billing as an alternative to minimize billing discrepancies.

E2. 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.

2010 Status – This recommendation has been implemented. The Department of Public Utilities has implemented the City's Records Management Plan and is periodically reviewing its record retention and utilizing alternative storage methods or disposing of obsolete reports.

E3. 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.

2010 Status – This recommendation has been implemented. Public Utilities utilizes a system access report which is sent to Information Technology on a monthly basis to be reviewed and evaluated for removal of access for persons no longer employed by the City.

F1. 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.

2010 Status – This recommendation is in the process of being implemented. The City issued an RFP on September 20, 2010, for a Financial Plan and Rate Analysis. Proposals have been received and are currently being evaluated. This Analysis will review cash flow, current rates and fees and projected expenditures, and will ensure that revenue is recouping the cost of the services provided.

F2. 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)

2010 Status – This recommendation is in the process of being implemented. An RFP has been issued by the City to request proposals from vendors for the purchase and implementation of a new Customer Information System. Meter replacement will resume when the new CIS has been identified and the compatible meters are identified for use in the meter replacement program.

F3. 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)

2010 Status – This recommendation has been implemented. The removal of the hiring freeze has allowed the Department of Public Utilities to fill vacant positions which were critical to the performance of reducing the backlog for re-read and back check requests.

F4. 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.

2010 Status – This recommendation has been implemented. The Department is adhering to the City's standard operating procedures to ensure all deposits of funds collected by the tellers are deposited with the Treasurer's Office within the same business day, but no later than the next business   day.

F5. 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)

2010 Status – This recommendation has been implemented. Effective June 4, 2009, the Department implemented new policies and procedures for tender control closure and cash handling, including safe audit procedures and controls. Procedures have been defined for safe auditing at least twice a year and/or upon management request. Additionally, safe access is logged each time upon entry, and the safe combination is to be changed upon managerial or supervisory staff turnover or upon management request.

Managerial Summary

A. Introduction, Background, and Scope

As part of the annual audit plan, we reviewed the City of Chesapeake's Central Fleet Management's (Central Fleet) administrative processes for the period of July 1, 2009 to November 30, 2010. Our review was conducted for the purpose of evaluating whether Central Fleet's processes (1) were effective and efficient, and (2) goods and services were procured in accordance with applicable City and State guidelines. The audit of Central Fleet focused significantly on a review of fuel site safety and security, competitive contract procurement issues, and other operational 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.

For Fiscal Year (FY) 2009-2010, Central Fleet had an operating budget of $9,013,734 and a capital outlay budget of $6,369,277. Central Fleet started FY2010 with an authorized compliment of 41 full-time personnel; however, the City's 2010 reduction in force reduced its compliment by two staff members. Central Fleet occupied offices on Executive Blvd at the City's Butts Station Operating Center. They were also responsible for seven fuel site locations throughout the City.

According to the FY2010 City Budget, Central Fleet's annual Internal Service Fund and Capital Budget was in excess of $15 million, which was approximately 2% of the City's total operating budget. In July 2010, the City transferred Central Fleet's line of reporting from the Department of General Services to the City Manager's Office. As of the date of our report, however, the City had not yet reinstated Central Fleet to full departmental status.

To conduct this audit, we made observations at Central Fleet's fuel site locations, and obtained an understanding of Central Fleet's expenditures and competitive bidding practices. We also performed an in-depth study of Central Fleet's work flow processes which included the uploading of vehicles into the DM2 software system, the chipkey activation process for fuel pumps, and the process for transferring data captured by the DM2 system to Central Fleet's FleetFocus system and AssetWorks InfoCenter (InfoCenter) - the system used to process reports for departmental use. Surveys were also conducted to gain insight on user departments' perceptions of their satisfaction with Central Fleet's service delivery, as well as their confidence in the reliability and accuracy of reports produced by Central Fleet's InfoCenter system. We also obtained an understanding of controls over fuel, parts inventory, and fuel credit card purchases.

Major Observations and Conclusions

Based on our review we determined that, although the majority of Central Fleet users were highly satisfied with the services they provided, there were several significant operational issues that hindered Central Fleet's ability to carry out its objectives. These issues included work flow deficiencies, fuel inventory credit card and safety controls, parts and equipment inventory control, and the need to issue Invitation for Bids (IFBs) for repair contracts and reduce the number of non-PO vouchers.

To address these issues, we recommended that Central Fleet continue to take steps to improve its workflow processes and the reliability and usefulness of vehicle reporting data. We also recommended that Central Fleet develop procedures that facilitate accurate monitoring and reconciliation of fuel inventories, eliminate its fuel credit cards, use Public Procurement to establish one centralized credit distribution point, and take steps to improve the safety and security of the fuel sites. Central Fleet should also secure and reconcile the parts and equipment inventories, work to expedite the IFB issuance process for vehicle and equipment repairs, issue all future personal chipkeys using employee numbers assigned by the City, and work with Public Procurement to stage the release of multiple POs per contract to control its spending.

This report in draft was provided to Central Fleet 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. Central Fleet management, supervisors, and staff were very helpful throughout the course of this audit. We appreciated their courtesy and cooperation on this assignment.

B. Performance Information

According to the City's FY2010 budget document, Central Fleet was responsible for managing all of the rolling stock for the City from procurement through disposal. Central Fleet was also responsible for performing preventative maintenance, inspections, major and minor mechanical repairs, and providing other automotive support to provide a safe, reliable, and economical fleet for the City's operations. Central Fleet's staff also maintained all miscellaneous power equipment (chainsaws, tractors, pumps, etc.) belonging to the City. Central Fleet operated seven fueling sites located throughout the City for use by City drivers. Central Fleet also controlled the distribution of fuel and repair parts, maintained individual vehicle and equipment records, and recommended the purchase of new and replacement vehicles and equipment.

Customer service surveys issued by Central Fleet in 2009 indicated that the majority of survey respondents gave an "excellent" rating to the garage's performance. The Audit Services' 2010 survey results were consistent with Central Fleet's survey results and also showed that department heads also rated the garage's performance as "excellent" and "good." However our survey noted that, although department heads were very satisfied with the overall garage staff performance, they were not as satisfied with vehicle and equipment reports provided them by Central Fleet's InfoCenter for their management purposes.

In September 2009, the City was awarded a grant of $244,214 as part of the national Clean Diesel Funding Assistance Program funded by the American Recovery and Reinvestment Act (ARRA). In October 2010, these funds were obligated for the purpose of funding the premiums associated with the cost of the retrofitted technology. On November 29, 2010, the City encumbered a total of $1,140,047 to purchase five diesel-fueled refuse trucks and one grapple truck to replace six

vehicles currently in operation that were less energy efficient than the ARRA required. All $244,214 of the ARRA grant funds were applied to the premiums associated with those purchases.

For FY 2010, Central Fleet removed 36 vehicles from the fleet since they were too costly to maintain for their age. This action saved the city $249,975 in repair costs and generated $27,135 in revenue from the disposal of the equipment. Central Fleet continually strived to reduce the size of the fleet as evidenced by the decrease in vehicles from 1,398 in FY 2004 to 1,247 vehicles in FY2009.

Central Fleet had undertaken a number of environmental initiatives. These initiatives included:

- Recycling 190,500 pounds of paper, cardboard, and plastic, saving the City $16,192 in tipping fees
- Using inmate labor to wash 4,260 vehicles saving the city $111,738 in car washes and avoiding $127,930 in environmental costs
- Recycling 139,232 pounds of metal, generating $7,107 in revenue
- Recycling 9,490 gallons of used oil, generating $3,892 in revenue
- Recapping 696 tires for reuse in the fleet
- Recycling 83,030 pounds of tires

Central Fleet was awarded twice, in 2009 and 2010, the Automotive Service Excellence "Blue Seal" award from the National Association of Service Excellence, becoming the only ASE Certified Garage in Chesapeake, one of only three municipal garages certified in Virginia, and only one of 172 municipal garages certified in the nation.

Central Fleet was chosen as one of the 100 Best Government Fleets in North America for 2009 and 2010 by Bobit Business Media Fleet Group, publishers of *Automotive Fleet*, *Work Truck*, *Government Fleet*, *Business Fleet*, *Fleet Financials*, and *GreenFleet* magazines, and The 100 Best Fleets in North America.

C. Work Flow and Fuel Control Issues

Most user departments were very satisfied with Central Fleet's service performance delivery. Despite this situation, Central Fleet had a number of workflow and fuel control issues that needed to be addressed. These issues included improvement of their workflow and the accuracy of user reports, improving fuel inventory controls, eliminating fuel credit cards, and addressing fuel safety and security issues.

1. Work Flow and System Deficiencies

Finding - The workflow processes utilized by Central Fleet for vehicle assignment, chipkey issuance, and mileage verification were not sufficiently controlled to ensure the accuracy of vehicle, fuel, and odometer information. In addition, user departments were less than satisfied with the accuracy of vehicle and equipment reports produced by Central Fleet's InfoCenter system.

Recommendation - Central Fleet should continue to take steps to improve its workflow processes and the reliability and usefulness of vehicle reporting data.

Response - Central Fleet Management (CFM) agrees with the finding. The accuracy of the data in the InfoCenter reporting module is due, in part, to incorrect mileage data entry when employees fuel their vehicles. With FuelFocus, the mileage will be captured in the system electronically from the vehicle's on-board computers. There are still equipment in the fleet that don't have on-board computers to track miles/hours; this means we'll have to use fueling keys to identify those pieces and to activate the pumps to refuel, such as for: lawnmowers, hand-held power tools, and some off-road construction equipment. However, CFM is able to run exception reports on the use of the new fueling keys to track usage. The operators will still be responsible for entering the actual mileage or hour-meter reading for that equipment, if appropriate, to insure accurate information in our database for reporting. The new fueling system will also use the employee ID cards to track who is fueling which vehicle, and reports may be run on that data to monitor fuel distribution.

2. Fuel Inventory Control

Finding - Although Central Fleet accumulated the data necessary for a perpetual inventory of gasoline and diesel fuel, fuel inventory reconciliations were only being performed annually. Additionally, the levels of diesel and gasoline fuel inventory were inaccurate because the methods of measuring fuel were inaccurate.

Recommendation - Central Fleet should perform more frequent reconciliations of fuel inventory based on the EPA requirements. Additionally, it should ensure the methods of measuring the actual fuel inventory are accurate.

Response - Central Fleet Management agrees with the findings. There is no local, state, or federal requirement for non-commercial fuel sites to calibrate their equipment. However, it does make good business sense to accurately track fuel distribution. CFM will explore the costs associated with regularly calibrating the fuel pumps and TLS systems and determine if it is cost effective. Central Fleet's fuel reconciliations will be moved up from annual inventory checks to quarterly inventory checks with the eventual goal of performing fuel reconciliations monthly. Spreadsheets of the fuel inventories and journal entries accounting for differences will be maintained electronically on the garage servers.

CFM's cost to repair the unreadable totalizers on four fuel pumps is $1,000. Additionally, the cost to calibrate the fuel pumps at all fueling sites is $2,500. This cost does not include fees to adjust pumps out of calibration. Additional fees would depend upon the reasons for pumps being out of calibration.

3 . Fuel Credit Cards

Finding - Fuel Credit Card distribution within the City was not sufficiently centralized. In addition, many of the fuel credit card transactions did not have adequate supporting documentation. Also, some cards were used for local fuel purchases.

Recommendation - The City should eliminate all fuel credit cards and have new credit cards issued through Public Procurement, to establish one centralized distribution point.

Response - Central Fleet Management agrees with this finding. CFM notified all departments, in our September 2006 Fleet News and at our October 7, 2010 Fleet User's Group Meeting, that Central Fleet's fuel company credit cards will be canceled on January 31, 2011. Departments have been working with Purchasing to obtain P-cards for those individuals needing to purchase fuel when traveling. The Sheriff's Department recently obtained an extension of the January 31st deadline to get their P-cards in place. The Sheriff's Department will have their program in place by February 28th at which point all of the fuel credit cards will be deactivated.

4. Fuel Site Safety and Security

Finding - The safety and security of the fueling sites needed improvement.   Spill Prevention, Control, and Countermeasure (SPCC) plans for the fuel sites were not readily accessible and were not clearly marked. The fuel nozzles were not routinely tested to ensure automatic shut off when vehicle/equipment tanks were full. There was no automated emergency services notification in the event of a spill. Also, a heavy rainfall contaminated two in-ground fuel tanks.

Recommendation - Central Fleet should take steps to improve the safety and security of the fuel sites.

Response - Regarding the Spill Prevention, Control, and Countermeasure (SPCC) Plan, Part 40 of the Code of Federal Regulations (CFR) 112.3 states, "the plan must be available for on-site review by the Regional Administrator during normal working hours." All of our inspectors interpret that to mean that the SPCC plan is to be available at the City Garage, not the individual fueling stations. Signs are posted at the fuel sites informing the operator what to do in case of a spill. Central Fleet will look at the signs to see what improvements can be made to increase their visibility. CFM is in the process of removing the old, unused, SPCC boxes at the fueling sites; all boxed should be removed by the end of this week.

CFM will research to see if an alarm notification can be incorporated into the fuel island's hardware upgrade with the FuelFocus program.

There is no Local, State or Federal requirement to test the automatic shutoff features on fuel nozzles. Operators are responsible to notify the Garage when nozzles fail, and most operators do; when notified, the Garage sends a Fleet Road Call technician to replace the nozzle. Manpower shortages limit CFM from testing all 62 nozzles on a regular basis.

The Public Works Department schedules the annual training on spill prevention. Central Fleet will ask them to invite all users of the City's fueling sites to participate in the training if space and funding allows. Additionally, CFM will incorporate some spill prevention training in quarterly Fleet User's Group meetings.

CFM's cost to repair the damaged bollards at the fuel sites is $2,400. We will determine if sufficient funding is available for the repairs.

D. Other Operational Issues

We noted that Central Fleet needed to enhance inventory controls for parts and equipment. It also needed to expedite the IFB process for vehicle and equipment repair work.   Central Fleet needed to process more purchases through the Purchase Order (PO) payment method to control spending. Finally, Central Fleet needed to develop methods to protect social security numbers from identity theft.

1. Parts and Equipment Inventory Control

Finding - Central Fleet was not reconciling their parts inventory to their perpetual inventory records maintained in FleetFocus. Additionally, the City's equipment inventory was not secure and was accessible to employees and contractors.

Recommendation - Central Fleet should take steps to both better secure and reconcile the parts and equipment inventories.

Response - Central Fleet Management disagrees in part with this finding. CFM's parts inventory is in a secured location, monitored by our parts contractor, Tidewater Fleet Supply, LLC., with limited access to authorized persons. The parts inventory was reconciled by CFM employees five times in FY09 and four times in FY10 using FleetFocus.

The City's powered hand-held equipment inventory was not reconciled on a regular basis. And, the back door to the parts room, which is locked to outside entry, was able to be opened from the inside to gain access to the outside as a fire exit. It is through this door that a City employee, who was authorized to be in the parts room to repair computers, stole the powered equipment. That back door has since had an alarm installed which activates whenever the door is opened and which requires a key to silence. Additionally, the powered small equipment has been moved into an enclosed, locked, partition in the parts room where it will be inventoried quarterly as part of the cyclic inventory performed on the parts inventory.

2. Repair Contracts

Finding - Although Central Fleet had been working with Public Procurement to issue a formal bid for repair work, delays in the development and issuance of an open Invitation for Bid (IFB) caused undue delays in open competition for equipment and vehicle repair work.

Recommendation - Central Fleet should work to expedite the IFB process. Central Fleet should establish a date to publish and award the IFB for Central Fleet vehicle and equipment repairs to comply with competitive bidding requirements.

Response - Central Fleet Management does not establish dates to publish and award IFB's, that is strictly the function of the City's Purchasing and Contract Manager. CFM will provide IFB specifications for repair contracts (accident repairs, truck repairs, hydraulic repairs, and small equipment repairs) to the Purchasing and Contract Manager by July 1, 2011.

3. Volume of Small Purchases

Findings - The large volume of Central Fleet's small purchases (known as non-Purchase Order vouchers) valued at less than $5,000 diverted staff resources away from garage operations, and also bypassed Public Procurement's purchase order (PO) spending controls.

Recommendation - Central Fleet should work with Public Procurement to stage the release of multiple POs per contract to control City spending throughout the year.

Response - Central Fleet Management agrees with this finding. Finance suggests we continue to operate as we are now until we get the repairs contracts in place through Purchasing.

4. Identity Theft Protection

Finding - Several Central Fleet staff members had access to the chip key system, yet there was no system in place to prevent unauthorized access to social security numbers in the database.

Recommendation - Central Fleet should take steps to remove the social security numbers from the database and issue all future personal chip keys using employee numbers assigned by the City.

Response - Central Fleet Management agrees with this finding. With the new FuelFocus fueling system, city of Chesapeake badge number or RFID sticker number will be used to identify users of the fueling system. The old spreadsheet with employee SSN's that was used in conjunction with the DM2 software has been destroyed. Access to the present database holding the SSN's in DM2 is password protected and restricted to the three CFM employees responsible for issuing chip-keys and maintain the DM2 chip-key program. Once the FuelFocus system is up and running the old database using the employee's SSN will be destroyed.

American Recovery &

Reinvestment Act

City of Chesapeake   American Recovery & Reinvestment Act
Audit Services   Program Expenditures and Results
March 10, 2011   February 17, 2009 to December 31, 2010

Managerial Summary

A. Objectives, Scope and Methodology

We have reviewed the City of Chesapeake Virginia's (City's) American Recovery & Reinvestment Act: Program Expenditures and Results for the period February 17, 2009 to December 31, 2010. The purpose of this audit was to 1) evaluate the City's operational expenditure practices related to the American Recovery and Reinvestment Act (ARRA) and 2) to the extent that ARRA programs were underway or have been completed, evaluate program compliance and results.

We conducted our work in accordance with generally accepted government auditing standards. Those standards require that we plan and perform our work to obtain sufficient and appropriate evidence to provide a reasonable basis for our findings and conclusions based on our objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our objectives.

The American Recovery and Reinvestment Act was signed into law on February 17, 2009. It had five stated purposes:
- To preserve and create jobs and promote economic recovery;
- To assist those most impacted by the recession;
- To provide investments needed to increase economic efficiency by spurring technological advances in science and health;
- To invest in transportation, environmental protection and other infrastructure that will provide long-term economic benefits; and
- To stabilize state and local government budgets, in order to minimize and avoid reductions in essential services and counterproductive state and local tax increases.

ARRA included 23 title chapters covering appropriations, taxes, unemployment, health care, state fiscal relief, and other provisions. The $787 billion stimulus package contained $288 billion in tax credits, $144 billion in state and local fiscal relief, and $355 billion of federal spending programs.

Within the City of Chesapeake, as of December 31, 2010, there were eighteen grants totaling $22,633,862 for which funds had been appropriated. Grant expenditures totaled $16,009,260 or 70.73 percent of total grant awards. As many as 15.89 FTE positions had been funded utilizing City ARRA grants. Also, we noted that there were a total of 149 participants in the City's ARRA-funded Summer Youth Employment Programs in FY 2009 and FY 2010, and one participant was actually hired full-time by the City's Human Services Department. A summary of each program is included in Appendix B.

To conduct this audit, we reviewed citywide ARRA reporting practices to ensure that 1) the City was following applicable federal requirements and 2) City directives for financial operational reporting were being followed. We also evaluated whether program results were consistent with federal objectives.

Major Observations and Conclusions

Based upon our review, we found that the City was operating its programs in compliance with federal guidelines, and the programs were producing results consistent with their federal objectives. Consequently our sole recommendation was made predominantly for the purpose of improving future ARRA accountability processes rather than correcting a material weakness. We recommended that the City consider reallocating $95,700 that had been allocated for water fixture retrofits to other clearly eligible grant expenditures, to prevent potential questioned costs.

This report, in draft, was provided to the City's ARRA Compliance Team Leader and ARRA Program Managers 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. All of the team members and ARRA program managers were very helpful throughout the course of this audit. We appreciated their courtesy and cooperation on this assignment.

B. Overview - City ARRA Programs

According to guidelines developed by the Federal Office of Management and Budget (OMB), the City was considered to be a primary recipient on four of its ARRA grants, totaling $3,663,126, and a Sub-recipient on fourteen ARRA grants totaling $18,970,736. Grant expenditures as of December 31, 2010 totaled $16,009,260 or 70.73 percent of total grant awards of $22,633,862. The City had also completed $77,980,000 in bond issuances under several different ARRA Bond programs. Information on these programs is provided in Appendix B. In addition, the City had developed an extensive quality control program to help ensure the accuracy of reports submitted for ARRA.

C. Finding and Recommendation

Based upon our review, we found that the City was operating its ARRA programs in compliance with federal guidelines, and the programs were producing results consistent with their federal objectives. Consequently our sole recommendation was made predominantly for the purpose of improving future ARRA accountability processes rather than correcting a material weakness. We recommended that the City consider reallocating $95,700 that had been allocated for water fixture retrofits to other clearly eligible grant expenditures, to prevent potential questioned costs.

1. EECBG Grant Utilization

Finding - The City had allocated $95,700 to be used for water fixture retrofits as part of its Energy Efficiency and Conservation Block Grant (EECBG). There was some risk that expenditures against this allocation might not be considered eligible expenses by federal oversight authorities.

Recommendation - The City should consider reallocating the $95,700 allocated for these water fixture retrofits to other clearly eligible grant expenditures.

Response - Since we were already considering reallocating those funds for reasons discussed, it won't be a problem for us to do it. There are certainly plenty of lighting or HVAC retrofits that we can do with those funds. Barbara and I will go ahead and reallocate with DOE at the same time we reallocate some of the training funds to additional solar PV work.

Managerial Summary

A. Objectives, Scope and Methodology

We have completed our review of the Chesapeake Department of Economic Development (Department) for May 1, 2010 – December 31, 2010. 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 related to their tax increment financing (TIF) district oversight, management oversight, contract management, cash and payment processing, safety, security, information technology, facility operations, and credit card usage.

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 conclusion 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 provided essential services for the City of Chesapeake (City). Its primary purpose was to attract, retain, and help expand businesses and industries of a high quality. Their goal was to expand and create a diverse and stable tax base and increase overall tax revenue, in part through the development and implementation of various programs which encouraged industries and businesses to locate within the City. The Economic Development Central Office Function (Central Office) also performed staffing functions for the Economic Development Authority, Chesapeake Port Authority, and Economic Development Advisory Committee, and provided staff oversight for the Greenbrier and South Norfolk TIF districts. It also operated a business retention program and served as liaison between the industrial and business communities and the City. In addition to the Central Office, the Department was also responsible for the Chesapeake Conference Center (Center) and the Conventions and Visitors Bureau (CVB).

For Fiscal Year (FY) 2010-2011, the Department had an operating budget of slightly over $7 million and an authorized compliment of approximately 48.5 personnel, approximately 31.5 of which were in the Center. The Center received 48.3% of the operating budget, the Central Office 21.4%, and the CVB 14.1%, with the remainder of the budget (16.2%) used for TIF operations. The Department received funds from Federal, State, and City sources. The Central Office was located in offices off Battlefield Boulevard and Volvo Parkway in the Battlefield Corporate Center, while the Center and CVB were both separately located in the Greenbrier section of the City off Woodlake Drive.

To conduct this audit, we reviewed and evaluated City and Department policies and procedures, and operations documents and reports, both internal and external. We also reviewed a consultant's Economic Impact Study related to potential use of the Greenbrier TIF and a CVB consultant's report on CVB operations. We also evaluated a Center architectural review report and various aspects of the Center's operations, conducted surveys of other local conference centers, and conducted extensive site visits at the Center. We discussed these audit areas and conducted interviews with the Director of Economic Development, Senior Business Development Manager, CVB

Director, General Manager of the Center, Food and Beverage Director of the Center, Center and Department Fiscal Administrators, Accounting Staffs, and various other personnel.

Major Observations and Conclusions

Based on our review, we determined the Department had accomplished its overall mission of attracting and retaining a diverse and stable business base. However, we did identify several areas of concern that needed to be addressed. Those areas included TIF expense processing, contingency planning, and reporting; Economic Development's organizational structure, vehicle usage, business expense, and credit card usage; and the Conference Center's overall financial and operational controls related to accounting alcohol and food inventories, sales contracting, and building maintenance practices.

This report, in draft, was provided to the 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. Department, CVB, and Center 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

Economic Development's goal was to expand and create a diverse and stable tax base and increase overall tax revenue, in part through the development and implementation of various programs which encouraged industries and businesses to locate within the City. The Economic Development Central Office Function (Central Office) also performed staffing functions for the Economic Development Authority, Chesapeake Port Authority, and Economic Development Advisory Committee, and provided staff oversight for the Greenbrier and South Norfolk TIF districts. It also operated a business retention program and served as liaison between the industrial and business communities and the City. In addition to the Central Office, the Department was also responsible for the Chesapeake Conference Center (Center) and the Conventions and Visitors Bureau (CVB).

1. Economic Development (Central Office)

Economic Development was the linchpin to the success of the City's industrial and business community. Economic Development's primary function was to attract new businesses and help keep existing businesses and to facilitate their growth and expansion. It did this job very well. In 2010, the Economic Development helped bring in over $143 million of additional investment in businesses in Chesapeake. Of this number, $81 million was from new businesses locating in the City, while the remaining $62 million was from businesses already located in Chesapeake. In addition to the financial investment, over 667 new jobs were created. Also, Economic Development's retention efforts resulted in 33 existing businesses renewing leases on over 840,119 square feet of office space valued at over $36 million.

2. Chesapeake Conference Center

The Chesapeake Conference Center (Center) opened on September 5, 1997 with the mission of providing "Quality food and service with a standard of excellence that their customers deserve." In calendar year 2010 the Center hosted over 537 events and, for the five year period from 2006 to 2010, has averaged over 730 events a year. In FY 2010, total Center revenues, including dedicated

hotel and restaurant tax revenues, exceeded expenditures by $1,192,289. This marked the twelfth straight year that Center revenues had exceeded expenses since an opening loss of $896,418 in FY 1998. The Center repaid the Debt Service Fund $1,000,000 in FY 2010 related to its 1998 acquisition cost of $9,142,398. Since FY 2001, the Center had made total payments of $6,086,802 to the Debt Service Fund related to these acquisition costs.

3. Conventions and Visitors Bureau (CVB)

While Economic Development sought out businesses to come to Chesapeake and stay, the CVB sought out people and organizations that were more likely to come to visit and leave. The CVB's goal was to bring the City conventions, meetings, and other group business with the intent of generating overnight stays and restaurant visits. It also marketed Chesapeake to the general tourism market as a destination spot. CVB has been successful in its mission to bring in groups to the City. In 2010 over 25,000 people spent over 11,314 room nights in the City with an estimated economic impact of $2.1 million. There were over 50 groups and organizations that brought their event to Chesapeake as a direct result of the marketing efforts of the CVB.

4. Greenbrier and South Norfolk Tax Increment Financing Districts (TIFs)

The Greenbrier and South Norfolk TIFs were created to provide funding for public infrastructure projects that were needed to help attract additional private investment to the City, and specifically into the Greenbrier and South Norfolk areas. The Greenbrier TIF was established on January 1, 2005 and the South Norfolk TIF was established on March 22, 2005. Both TIFs were funded by taking tax revenue, over a specified base, from the affected areas and using this money to fund the various projects in the districts.

Projects funded in the Greenbrier District included enhanced street lighting, signage, landscaping and improvements to Chesapeake City Park. Also, a proposed $43 million City of Chesapeake Activity and Tennis Center would be a TIF project. Projects funded in the South Norfolk District included a new $5 million library and infrastructure work to support the Belharbour development.

C. Tax Increment Financing Districts – Greenbrier and South Norfolk

While the various activities of the TIFs were generally being handled in a satisfactory manner, we noted that there were several areas where performance could be enhanced. These areas included the processing of project expenses, organization of TIF project data, and the reporting of TIF project data. Also, the proposed Chesapeake Community Activity & Tennis Center did not include a contingency plan in the event that there was a variance between projected and actual results.

1. TIF Expense Processing and File Organization

Finding - The approval process for payment of TIF project expenses needed to be enhanced. In addition, the process for tracking TIF project appropriations, expenses, and supporting documentation needed to be enhanced so that requested project data can be easily accessed.

Recommendation - TIF invoices should be annotated indicating review and approval. TIF project data should be kept by project and sub categories.

Response – We agree with the findings above. Project Manager McDonough Bolyard Peck, MBP, has relocated to the same office building as Economic Development. Prior to this move, a scanned copy of the invoice was emailed to MBP for their approval to expedite timely payments. The invoices are now signed by MBP at our location and then approved by an internal City of Chesapeake employee before processing for payment. (Note: The full text of the response is included in the audit report.)

2. TIF Chesapeake Community Activity & Tennis Center Contingency Planning

Finding - The Economic Impact Study prepared for a proposed Chesapeake Community Activity & Tennis Center (CATC) did not include a contingency plan in the event that projected revenues either exceeded or did not meet SFA's projections.

Recommendation - If the City continues to pursue this project, it should prepare a framework for contingency planning in the advent that revenues exceed or do not meet projections. This framework should include designation of oversight responsibility, defined goals and objectives, measurable key indicators and contingency action plan.

Response – Per the February 22, 2011 City Council meeting a substitute motion was approved by a 7-2 vote so no contingency plan is necessary at this time. Staff had proposed a reserve be established in the Greenbrier TIF Fund to address any potential start up cost or revenues for the CATC. Staff also had indicated to City Council that the CATC would be managed by a private management company via a contract with strong performance criteria. Should the City move forward with development of the CATC, these strategies would be implemented and the recommended contingency plan would be developed.

3. TIF Project Reporting

Finding - The status of TIF projects were not being forwarded to the City Manager's Office on a consistent basis or in a consistent fashion.

Recommendation - The Central Office should provide the City Manager's Office with a quarterly report detailing the status of the various TIF projects.

Response – We agree with the findings above. A report is maintained and shared with the City Manager's office in our monthly meetings informally. We can provide the report on a regular basis in hard copy format. This report will include project description, amount appropriated, expenditures, and funding stream and if known time frame for completion.

D. Economic Development Department – Administration and Operations

We reviewed the Department's overall structure and operating practices and determined that, although they were meeting their expectations, there were still areas that could be improved. These areas included the Department's overall organizational structure and vehicle usage issues such as imputed income and record checks. Also, the Department needed to improve the documentation requirements for expenses, petty cash security, and increase usage of the City issued P-card for small dollar purchases and travel -related expenses.

1. Economic Development Department Organizational Structure

Finding - The Department's organizational structure did not provide for optimal utilization and oversight of its related operating divisions and supporting functions.

Recommendation - Economic Development should strongly consider revising its organizational structure to provide for more optimal utilization and oversight of its related operating divisions and supporting functions.

Response - We agree with the findings above. An Operations Manager position is being filled. This position will supervise staff and oversee the managements of the Chesapeake Conference Center (CCC) and Conventions & Tourism Bureau. This will help assist and improve interaction and collaboration among the three divisions.

The Fiscal Administrator title at the Conference Center was deleted. A new position of an Accounting Manager was created. This person will be responsible for providing accounting oversight to the Economic Development divisions. This will help the cohesiveness of the accounting functions for the department as a whole.

2. Economic Development Vehicle Usage

Finding - The Department was not in full compliance with Administrative Regulations 1.18, 1.04 & 1.20 pertaining to the use of City vehicles.

Recommendation - The Department should take steps to assure compliance with Administrative Regulations 1.18, 1.04 & 1.20.

Response - We agree with the findings above. Economic Development has been in contact with Finance to obtain the correct forms to submit so the assessed imputed income can be added to the employee's W-2 forms. A full DMV driving transcript has been requested and received for those employees who use company vehicles. The vehicle allowance given to the individual that did not meet the City's criteria is no longer given the monthly vehicle allowance. Since the reorganization at the conference center, this allowance is no longer applicable.

3. Economic Development Business Expenses and Petty Cash

Finding - Supporting documentation for Departmental business expenses was not always adequate.

Recommendation - The Department should take steps to ensure that supporting documentation is adequate for departmental business expenses.

Response - We agree with the findings above. Due to the communication concerning current industrial clients at in-house meetings with City Manager's office, a log with code name and numbers were not filed with the City Manager's office. An internal log will be generated from current clients that are seen on a regular basis and updated as new ones are generated. These code names will be used on the backup documentation for expenses associated with those clients. (Note: The full text of the response is included in the audit report.)

4. Economic Development Purchase Cards

Finding - The Economic Development Central Office (Central Office) and the Convention and Visitors Bureau (CVB) were not using the City's small purchase/travel credit card to make small dollar purchases and to pay for City business travel expenses.

Recommendation - The Central Office should discontinue the use of corporate credit cards and begin using the City P-Card.

Response - We agree with the findings above for purchases of office and general supplies needed. However, credit cards continue to be needed/required to travel internationally. Due to the volume of international trips, reliance on the acceptance of credit cards for business transactions is a necessity.

E. Chesapeake Conference Center (Center)

Although, as previously noted, the Center did perform well from a financial results perspective in Fiscal Year 2010, during our review we identified several areas that needed improvement. These areas included financial and operational controls, sales performance, reporting, segregation of duties, cash handling, food and alcohol inventory, and building maintenance, safety, and security. Detailed Center responses are provided in Appendix C.

1. Overall Financial and Operational Controls

Finding - Financial and operational controls at the Center needed improvement.

Recommendation - The Center should work to improve its financial and operational control practices.

Response - We agree with the findings and as such strategies have been developed to provide adequate financial and operational oversight controls, all noted policy and procedure manuals have been reviewed and updated accordingly, building maintenance issues have or are being addressed, the vacancy of the Facilities Supervisor position has been filled and solutions to issues related to the Automated Event Management Software have been identified. (Note: The full text of the response is included in the audit report.)

2. Center Accounting Functions

Finding - Our review of the cash handling, accounting, and information technology functions of the Center identified numerous areas of concern. These concerns included the cash handling process, payment processing, cash security, system implementation and reporting.

Recommendation - The Center should take steps to address the concerns identified for its cash handling, accounting, and information technology functions.

Response – We agree with the findings and have reviewed and revised the cash handling/security and payment processing/reporting procedures and identified solutions to address the Automated

Event Management System deficiencies. (Note: The full text of the response is included in the audit report.)

3. Alcohol and Food Inventories

Finding - Controls over the Center's alcohol and food inventories needed to be improved to enhance inventory utilization, record keeping, and reporting accuracy.

Recommendation - The Center should take steps to address the concerns identified for its alcohol and food inventories to improve inventory utilization, record keeping, and reporting accuracy.

Response – We agree with the finding and have taken the necessary steps to address the concerns identified with the alcohol and food inventories in relation to improving inventory security, alcohol inventory and reporting procedures, and food inventory. (Note: The full text of the response is included in the audit report.)

4. Sales Contracting Procedures

Finding - The event contracts used by the Center needed to be updated and not used for all events. Also, event change order forms were not pre-numbered or tracked.

Recommendation - The event contracts used by the Center should be updated and used for all events. Also, event change order forms should be pre-numbered and tracked.

Response – We agree with the finding. As a result of the hiring of the Director of Sales, both the contracts (sales agreements) and proposals used by the Center have been updated and are used for all events. The contract/agreement revisions began when the Director of Sales was hired on March 1, 2011 and the new agreement was modeled after those commonly used in the hospitality industry for contracting conference and convention properties. The revised agreement has been reviewed by Internal Audit and has been consistently used for all events at the Center since May 1, 2011. In addition, all Change Log Forms are now numbered, dated and signed by the initiating Sales Manager when distributed; and all changes are review at the weekly "Banquet Event Order" (BEO) Meetings.

5. Building, Maintenance, Safety, and Security

Finding - Maintenance of the Center needed to be improved, and we observed a number of aesthetic and safety issues. Also, the overall building security was not sufficient to protect the physical plant, assets, and staff.

Recommendation - The Center should take steps to address the maintenance, safety, and security issues. The Center should develop a formal maintenance, upkeep, and replacement program for the building and its operating systems.

Response - We agree with the above findings and in response a new division, Engineering Services, is being developed at the Center to ensure the building is adequately maintained and that all aesthetic and safety issues are addressed in an efficient manner. The Engineering Services division will consist of a Facilities Supervisor, a Part-Time Facilities Technician, a Part-Time Housekeeper and the division will be supplemented by Temporary Staff and City contracted vendors as needed. (Note: The full text of the response is included in the audit report.)

B. SUMMARY

AUDITS IN PROGRESS, TECHNICAL ASSISTANCE & TRAINING

AUDITS IN PROGRESS, TECHNICAL ASSISTANCE, & TRAINING

Audits in Progress

Public Works – We held an opening conference for the Public Works audit on January 7[th.] We have begun reviewing and testing projects related to Facilities Management and have also begun looking at control procedures and a potential rebate program related to the Chesapeake Expressway.

Technical Assistance Projects

Parks and Recreation Parking – We assisted the Parks and Recreation Department in reviewing operations and controls related to the collection of parking fees for the July 3rd fireworks at City Park.

Police Investigation – We completed work with the Police on an internal administrative investigation which ultimately resulted in a successful prosecution.

Human Resources Information System (HRIS) – We are continuing to provide advice related to the HRIS system implementation

Prioritization – Two of our auditors served as reviewers for the City's Prioritization project.

Chesapeake Taxpayer Alliance – We put together a summary of the Department's history and accomplishments for use in a presentation to the Chesapeake Taxpayer Alliance

Public Works (Special Project) - We reviewed information related to toll rebate programs in New York City to see if they could be adapted to Chesapeake.

Training & Other

July 2010

In July, video excerpts from the July 13th and July 20th City Council work sessions were featured in a presentation to a delegation of local government officials from Afghanistan on the local government auditing function in the United States. The delegation was participating in the United States Department of State's International Visitor Leadership Program.

Training - A member of our staff attended Chesapeake Leadership University training on "Legal Issues within the Municipal Government" and "Financial Matters".

August 2010

Training – We attended Virginia Society of Certified Public Accountants' Ethics training, and Cherry, Bekaert & Holland's Government Lunch and Learn on Government Accounting.

September 2010

Training – One staff member attended a Virginia Society of Certified Public Accountants' training day.

October 2010

Training – We attended the Virginia Local Government Auditors Association's Fall Conference on Performance Auditing (presented by the Mayor of Kansas City, Missouri), the Institute of Internal Auditor's Mid-Atlantic District Conference, and the Virginia Society of Certified Public Accountants' Specialized Knowledge Day.

November 2010

Training – We attended the Association of Certified Fraud Examiners and Tidewater Institute of Internal Auditors' training on Fraud Prevention and Detection, and the Virginia Society of Certified Public Accountants' Tax Day. Also, our newest staff member enrolled in the City's Supervisory Certificate program.

December 2010

Training – We participated in a training webinar offered by the Institute of Internal Auditors entitled "An Effective Framework for Continuous Audits".

January 2011

Training – Our staff members attended a tax update as well as court case training.

March 2011

Peer Review – One staff member led a Peer Review team for the City of Charlotte, North Carolina

Chesapeake Taxpayer Alliance – On March 20th we provided a presentation on our department and the City's Fraud, Waste and Abuse hotline to the Chesapeake Taxpayer's Association. The presentation was well received by the group.

April 2011

Training - Two of our staff members attended an annual fraud training conference in Williamsburg, and one member, who was recently appointed President of the local Institute of Internal Auditors (IIA) Chapter, attended IIA leadership training

May 2011

Training - We attended Fraud Training, the annual City training session sponsored by the City's CPA firm, and the Association of Local Government Auditors annual conference.

June 2011

Peer Review – We underwent a Peer Review by the Association of Local Government Auditors during the week of June 6th. For the fifth consecutive time, we received a 'Full Compliance' opinion letter.

Training: Several of our Auditors participated in a Webinar entitled "Mapping the Future: The Next Step in your Internal Auditors Career; and a Not-for-Profit Conference.

C. FRAUD HOTLINE

FRAUD, WASTE, AND ABUSE HOTLINE REPORT

During Fiscal Year 2011 we received four 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 regarding a lease dispute. We contacted the person involved and determined that this was not a City–related matter. Therefore, the complaint was not authenticated.

Complaint #2 – We received an anonymous employee complaint concerning possible inappropriate use of City travel funds related to another City employee's attendance at a conference. Audit Services investigated the complaint and, after evaluating the information available, made a determination that no inappropriate City charges had been incurred related to the employee's attendance at the conference. Therefore, the complaint was not authenticated.

Complaint #3 – We received an anonymous employee complaint concerning possible inappropriate use of City computer equipment. Audit Services referred this matter to the affected department for investigation. After an extensive investigation, the department could not verify that the inappropriate computer use did in fact occur. Therefore we did not authenticate the complaint.

Complaint #4 – We received an anonymous citizen complaint about possible inappropriate usage of a City vehicle. Because of the information provided by the citizen, we were able to authenticate the complaint quickly and refer it to law enforcement for appropriate action. Charges have been filed against the employee involved.

D. PEER REVIEW REPORT

Association of Local Government Auditors

June 9, 2011

Jay Poole, City Auditor
Audit Services Department
306 Cedar Road
P.O. Box 15225
Chesapeake, Virginia 23328

Dear Mr. Poole,

We have completed a peer review of the City of Chesapeake Audit Services Department for the period January 1, 2008 to March 31, 2011. In conducting our review, we followed the standards and guidelines contained in the *Peer Review Guide* published in April, 2008, by the Association of Local Government Auditors (ALGA).

We reviewed the internal quality control system of your audit organization and conducted tests in order to determine if your internal quality control system operated to provide reasonable assurance of compliance with *Government Auditing Standards* issued by the Comptroller General of the United States. Due to variances in individual performance and judgment, compliance does not imply adherence to standards in every case, but does imply adherence in most situations.

Based on the results of our review, it is our opinion that the City of Chesapeake Audit Services Department's internal quality control system was suitably designed and operating effectively to provide reasonable assurance of compliance with *Government Auditing Standards* for audits and attestation engagements during the period January 1, 2008 to March 31, 2011.

We have prepared a separate letter offering suggestions to further strengthen your internal quality control system.
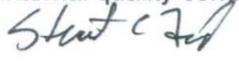
Stuart C. Ford   Ann H. Clark
Team Leader   Team Member
Deputy City Auditor   Senior Auditor
Office of the City Auditor   Municipal Auditing
City of Virginia Beach, VA   City of Roanoke, VA

E.   SUMMARY

TIME (HOURS) EXPENDED

JULY 1, 2010 TO June 30, 2011

YEAR TO DATE SUMMARY REPORT
JULY 1, 2010- JUNE 30, 2011

A. TIME (HRS) EXPENDED DURING FY 11-COMPLETED PROJECTS

   1. Audits & Analytical Reviews:

Central Fleet – Adminstrative	194 .00
Central Fleet – Planning	410.74
Central Fleet – Testwork	658.00
Central Fleet – Report	349.00
Economic Development – Administrative	27.00
Economic Development – Planning	382.00
Economic Development – Testing	965.00
Economic Development – Report	753.50
Follow-up Audits 2008-09	64.00
ARRA Audit-Planning	84.50
ARRA Audit – Testwork	32.00
ARRA Audit – Report	136.00
Quality Control	17.00
Knighton Submission	9.00

   2. Technical Assistance:

Parks and Recreation Parking Fees	14.00
Payroll Training	3.00
Police	36.00
Year End Audit	4.00
Prioritization	14.50
Airport Audit RFP	8.00
EMS Billing	7.00
Chesapeake Tax Payer Alliance	11.00
Fraud Hotline	50.00
Fuel Accountability Board	5.00
Public Works (special project)	<u>16.00</u>

Total Hours- Completed Projects　　　　　　　　　　**4250.25**

Times(HRS) Expended During FY 11-Projects in Progress

1. **Audits & Analytical Reviews**:

Public Works - Administrative	4.00
Public Works - Planning	1579.00
Public Works - Testwork	103.25
Public Works - Report	0.00
Peer Review	56.25

2. **Technical Assistance**:

Maximo	5.50
Kronos/Payroll/HRIS Systems	218.00
CBH Contract Oversight	18.00

3. **Other:**

Administrative	2875.25
Holiday	632.00
Leave – Annual	535.75
Leave – Sick	396.50
Leave – OT	6.75
Leave – Administrative	116.00
Meetings	82.00
Miscellaneous	40.00
Professional Organizations	448.00
Training	503.75

Total Hours- Projects in Progress	**7620.00**
Total Hours	**11870.25**