AUDIT SERVICES DEPARTMENT

ANNUAL STATUS REPORT

JULY 1, 2015 THROUGH JUNE 30, 2016

DATE OF PREPARATION: SEPTEMBER 30, 2016

This page was intentionally left blank

September 30, 2016

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

Dear Mayor Krasnoff and Members of the City Council:

Enclosed is the Audit Services Department's <u>Annual Status Report</u> for the period July 1, 2015 to June 30, 2016. The following is a summary of some of the report's highlights.

A. <u>Completed Projects</u>

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

We completed performance audits of the Information Technology Department, Public Utilities Department, and special citywide audits of Citywide Overtime and Citywide Grants. These audits were conducted for the purpose of determining whether services were provided in an economical, efficient, and effective manner, whether the goals and objectives were being achieved, and compliance with applicable City and Departmental procedures. We also completed a follow up review on audit reports issued in FY 2014 and 2015. The actual managerial summaries including specific findings, recommendations, and responses, are detailed within this report.

2. <u>Technical Assistance</u>

We provided technical assistance to the City and its affiliated organization on five projects. Of these, the most significant was related to the City IT modernization, Accela costs, PeopleSoft 9.2, and Payroll Changes. We also completed 12 fraud hotline investigations.

3. <u>Projects in Progress</u>

Currently, we continue to provide ongoing technical assistance on projects related to the Employee Pay Cycles, City's Human Resources Information System and Public Utilities Billing System implementations.

Sincerely,

Jay Poole
City Auditor
City of Chesapeake, Virginia

c: James E. Baker, City Manager

CITY OF CHESAPEAKE, VIRGINIA

AUDIT SERVICES DEPARTMENT
ANNUAL STATUS REPORT
JULY 1, 2015 TO June 30, 2016

Table of Contents

This page was intentionally left blank

A. SUMMARY

AUDITS & ANALYTICAL REVIEWS

This page intentionally left blank

Chesapeake
VIRGINIA

September 30, 2016

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 Public Works, and Parks and Recreation Year 2015. These prior year audits were selected to evaluate the status of recommendations that had not been fully implemented. The reviews were conducted in September 2016. The status of five open recommendations from these reports was as follows:

__2__	had been implemented
__3__	were in the process of being implemented
____	were planned but not yet implemented
____	were partially implemented
____	had not been implemented
____	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,

Jay Poole
City Auditor
City of Chesapeake, Virginia

C: James E. Baker, City Manager

This page intentionally left blank

FOLLOW-UP REVIEW

PUBLIC WORKS

REPORT ISSUE DATE: JULY 2015

FOLLOW-UP REVIEW DATE: SEPTEMBER 2016

CITY OF CHESAPEAKE, VIRGINIA
AUDIT SERVICES DEPARTMENT

This page intentionally left blank

September 30, 2016

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 review of the Public Works Department. The review was conducted in September 2016. As of that date, the status of the report's two open recommendations was as follows:

   1   had been implemented
   1   was in the process of being implemented
        was planned but not yet implemented
        was partially implemented
        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,

Jay Poole
City Auditor
City of Chesapeake, Virginia

C: James E. Baker, City Manager

This page was intentionally left blank

FOLLOW-UP REPORT

**PUBLIC WORKS DEPARTMENT
PERFORMANCE AUDIT**

September 2016

Table of Contents

This page was intentionally left blank

D. Technology Issues

Public Works utilized several different software packages to help it accomplish its assigned tasks. We identified a number of issues with the utilization (or lack thereof) of several software packages including the Maximo Asset Management System, SharePoint software and RouteSmart software within the Department as a whole, as well as lack of utilization of Global Positioning Software (GPS) within the Waste Management Division.

3. RouteSmart Software

Finding – The Department was not utilizing its RouteSmart routing system software to its fullest potential.

Recommendation – The Department should locate the RouteSmart software, properly complete the implementation, and train the staff on its use.

Response – The RouteSmart program was originally installed on a Public Works Operations computer. It has since been transferred to another user who is GIS trained and will be the point of contact for RouteSmart updating and the technical aspects of the program. Training is projected to begin in September.

2014 Status – This recommendation is in the process of being implemented. Currently the system is being used on all trucks to provide real-time tracking of vehicles on their assigned routes. The Waste Management Administrator submitted a request for a consultant to utilize the software to optimize the existing routes with the goal of maximizing individual route efficiency and truck capacity.

2015 Status – This recommendation is in the process of being implemented. Public Works is working closely with Purchasing to secure a contract for a consultant to assist with the re-balancing of the routes. They have worked with neighboring municipalities who have recently optimized routes using similar software to ascertain best business practices and discovered that the detailed turn by turns routing element is not worth pursuing.

2016 Status – This recommendation has been implemented. Training took place in October of 2015. Public Works have contracted with RouteSmart for technical assistance in optimizing the routes of our automated waste collection vehicles. RouteSmart has presented us with a preliminary solution of optimized routes. Waste Management has begun actively testing the routes during actual collection activities to provide real-world feedback. Some of these routes have already been adopted as part of the regular

collection schedule. Others are still in the testing phase and are being adjusted as necessary. Public Works is working closely with the consultant to finalize the remaining collection routes.

G. Other Items

We made observations in several other areas that we believe will assist the department in enhancing its operations and practices. These items included safety monitoring, pothole repair guidelines, ID/IQ contract access, and Monthly Progress Report reconciliations.

5. Monthly Progress Reports - Division of Construction Services (DCS)

Finding – DCS and Public Works Accounting did not reconcile Monthly Progress Reports against the City‟s PeopleSoft expenditure reports.

Recommendation – A periodic reconciliation should be performed between the DCS‟s design/construction Monthly Progress reports and the PeopleSoft Expenditure Reports**.**

Response – Project managers receive detailed expenditure reports (ME Reports) twice a week on their projects. They will periodically review and communicate to PW Accounting any discrepancies. Currently ME reports have a limited number of staff that receive the reports. If they could be placed on share point other non-PeopleSoft users would have access (Eng. Techs etc.)

2014 Status – This recommendation has not yet been implemented. Public Works is looking to utilize the PeopleSoft program upgrades planned for 2015. They are currently using the Contracts Module in Maximo, however, it only works for those who have Maximo licenses.   Public Works will work with the Finance Department to ensure that any necessary reconciliations are completed in a timely fashion.

2015 Status – This recommendation has not yet been implemented. Some aspects of the PeopleSoft upgrade that was planned for 2015 did not occur. The department continues to utilize Maximo modules where accepted.

2016 Status – This recommendation is in the process of being implemented PeopleSoft still requires needed upgrades to accommodate more frequent ME reports. Project Managers still have the ability to view ME reports twice a week, and division heads have access to operating ME reports daily. Power-point presented to key project managers on how to navigate alternatively in PeopleSoft to view budgets. DCM (Design –Construction Management Section) routes all financial transactions and expenditures through PW accounting for approval (starting with the time we advertise for projects , contract

approvals , issuing purchase orders , payments of invoices , approvals of change orders, issuing task orders/ work orders   for project associated activities(utility, ROW, environmental,,,etc). The main issue with monthly projects reporting is that the data presented for project expenditures are good for the day when it's reported and due to on-going construction activities that maybe different a week later ,but PW accounting is involved in all financial transactions on our projects (including the conciliation required with people soft).

This page was intentionally left blank

FOLLOW-UP REVIEW

PARKS AND RECREATION

REPORT ISSUE DATE: JUNE 2012

FOLLOW-UP REVIEW DATE: SEPTEMBER 2016

CITY OF CHESAPEAKE, VIRGINIA
AUDIT SERVICES DEPARTMENT

This page was intentionally left blank

Chesapeake
VIRGINIA

September 30, 2016

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 review of Parks and Recreation Department. The review was conducted in August 2015. As of that date, the status of the report's one open recommendation was as follows:

        had been implemented
   1   were in the process of being implemented
        was planned but not yet implemented
        was partially implemented
        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,

Jay Poole
City Auditor
City of Chesapeake, Virginia

C: James E. Baker, City Manager

This page was intentionally left blank

FOLLOW-UP REPORT

**PARKS AND RECREATION
PERFORMANCE AUDIT**

September 2014

Table of Contents

Contents	Page

This page was intentionally left blank

D. Operations

Our review of several Departmental operational areas noted several areas where procedures could be enhanced. The department's fee structure had not been reviewed for several years. Physical security and Inventory controls could be enhanced. Usage of the City's Maximo asset management system was not optimal. Finally, the department had not fully complied with city safety program requirements.

3. <u>Inventory Controls</u>

Finding – Departmental inventory control procedures needed improvement.

Recommendation – The Department should establish an inventory control system that provides timely inventory information for review.

Response – **Parks and Recreation agrees that the Department should establish written inventory control policies and procedures and should have an inventory system that provides timely inventory information, control levels, usage records, and storage location information.**

The Department continues to wait for the upgrade of the City's Maximo system so it can be utilized as it was intended in the warehouse. The way the system was originally set up would not work currently with the Department's existing warehouse situation. Parks and Recreation has been advised that any inventory control system put in place now would be a future duplication of effort and inefficient use of time management. (Note: The full text of the Department's response is included in the body of the audit report).

2014 Status – This recommendation is in process of being implemented. Grills, shelters, lights etc. is now accounted for, to include their condition, in their inventory. However, requested work order portal was denied.

2015 Status – The Maximo Inventory software modifications have been completed by the vendor, Aquitas. The next step is to map out the process for implementation of the Housekeeping portion of the inventory since that is the highest turnover of inventory. This involves the creation of a new work order/approval process and we will eventually roll this out department-wide.

2016 Status – This recommendation was in the process of being implemented. The Maximo Hosting was scheduled to go live October 31. That was based on the premise that CSR hosted and other integrations were progressing forward and that we would be able to do "Dry Runs" before that time. This Go Live date has now been delayed again. Parks and Recreation is awaiting the official new date.

FOLLOW-UP REVIEW

CITYWIDE CAPITAL PROJECTS

REPORT ISSUE DATE: JULY 2015

FOLLOW-UP REVIEW DATE: SEPTEMBER 2016

CITY OF CHESAPEAKE, VIRGINIA
AUDIT SERVICES DEPARTMENT

This page was intentionally left blank

September 30, 2016

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 review of Citywide Capital Projects. The review was conducted in August 2015. As of that date, the status of the report's one open recommendation was as follows:

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

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

Sincerely,

Jay Poole
City Auditor
City of Chesapeake, Virginia

C: James E. Baker, City Manager

This page was intentionally left blank

C: Project Estimating

Our review of the City's capital project management practices identified a number of issues and control deficiencies that had not been addressed as well as practices that could be enhanced. These issues included areas of cost estimation review and planning prior to approval and of inclusion of common and recurring obstacles in cost estimations.

1. Independent Review of Project Scope Cost Estimates

Finding – There was no consistent independent review of initial project scope cost estimates and no consistent process for managing projects against original cost estimates.

Recommendation – All capital projects should have a comprehensive review of the scope of work by all affected City departments at least during the feasibility phase.

Response:
We agree that comprehensive reviews of the scope of work should be completed before or during the feasibility phase of projects and will install procedures to ensure it occurs. Having said that, we also expect that estimated costs will change even after feasibility studies are conducted. There are many reasons that costs estimates are not static once projects are identified in the capital improvement program. Typically, projects are programmed before design occurs. Until designs are completed, project costs are very difficult to predict. Even after a design is completed, actual project costs are dependent on market conditions and commodity prices at the time of bid. Market conditions at the bid point are often very different from architect and engineering estimates during the design phase. After bid and during construction it is not uncommon to discover design errors/omissions, differing site conditions, and user requested changes. Design errors are usually rectified at no cost by the architect / design engineer and user requested changes are now reviewed, justified and approved by the user department head.

With respect to findings and recommendations of the 2012 review of the Animal Services facility, Public Works implemented several procedures including:

*   **Formal prequalification required for large complex projects**
*   **Constructability reviews to identify omissions for large complex projects**
*   **Change orders require authorization beyond the project manager**

2016 Status – This recommendation had been implemented. Every new capital project starts with a scoping meeting with the project team (including project stakeholders as appropriate) to discuss project limits , scope , resources , schedule, budget and risks (and other items appropriate for the specific project) . The project scope then is

summarized in a project scoping report for review and approval by the entire project team (project engineer, project manager, City surveyor /Traffic Engineer, Assistant City engineer, and the City Engineer). Also, during the project design phase, we have several project milestones at which project plans are reviewed by the entire team and other PW divisions and City departments .See attached plan routing document (roles and responsibilities assigned to other PW divisions and departments in the review process).

Managerial Summary

Information Technology
Public Utilities
Citywide Overtime Practices
Citywide Grant Practices

This page was intentionally left blank

Managerial Summary

A. Objective, Scope, and Methodology

We have completed our review of the Department of Information Technology for the period July 1, 2015 to June 30, 2016. The purpose of this audit was to evaluate whether the City of Chesapeake's (City) Department of Information Technology (DIT) was providing services in an economical, efficient, and effective manner, whether its goals and objectives are being achieved, and whether they were complying with applicable City procedures. The audit included reviews and evaluations of procedures, practices, and controls of the various divisions of the DIT on a selective basis. All divisions of the DIT, including performance measures for Enterprise Application Services, Administration, Enterprise Software Development, Computer/Network Operations Center, Network Support, Desktop Support, Mainframe Operations, Geographic Information Systems (GIS), Enterprise Financial System, E-Gov, Radio Systems Maintenance and Administration, and Data Security Administration were subject to evaluation. We attempted to identify performance information that appeared to be relevant to the department's operations. We also attempted to identify and address any additional problem areas as requested by DIT or determined from the audit itself.

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 finding and conclusions based on our audit objectives.

DIT employed a work force of approximately 55 full-time positions and 1.5 part-time positions for FY2015. Its budget for fiscal 2015 exceeded $10.6 million dollars, and accounted for approximately 1.1% of the City's budget.

The City budgeted approximately $381M for multi-year capital projects in FY2016. Those projects included infrastructure for public safety and other City departments, the City's Constitutional Officers, and schools. Of that, approximately $22.8 million was designated for DIT infrastructure, and systems, and 12 for DIT capital projects scheduled in FY2016. Of these 12 projects, the five projects largest in cost were the Project 25 Radio System ($9.6 million), Mainframe Migration ($5.5 million), Electronic Plan & Permit System ($3.2 million), CAMA implementation ($1million), and the Enterprise Wide Tech budgeted ($750,000). The chart below highlights these projects in relation to the 12 DIT

projects combined. (Note: The Library and Police Mobile Communication Security DIT projects were excluded from this analysis since DIT was not responsible for those projects.)

Major Observations and Conclusions

Based on our review, we determined that DIT had accomplished its overall mission of providing centralized and decentralized automated information systems technology services to City departments and the Chesapeake School Administration. However, we did identify several significant issues that needed to be addressed. These issues included the following:

- DIT Governance challenges and legacy system issues
- Access Controls and the Active Directory
- Archiving Processes
- PeopleSoft Financial System Issues
- 911 Statistical Call Data
- Heat Ticketing System
- DIT Staffing Challenges

DIT Officials were fully aware of these issues and addressed them in the Self-Assessment and department responses included with this audit. Police Officials were also aware of the 911 Statistical Call Data issues and addressed them in their responses.

This report, in draft, was provided to DIT and Police officials for their review and responses. Their comments have been considered in the preparation of this report. These comments have been included in the Managerial Summary, the Audit Report, and Appendices A and B. DIT and Police 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

1. Overview

DIT was one of the City's three internal service funds. Its expenditures were not related to a single department since it also included contingencies and expense provisions that were allocated to individual departments. DIT provided necessary computing resources throughout the City and billed its services to other City departments.

DIT provided centralized and decentralized automated information systems technology services to City departments and the Chesapeake School Administration. In addition, DIT managed radio and telephone systems serving City departments as well as the City's website, internet, and intranet. A brief description of each business unit is provided below:

Over the years DIT had been consistently recognized nationally:

 The City of Chesapeake is honored to have been again recognized by the Center for Digital Government as a top-ranked digital City government.

 Chesapeake's CIO was featured on the cover of StateTech Magazine for "virtualizing" servers, which saves the City $203,000 a year in hardware costs and $2,000 per month in electricity.

 IBM recognized Chesapeake as a "Smarter City" for its use of technology to serve citizens.

 The Public Technology Institute recognized Chesapeake for its use of Web 2.0 and social media tools in 2011.

2. New Initiatives and Emerging Issues
Modernization Migration Project

Over the last several years DIT has focused on improving the core infrastructure of the City's network. The next phase of the department's readiness focused on the application portfolio and human capital to not only leverage the investments already implemented, but grow the organization in order to meet the increasing demand of the digital age.

Accela Program

In November 2015, DIT implemented the Accela program for departments with permitting processes. As of July 7, 2016, DIT reported 1,953 individuals who had conducted business online for a total of 5,783 transactions since the Accela program went live in November 2015. This was approximately 12 times higher than the 445 permits that were processed in the mainframe last year. The Accela system had also collected a total of $2,104,448 as of July 7, 2016.

C. Operational Issues

In reviewing DIT's operational processes, we identified several issues that needed to be addressed. The issues included DIT's Governance challenges, legacy system issues, and the DIT Modernization Project; access control and the Active Directory; the Archiving location; PeopleSoft Financial Issues; Heat Ticketing System; IT Staffing Challenges. As part of this audit, we included DIT's Self-Assessment of its own business processes as well as the status of the Public Safety New World Implementation.

1. **DIT Governance Challenges, Legacy Systems Issues, and the DIT Modernization Project**

Finding - The City did not have an IT Steering Committee and a Citywide IT Governance Policy to ensure cohesive ERP solutions for its financial systems resulting in long-term challenges for DIT.

Recommendation – The City should adopt a Citywide Governance Policy.

Response - DIT agrees with the audit recommendation that it is in the best interest of the City to reduce the footprint of ERP systems currently in use by the City. Gartner describes this consolidation trend in the industry as a post-modern ERP approach whereby the end result is less complexity regarding interfaces, integrations, and synchronization of data coupling with much more agility and adaptability at a lower cost than it otherwise would be if the City continues along the current path. This also gives the City the opportunity to introduce innovative business processes to take advantage of faster more efficient ways of conducting business in a more transparent, collaborative, and measureable manner going forward.

As for the governance policy, DIT will work along with the City Manager's office to ensure the key stakeholder enterprise business units such as Real Estate, Planning, Public Utilities, Public Works, Public Safety, and the constitutional officers are on board with the new governance process. In order for the City of Chesapeake to operate at a high level of efficiency and cost effectiveness while being properly aligned with stated City priorities it is necessary to establish a project governance mechanism for approval of all projects greater than $100,000 or where it is determined the impact of the project has sufficient enterprise impact that it warrants governance review. (Note: The full text of the response is included in the audit report).

2. **Access Control and the Active Directory**

Finding - The City did not have an Administrative Regulation requiring the Human Resources Department (HR) to promptly notify DIT of new hires, and changes in employees' status. This resulted in DIT's untimely disabling of active directories for some employees and volunteers who were no longer working for the City.

Recommendation - The City should develop an Administrative Regulation requiring HR to promptly notify DIT of new hires, and changes in employees' status.

Response - DIT agrees with the audit findings and will revamp the draft policy attached in the overall audit report to include clear directives for each department working with Human Resources to provide timely and accurate information to address this issue. With the new help desk service desk application being implemented with IT Service Management (ITSM), we will be able to automate

workflows that will help enforce the pending policy. (Note: The full text of the response is included in the audit report).

3. Information Technology Aspects of Business Continuity Management and Disaster Recovery

Finding - Backup tapes generated from DIT's private cloud were temporarily stored at the secondary data center. They were then transported based on the application owner's retention requirements to the vault in the City's municipal center, less than 400 feet away from the City's DIT center. Also, the PeopleSoft Financial System had not been archived which caused delays in processing data tables that had been kept open since the system was implemented in 2005.

Recommendation – The Finance Department should work with DIT to develop a plan for archiving PeopleSoft financial systems and records.

Response - DIT agrees with the audit's recommendation. The new Public Safety Operations Building (PSOB) will become a dual data center with active-active network capability to address disaster recovery and business continuity. In fact, the model is already implemented within a limited scope by utilizing the city's private cloud to capture and store backups that are designed with DIT's active-active network architecture state.

Finance archiving: DIT will continue to work with the City's school and the City's Finance department to address this issue. Without a proper archiving agreement and tool in place, PeopleSoft records will continue to grow thus eventually impacting timely access to data and impeding speedy recovery to data within a reasonable window from a disaster.

4. PeopleSoft Financial Issues

Finding - The PeopleSoft Financial System was purchased but not fully implemented due to budget constraints, resulting in the City paying maintenance fees for software modules that were not being used. In addition, unused modules were supplemented with additional systems creating a need for integration, which increased complexity and decreased efficiency.

Recommendation – DIT should continue to evaluate future enterprise application replacements, and consider whether it is in the City's best interest to continue to expand the City's PeopleSoft ERP footprint, use alternative applications, or consider other technologies such as cloud computing (SaaS).

Response - DIT agrees with the audit recommendation. In fact, the formal governance adoption as outlined in issue #1 is a forerunner to resolving this issue. The Department of Information Technology (DIT) will be following the Gartner strategic roadmap to address the following:

- **Enable innovation to take place**
- **Allow for the exploration and discovery of functions, business processes, and technologies**
- **Provide innovative solutions with improved, well-defined, and measurable outcomes**
  (Note: The full text of the response is included in the audit report).

5. Public Safety and the New World System

Finding - For the most part, the Public Safety Departments was satisfied with the state of information technology in the City and progress was being made daily. However, there was a need to replace the Shadow IT staff that supported the Fire Department with DIT personnel.

Recommendation – DIT should continue ongoing efforts with the New World Implementation.

Response - DIT agrees with the audit recommendation. New World conducted a second round of training for Fire and Police staff that remedied several issues. The new fire alerting system is already included in the future capital request.

6. 911 Statistical Call Data

Finding – Statistical call data from the Aurora Cassidian system showed an increasing trend of unanswered 911 calls in 2015 due to staffing shortages for Emergency Communications Dispatchers.

Recommendation – The City should take steps to address Emergency Communications staffing shortages to reduce the number of unanswered calls.

Response – (from the Chief of Police) I have reviewed the audit report and concur with the findings. It should be noted that some of the concerns identified by the audit are being addressed through prior, existing, and future budgets. In order of priorities of the items that are left unsettled are: 1.) increased staffing; and 2.) salaries. In addressing staffing, we have expanded our recruiting efforts and are presently exploring additional methods to reach people who desire to and can perform these essential functions, including partnering with Tidewater Community College to develop work-force solutions to help us recruit and retain dispatchers. However, these efforts can prove to be ineffective if we cannot offer competitive salaries; therefore, I will be requesting Human Resources to conduct a pay and compensation study. (Note: The full text of the response is included in the audit report).

7. Heat Ticketing System, the Help Desk, and Operations
Finding - DIT was working with a HEAT Ticketing System that no longer served the City's needs.

Recommendation – DIT should continue the system update.

Response - DIT agrees with the audit recommendation. DIT is in the final stages of selecting the vendor for the new Help Desk service tool. (Note: The full text of the response is included in the audit report).

8. DIT Staffing Challenges
Finding - There were City employees performing IT functions (referred to as Shadow IT) that were not a part of DIT. However, DIT did not have sufficient staff to support the all of the City's DIT systems and infrastructure. Thus, the entire comprehensive view of technology support within the City was obscured.

Recommendation - The City should consider bringing DIT staff assigned to other departments under the direct supervision of DIT.

Response - DIT concurs with the audit findings. DIT is currently in discussion with the Fire Administration staff to determine the duplicate IT efforts. DIT has an extremely successful enterprise IT agreement with Public Safety and will continue to evaluate and make recommendation for technical resources as needed. (Note: The full text of the response is included in the audit report).

9. DIT Self-Assessment Using COBIT 5 Model
Finding – In 2015 DIT completed a COBIT[1] 5.0 self-assessment. This self-assessment found that the DIT was, on average, an "immature" department and that their systems and processes needed substantial growth to reach what would be considered an optimal level of performance.

Recommendation - DIT should continue to improve its' process and procedures in order to move from its' immature state to that of full innovation and optimization. We also recommend that DIT continue to perform its Self-Assessment annually to monitor the maturity levels of DIT processes overall.

Response - We will begin with the ITIL structure to address many of these issues addressed in this audit.

Managerial Summary

A. Objectives, Scope, and Methodology

We have completed our review of the Public Utilities (PU) Department for the period July 1, 2013 to April 30, 2016. 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 Federal, State, City, and Department regulations and procedures related to their water and sewer operations, management oversight, contract management, cash handling, payment processing, safety, security, information technology, and facility operations.

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 to the City of Chesapeake (City). Its primary purpose was two-fold: 1) to provide treatment and distribution of quality drinking water for Chesapeake citizens which met or exceeded minimum quality standards and, 2) to maintain and operate sanitary sewer infrastructure within City Utility Franchise areas. In order to provide this service, the Department maintained thousands of miles of pipeline to deliver potable water and receive wastewater. The Department treated its own raw water and serviced the majority of Chesapeake with City water while several private firms supplied water to a small percentage of City residents. The Department did not treat its own wastewater; rather the sewer lines delivered the wastewater from City fed lines to larger mains owned and operated by the Hampton Roads Sanitation District (HRSD), which treated the wastewater.

For Fiscal Year (FY) 2014-2015, the Department had an operating budget of slightly over $61 million and an authorized compliment of approximately 212 personnel with the majority located in either Maintenance and Operations or Water Production. The Department operated as an enterprise fund for the sale and resale of water. As such it reported just over $69 million in Gross Revenue and just under $16.5 million in Operating Income for FY 2014-2015. The Department occupied offices on the second floor of the City Hall Municipal Building and the Executive Drive Maintenance and Operations Center. In addition, Public Utilities operated two water treatment plants and 300 pump stations and other remote facilities.

To conduct this audit, we reviewed and evaluated City and Department policies and procedures, operations documents, and reports, both internal and external. We reviewed a consultant's evaluation of the Department's warehouse operation. We also reviewed standards and guidelines of the American Water Works Association (AWWA) and compared them to actual operations. We compared data in Maximo, the Department's inventory and time management system, against actual inventory and time data. We conducted tours of the various Department facilities. We discussed these audit areas and conducted interviews with the Director of Public Utilities, Fiscal Administrator, other Department administrators, superintendents, accounting staff, and various employees.

Major Observations and Conclusions

Based on our review, we determined the Department had accomplished its overall mission of providing the citizens of Chesapeake a reliable and sufficient supply of safe drinking water and a reliable wastewater collection system through responsive, efficient and cost effective operation. However, we did identify several areas of concern that needed to be addressed. Those areas included the pro rata program, contract administration, water production, inventory and warehouse operation, aging of meters, and policies and procedures.

This report, in draft, was provided to Department 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. Department 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

Most Chesapeake residents did not realize that when they turned on the tap to get a glass of water they were drinking award winning water. In April 2016, PU participated in the AWWA Water Service and Distribution Rodeo and won first place in the state for taste. Chesapeake's municipal tap water was declared the "Judge's Choice Tap Water" in a non-scientific taste test conducted by the Virginia Chapter of the American Water Works Association (AWWA). To achieve the "Judge's Choice" award, Chesapeake water was rated in four categories: Clarity, Odor, Flavor, and Aftertaste. With the award the Department more than met its goal of providing a reliable and sufficient supply of safe drinking water. In addition to providing safe drinking water that tasted great, the Department also operated a reliable wastewater collection system. The Department was working twenty four hours a day maintaining sufficient water pressure in the system, ensuring wastewater pump stations were operating, and detecting, and solving, bacterial irregularities in the drinking water. If the need to fight a fire occurred, PU was able to monitor the system to ensure that sufficient water pressure was available at the scene.

Public Utilities was divided into five functional divisions and eight service areas: Administration; Water Production (Lake Gaston and Northwest River); Engineering; Maintenance and Operations (which was subdivided into M&O – Sewer and M&O – Water); and Billing and Customer Service, which handled the meter reading service. Each division carried out an essential function independent from the others. A new Department Director started in January 2014. Since that time, the new Director has filled the following direct report positions: Assistant Director (January 2015), Fiscal Administrator (April 2015), Utility Engineer (April 2015), Water/Wastewater Administrator (August 2015), and Safety Inspector II (November 2015).

Water Treatment Plant staff received several recognitions:
- On June 11, 2014, the Lake Gaston WTP changed the coagulant it used from ferric chloride to aluminum chlorohydrate to improve water treatment processes and extend the life of the membrane filters. On October 9, 2014, a presentation on the successful coagulant conversion at the Lake Gaston WTP was made at the AWWA Senior Operators Conference. The change in the coagulant was expected to extend the life of the membrane filters from about two years to an expected 8-10 years with a potential savings of $6 million.
- On October 25, 2013, PU staff designed and constructed a chlorine booster station at the Western Branch Ground Tank. The station allowed the City to maintain high water quality in the area of the City that received Portsmouth water. In September, PU's Water Quality staff discussed the success of this project at the AWWA state conference on Nitrification in Consecutive Systems.
- On April 6, 2016, the Center for Disease Control and Prevention presented PU's Northwest River WTP the Water Fluoridation Quality Award for consistent and professional adjustment of the water fluoride content to the optimum level for oral health for 12 consistent months for 2013 and 2014

C. Pro Rata Program

The pro rata program was implemented in 1984 by PU. The pro rata program apportioned the cost of major infrastructure to the developers using the improvements. The intent was to encourage continued development in Chesapeake and equitably allocate those costs to the parties who received the benefit. In the early stages of the program, there were only a small number of pro rata projects. By 2016, the number of projects had grown to approximately 200 projects. Over the years, the engineering staff had not grown in proportion to the volume increase in the number of pro rata projects. The calculation process required to determine the amount of pro rata for first developers was a time consuming process. The engineering staff could not maintain the volume of pro rata calculations in addition to their normal project oversight responsibilities.

In addition, engineering management made the decision to make pro rata projects a low priority unless development was delayed (project pro rata work was escalated in those cases). Management also did not provide adequate oversight and monitoring to determine the impact of their decisions on the effectiveness of the pro rata program. Therefore, pro rata calculations were not completed timely, documentation was not complete, and receipt and disbursements of payments to developers were not made timely. PU was aware of the issues and requested that Audit Services examine them.

1. Pro Rata Engineering

Finding - The process in place for the handling of pro rata development projects was inefficient, labor intensive, and time consuming. The engineering staffing levels were not sufficient to handle the volume of pro rata projects approved by PU. In addition, pro rata projects were not a priority for PU Engineering. Therefore there was a lack of management review, monitoring, and oversight over these projects for many years. Further, pro rata policies and procedures lacked sufficient detailed information for the handling of pro rata projects and had not been substantially updated since the inception of the program.

Recommendation – The Engineering Division should strongly consider reevaluating their process for handling pro rata projects. The pro rata calculation process should be streamlined to become less time consuming. In addition, Engineering should provide additional oversight and monitoring over pro rata projects. Further, policies and procedures should be updated.

Response - As a result of internal actions relating to the pro-rata program, working with the City Attorney's office, DPU staff committed in 2015 to fully evaluating and modifying the pro-rata program. It was recognized at that time that:
- **the engineering portion of the process was very labor intensive and time consuming;**
- **there was insufficient involvement from DPU's Accounting staff;**
- **the program had become difficult, if not impossible, to properly manage as it was currently structured; and**
- **the program objectives are excellent, it is the mechanisms that need to be modified.**

As a result of this realization, I specifically requested the Internal Audit team conduct a thorough review of the pro-rata program in our opening meeting. Having now received the evaluation from the Auditor, DPU is working on proposed revisions to the pro rata policy and procedure. Pro-rata is a City Council policy, and any changes must be formally approved by the City Council. The procedure may be revised by the DPU Director. (Note: The full text of the response is included in the audit report.)

2. Pro Rata Accounting

Finding - PU revenue reflected on the City's Comprehensive Annual Financial Report (CAFR) had been overstated and liabilities understated for numerous years. Subsidiary records for pro rata projects had not been kept up to date and had not been reconciled to the general ledger. Also, the Accounting Division did not have a complete understanding of the pro rata project process. Communication between the Engineering and Accounting Divisions was limited even though the divisions were dependent on each other to ensure proper accounting for pro rata projects. Further, accounting policies and procedures for the handling of pro rata payments and disbursements needed to be updated.

Recommendation – Incoming pro rata payments should be posted to liability accounts verses revenue accounts. Subsidiary records should be kept up to date and be periodically reconciled to the general ledger. The Accounting Division should have a complete understanding of the pro rata process. The lines of communication between the Accounting and Engineering divisions should remain open at all times. In addition, pro rata policies and procedures for the Accounting Division should be updated and followed.

Response - PU Engineering and Accounting have worked together a great deal to increase the combined teams' understanding of the pro rata process. Whereas Accounting was minimally involved in the program since its inception, that has changed, and they are now integrally involved in the process. (Note: The full text of the response is included in the audit report.)

D. Maintenance and Operations (M&O)

Our review of the M&O Division noted that the water meter section of the M&O Division had not tested all large meters once each year as required. Also, water meters over 15 years old had not been replaced as recommended. In addition, refurbished meters were not being returned into Maximo inventory records after repairs were completed. Further, documented policies and procedures were lacking in all three of the areas addressed. The underlying cause for meter testing and replacement not being performed as required was insufficient staffing.

1. Aging Meters

Finding – The M&O Division had not replaced all aging residential (5/8'' to 2") water meters which were over fifteen (15) years old as recommended. In addition, the fifteen (15) year guideline was not documented in the division's policy and procedures.

Recommendation – PU should develop and implement a realistic residential meter replacement program. Additionally, PU should consult with Human Resources to evaluate the cause of the continual vacant positions in the Water Service Section of the M&O Division and develop a plan to mitigate the continual vacancy issue. Further, meter replacement policies and procedures need to be documented.

Response - Public Utilities concurs on the need for a realistic residential water meter replacement program and such documented policies and procedures. Public Utilities is requesting several additional positions over the next three year budget cycle to assist with the meter replacement program. As resources become available, PU will continue to replace broken water meters and those over 25 years old as first priorities. Expansion of the Automatic Meter Reading (AMR) program throughout the City may also dictate the order in which meters are replaced. (Note: The full text of the response is included in the audit report.)

2. Large Meter Testing

Finding – The M&O Division had not consistently performed annual testing of large (3'' to 10") water meters. In addition, the annual testing process was not documented in the division's policy and procedures.

Recommendation – PU should develop and implement a large meter testing program that can be accomplished with the staffing level of the Water Service section. Additionally, the Department should consult with Human Resources to evaluate the cause of the continual vacant positions in the Water Service Section and develop a plan to mitigate this issue. Further, large meter testing policies and procedures need to be documented.

Response – Currently Public Utilities has over 800 large meters (> 2") that are tested by two staff members in Water Services. These two staff members also perform other duties including large meters repairs, register or touchpad repairs, 1½" - 2" meter change-outs, special meter tests, and numerous large meter re-reads. With current staffing, and as commercial development continues to grow, PU will be unable to meet the goal of testing large meters annually. Public Utilities is requesting an additional two positions over the next three year budget cycle specifically to assist with large meter testing. To annually test approximately 800 large water meters, two 2 man crews would be needed. (Note: The full text of the response is included in the audit report.)

3. Meter Tracking

Finding – The Meter Shop did not have written procedures for tracking new and refurbished meters.

Recommendation – The Meter Shop should develop written procedures for tracking new and refurbished meters.

Response – PU currently does not have a specific written procedure for tracking meters, but meters are tracked. All new meters purchased by the City are entered into the Customer Information System (CIS), which maintains the key meter information by individual meter number. The physical location of meters are also

documented within CIS, as well as the meter number tied to that location. Large batch purchases are entered into CIS by the IT department. Meter purchases for meter sizes larger than residential meters are entered manually in CIS by the Meter Shop Supervisor. Maximo, which is used for work orders, contains meter location and number, but requires a search by address, as meter information in Maximo is not updated due to limited staffing and the fact that it is not absolutely necessary. (Note: The full text of the response is included in the audit report.)

4. Inventory Process

Finding – PU's inventory process was cumbersome, lacked adequate segregation of functions, and inventory counts in Maximo were not always accurate.

Recommendation – PU should take steps to streamline inventory processes, improve segregation of functions, and improve inventory accuracy.

Response - In March 2016, PU added a new Accountant I position to compliment staff, specifically to improve the separation of duties with M&O purchasing and warehousing functions. The position has been filled and the selected candidate works at the M&O facility adjacent to the storeroom and yard storage areas. A Separation of Duties matrix was developed and initiated in late March 2016 to differentiate storeroom and accounting responsibilities. (Note: The full text of the response is included in the audit report.)

5. Data Entry

Finding – The Water Services and Water Distribution Superintendents spent significant time performing data entry work.

Recommendation – PU should take steps to reduce the time necessary for performing data entry work.

Response - A new Data Control Tech II position for data entry is proposed in the FY18 budget cycle. So far, other operational needs have outweighed the needs for the data entry position. Other changes have been made with existing personnel to reduce the burden on the superintendents. A meter technician position was converted to an Office Assistant I, who performs significant data entry. Additionally, Crew Leaders and General Supervisors have been equipped with field laptops with data connections to be used in the field to input information into the Maximo asset management system. (Note: The full text of the response is included in the audit report.)

6. Work Orders

Finding – PU's Water Service did not utilize Maximo to track all elements of work order

completion.

Recommendation – PU should contact Public Works and Information Technology to determine whether the "workaround" solution they were using could be used by the Water Service.

Response - Public Utilities Water Service section does not utilize all the functionally of Maximo with regard to tracking temporary employee time for work orders. Although this information is helpful, it is not critical unless we are performing a job for which we will send an invoice for reimbursement. With very limited staff (currently 8 vacancies), tracking this information for non-bill jobs is not worth the time it takes. (Note: The full text of the response is included in the audit report.)

7. GIS

Finding – PU was not optimizing its use of GIS to consistently record reliable and complete information of the water distribution piping and components.

Recommendation – PU should optimize its use of GIS to consistently record reliable and complete information of the water distribution piping and components.

Response - While we do not currently use our GIS system to its full capacity, we are making progress on getting our data more up to date in the GIS. This will start with getting accurate GPS data (6 inch accuracy) for all surface hardware- manholes, fire hydrants, meter boxes, cleanouts, valves, etc. This will provide a 90% solution for the physical location of all of our buried assets, excluding depth information. To facilitate this process, we purchased one field GPS units this year and plan to purchase one more in FY17 to capture more data. This effort involves GPS'ing more than 150,000 unique surface assets; this is a 20-year data gathering effort. (Note: The full text of the response is included in the audit report.)

8. Warehouse Conditions

Finding – Physical conditions at the PU warehouse and outside storage area needed improvement.

Recommendation – PU should work with Facilities Management to make necessary repairs.

Response – A new combined Public Works (PW) Public Utilities Operations facility has been planned for several years. Because it has been in and out of the planning and design phases, it has not seemed prudent to spend funds maintaining facilities that will soon be razed and removed. As a result, only minimal funds have been spent maintaining the physical features at the M&O facility on Executive Drive. While the new facility location is being determined, PU will work with Facilities

Management to make suggested essential repairs. (Note: The full text of the response is included in the audit report.)

E. Customer Information System (CIS)

We noted that reconciling differences between PU's Customer Information system and the Hampton Roads Sanitation District system were not researched and cleared in a timely fashion. Thus, the accuracy of some customer accounts was placed at risk.

1. CIS Reconcilement

Finding – Reconciling differences between the Customer Information System (CIS) and the Hampton Roads District system (HRSD) were not researched and cleared in a timely manner.

Recommendation – The CIS and HRSD systems should be reconciled daily and all reconciling items be researched and cleared in a timely manner.

Response - The issues cited for the audit have been resolved, and systems established to ensure that any future issues are quickly identified. CIS and HRSD systems are reconciled daily and any differences are identified, researched, and cleared in a timely manner. The PU IT Systems Analyst is much more comfortable with the system, and Accounting and Customer Service are working together when problems are identified. We have established a much better understanding of each of our software systems, the interfaces between them, and the interaction required between departmental teams.

F. Customer Service – Cash & Settlement - Billing

Customer billing experienced a significant backlog during 2015, resulting initially in skipped bills and later in enlarged bills to customers. Also cash handling and settlement procedures needed to be enhanced.

1. Billing

Finding – Customer billing was behind by over 2,500 service orders for several months during 2015. This created multiple instances where customers' bills were skipped and then "caught up" by being billed for four months on their next cycle.

Recommendation – PU should ensure that service orders, "rereads," and other exceptions are handled in as expeditious a manner as possible.

Response - The difference between the number of Tab Rereads (internally generated) and the reported 2,500 open service orders may be from two separate

reports. **The numbers are measuring different things. There is a Smartlist (CIS generated report) that identifies the total number of open service orders in CIS. This includes customer requested rereads, Tab Rereads, and all other types of service orders. This report has exceeded 2,500 open service orders that the division is placing great emphasis in completing. (Note: The full text of the response is included in the audit report.)**

2. Cash Handling and Settlement

Finding - The cashiering process in place for PU Customer Service was inefficient and was not designed to promote good customer service. In addition, procedures for cash handling, petty cash (p/c) and settlement processes did not sufficiently address cash handling, petty cash, settlement, internal controls, and the safeguards over assets needs to be enhanced.

Recommendation – PU Customer Service should develop and document cash handling, cash settlement and petty cash processes so that cash is adequately safeguarded. In addition, PU customer service should develop an ongoing oversight and monitoring process to ensure adherence to cash handing and cash control procedures.

Response - During this review period we have taken steps to increase our internal controls. Acknowledgment of this concern was evident when the decision was made to add a position to this area in customer service. In October 2015, we hired a former bank manager to further drive changes needed to our internal controls. Since her arrival, we have made many changes. (Note: The full text of the response is included in the audit report.)

G. Water Production

Our review of the water production and distribution areas identified an issue related to nuisance birds. The design and operation of the water treatment plants attracted these birds, and their presence created facility and health risks.

1. Nuisance Birds

Finding – The Water Treatment Plants' (WTP) design and operation attracted nuisance birds that caused corrosion and potential spread of disease to workers and visitors around the facilities.

Recommendation – Public Utilities should work with the appropriate federal and state agencies to address the issue.

Response - Many forms of goose control were deemed to not be appropriate for our water treatment facilities on Battlefield Blvd. or Western Military Highway. Earlier

this year, DPU purchased decoy coyotes which function to scare away geese and other nuisance birds from our water treatment facilities. To date, it appears these coyotes have been effective. We are currently evaluating bird netting and other systems to reduce or eliminate pigeon access to the water treatment area. (Note: The full text of the response is included in the audit report.)

H. Contracts

We noted several areas where contracting practices could be enhanced. Some contracts lacked some technical information, applicable inflation indices were not always specified.

1. Contracts

Finding – Contracting practices for Public Utilities could be enhanced.

Recommendation – PU should work with Purchasing to enhance its contracting practices.

Response - Public Utilities requested and was approved to hire a new senior engineer to serve as a Capital Project Manager as part of the FY17 budget. This individual will bring management of our capital program under one supervisor. Standardizing and improving our contracts is one of this individual's specific objectives. This individual will also provide quality control over our capital contracting process. Most of the identified situations and recommendations are relevant to capital contracts, and will be under this individual's purview.

This page was intentionally left blank

Managerial Summary

A. Objectives, Scope, and Methodology

We have completed our review of Citywide Overtime for the period July 1, 2012 to June 30, 2015. Our review was conducted for the purpose of determining whether City departments were providing overtime oversight in an economical, efficient, and effective manner, whether goals and objectives were being achieved, and whether the City was complying with applicable department, city, state, and federal requirements and procedures related to overtime.

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 City provided guidance on overtime to employees and supervisors through Administrative Regulations and an Employee Handbook. Additionally, several departments provided additional guidance through departmental policies and instructional emails. City departments were responsible for overtime expenses for their assigned employees. The City used MUNIS and Kronos to maintain required Fair Labor Standards Act record-keeping for pay, pay cycles, and hours worked.

For Fiscal Year (FY) 2014-2015, the City had an overtime budget of $4,918,714 and had incurred actual overtime expenses of $6,201,863, thus exceeding its overtime budget by $1,283,149. Table 1 below shows budgeted versus actual overtime for City departments during the FY 2015 fiscal year.

Table 1
FY15 Operating Budget vs. Actual Overtime Expense

Department	Budget	Actual
Board of Elections	$8,582.00	$7,554.89
Bureau of Community Programs	$0.00	$32.47
Central Fleet	$25,000.00	$54,664.10
City Clerk	$3,000.00	$2,708.13
City Manager	$0.00	$1,808.11
Commissioner of Revenue	$0.00	$6,126.99
Conference Center	$1,000.00	$0.00

Department	Budget	Actual
Customer Contact Center	$5,000.00	$58.72
Development & Permits	$41,125.00	$61,210.42
Fire	$1,277,991.00	$1,836,229.55
Health	$0.00	$13.34
Human Services	$81,566.00	$207,976.45
Integrated Behavioral Health CIBH	$0.00	$251,680.27
Parks, Recreation & Tourism	$31,050.00	$103,818.03
Police	$1,628,053.00	$1,849,010.97
Public Communications	$8,785.00	$5,468.54
Public Utilities	$848,697.00	$898,293.24
Public Works	$600,569.00	$649,671.57
Purchasing	$0.00	$21.38
Sheriff	$358,296.00	$265,516.10
GRAND TOTAL	**$4,918,714.00**	**$6,201,863.27**

To conduct this audit, we reviewed the federal Fair Labor Standards Act (FLSA), Virginia's law on overtime for sworn police, fire, and sheriff's department employees, and also reviewed and evaluated City and departmental policies and procedures. We also reviewed consultant and internal studies of staffing levels for certain City departments, as well as prior performance audits which identified staffing shortages. We also evaluated historical payroll information from the City's MUNIS Payroll system and PeopleSoft financial system. Finally, we held discussions with department heads and their staff in relation to overtime management and accounting.

Major Observations and Conclusions

Based on our review, we determined the City had provided adequate oversight and compliance with overtime policies, procedures and legal requirements, and City departments generally attempted to minimize overtime. However, we did identify several areas of concern that needed to be addressed. Overtime pay often resulted from vacancies in approved positions, with higher paid employees incurring overtime to cover vacant entry level positions in some instances. Also, the City lacked an automated notification mechanism when Overtime Leave (OTL) balances exceeded the FLSA maximum.

This report, in draft, was provided to City 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. City

management and Department 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

For purposes of overtime compensation, the FLSA had two distinct classifications of employees: 1) exempt employees who were not generally eligible for overtime pay; and 2) non-exempt (or partially exempt under Section 207(k) of the FLSA, in the case of sworn public safety) employees who were eligible for overtime pay. Although employers were responsible for making the initial determination, FLSA required documentation of each employee's status and the time and form of the hours worked or not worked during their scheduled work week or work period.

Each City department decided whether general employees working in excess of 40 hours within a work week would be compensated by overtime leave or overtime pay. Payment of overtime was calculated using the employee's regular pay rate (and any additional pay and allowance which affected the compensation) for a 40 hour work week. Overtime leave hours were accrued at one and a half hours for every hour worked over 40 hours in a work week.

Significant portions of City overtime was related to events (such as snowstorms) and subsequent recovery from those events. Routine planned and scheduled maintenance was postponed due to the need to prepare and respond during weather-related events. Departments such as Public Works, Parks and Recreation, and Public Utilities would be required to divert staff for preparations work and go to on-call and/or shift work for the storm. Recovery after an event often would require additional overtime to catch up on normal maintenance that had been postponed during the storm.

C. Staffing & Service

Finding – Overtime pay was often the result of vacancies in approved budgeted positions.

Recommendation – The City should take steps to reduce the number of recurring vacancies that drive overtime costs.

Response – We agree with the auditor concerning the need to reduce the number of recurring vacancies, and we continuously seek to reduce the time it takes to replace vacant positions. Vacancies occur for a variety of reasons, including retirements, relocations, other opportunities, and job dissatisfaction. It appears that employee turnover is increasing as the economy improves and more opportunities are available. The city seeks to stem job losses by improving pay and working diligently to hire candidates whose interests are closely aligned with job openings. Frankly, we will likely see an increase in turnover due to the introduction of the VRS hybrid retirement plan. The defined benefit component of the plan for new general

workforce employees is much less substantial than that of existing employees in VRS Plan 1 or 2 which encourages job movement. (Note: The full text of the response is included in the audit report).

D. Oversight

Finding – The City did not have an automated notification mechanism when Overtime Leave (OTL) balances exceeded the FLSA maximum.

Recommendation – The City should explore methods of automating the notification when OTL balances exceeded the FLSA maximum.

Response – The City's Kronos system, as mentioned earlier, is capable of tracking overtime leave earned, taken and balances. This capability is used to record the City's liability at the end of the fiscal year as a result of the earned overtime leave that has not yet been taken. Regular monitoring of the earned Overtime leave is available to Managers each pay cycle as during the sign off process employee's timecards the status of this information is reflected on screen. Additionally leave balance reports for all leave categories are available on demand for Managers to monitor collectively as well.

Managerial Summary

A. Objectives, Scope, and Methodology

We have completed our review of Citywide Grants for the period July 1, 2014 to June 30, 2016. Our review was conducted for the purpose of determining whether City departments were recording and processing grants in compliance with applicable federal requirements, and procedures, related to grants, specifically those in the federal Office of Management and Budget Super Circular (Super Circular).

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 finding and conclusion based on our audit objectives.

The City's Finance Department provided overall guidance and monitoring of grant compliance. They provided periodic updates to the departments as to changes in the compliance requirements and other issues that effected grant management. Individual departments such as Fire, Police, and Chesapeake Integrated Behavioral Health that had a large number of grants had staff members that monitored compliance with the Super Circular and other grant requirements.

Each year during the operating budget approval process, the City provided awards to nonprofit organizations that provided a variety of services to Chesapeake citizens. These grants were provided through various departments and agencies such as Human Services, Chesapeake Integrated Healthcare, and the Chesapeake Fine Arts Commission.

To conduct this audit, we reviewed the Super Circular, reviewed and evaluated City and departmental policies and procedures relating to grant management. We also reviewed departmental staffing and level of training. External websites were reviewed to gauge grant compliance. Finally, we held discussions with various department heads and their staff in relation to grant compliance with the Super Circular.

Major Observations and Conclusions

Based on our review, we determined the City had provided adequate oversight and compliance with grant policies, procedures, and the Super Circular. However, we did identify one area of concern that needed to be addressed. The City did not verify that recipients of its Non-Departmental awards were current in their SAM.gov federal

registration status. While any adverse financial effects from the lack of this pre-award review would likely be minimal, the possibility exists that the City could be associated with a problematic award recipient or potential loss of the funds unless a review is undertaken.

This report, in draft, was provided to City 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. City management, Department 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

The federal Office of Management and Budget (OMB) assisted the President of the United States in the development and execution of his policies and programs and in meeting certain statutory requirements, including the preparation of an annual Federal budget. OMB ensured that enacted laws were carried out as efficiently and effectively as possible.

OMB issued the Super Circular on December 26, 2013 in the form of final regulations officially titled "Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards." The Super Circular streamlined and merged eight other Federal circulars including A-102, A-122, and A-133. The intent was to standardize the grant compliance requirements into one comprehensive guide.

The Super Circular's primary objectives included: "eliminating duplicative and conflicting guidance; focusing on performance over compliance for accountability; encouraging efficient use of information technology and shared services; providing for consistent and transparent treatment of costs; limiting allowable costs to make best use of federal resources; encouraging non-federal entities to have family-friendly policies; strengthening oversight; targeting audit requirements on risk of waste, fraud and abuse."

Each budget year the City allocated funds that were classified as non-departmental costs. These costs included City-wide expenses not related to a specific department such as debt service, City Garage, and Information Technology. Also included as non-departmental costs were contingencies that were allocated to various departments as estimates were finalized or specific needs identified, and aid to outside agencies.

All agencies that received City support originating from Federal grant monies were considered sub-recipients. As sub-recipients these agencies were subject to the terms of the Super Circular. As the grant recipient it was incumbent on the City to monitor the sub-recipients to ensure that they were in compliance with all applicable regulations.

C. Verification of Recipients for Non-Departmental Awards

Finding - The City did not verify that recipients of its Non-Departmental awards were current in their federal registration status.

Recommendation - The City should verify the status of Non-Departmental award recipients on SAM.gov prior to approving the awards, if the recipient receives federal funding.

Response - We concur with Audit's findings. In the future, organizations/agencies will be required to document if they are recipients of federal funding the previous year and if they anticipate receiving funding in the year requesting the City's funds. The agency will be required to demonstrate that they have registered with SAM.gov. The City will release the funds to organization/agency after reviewing the SAM.gov information.

This page was intentionally left blank

A. SUMMARY

AUDITS IN PROGRESS, TECHNICAL ASSISTANCE & TRAINING

This page was intentionally left blank

AUDITS IN PROGRESS, TECHNICAL ASSISTANCE, & TRAINING

Technical Assistance Projects

Munis/Kronos – We are continuing to provide advice related to Munis and Kronos systems

I/T Modernization - We have provided advice on the City's IT modernization project.

PeopleSoft 9.2 Upgrade - We provided advice on the PeopleSoft 9.2 upgrade

ECC – Two members of Audit Services have participated in Employee Communications Committee

Public Procurement Task Force Committee

Audit Follow-Up – City Auditor conducted follow-ups on various open audit items.

Purchasing – We provided advice on the improvements in procurement processes.

Payroll Changes – We are continuing to provide advice in the development of potential payroll cycle changes for City employees.

Fleet Utilization – We have attended meetings and provided assistance on the City's Fleet Utilization Project.

I/T Accela Costs – Reviewed information on costs associated with Accela program implementation.

Training & Other

July 2015

Training - Staff completed various on-line continuing education exercises.

August 2015

Training –Staff participated in on-line continuing education courses. Members attended ACFE//IIA Joint Summer Meeting

September 2015

Training –. One staff member attended the 2015 Annual Accounting and Auditing Day and the entire team attended the VLGAA Fall Conference. Staff completed various on-line continuing education exercises.

October 2015

Training – The team attended VLGAA Fall Conference Staff attended the IIA Mid-Atlantic Conference and another attended the Virginia Society of Certified Public Accountants' Specialized Knowledge Day. Staff completed various on-line continuing education exercises.

November 2015

Training – Staff attended Forensic Analytics and Employee Fraud training; and others participated in web based training.

December 2015

Training –Staff completed various on-line continuing education exercises and some attended the 2015 Annual Update and Tax Luncheon.

January 2016

Training – Staff completed various on-line continuing education exercises.

February 2016

Training – Staff completed various on-line continuing education exercises.

March 2016

Training – Team members participated in various webinars for continuing education. One member attended the CAE Director Roundtable. One team member participated in the I/T Day Training Day.

April 2016

Training – The entire team attended the two day 2016 Annual Williamsburg Fraud Conference and completed various continuing education courses.

May 2016

Training – The entire team attended the VLGAA 2016 Spring Conference.

June 2016

Training – The entire team attended the Cherry Bekaert Annual Seminar. One team member attended the ACFE Global Fraud Conference; and members participated in various webinars for continuing education.

This page was intentionally left blank

C. FRAUD HOTLINE

This page was intentionally left blank

FRAUD, WASTE, AND ABUSE HOTLINE REPORT

During Fiscal Year 2016 we received 12 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:

Compliant #1 – This complaint was related to allegations of a City employee misappropriating funds. The matter was referred to the police by the affected department and the employee eventually admitted guilt. Therefore, this complaint was authenticated.

Complaint #2 – This complaint was related to allegations of a City employee misappropriating a small change fund. The matter was investigated by the affected department and the employee eventually was terminated. Therefore, this complaint was authenticated.

Compliant #3 – This complaint was related to allegations about possible federal program violations at a nursing home. Since the City has no jurisdiction in the matter, it was referred to federal investigators.

Complaint #4 – This complaint was related to allegations of a City employee abusing worktime by visiting the post office daily on city time. We investigated and found that the employee involved was actually a departmental courier. Therefore, this complaint was not authenticated.

Compliant #5 – This complaint was related to potential sexual harassment by an employee. It was referred to Human Resources for investigation and the employee was disciplined Therefore, this complaint was authenticated.

Compliant #6 – This complaint was related to allegations of a City employee using a city vehicle for personal use. The matter was investigated by the affected department and the employee was disciplined. Therefore, this complaint was authenticated.

Compliant #7 – This complaint was related to debris removal in a private alley. It was authenticated and referred to Development and Permits for resolution.

Complaint #8 – This complaint was related to allegations of a City employee misappropriating funds. We investigated the matter and referred it to the police. The employee admitted guilt. Therefore, this complaint was authenticated.

Complaint #9 – This complaint was related to allegations of a City employee abusing overtime. We referred the matter to the affected department which investigated it and found no evidence of abuse. Therefore, this complaint was not authenticated.

Complaint #10 – This complaint was related to allegations of inappropriate pricing by a city vendor. We investigated the matter and found that the vendor's pricing was appropriate, Therefore, this complaint was not authenticated.

Complaint #11 – This complaint involved a citizen concerned about a neighbor parking on the street in front of his house. We explained that, absent a "no parking" sign that the neighbor was within his rights. Therefore, this complaint was not authenticated.

Complaint #12 – This complaint involved a citizen concerned about a potential telephone scam. We advised them to contact the police directly.

E.   SUMMARY

TIME (HOURS) EXPENDED

JULY 1, 2015 TO June 30, 2016

This page was intentionally left blank

YEAR TO DATE SUMMARY REPORT
JULY 1, 2015 - JUNE 30, 2016

A. TIME (HRS) EXPENDED DURING FY 16 - COMPLETED PROJECTS

1. Audits & Analytical Reviews:

I/T Department–Administration	133.00
I/T Department – Planning	630.00
I/T Department – Testwork	509.00
I/T Department – Report	306.50
Public Works Department - Administration	44.50
Public Works Department – Planning	558.00
Public Works Department – Testwork	1506.25
Public Works Department - Report	657.50
Special-Overtime – Administration	8.00
Special-Overtime– Planning	193.00
Special-Overtime- Testwork	125.50
Special-Overtime- Report	188.50
Special-Grants– Administration	28.00
Special-Grants– Planning	136.50
Special-Grants-Testwork	149.50
Special-Grants– Report	162.50
Fire – Report	31.00
CIBH –Report	22.00
Capital Projects-Report	5.00
Fire- Administration	12.00
Capital Projects-Administration	18.00
CIBH- Administration	24.00
Total Hours Audits & Analytical Reviews	**5,448.25**

2. Technical Assistance:

Fraud Hotline	222.50
Public Procurement Taskforce Committee	7.00
Other/IT Modernization	2.00
Total Hours Technical Assistance	**231.50**
Total Hours – Completed Projects	**5,679.75**

Time (HRS) Expended During FY 15 - Projects in Progress

1. Audits & Analytical Reviews:

Total Audits & Analytical Reviews in Progress   **0.00**

2. Technical Assistance:

Munis & Kronos Steering Committee	0.00
PeopleSoft 9.2	17.50
ECC	11.50
Audit Follow-Up	22.00
Payroll Changes	15.00
Technical Assistance	17.50
Fleet Utilization	3.50
I/T Accela	14.50
Total Technical Assistance in Progress	**101.50**

3. Other:

Administrative	3,178.50
Holiday	502.00
Leave – Annual	765.00
Leave – Sick	403.50
Leave – OT	3.00
Meetings	167.00
Miscellaneous	280.00
Professional Organizations	421.00
Training	553.00
Total Other in Progress	6,273.00

Total Hours for Projects in Progress   **6.374.50**

Total Hours (Completed Projects + Projects in Progress)   **12,054.25**