



**ECONOMIC DEVELOPMENT
DEPARTMENT**

PERFORMANCE AUDIT

MAY 1, 2010 THROUGH DECEMBER 30, 2010

**CITY OF CHESAPEAKE, VIRGINIA
AUDIT SERVICES DEPARTMENT**

June 30, 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:

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).

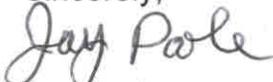
For Fiscal Year (FY) 2010-2011, the Department had an operating budget of slightly over \$7 million and an authorized compliment of approximately 48.5 personnel, approximately 31.5 of which were in the Center. The Center received 48.3% of the operating budget, the Central Office 21.4%, and the CVB 14.1%, 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.

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.

Sincerely,



Jay Poole
City Auditor

City of Chesapeake, Virginia

C: William E. Harrell, City Manager
Betty J. Meyer, Deputy City Manager
Steven C. Wright, Economic Development Director

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.

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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.)

ECONOMIC DEVELOPMENT DEPARTMENT

PERFORMANCE AUDIT

MAY 1, 2010 TO DECEMBER 30, 2010

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A. Objectives, Scope, and Methodology

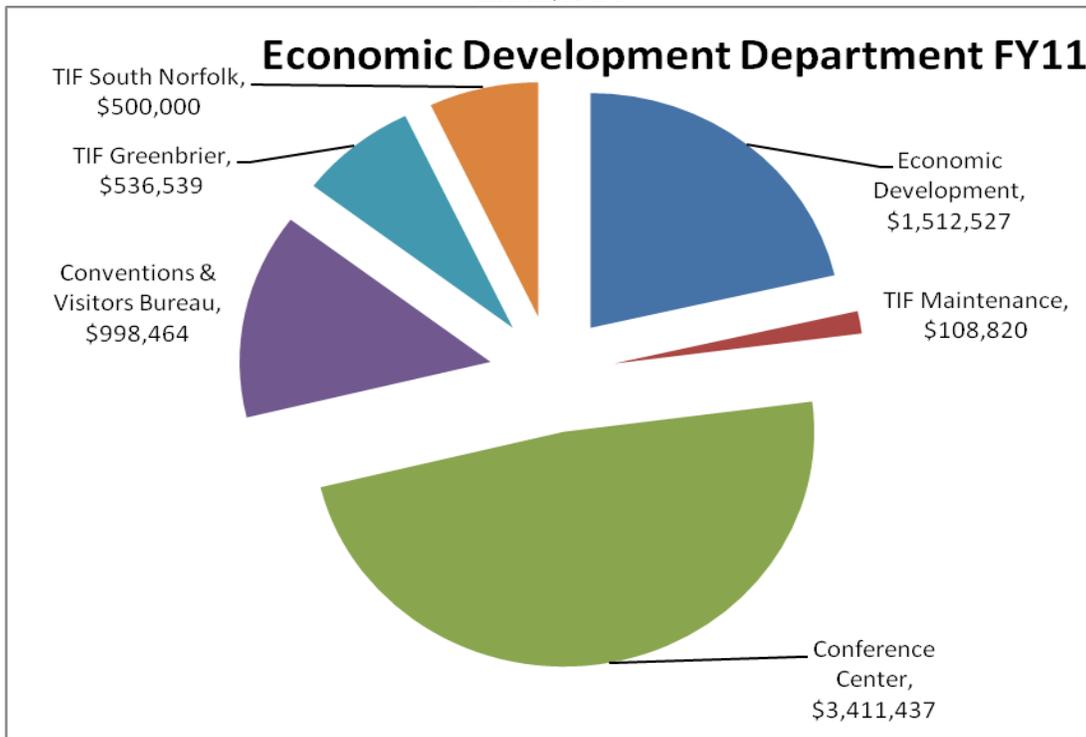
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Exhibit #1



Economic Development Budget for FY 10/11

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Methodology

To conduct this audit, we reviewed various aspects of the TIFs that included expenses, contract bid documents, bond reports, PeopleSoft reports, and vender project updates for compliance with City policies and procedures. We reviewed the consultant's report prepared for the CVB. We also did an overall assessment of the Department's organizational structure and reviewed operational practices and procedures, including cash handling, throughout the department.

In addition to these items we reviewed the Center's operating policies, procedures, and practices. This review included testing and evaluation of the Center's operations and practices. We conducted extensive walkthroughs and interviews with Center staff to better understand control practices. Since a consultant was in the process of completing a CVB review during our audit, we did not conduct an extensive evaluation of CVB operations.

B. Performance Information

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Several major projects were announced during 2010. These included improvements at the Chesapeake Square Mall, which included a Burlington Coat Factory that utilized 81,000 square feet and created 75 new jobs, and a new \$13.7 million dollar Cinemark Theater expansion which included 40,000 square feet, 12 screens, and IMAX/3D capabilities. Other activity included the opening of Jillian's Entertainment and Green Turtle Sports Bar in Greenbrier Mall, the opening of a 30,000 square foot HH Gregg off of Battlefield Boulevard (creating 50 jobs), and the construction of a new Wal-Mart at Edinburgh. In addition, there were numerous small business expansions in 2010 including Hackworth Reprographics, Kogok Inc., Bay Diesel, and Electric Motor and Contracting Company.

Economic Development has also been very successful in continuing to attract international businesses to the City. Announcements in 2010 included Gamesa, a Spain-based company that will team with Northrop Grumman to design and develop an offshore wind turbine prototype; Hectonic USA, a Germany based company; and Laurence Walters Aerospace Solutions, a subsidiary of U.K. based MEL Group, LTD.



Chesapeake – a great place to live and work

The February 2011 issue of Virginia Business featured Economic Development Director Steven Wright and the successes of the department. Parenting Magazine ranked Chesapeake 45th on their “2010 Best Cities for Families” list, while Money Magazine ranked the City 85th on their “2010 Top 100 Best Places to Live” list. Also, Fitch Rating Services assigned Chesapeake its highest bond rating available, “AAA”. This rating was made possible in part by the efforts of the Economic Development Department.

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.” The Center had 22,700 square feet of meeting and banquet space available. The main banquet hall could be configured as a 20,000 square foot hall/ballroom to multiple rooms as small as 2,250 square feet. There were also two conference rooms of 1,350 square feet each available. This flexibility allows the Center to accommodate from as few as 50 to as many as 1,300 people for a banquet or up to 2,800 people for a reception. The promenade that rings the ballrooms offered plenty of space for vendor tables, reception areas, and light hors d’oeuvres.



Chesapeake Conference Center

The Center operation was complimented by a full kitchen staff and a wide variety of menu choices. The Center prided itself on the quality of its food and the high caliber of the wait staff. The Center was experienced in handling all types of events from high profile balls to wedding receptions to pool tournaments. In 2010 the Center hosted a variety of events including a nine ball tournament, the annual Jingle Ball, a Harley users “Hog Rally”, and several proms. The Center had become a favorite destination for wedding receptions since they offered quality services in a variety of price ranges.

In calendar year 2010 the Center hosted over 537 events and, for the five-year period from 2006 to 2010, 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 repayments of \$6,086,802 to the Debt Service Fund related to these acquisition costs.



Mayor Krasnoff talks to the HOGs: Virginia Harley Owners Group, June 2010.

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.

In response to a tourism research study conducted by Randall Travel Marketing, the Conventions and Tourism Department changed its name to the Conventions and Visitors Bureau. This was done in part to place the department into alignment with what was the more commonly used name across the country for city and state tourism entities.

CVB had 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.

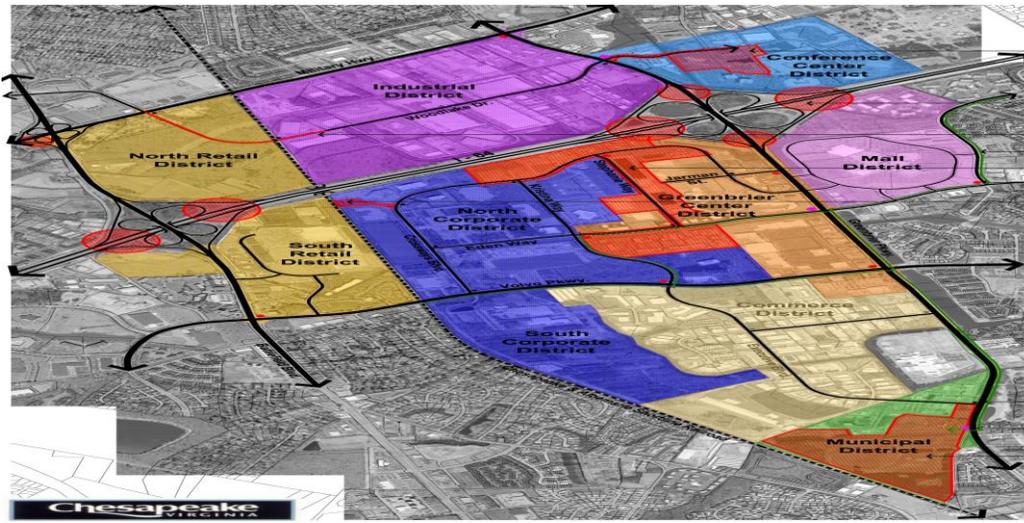
4. Greenbrier and South Norfolk Tax Increment Financing Districts (TIFs)

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.

As projects were designated, a dollar estimate was made of the cost, funding streams were decided upon, and bonds were issued if required. Bonded debt payments were supported by TIF tax revenues, and bond proceeds were placed into the State Non-Arbitrage Program (SNAP) until needed. Projects were managed by an external management firm, McDonough Bolyard Peck (MBP), which filed monthly status updates with the Department. MBP also assisted the City's Public Procurement Office with the selection of vendors necessary for each project.

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. A map of the Greenbrier TIF is shown below. The TIF projects for the Greenbrier TIF as of August 2010 are listed on the next page.

Exhibit #2



Map showing areas included as part of the Greenbrier TIF District

**Exhibit #3
Greenbrier TIF Projects as of December 2010**

Project	Project Number	Purpose	Funding Source	Total Appropriation	Expense As of 12/2010
Community Activity and Tennis Center	1081100100	Design of a Community Activity Center	Cash	\$1,000,000	\$513,877
Wayfinding Signage	1091100100	Design and construct custom signage	Cash	236,411	11,949
Sidewalk/Crosswalk Improvements	1101100100	Design and construct crosswalks/sidewalks	Cash/Bond	1,242,112	1,067,524
Electronic Gateway Signage	1181000100	Design and construct signage for gateway	Cash	250,000	11,638
Conference Center District	1141000100	New walkways, signage and bike trails	Cash	1,131,952	61,040
Greenbrier Center Pedestrian Safety	1201000100	Design and construct crosswalks/walkways	Cash	1,120,474	0.00
Mall Bike Trail	1571200100	Implementation of Master Plan	Cash	69,426	0.00
Commerce Bike Trail	1581200100	Implementation of Master Plan	Cash	120,338	0.00
Woodlake Drive Extension	1181300100	Extension of Woodlake Drive to Battlefield Blvd.	Cash/Bond	1,615,970	1,190,902
GB TIF - Greenbrier Center District	1131200100	Construct turn lanes sidewalks and signals	Bond	8,018,428	1,998,842
GB TIF - North Corporate District	1151200100	Turn lane Crossways Blvd @ Volvo Pkwy	Bond	528,090	45,997
GB TIF - Commerce District	1161200100	Turn lane Volvo Pkwy @ Executive Blvd	Bond	316,854	0.00
GB TIF - South Retail District	1171200100	Construct 2 turn lanes Battlefield Blvd	Bond	555,534	555,534
GB TIF - Municipal District	1181200100	Municipal District	Bond	28,876,547	120,304
Conference Center Renovation	1151000100	Improvements to Conference Center	Bond	2,754,870	1,434,620
Traffic signals and improve intersections	1671200300	Traffic signals and improve intersections	Cash	250,000	250,000
Total Cash and Bond Funded Projects and Expenditures				<u>\$48,087,006</u>	<u>\$7,262,227</u>

Projects funded in the South Norfolk District included a new \$5 million library and infrastructure work to support the Belharbour development. A map of South Norfolk TIF District and a listing of the South Norfolk TIF projects are shown on the next page.

Exhibit #4



Map showing the area included in the South Norfolk TIF District

**Exhibit #5
South Norfolk TIF Projects as of December 2010**

Project	Project Number	Purpose	Funding Source	Total Appropriation	Expense As of 12/2010
Develop Plan Waterfront	1371100100	Professional services Belharbour Dvlpmnt.	Cash	\$310,000	\$310,000
Improve Infrastructure for Belharbour	1631200100	Improve Infrastructure Belharbour Dvlpmnt.	Cash/Bond	7,158,583	217,817
Johnson Park Improvements	1221200400	Upgrades and improve Johnson Park.	Cash	550,000	302,659
Library Expansion	1201200100	Replace South Norfolk Memorial Library.	Cash/Bond	5,050,000	526,551
Poindexter Streetscape	1191200100	Poindexter Streetscape improvements.	Cash/Bond	7,400,000	403,440
Total Cash and Bond Funded Projects and Expenditures				\$20,468,583	\$1,760,467

A more detailed listing of project expenditures, including purpose and source, is provided in Appendix B of this report.

C. Tax Increment Financing (TIF) 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.

Approval processes should be designed to demonstrate that invoices are properly authorized indicating date received, date approved, and approval signature. Financial, planning, and other project information should be maintained in an organized manner.

We noted that invoices for TIF project expenses were being delivered to Economic Development, checked in, and then sent over to the project manager, MBP, for approval. This approval was in the form of an e-mail indicating agreement to pay the invoices. However, the actual invoices were not annotated (signed and dated) by MBP and Economic Development as to whether or not the invoice had been approved or even reviewed.

Also, in reviewing project tracking, we noted that TIF project information including status reports, invoices, appropriation information, expenses, architectural data, bond information, and percent of completion were maintained by TIF districts rather than by project. These projects (i.e. Activity Center, Town Center) were not broken down by subcategories such as land, engineering, construction, and funding source, and were not coded in PeopleSoft to allow for easy retrieval of specific information on individual projects.

This situation occurred because, to expedite timely payment, invoices were scanned and e-mailed and sent for approval. Also, TIF projects were identified in the Capital Improvement Budget by district rather than project, due to the quantity of smaller projects included in each district.

The lack of annotation on the approved invoices could result in errors or duplicate payments, and it was also time consuming to scan and forward the invoices to MBP. The lack of project information categorization may result in requests for information being delayed or time consuming paper chases. Furthermore, it would be difficult to classify the addition of assets if data is not separated into additional categories.

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

To better document the approval process, MBP should receive the invoices directly and sign and date the invoices when approved. Each project manager should also document that they have reviewed the approved invoices.

We also recommend that individual projects be categorized in the PeopleSoft system by district, project, and activity. Documentation should be maintained by project and activity. This categorization will improve accessibility of the project information.

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.

Due to the number of smaller projects included in each district in the original road map, projects were submitted in the Capital Improvement Budget by district. For those projects which include several individual projects, sub-projects are being created. Each project is kept in detail on Economic Development’s shared drive (copies of contracts, invoices, etc). Additional activities for each project in PeopleSoft are being created as well to provide more detail.

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 Sports Facilities Advisory (SFA)’s projections.

The City was considering using \$43 million in TIF funds to build the Community Activity Center along with a proposed tennis center. An Economic Impact Study, prepared for the project by SFA, a sports facility advisory group, concluded that “based on current available information and the TIF financing, and assuming no debt service and that the facility will be operated to meet the standards recommended by SFA within this document, SFA’s analysis indicated that the CATC could be self-sustaining and that it could provide positive cash flow and significant positive economic impact to the City of Chesapeake. On February 22, 2011, the City Council voted to explore alternatives for the project as part of a public-private partnership.

Exhibit #6



Proposed Greenbrier Park Improvements and Community Activity & Tennis Center

We noted that the CATC’s viability was predicated on achieving, and maintaining, membership of approximately 5,000 members for the first year. However, this represented 52% of the Community Activity Center’s (CAC) projected revenue. As illustrated below, even a small deviation from 100% of projected revenues had significant potential to generate sizeable surpluses or deficits. We noted that the projected net surplus expected in Year 3 was primarily the result of an expected increase in the membership base of approximately 500 members over the first year and an across-the-board membership price increase in the third year. We also noted that, while revenues above projections would provide significant surpluses, revenues that failed to meet projections could produce substantial deficits, which the City would have to address. The chart below provides information on projected surpluses and deficits for both centers at various revenue levels.

Exhibit #7

Three Year Surplus and <Deficit> For the Community Activity and Tennis Centers

% of Projected Revenue Achieved	Surplus/<Deficit> Year 1		Surplus/<Deficit> Year 2		Surplus/<Deficit> Year 3	
	CAC	Tennis	CAC	Tennis	CAC	Tennis
110%	\$321,232	\$11,292	\$549,868	\$67,817	\$919,941	\$161,894
100%	\$118,007	<\$25,099>	\$322,762	\$27,030	\$652,196	\$112,532
90%	<\$288,444>	<\$61,489>	\$95,656	<\$13,757>	\$384,451	\$63,080
80%	<\$491,670>	<\$97,880>	<\$131,450>	<\$54,544>	\$116,707	\$13,628
70%	<\$694,895>	<\$134,270>	<\$358,556>	<\$95,330>	<\$151,038>	<\$35,823>

Source: SFA’s Five-Year Operating Pro Forma Statements

This situation appears to have occurred because the CATC’s consultants made a conscious effort to budget conservatively with their initial revenue estimates. However, despite this effort, revenues for start-up municipal ventures such as the CATC tend to be very difficult to project. For example, when the Chesapeake Conference Center opened in

Fiscal Year (FY) 1998, actual revenues (\$2,176,628) were less than budgeted revenues (\$2,284,055) by 4.7 percent. Together with unanticipated operating expenses, the Conference Center experienced a loss of \$896,418 in its first year. Conversely, when the City conservatively budgeted Conference Center revenues for FY 1999, actual revenues (\$3,203,555) exceeded budgeted revenues (\$2,595,960) by 23.4 percent, contributing a surplus of \$371,849. In the consultant's study, no mention is made as to what the City should do if the optimistic results did not materialize and the project experienced net losses. On the other hand, no mention is made as to how to handle matters if the CATC exceeded the projections.

The CATC could experience adverse impacts from either a revenue surplus or a shortfall. The chart below highlights some of these concerns.

Exhibit #8

Pros and Cons of Exceeding or Not Meeting CATC Projections

A. Exceeds Projections	
Pros	Cons
- Increased tax revenue	- Seating for events inadequate
- Proper management, accountability, and oversight	- Overcrowding of equipment and facility use
- Sales goals and operating objectives are met	- Excess wear of equipment and facility
	- Cost increases for supplies (general expenses)
	- Public relations problems
B. Does Not Meet Projections	
Pros	Cons
- Potential reductions in operating expense	- Business does not sustain itself
	- Subsidy needed from city
	- Equipment and facility not utilized efficiently
	- Lost opportunities to finance alternate TIF projects
	- Public relations problems
	- Loss of expected tax revenue
	- Inadequate management, accountability, or oversight
	- Sales goals and operating objectives are not met

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.

The framework should include establishment of performance benchmarks, variance indicators, and action plans to handle these variances. Action plans should be developed for the different “what ifs” and types of corrective actions or adjustments that would be taken for either positive or negative performance. The contingency plan framework should provide the following:

- Clear designation of who will have oversight responsibility for evaluating and monitoring ongoing operations and be able to take corrective action when performance measures are exceeded or not met.
- Goals, objectives and benchmarks for the various operating areas of the CATC.
- Measurable key indicators for the operating areas.
- Timelines and decision points for evaluating performance measures.
- Action plans for various “what if” scenarios for expected performance goals, objectives and benchmarks.
- Action plans should suggest solutions to performance variances such as: adjusting the service mix, identifying additional funding streams, increasing marketing efforts, or utilization of excess revenue.

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.

In order to be able to provide appropriate top management oversight for TIF expenditures, the City Manager’s Office should be informed of all TIF expenditures in a consistent fashion on an ongoing basis. The information should be sufficiently detailed to allow for management action or follow-up as necessary.

We noted that the City Manager’s Office was not receiving updated project information on an ongoing and continuous basis for the various TIF projects. This occurred because the City Manager’s Office did not explicitly request this information except as part of reviews of specific projects. However, lack of up-to-date information on project spending or potential project spending could hamper the City’s ability to make sound financial

decisions related to the TIFs.

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

This report should include project description, amount appropriated, expenditures, funding stream, and bond balances, separated out as to major project and sub projects. The report could also be posted on a City website site and/or shared with City Council, to enhance the transparency of the reporting.

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.

In addition to its responsibility for attracting and retaining businesses, the Department had oversight responsibilities for the City's Convention and Visitor's Bureau (CVB) and the Conference Center (Center). These responsibilities included establishing goals, objectives, and performance measures; facilitating effective working relationships between divisions; and providing guidance to staff. In addition, Economic Development was responsible for providing significant accounting support services to the City's two Tax Increment Financing (TIF) Districts as well as to its CVB and Center operations.

We noted that the Department's organizational structure did not optimize the ability of the CVB and the Center to work together on projects that were mutually beneficial to the divisions or beneficial to the City as a whole. The two divisions tended to operate independently. For example, the CVB had had three sales staff that, among other duties, solicited convention and meeting business, while the Center had four sales managers whose main responsibility was planning events as opposed to generating sales for the Center. This arrangement did not optimize the utilization of all of the City's convention sales resources.

In addition, the Department had not assigned responsibility for monitoring and oversight of the CVB and the Center to any of its Central Office staff. This situation forced the Economic Development Director to attempt to track management issues in each division at the same time he was attempting to carry out his primary responsibility for attracting and retaining City business, which adversely impacted the oversight process.

We also noted that, despite the department's considerable accounting responsibilities, the accounting functions within the Department were decentralized. The Central Office had a Fiscal Administrator (the position had been upgraded from an Accountant III in July 2010) who was responsible for Central Office accounting functions, including monitoring the TIF funds. The Center had a separate Fiscal Administrator, two

Accountants, and an Office Specialist. The CVB had a part-time accountant. All three accounting functions operated independently, depriving the Department of an efficient, coordinated approach to management of its accounting responsibilities.

This situation occurred for a number of reasons:

- As the Department's scope of operations had expanded, its functions had become more decentralized. For example, the CVB had originally been a part of the Center and was split off as a separate division. This decentralization tended to encourage the three divisions (including the Central Office) to function independently rather than as a cohesive group.
- Other than the Economic Development Director, whose primary mission was attracting business to the City, the Department had not assigned a dedicated staff member from the Central Office to provide continual oversight and coordination for the CVB and the Center.
- The increase in the scope of the Department's accounting activities was addressed by the assignment of staff (the Accountant III position which was later upgraded to Fiscal Administrator) from the City's Finance Department rather than coordinating the work through greater utilization of all of the accounting staff within the Department.

If the Department's organizational structure issues are not addressed, the City will not benefit from the synergies inherent between the three divisions working together as a team to bring new businesses and events to the City. The lack of effective oversight and guidance has adversely impacted the working relationship between CVB and the Center, potentially hampering efforts to bring in activities or events that would be beneficial to the City as a whole but may not provide immediate benefits to an individual division (for example, the Center). Finally, the decentralized accounting functions hampered the Department's overall financial accountability and internal controls, and also resulted in accounting staff utilization that was less than ideal, as evidenced by the two Fiscal Administrators within the same department.

Recommendation – The Department should strongly consider revising its organizational structure to provide for more optimal utilization and oversight of its related operating divisions and supporting functions.

A senior member of the Department's Central Office staff should be assigned responsibility for general oversight of the CVB and the Center. In addition to providing Central Office guidance and oversight, the designee should be responsible for coordinating activities and identifying opportunities for the City to benefit from this coordination, such as enhancement of conference and business meeting sales and events and coordination of sales activities between the CVB and the Center, with related staff responsibility adjustments for greatest impact. Such action should facilitate and enhance communication and teamwork among the three divisions.

The Department should also consider creating a separate division that is responsible for all of its increasingly complex accounting responsibilities, preferably under the direction of one Fiscal Administrator. This function would be responsible for providing accounting services to the three other divisions, similarly to how other complex departments, such as the Community Services Board, operate. This action would help optimize the utilization of the Department's accounting staff.

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.

Administrative Regulation 1.18 addressed IRS regulations that related to the calculation of Imputed income for personal commuting use of a city vehicle. The policy stated that "1. The employee must provide the City's Department of Finance a quarterly written report with the following information: Name; Social Security Number; Department; Make of Auto; Quarterly Reporting Period; Vehicle License Number; Number of Commuting Days; Employee Signature. The above information will be used to compute the proper value of the non-cash fringe benefit for the non-exempt vehicle and related deduction from employee's pay."

Administrative Regulation 1.04 addressed how the City's Vehicle Allowance Plan should be administered. This regulation stated that "City personnel may be entitled to vehicle allowance based on the need for a vehicle in order to perform official duties. This determination will be made by the City Manager after review of the extent to which the following criteria are met: a. Requirement to operate the vehicle 800 miles per month on official city business...c. Utilization of the vehicle for a substantial proportion of the work day."

Administrative Regulation 1.20 applied to all employees, interns and volunteers and stated: "Department Heads shall periodically conduct DMV driving transcript checks on

existing employees, interns and volunteers who routinely or occasionally drive in the conduct of City business. This review shall be conducted at least annually.”

Our review of the Department’s use of city vehicles’ noted the following:

- The Department had two individuals who drove leased City vehicles for personal use as defined by the Internal Revenue Service. In addition, mileage records were not maintained to document the personal use of the City’s vehicles. Therefore, these individuals were not assessed imputed income for the personal use of a City vehicle as required.
- The Center had one individual that was receiving a monthly vehicle allowance of \$250.00 per month. This individual did not meet the City’s criteria for receiving a vehicle allowance as documented in Administrative Regulations 1.04.
- The Department was not conducting annual DMV driving transcripts checks for all employees, to ensure that the City’s driving standards were maintained.

These situations occurred because the Department was not aware of the requirements as outlined in Administrative Regulations 1.04, 1.18 & 1.20. Also, relative to the employee receiving a car allowance, her predecessors had also received car allowances even though they also did not meet the City’s car allowance requirements.

If this situation continues to exist, the City could be required to pay fines and penalties to the IRS for not reporting imputed income and not deducting and submitting the appropriate taxes as required by IRS regulation. In addition, if a vehicle allowance is paid when the plan vehicle allowance criteria are not being met, the City could be making unnecessary payments for vehicle use. Further, if driving transcripts are not checked annually, the driving standards of the City will not be met.

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

To address this situation we recommend the following:

- The Department should submit the necessary reports to compute for each employee the imputed income for the current year, and past years, as required by IRS code.
- Compliance with the vehicle allowance regulation criteria for the individual at the Conference Center should be and discontinue the vehicle allowance if the required criteria are not being met.
- All Department employees who use a motor vehicle in the conduct of City business should have their drivers transcripts checked annually to ensure that the drivers are in compliance with the city’s driving standards.

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.

In accordance with Administrative Regulation 1.16 “In order to preserve the confidentiality of industrial clients who are dealing with the Director of the Department of Economic Development, the City Manager shall hold a log containing the following information, which shall be the “working papers’ of the City Manager and not be available for release:

- a. Code number assigned to the industrial client;
- b. Name of industrial official(s) dealt with;
- c. Date(s) of visit(s);
- d. Name(s) of the participating City official(s); and
- e. Nature of the potential project.

The traveler shall charge meals where practical on Master Charge, Diner’s Club, or American Express and a code number shall be placed on the charge ticket to identify the participating client(s). If cash is used to pay for meal, a receipt must be obtained and the proper code number used...Entertainment expenses shall be separately identified, and receipts shall include the client’s code number.”

Relative to fuel usage, the Central Fleet Customer Manual indicated “...that drivers are responsible for refueling their vehicles at City owned refueling facilities.” Also, when Petty Cash is issued, a signed and dated receipt should be obtained from the person receiving the funds.

We noted that the Department was not properly documenting business receipts with client code numbers and Code numbers were not being assigned in accordance with Administrative regulation 1.16. In addition, our review of expense reports and supporting spreadsheets indicated the following:

- Meeting purpose indicated was not always adequate to describe the event.

- Meals charged on hotel and country club bills did not have supporting documentation.
- Meal receipts did not always accompany the payment receipt for meals.
- Fuel and car washes were being charged on commercial credit cards rather than using City owned fueling facilities and the City Garage.
- Signed and dated receipts were not received from the person receiving funds when funds were issued from petty cash.

These situations occurred for several reasons. The itemized receipts for business expenses were not always obtained or annotated with the necessary code for the business purpose. The Department was not aware of the location of the City owned fueling facilities or that they were able to take the Department's cars to the City garage for fueling and washing. The petty cash situation existed because the Department did not exercise proper cash handling procedures.

If the expense receipts are not properly annotated, coded, and itemized, the City runs the risk of overpayments, payment for unauthorized expenses, and the potential for exposing a business client to unwanted publicity. The failure to use City facilities for car washes and fueling created unnecessary additional costs for the Department's vehicles. If petty cash controls and security are not improved there could be unaccountable losses from the fund.

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

The Department should comply with the documentation requirements of Administrative Regulation 1.16. The Department should also use City fueling facilities and have its cars washed by the City Garage whenever possible. Finally, signed receipts should be submitted whenever funds petty cash funds are issued.

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.

The failure to use City facilities for car washes and fueling has occurred due to availability and timing of the necessity of the services. Economic Development will strive to access the City's facilities whenever possible.

Documentation of some petty cash did not include a signature from the employee for money received. This signature will be added to amount and description in the future.

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.

City Administrative Regulation #1.17 required that City employees use a City authorized credit card for travel expenses and small dollar purchases. To accomplish this, the City was consolidating all of its credit card programs into one purchase card (P-Card) program.

We noted that the Central Office and the CVB were not using the City's P-Card to pay for their travel expenses and small dollar purchases. The Central Office continued to use corporate credit cards because they believed that the City P-Card was too restrictive for their business activities. The CVB was scheduled to receive P-Cards in February 2011.

The use of corporate credit cards decreased the City's ability to track expenses and control credit card costs. It also required the City to keep track of another card program.

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

The P-Card can be coded to allow a wide variety of purchases, so restrictions should not be an issue. Eliminating the corporate card will enhance controls over the Department's credit card purchases while simplifying their recordkeeping.

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 - Overall financial and operational controls at the Center needed improvement.

The job description for the Center Manager identified a number of items related to objectives for overall financial and operational controls. They included:

- “Plans and oversees the activities of various conference center programs and work units such as facilities management, food and beverage, sales and marketing, and fiscal administration.”
- “Supervises subordinate personnel, including training, scheduling, assigning and evaluating work.”
- “Monitors events and makes recommendations for accomplishment of goals and improvements.”
- “Ensures quality assurance by inspecting physical plant, making renovations when necessary, and maintaining compliance with established policies and procedures.”
- “Schedules routine meetings with subordinate staff to evaluate event progress, formulate plans, and assist with resolution of problems.”
- “Researches and develops annual budget, makes revenue projections, and monitors related expenditures.”
- “Performs related tasks as necessary such as analyzing and preparing various reports and other documentation.”

Our review of the various operating areas and processes of the Center identified several areas where control procedures needed to be improved. These areas included policies and procedure manuals, segregation of duties, cash handling, inventory controls, building maintenance, and the Center’s automated event management system. Details of the controls issues we identified are provided below.

Area of Concern	Control Issues
1. Policies and procedures	Several policies and procedures, including Concession Inventory Procedures,

	<u>Beverage Inventory, Order, Receipt, and Review Procedures</u> , and <u>Food Inventory Order, Receipt and Review Procedures</u> , had not been updated since at least 2004.
2. Segregation of duties	The cash receipting function, billing, accounts receivable, and bank reconciliations were all being done by the same person.
3. Cash Handling	<ul style="list-style-type: none"> a. Cash receipts from bar operations were not compared against the inventory from the Bar Reconciliation Reports. b. Variance analyses were not prepared, and the Center was unaware of several spreadsheet calculation errors. c. “No sales” and “Void” transactions were not properly annotated and explained. d. Transfers of funds into and out of the upstairs floor safe were not documented. e. Cash funds were not kept in secured or locked bags. f. The Center’s P-Card balance was insufficient to make required purchases of alcohol at the ABC store
4. Inventory control	The Center’s inventory processes lacked sufficient separation of duties between ordering, receiving, and counting functions.
5. Building Maintenance	The facilities management staff position responsible for the overall appearance and maintenance of the building was vacant at the time of our review.
6. Building Security	The administrative portion of the building was not properly secured to prohibit unauthorized access to personnel, supplies, equipment, and files.
7. Automated Event Management System	Although implementation of the Ungerboeck EMS software began in November 2009, it was still not fully functional by February 2011, and the version of Ungerboeck that was being implemented was two versions behind. Consequently, the Center could not use the software to manage and analyze the results of events on an ongoing basis.

This situation existed because the Center did not have an overall oversight process that addressed or evaluated the various financial and operational control issues we identified. Therefore, the Center was not totally aware of the internal control and operational deficiencies that existed within certain areas of operations. In addition, some of the concerns we identified, such as those related to the policies and procedures manual, were contributing factors to the control issues we identified with segregation of duties, cash handling, and inventory controls.

If these concerns are not addressed, the control issues identified could adversely impact the Center's operations. The segregation of duties, cash handling and inventory control issues could result in losses for the Center. The building maintenance and security issues could adversely impact the building's safety. Finally, the Ungerboeck system implementation issues could impact the Center from both a short-term event management perspective and a long term budgetary management perspective.

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

The Center should develop an overall oversight process that addresses and periodically evaluates the Center's most significant financial and operational control practices. As part of this process, the Center should update the policy and procedures manuals referenced and ensure that its other policy and procures manuals are updated as needed. The policy and procedure manual update should also include control procedures that address the control issues identified for segregation of duties, cash handling and inventory control. Also, the Center should work with City to address the building maintenance vacancy and identify the cost to secure the administrative area. Finally the Center should decide whether it is going to continue the implementation of the Ungerboeck system or seek an alternative. Many of these issues are addressed more specifically in the Center Accounting Function, Alcohol and Food Inventories and Building Maintenance sections of this report. These practices will enable the Center to exercise greater control over its operations.

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.

An Accounting Manager is now providing financial oversight and an Operations Manager is now providing operational oversight for all Economic Development Department functions, including the financial and operation activities at the Chesapeake Conference Center. To provide further control all policies and procedures related to cash handling, payment processing, food and beverage sales

and inventory and segregation of duties for all division at the Center have been reviewed, updated and implemented. Details of these updates are provided above in the “Response” section of the above chart listing areas of concern and as part of the responses to the following findings listed as “2. Center Accounting Functions” and as “3. Alcohol and Food Inventories”.

A new division, Engineering Services, has been 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 consists of a Facilities Supervisor, a Part-Time Facilities Technician, a Part-Time Housekeeper and the division staff is supplemented by Temporary Staff and City contracted vendors as needed. The Facilities Supervisor is developing an inventory of equipment, tools, and supplies; and is developing a preventive maintenance schedule for the entire Conference Center physical plant. Various safety and aesthetic improvements have been completed to address the most immediate needs at the Center. Detailed descriptions of the actions taken to address aesthetics and safety issues at the Center can be found above in the “Response” section of the chart listing areas of concern and in the response to the finding listed below as “5. Building, Maintenance, Safety and Security”.

Finally, with the guidance of the City of Chesapeake Information Technology Department, upgrades to the existing Automated Event Management System have been identified. Together the Information Technology professionals, the Conference Center Sales Division and the Conference Center Accounting Division have identified solutions that will allow Sales Staff to efficiently book and manage events, properly forecast and report monthly and annual revenues and expenses, reconcile variances, make year-to-year comparisons and track lost/turned down business; while providing necessary accounting reports and functionality. Additionally, the new software upgrade will provide additional capability to interface with the Treasurer’s Mainframe Paid-In-Voucher (PIV) System which will further ensure segregation of duties and eliminate duplication of tasks.

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.

The job description for the Fiscal Administrator identified a number of items related to objectives for financial controls. They included:

- “Provide leadership, oversight, and direction for all financial related activities.”
- “Responsible for administering the flow of monies in order to ensure the management of fiscal processes such as accounting, payroll/human resources, and procurement and reimbursement.”
- “Develop and authorize accounting activities.”
- “Supervise subordinate staff.”
- “Delegate and evaluate related functions.”
- “Prepare and maintain various financial reports, records, and budgets.”

In addition, cash controls need to be sufficient to safeguard funds from theft and fraudulent activity, and adequate segregation of duties should be maintained for all functions.

We found that the cash handling process, payment processing, cash security, system implementation, and reporting procedures at the Center all had control issues that needed to be addressed. The chart below highlights the control issues we identified.

Area of Concern	Control Issues
1. Cash Handling Process	<ul style="list-style-type: none"> a. Cash funds were not counted when funds were exchanged, and cash fund counts were not always documented on a cash count sheet. b. Cash/bar sheets did not include 1) a cash count sheet to document the physical count of cash and show overages or shortages and 2) a place for the date and signature of the person counting the fund. Accounting was not completing cash count sheets at settlement. c. A general ledger over/short account had not been established to process cash bar outages. d. The cashier register Z tapes did not segregate out the various subtotals for alcohol, food, sales tax, and food tax. Sales totals for alcohol food, and taxes were being calculated manually.
2. Payment Processing	<ul style="list-style-type: none"> a. Incoming mail and payments were not logged in and checks were not endorsed when received. b. Walk-in customers who wanted to make

	<p>payments were referred to the Accountant I located on the second floor to process payments. This practice creates a customer service and work flow issue.</p> <ul style="list-style-type: none"> c. The payment receipt process did not provide for adequate segregation of duties. The Accountant I was responsible for entering payments in the Ungerboeck system to create payment receipts for customers, entering payments into the accounts receivable spreadsheets, billing, issuing receipts, and reconciling accounts receivables to the general ledger d. Payment receipt books were not controlled and the issued, unissued and voided receipts were not being accounted for on a periodic basis. There was no log kept of the number sequences assigned. e. Payments were not always processed on the date of receipt (we noted a four day lag at the time of our audit.)
<p>3. Cash Security</p>	<ul style="list-style-type: none"> a. Cash funds were not adequately secured. Three individuals had access to the lock boxes which housed the funds. In addition, the lock boxes were placed in a locked filing cabinet where all three individuals had access to all the boxes. b. Surprise cash counts were not being performed on a periodic basis.
<p>4. System Implementation</p>	<ul style="list-style-type: none"> a. The historical data for the Center resided on the old Event Management System and was no longer supported by Information Technology (IT). b. No provisions had been made for any of the historical data, except for event name and date, to be migrated to the new system. c. The new Ungerboeck system did not interface with either the Treasury Revenue Collector system or the

	PeopleSoft system. This lack of interface created the need to manually input the data into each system which duplicated effort, took time, and increased the potential for error.
5. Reporting	<p>a. The Banquet Summary report did not list “in house” events such as the Jingle Ball. Also, the summary did not list the various cash/cap bars or concessions that are operated as part of these events. The Ungerboeck system had not been set up to track cash events such as bars and concessions.</p> <p>b. Quarterly accounts receivable reconciliation reports were not being received in Finance when due.</p>

This situation existed because the Center’s Accounting Function did not have an overall oversight process that addressed or evaluated the various financial control issues we identified. Therefore, it was not totally aware of the financial control deficiencies that existed within certain areas. In addition, some of the concerns we identified occurred because the Center had not completed an update of its cash procedures manual (it was in progress at the time of our audit). Also, the lengthy system implementation occurred because the Center did not have anyone who had the programming and Crystal Reporting skills necessary to complete the implementation. The IT Department was unable to provide technical support.

If these concerns are not addressed, the control issues identified could adversely impact the Center’s financial operations. The cash handling process, payment processing, and cash security issues could result in losses for the Center. The system implementation and reporting issues have already adversely impacted the accuracy and reliability of Center financial reporting, and have also increased system implementation costs.

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

The concerns identified related to the Center’s cash handling process, payment processing, cash security, system implementation and reporting practices should be addressed as promptly as possible. Specifically, we suggest the following:

- Update the cash handling and payment processing policies and procedures.
- Count cash every time that funds are exchanged.
- Redesign the Cash Sheet Bar to provide a place to document the cash count by denomination, and include a place for date and signature of person counting fund as well as a space to record over/shorts.

- Implement the use of cash count sheets to verify cash at settlement.
- Establish a general ledger cash over/shortage account to process overages and shortages in cash bars and concessions.
- Reprogram cash registers to provide separate sub totals for alcohol, food, sales tax, and food tax.
- Log in and endorse all payments received through the mail.
- To enhance customer service and obtain proper segregation of duties, establish two additional Treasury Revenue Collector stations. These stations should process all incoming payments.
- Conduct periodic inventories of the payment receipt books that include the verification of all issued, unissued, and voided receipts (all copies.)
- Process all payments received on the date received.
- Assign sole control of cash funds to the person responsible for the fund.
- Implement the use of periodic surprise cash counts for cash funds.
- Develop an implementation strategy that would allow for the historical data to be uploaded into the new system. In the interim, the old system data should be dumped into an intermediary system or printed out as hard copy in order to preserve the data.
- If the Center elects to proceed with the implementation of the Ungerboeck system, ensure that the Ungerboeck system can properly interface with the Treasury Revenue Collector system and the PeopleSoft system.
- Redesign the Banquet Summary Report by adding columns for cash sales from bars and concessions as well as in house events. This would enhance the usefulness of the report for analysis purposes. Ensure that the Ungerboeck system includes accountability for cash bars and concessions.
- Ensure that quarterly accounts receivable reconciliation reports are received in Finance when due.

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.

To address the cash handling process the accounting staff has revised the Cash Count Sheets to include the actual physical bill count breakdown and cash counts are documented on a single sheet each time funds are exchanged. Since accounting staff conducted additional training and reviewed cash handling procedures with all Banquet Staff, the Bar Tenders and Bar Captains sign and date the cash sheet at each cash exchange to verify the count was conducted properly. To improve cash controls and security each accounting staff member has been issued access only to the cash lockbox for which they have responsibility and anytime cash funds are exchanged with banquet staff it is dispersed and collected in sealable and tamper proof bags.

To segregate and accurately record sales and to improve reporting the Center's cash registers were reprogrammed to ensure accurate subtotals for each food and beverage item type; however, a way to program them to automatically calculate sales tax for the item type sold has not been identified and must still be calculated manually to ensure accurate reporting. Additional research is being done to explore options to have the registers automatically calculate the sales tax and eliminate the opportunity for errors. These options may include: acquiring new software for existing registers, purchasing new registers and/or acquiring new Food and Beverage inventory software system that will perform this calculation and provide reporting capability for sales and associated taxes. To improve the accuracy and consistency in reporting of bar events the Banquet Summary Report has been revised and is used for all bar/banquet events including all "in house" events and the Jingle Ball. All cash bars, capped bars, host bars and concession events are conducted using the same process and procedures (the registers are used for all events to record the sales and the Banquet Summary Report is used for all events to report sales).

The Center has recently upgraded the Automated Event Management System (AEMS) with the latest version of the "old Event Management System". The historical data from 1997 to 2009 will be automatically updated and included in the newly upgraded AEMS (There is a worst case possibility that as much as 18 months of the 14 years of data, from 2009-2011, may need to be input manually). Information Technology was heavily involved in the review and procurement of the recently upgraded software. In addition, to provide adequate support to the Center for the new software, the vacant Part-Time Client Technology Analyst I position has been filled with the assistance of Information Technology personnel on the selection committee. With the hiring for this position there is adequate support for the AEMS system implementation and the necessary long-term and training support to ensure the success of the upgrade.

In conjunction with the upgrade to the AEMS the mail and payment processing procedures have been completely revised. Currently the Office Specialist collects and endorses all mailed and walk-in payments and then posts them to the AEMS. The daily payment summary report is then produced by the AEMS and automatically sent to the Accountant I who reviews the report for accuracy and reports any discrepancies to the Office Specialist for correction. Payments are now being processed when received and procedures dictate that the payment must be processed no later than the business day following receipt. The daily activity collected and input into the AEMS, system automatically updates the Treasurer's Paid-In-Voucher system after each business day. This process allows for the proper segregation of duties and eliminates the duplication of tasks within the payment process.

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.

Inventory control has been described as the supervision of the supply, storage, and accessibility of items in order to insure an adequate supply without excessive oversupply. Inventories should be designed so that items can be found quickly and the exact amount on hand known at anytime. Food inventories should be managed using the First-In First-Out inventory method, which should ensure that the food being served is the freshest possible. Proper inventories management is essential for cost control purposes to allow the Center to quickly recognize and adjust to periods of sudden price changes.

We found that inventory security, alcohol inventory and reporting procedures, and food inventory practices all had control issues that needed to be addressed. The chart below highlights the control issues we identified.

Area of Concern	Control Issues
1. Inventory Security	<ul style="list-style-type: none"> a. The food and alcohol inventories were not properly secured to prevent unauthorized access. b. There was insufficient storage space to properly store and secure the food and alcohol inventories. c. At least five employees had access to the food and alcohol storage areas.
2. Alcohol Inventory and Reporting Procedures	<ul style="list-style-type: none"> a. The scale being used to weigh the bottles was old and inaccurate. b. The same individual was responsible for ordering and receiving inventory, checking in and out the inventory for bars, and taking monthly inventory counts. c. There was no process for an independent or surprise verification of the alcohol inventory. d. There was no perpetual inventory system and prices were not adjusted to reflect purchases. e. The first-in first-out inventory method was not being utilized. f. Spreadsheets used for inventory purposes and for client billing purposes did not include all of the alcohol types

	<p>held in inventory and contained inaccurate calculations.</p> <ul style="list-style-type: none"> g. Bottles of the same type alcohol were being merged to create full bottles contrary to state requirements. h. Cash registers were not used for “Host” bars. i. Cash bars, capped bars, and host bars were treated differently resulting in differences in the valuation of the alcohol as it was reported to the ABC and in whether service charges applied. j. All alcohol sales were not reflected on the annual alcohol report. No alcohol sales were being reported to the ABC for events that had a “package” deal such as weddings and the Jingle Bell Ball. k. The Center’s P-Card balance was insufficient to make required purchases of alcohol at the ABC store, and the Center had to utilize money orders for some beer and wine purchases.
<p>3. Food Inventory</p>	<ul style="list-style-type: none"> a. Food and supplies were ordered, received, and inventoried by the same person. b. There was no process for an independent or surprise verification of the food and supplies inventory. c. Food placed into cold storage was not labeled as to what it was and when it was placed into storage. d. Shelves were not labeled as to where to store particular items. e. Food was being stored directly on the freezer floor due to lack of adequate storage space. f. There was no perpetual inventory system and prices were not adjusted to reflect purchases. g. The first-in first-out inventory method was not being utilized. h. Spreadsheets used for food inventory purposes did not include all the food

	types held in inventory.
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This situation existed because the Center's Food and Beverage Management function did not have an overall oversight process that addressed or evaluated the various inventory control issues we identified. Therefore, it was not totally aware of the inventory control deficiencies that existed within certain areas. In addition, some of the concerns we identified occurred because the errors in the spreadsheets also caused errors in reporting to the ABC and contributed to the differences in the costs for host, cap, and cash bars. The lack of storage spaces did not allow for the proper control and security of the inventory and lack of inventory dates hampered proper stock rotation, inventory, and ordering.

If these concerns are not addressed, the control issues identified could adversely impact the Center's food and beverage inventory controls. The inventory security, alcohol inventory and reporting, and food inventory issues could result in losses for the Center. Also, continued alcohol reporting errors put the Center at risk of violating ABC rules and regulations and inventory errors may result in either overcharging or undercharging clients for bar service.

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.

The concerns identified related to the Center's inventory security, alcohol inventory and reporting, and food inventory issues should be addressed as promptly as possible. Specifically, we suggest the following:

- Secure the food and alcohol inventories to prevent unauthorized access.
- Consider providing additional storage space for both the food and alcohol inventories.
- Determine which employees need access to the food storage areas, and limit access to those employees.
- Purchase digital scales to weigh alcohol along with inventory software that provides a perpetual inventory; inventory records, and variance reports to monitor alcohol usage.
- Consider utilizing the accounting technician to provide and verify cash at the set up and closing of bars to the extent practical, to facilitate segregation of duties.
- Conduct independent or surprise verifications of the alcohol inventory.
- Obtain a perpetual inventory system and adjust prices to reflect purchases.
- Utilize the first-in first-out inventory method for alcohol inventory management.
- Discontinue merging like bottles of alcohol. This practice is a violation of Commonwealth of Virginia law, 401-325 #7.
- Use cash registers for "Host" bars.
- Review the handling of the various bar types, cash, capped, and host for proper and consistent application of service charges and alcohol tax.

- Reflect all alcohol sales on the annual alcohol report.
- Consider increasing the Food and Beverage Manager's P-Card limit to a level sufficient to make purchases, especially alcohol, without requiring the use of petty cash. In addition coordinate the wine and beer purchases so that a City issued check is available instead of utilizing money orders.
- Segregate the food ordering, receiving, and inventory functions.
- Conduct independent or surprise verifications of the food and supplies inventory.
- Label food placed into cold storage.
- Label shelves to indicate where to store specific items.
- Discontinue the practice of storing food directly on the freezer floor.
- Consider obtaining a food inventory system that provides a perpetual inventory record for food, with order points and inventory ordering capabilities.
- Utilize the first in first out inventory method for food inventories.
- Integrate the event management system (EMS) with the food inventory software so that when an event is booked, the EMS is able to review inventory levels, prices, and suggest alternate items if necessary. The EMS should be able to interface with the City's PeopleSoft financial software.

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.

Inventory security has been addressed by improving access control to both food and alcohol inventories by realigning the lock and key systems to limit access between inventoried items. Additional locks have been purchased and installed to allow the Chefs appropriate access to areas where food inventories are maintained and Banquet/Bar Captains only have the appropriate access to alcohol, mixers, and beverage items. Keys have been redistributed to only the individuals within the Food and Beverage division for access to the items they need to complete their assignments. To further enhance the safety and storage of the inventory, a refrigerator has been converted to a freezer to increase the storage space for frozen foods and shelving was added in the freezers to ensure proper storage of frozen foods. Also, the existing security camera software used to monitor the Food and Alcohol storage and preparation areas has been reinstalled and is being monitored by the Food and Beverage Director to ensure the safety and security of the food and alcohol stored, prepared and served at the Center.

The alcohol inventory and reporting procedures have been fully reviewed, updated and implemented to ensure the inventory is kept and utilized properly and that all sales are recorded and reported in accordance with the Commonwealth of Virginia Alcohol and Beverage Control standards. The review and revisions included the following: make sure that no two bottles of alcohol are ever combined (as required

by the State Law), be certain that all bar events (Host, Cash, Capped, In-House, etc...) are recorded on a Bar Summary Report and, for consistency in reporting sales to the Commonwealth, that all events are conducted using the same procedures (record sales on the register, reprogram registers to separate sales by item to accurately adjust inventory, record all sales activity on the Bar Summary Report, always use the First-In First-Out inventory method). Additionally, the scale has been replaced with an electronic digital scale that measures the weight of alcohol to the thousandth of an ounce. The weights are now input into a new bar inventory software, "Bar Cop Pro", to make certain that the alcohol usage is accurately calculated and sales are properly recorded.

The responsibilities for ordering and maintaining alcohol inventory has been appropriately segregated among the Food and Beverage Director, the Office Specialist II, the Bar Captain and the individual Bar Tenders. The Bar Captain now orders alcohol as needed and confirms (with each Bar Tender) the alcohol distributed for sale and returned after a bar event, the Food and Beverage Director pays for the alcohol purchased and confirms the alcohol delivery and the Office Specialist II conducts both regular and surprise audits of the alcohol inventory. To ensure the Center has adequate capacity to purchase all alcohol needed the Food and Beverage Director's P-Card purchasing limit has been increased from \$1,000 to \$2,000.

As with the segregation of duties for the alcohol inventory, the duties for food purchases will be more appropriately shared by the Executive Chef and the Executive Sous Chef. The Executive Chef position has been vacant for nearly one year and the food purchasing, receiving and inventory duties that are currently performed by the Executive Sous Chef will be divided between the two positions. The Executive Chef position has been advertised, applications have been reviewed and interviews are being conducted (no selection has been made at this time) to provide adequate staffing for the segregation of these duties for the maintenance of the Food and Beverage Inventories.

4. Sales Contracting Procedures

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

A properly executed contract that spells out the responsibilities of all parties should be used for all events. All changes made for an event need to be documented on pre-numbered forms so that the changes can be reviewed and accounted for. Also, the Center is responsible for compliance with Administrative Regulation 1.27, which relates to identity theft procedures, and the Fair Credit and Reporting Act, as applicable.

In reviewing the sales contracting processes of the Center we identified several practices that needed to be improved. These practices were as follows:

- The sales agreement/contract had not been revised since 2/10/04. We identified a number of contract areas that needed updating or clarification including:
 - Cancellation policy section
 - Definition of guaranteed funds
 - Room rental overtime utilization fee section
 - Guarantee of attendance section (It uses the terms 72 hours and three working days; these two terms have two different meanings).
 - Definition of the acronym “GTD”
 - Food and Beverage Attrition section
 - Asterisk (**) items 2, 3, and 4 at the end of the contract
- Sales agreements/contracts were not completed and signed by all customers holding an event. Signed agreements were not obtained by sales personnel for “pop up” events held at the conference center.
- Sales personnel were required to document the customers’ social security number /tax ID # on all contracts. Contracts were kept in a file folder on the sales person’s desk, which was accessible to unauthorized personnel.
- All payments received prior to an event by the Center were treated as deposits and were kept regardless of when the event was cancelled.
- There was no clear definition of what constituted a deposit and a prepayment.
- Event change order forms were not pre-numbered or tracked.

This situation existed because of the agreement/contract was not periodically reviewed to keep pace with changes in the Center’s needs and the City’s requirements. If this situation is not addressed, the lack of an up-to-date contract could expose the Center to potential legal liability. Also, if contracts are not used for all events or changes to an event are not documented on pre-numbered forms, some of the events or the changes to them may not be properly accounted for.

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.

The Center’s sales agreement/contract should be updated, revised and reviewed by the City Attorney’s Office to document compliance with existing Center practices and City requirements for holding events. The update should incorporate the contract sections identified as needing update or clarification. Once the revisions are completed, the revised sales agreements/contracts should be used for all events held at the Center. The practice of documenting the Social security number /tax ID # on agreements/contracts should be discontinued, and documents that contain social security information should be properly secured at all times. Deposit and prepayments should be clearly defined, with clearly

defined procedures to account for them. Finally, event change order forms should be pre-numbered and tracked against their related events to ensure that any changes to an event are properly accounted for.

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.

Public facilities should be neat, clean, and safe. The Center was rented out for weddings, dances, and other public affairs and, as such, it should be maintained at a high level of appearance in order to encourage business. Also, safety procedures should be adequate to safeguard clients, assets, the physical plant, and staff personnel, and physical security should be adequate to safeguard the staff personnel in the event of an emergency.

We noted several deficiencies in building security. There was no list of employees who had keys and access codes to the entrance alarms necessary to access the building. In addition, pull alarms were not installed so they could be set off in the event of robbery or an emergency. There were an insufficient number of cameras throughout the building and the camera software was inoperable for the duration of our audit. Also, the administration offices were not secured after office hours or during times when no staff was present. The door into the accounting office, while locked, did not provide a peephole or other method to identify persons knocking to gain access.

We found that the Center had numerous maintenance and safety issues that needed to be addressed. These areas are noted on the next page:

**Exhibit #9
Areas Needing Maintenance/Work/Repair/Cleaning**

Item needing work	Promenade	Lobby	Ball Rooms	Bathrooms	Back Areas	Admin	Exterior
Paint	X	X	X		X		X
Floor	X	X			X		
Carpet	X		X			X	
Cleaning	X	X	X	X	X		X
Wall Paneling			X				
Ceiling			X				
Coat check counter	X						
Overhead Lighting			X	X			
Exit Signs	X	X	X		X	X	
Fire Extinguishers/ Signage	X	X	X		X	X	
Doors	X	X	X	X	X	X	X
Landscaping							X
Trash/Storage area							X
Sidewalk							X
Interior Plants	X		X				
Electrical			X		X		
Handicapped Accessibility						X	
Plumbing				X			
Directional Signage	X	X					X
Overflow Parking							X
Security Cameras	X	X	X		X	X	X

Deficiencies observed included:

- Doors were chipped and scarred.
- Dirty appearance inside – there was dust and cobwebs, spills on floors and trash can tops.
- The granite countertop for the coat check counter not being used, and the Center was paying to have it stored.
- Electrical outlets were taped over, and a light switch in a back room was shorting out and was taped over.
- Interior plants were dirty and dying.



Wall paneling pulling away from wall, held up in some places by visible bolts



Ceiling tiles hanging loose, stained, and missing



Damage to ceiling caused by folding door running off track

- Light bulbs were burned out throughout the ballrooms and the promenade.
- Exit sign bulbs were burned out.
- Exit sign locations had not been updated for code changes.
- Fire extinguishers not were inspected monthly and signage was poor.
- Mildew and stained caulking were on the outside of the building.
- Dead plants were throughout the grounds, especially in the main planter; Sidewalk had numerous cracks, chips, and weeds growing.
- Security camera software was not operating during time of review
- Some floors were not clean.
- Handicapped accessible bathroom did not have grab bars.
- Plumbing problems in the women's bathroom had not been corrected for three months.
- Signage for the overflow parking gave potentially incorrect directions.

This situation developed because of the absence of a dedicated maintenance or facilities supervisor. There was no interim person designated to handle building maintenance and cleanliness. There was no one person or set of policies and procedures designated to ensure the security of the building and staff.

The overall condition of the building had the potential for putting the Center at a competitive disadvantage for business. The various maintenance and staff issues presented serious concerns for staff and property. The lack of a functioning camera system put the Center in a position to not being able to defend itself against liability claims by customers and could not be used to review potential criminal activity. The lack of proper key security allows for keys to be out to personnel not authorized to possess them as well as to still allow access to personnel no longer employed at the Center.

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.

The Center should take steps to ensure that the maintenance and safety issues identified are addressed as quickly as possible. In addition, keys should to be controlled by limiting who has access to keys to areas they are not authorized to be in, key lists should be kept, locks should be rekeyed when key staff leave. The security software needs to be reinstalled and the camera placements evaluated, with additional cameras added or moved, as needed. Finally, all doors to the administrative areas and the elevator to the second floor should be secured at all times. Peepholes or other methods of viewing visitors should be added to the accounting doors.

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.

The Facilities Supervisor is developing an inventory of equipment, tools, and supplies and developing a preventive maintenance schedule for the entire Conference Center physical plant. Various safety and aesthetic improvements have been completed to address the most immediate needs at the Center.

The following improvements or studies have been made or initiated to ensure the safety and security of the Center: the fire lane and curb have been painted as required by fire code, re-installation of security camera software, additional access for appropriate staff to view cameras continuously (cameras can be viewed remotely or at the Center), installation of panoramic door viewers for all accounting department doors, installation of pull alarms anywhere revenue is collected or cash is secured and a security study is being conducted to identify potential improvements in all security systems including locations of current or additional cameras and installation of alarms and key/access controls throughout the center.

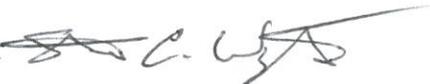
Additionally, to address the aesthetics of the building the following improvements or designs have been completed or initiated: interior walls have been completely refinished, interior walls have been painted, the exterior of the Center has been painted, a new landscaping contractor has been awarded the contract for maintenance at the Center and the company has begun to address issues and improve existing landscaping, the waste receptacles have been replaced, a signage study has been initiated to address issues with both interior and exterior signage, the designs of various interior and exterior elements are being conducted by the City Contracted architect to address the aesthetics and/or functionality of the floor treatments, lighting and electrical upgrades, redesign of the restrooms, and upgrades to the ballrooms, rotunda, and promenade areas.

APPENDIX A

RESPONSE FROM ECONOMIC DEVELOPMENT OFFICIALS

MEMORANDUM

TO: Jay Poole, City Auditor

FROM: Steven C. Wright, Director 

DATE: June 13, 2011

RE: Economic Development Internal Audit

This memorandum is to advise you that I have received and reviewed the draft audit provided by your office. The responses provided Steven Wright, Director, in collaboration with Anthony Markum, are acceptable and are approved for publish as written.

Should you have any questions or require additional information, please contact my office at 382-8040.

C. **Tax Increment Financing Districts – Greenbrier and South Norfolk**

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.

Due to the number of smaller projects included in each district in the original road map, projects were submitted in the Capital Improvement Budget by district. For those projects which include several individual projects, sub-projects are being created. Each project is kept in detail on Economic Development’s shared drive (copies of contracts, invoices, etc). Additional activities for each project in PeopleSoft are being created as well to provide more detail.

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 Sports Facilities Advisory (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 project.

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

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 function.

Recommendation – The Department 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.

The failure to use City facilities for car washes and fueling has occurred due to availability and timing of the necessity of the services. Economic Development will strive to access the City’s facilities whenever possible.

Documentation of some petty cash did not include a signature from the employee for money received. This signature will be added to amount and description in the future.

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)

1. Overall financial and operational controls

Finding – Overall financial and operational controls at the Center needed improvement.

Recommendation – The Center should work to improve its overall 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.

An Accounting Manager is now providing financial oversight and an Operations Manager is now providing operational oversight for all Economic Development Department functions, including the financial and operation activities at the Chesapeake Conference Center. To provide further control all policies and procedures related to cash handling, payment processing, food and beverage sales and inventory and segregation of duties for all division at the Center have been reviewed, updated and implemented. Details of these updates are provided above in the “Response” section of the above chart listing areas of concern and as part of the responses to the following findings listed as “2. Center Accounting Functions” and as “3. Alcohol and Food Inventories”.

A new division, Engineering Services, has been 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 consists of a Facilities Supervisor, a Part-Time Facilities Technician, a Part-Time Housekeeper and the division staff is supplemented by Temporary Staff and City contracted vendors as needed. The Facilities Supervisor is developing an inventory of equipment, tools, and supplies; and is developing a preventive maintenance schedule for the entire Conference Center physical plant. Various safety and aesthetic improvements have been completed to address the most immediate needs at the Center. Detailed descriptions of the actions taken to address aesthetics and safety issues at the Center can be found above in the “Response” section of the chart listing areas of concern and in the response to the finding listed below as “5. Building, Maintenance, Safety and Security”.

Finally, with the guidance of the City of Chesapeake Information Technology Department, upgrades to the existing Automated Event Management System have been identified. Together the Information Technology professionals, the Conference Center Sales Division and the Conference Center Accounting Division have identified solutions that will allow Sales Staff to efficiently book and manage events, properly forecast and report monthly and annual revenues and expenses, reconcile variances, make year-to-year comparisons and track lost/turned down business; while providing necessary accounting reports and functionality. Additionally, the new software upgrade will provide additional capability to interface with the Treasurer’s Mainframe Paid-In-Voucher (PIV) System which will further ensure segregation of duties and eliminate duplication of tasks.

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 implementations 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.

To address the cash handling process the accounting staff has revised the Cash Count Sheets to include the actual physical bill count breakdown and cash counts are documented on a single sheet each time funds are exchanged. Since accounting staff conducted additional training and

reviewed cash handling procedures with all Banquet Staff, the Bar Tenders and Bar Captains sign and date the cash sheet at each cash exchange to verify the count was conducted properly. To improve cash controls and security each accounting staff member has been issued access only to the cash lockbox for which they have responsibility and anytime cash funds are exchanged with banquet staff it is dispersed and collected in sealable and tamper proof bags.

To segregate and accurately record sales and to improve reporting the Center's cash registers were reprogrammed to ensure accurate subtotals for each food and beverage item type; however, a way to program them to automatically calculate sales tax for the item type sold has not been identified and must still be calculated manually to ensure accurate reporting. Additional research is being done to explore options to have the registers automatically calculate the sales tax and eliminate the opportunity for errors. These options may include: acquiring new software for existing registers, purchasing new registers and/or acquiring new Food and Beverage inventory software system that will perform this calculation and provide reporting capability for sales and associated taxes. To improve the accuracy and consistency in reporting of bar events the Banquet Summary Report has been revised and is used for all bar/banquet events including all "in house" events and the Jingle Ball. All cash bars, capped bars, host bars and concession events are conducted using the same process and procedures (the registers are used for all events to record the sales and the Banquet Summary Report is used for all events to report sales).

The Center has recently upgraded the Automated Event Management System (AEMS) with the latest version of the "old Event Management System". The historical data from 1997 to 2009 will be automatically updated and included in the newly upgraded AEMS (There is a worst case possibility that as much as 18 months of the 14 years of data, from 2009-2011, may need to be input manually). Information Technology was heavily involved in the review and procurement of the recently upgraded software. In addition, to provide adequate support to the Center for the new software, the vacant Part-Time Client Technology Analyst I position has been filled with the assistance of Information Technology personnel on the selection committee. With the hiring for this position there is adequate support for the AEMS system implementation and the necessary long-term and training support to ensure the success of the upgrade.

In conjunction with the upgrade to the AEMS the mail and payment processing procedures have been completely revised. Currently the Office Specialist collects and endorses all mailed and walk-in payments and then posts them to the AEMS. The daily payment summary report is then produced by the AEMS and automatically sent to the Accountant I who reviews the report for accuracy and reports any discrepancies to the Office Specialist for correction. Payments are now being processed when received and procedures dictate that the payment must be processed no later than the business day following receipt. The daily activity collected and input into the AEMS, system automatically updates the Treasurer's Paid-In-Voucher system after each business day. This process allows for the proper segregation of duties and eliminates the duplication of tasks with in the payment process.

3. Alcohol and Food Inventories

Finding – Control 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 utilizations, 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.

Inventory security has been addressed by improving access control to both food and alcohol inventories by realigning the lock and key systems to limit access between inventoried items. Additional locks have been purchased and installed to allow the Chefs appropriate access to areas where food inventories are maintained and Banquet/Bar Captains only have the appropriate access to alcohol, mixers, and beverage items. Keys have been redistributed to only the individuals with in the Food and Beverage division for access to the items they need to complete their assignments. To further enhance the safety and storage of the inventory, a refrigerator has been converted to a freezer to increase the storage space for frozen foods and shelving was added in the freezers to ensure proper storage of frozen foods. Also, the existing security camera software used to monitor the Food and Alcohol storage and preparation areas has been reinstalled and is being monitored by the Food and Beverage Director to ensure the safety and security of the food and alcohol stored, prepared and served at the Center.

The alcohol inventory and reporting procedures have been fully reviewed, updated and implemented to ensure the inventory is kept and utilized properly and that all sales are recorded and reported in accordance with the Commonwealth of Virginia Alcohol and Beverage Control standards. The review and revisions included the following: make sure that no two bottles of alcohol are ever combined (as required by the State Law), be certain that all bar events (Host, Cash, Capped, In-House, etc...) are recorded on a Bar Summary Report and, for consistency in reporting sales to the Commonwealth, that all events are conducted using the same procedures (record sales on the register, reprogram registers to separate sales by item to accurately adjust inventory, record all sales activity on the Bar Summary Report, always use the First-In First-Out inventory method). Additionally, the scale has been replaced with an electronic digital scale that measures the weight of alcohol to the thousandth of an ounce. The weights are now input into a new bar inventory software, "Bar Cop Pro", to make certain that the alcohol usage is accurately calculated and sales are properly recorded.

The responsibilities for ordering and maintaining alcohol inventory has been appropriately segregated among the Food and Beverage Director, the Office Specialist II, the Bar Captain and the individual Bar Tenders. The Bar Captain now orders alcohol as needed and confirms (with each Bar Tender) the alcohol distributed for sale and returned after a bar event, the Food and Beverage Director pays for the alcohol purchased and confirms the alcohol delivery and the Office Specialist II conducts both regular and surprise audits of the alcohol inventory. To ensure the Center has adequate capacity to purchase all alcohol needed the Food and Beverage Director's P-Card purchasing limit has been increased from \$1,000 to \$2,000.

As with the segregation of duties for the alcohol inventory, the duties for food purchases will be more appropriately shared by the Executive Chef and the Executive Sous Chef. The Executive Chef positions has been vacant for nearly one year and the food purchasing, receiving and inventory duties that are currently performed by the Executive Sous Chef will be divided between the two positions. The Executive Chef position has been advertised, applications have been reviewed and interviews are being conducted (no selection has been made at this time) to provide adequate staffing for the segregation of these duties for the maintenance of the Food and Beverage Inventories.

4. Sales Contracting Procedures

Finding – The event contracts used by the Center needed to be updated and were 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 system.

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.

The Facilities Supervisor is developing an inventory of equipment, tools, and supplies and developing a preventive maintenance schedule for the entire Conference Center physical plant. Various safety and aesthetic improvements have been completed to address the most immediate needs at the Center.

The following improvements or studies have been made or initiated to ensure the safety and security of the Center: the fire lane and curb have been painted as required by fire code, re-installation of security camera software, additional access for appropriate staff to view cameras continuously (cameras can be viewed remotely or at the Center), installation of panoramic door viewers for all accounting department doors, installation of pull alarms anywhere revenue is collected or cash is secured and a security study is being conducted to identify potential improvements in all security systems including locations of current or additional cameras and installation of alarms and key/access controls throughout the center.

Additionally, to address the aesthetics of the building the following improvements or designs have been completed or initiated: interior walls have been completely refinished, interior walls have been painted, the exterior of the Center has been painted, a new landscaping contractor has been awarded the contract for maintenance at the Center and the company has begun to address issues and improve existing landscaping, the waste receptacles have been replaced, a signage study has been initiated to address issues with both interior and exterior signage, the designs of various interior and exterior elements are being conducted by the City Contracted architect to address the aesthetics and/or functionality of the floor treatments, lighting and electrical upgrades, redesign of the restrooms, and upgrades to the ballrooms, rotunda, and promenade areas.

APPENDIX B

SUMMARY OF TIF PROJECTS

**GREENBRIER TIF PROJECTS
AS OF DECEMBER 2010**

Project	Project Number	Funding Source	Total Appropriation	Expense
Projects Appropriated:				
Greenbrier TIF - Community Center	1081100100			
Engineering		Cash	400,000	141,501
Other		Cash	600,000	372,376
<i>Funding for design of a Community Center located in the Greenbrier TIF</i>			1,000,000	513,877
Greenbrier TIF - Wayfinding Signage	1091100100			
Construction		Cash	125,000	870
Engineering		Cash	15,000	0
Other		Cash	96,411	11,079
<i>Design and construct a custom wayfinding signage package for the TIF district</i>			236,411	11,949
Greenbrier TIF - Sidewalk/Crosswalk Improvements	1101100100			
Construction		Cash	673,000	670,822
Engineering		Cash	75,000	0
Construction		Bond Issued	250,000	250,000
Other		Cash	244,112	146,702
<i>Design and construct approximately 5,000 linear ft of 8' stamped asphalt crosswalks and 14,000 linear ft of 4' concrete sidewalks</i>			1,242,112	1,067,524
Greenbrier TIF - Electronic Gateway Signage	1181000100			
Construction		Cash	200,000	
Engineering		Cash	50,000	11,638
<i>Design, material and construction costs associated with new signage for gateway locations</i>			250,000	11,638
Conference Center District	1141000100			
Construction		Cash	1,131,952	61,040
<i>New pedestrian walkways to improve accessibility with the District, as well as new street and directional signage and expansion of bike trails connecting the Conference Center parking garage, Conference Center and Conference Center Hotel</i>				
Greenbrier Center Pedestrian Safety (No Projected Start Date)	1201000100			
Engineering/Design Fees		Cash	250,000	0
Construction		Cash	870,474	0
<i>Implement key elements of the Greenbrier Pedestrian Safety Study. Design and construction of pedestrian walkways, paths and crosswalks.</i>			1,120,474	0

Mall Bike Trail (No Projected Start Date)	1571200100			
Construction		Cash	69,426	0
<i>Implementation of Master Plan</i>				
Commerce Bike Trail (No Projected Start Date)	1581200100			
Construction		Cash	120,338	0
<i>Implementation of Master Plan</i>				
Woodlake Drive Extension (Projected Start Date Jul 2011)	1181300100			
Other		Cash	782,985	391,492
Other		Bond Issued	832,985	799,410
<i>Extension of Woodlake Drive to Battlefield Blvd.</i>			1,615,970	1,190,902
			-	-
GB TIF - Greenbrier Center District	1131200100			
Construction		Bond Issued	1,534,517	1,233,993
Land		Bond Issued	4,298,640	108,891
Other		Bond Issued	2,185,271	655,958
<i>Safety improvements for vehicle and pedestrian traffic, including acquiring easements, construction of turn lanes, sidewalks, pedestrian signals, and bike trails</i>			8,018,428	1,998,842
GB TIF - North Corporate District	1151200100			
Construction		Bond Issued	348,000	
Other		Bond Issued	180,090	45,997
<i>Turn lane from southbound crossways Blvd to westbound Volvo Parkway and a 10' bike path</i>			528,090	45,997
GB TIF - Commerce District (Projected Start Date Sep 2011)	1161200100			
Construction		Bond Issued	208,800	0
Other		Bond Issued	108,054	0
<i>Turn lane from Volvo Parkway onto Executive Blvd</i>			316,854	0
GB TIF - South Retail District (Project Complete)	1171200100			
Advertising		Bond Issued		1,792
App/Title/Deeds		Bond Issued		3,200
Construction		Bond Issued	417,600	472,430
Land/Row		Bond Issued		78,036
Other		Bond Issued	137,934	76
<i>Construct one turn land from westbound Volvo Parkway to southbound Battlefield Blvd and another from westbound Wal-Mart Way to Northbound Battlefield Blvd</i>			555,534	555,534
GB TIF - Municipal District	1181200100			
Construction		Bond Issued	75,400	1,995
Other		Bond Issued	117,194	55,889

Construction		Bond Unissued	28,400,873	0
Other		Bond Issued	283,080	62,420
<i>Municipal District</i>			28,876,547	120,304
Conference Center Renovation	1151000100			
Engineering		Bond Issued	250,000	270,191
Construction		Bond Issued	2,504,870	1,164,429
<i>Improvements to Conference Center as part of the Conference Center Hotel Initiative</i>			2,754,870	1,434,620
Traffic signals and intersection improvements	1671200300			
		Cash	250,000	250,000
Total CASH Funded Appropriations and Expenditures			5,953,698	2,057,520
Total Bond Funded Appropriations and Expenditures			42,133,308	5,204,707
Total Cash and Bond Funded Projects and Expenditures			48,087,006	7,262,227

**SOUTH NORFOLK TIF PROJECTS
AS OF DECEMBER 2010**

Project	Project Number	Funding Source	Total Appropriation	Expenditures to date
<u>Projects Appropriated:</u>				
Develop Plan Waterfront	1371100100			
WATERFRONT (Project Complete)		Cash	310,000	310,000
<i>Project to provide funds for professional services regarding the Belharbour development</i>				
Infrastructure Improvement - Belharbour	1631200100			
ENG/Design		Cash	1,500,000	217,817
CONSTRUCTION (Appropriation was approve in May 2007 for FY 2008)		Bond Unissued	5,658,583	0
(Bonds have not been issued to date)		TOTAL	7,158,583	217,817
<i>Fund Infrastructure improvements to support the implementation of the South Norfolk Strategic Development Plan.</i>				
Johnson Park Improvements	1221200400			
CONSTRUCTION		Cash	550,000	302,659
<i>Upgrades and improvements to Johnson Park.</i>				
Library Expansion	1201200100			
ENG/DESIGN		Cash	550,000	418,980
CONSTRUCTION		Bond Issued	4,500,000	107,571
TOTAL			5,050,000	526,551
<i>Replace existing South Norfolk Memorial Library. A 10,000 sq. ft. expansion, including meeting rooms and children's library.</i>				
Poindexter Streetscape	1191200100			
CONSTRUCTION		Cash	2,996,100	25,714
CONSTRUCTION		Bond Issued	2,503,900	337,621
<i>Provide funding to complete Poindexter Streetscape improvements. Project currently being administered by Public Works.</i>		Bond Issued	1,900,000	40,105
		TOTAL	7,400,000	403,440
Total CASH Funded Appropriations and Expenditures			3,910,000	1,275,170
Total Bond Funded Appropriations and Expenditures			16,558,583	485,297
Total Cash and Bond Funded Projects and Expenditures			20,468,583	1,760,467

APPENDIX C

DETAILED CONFERENCE CENTER RESPONSES

E. Chesapeake Conference Center (Center)

1. Overall Financial and Operational Controls

Finding - Overall financial and operational controls at the Center needed improvement.

Area of Concern	Control Issues	Response
1. Policies and procedures	Several policies and procedures, including <u>Concession Inventory Procedures</u> , <u>Beverage Inventory Order, Receipt, and Review Procedures</u> , and <u>Food Inventory Order, Receipt and Review Procedures</u> , had not been updated since at least 2004.	All noted procedures have been reviewed and updated accordingly. "Bar Cop Pro" Software, scales and equipment have been purchased to ensure the accurate accounting of sales and inventory of alcohol and concessions items. Food inventory software has been identified that will provide a perpetual inventory and detailed analysis of items purchased and used for particular menus and events.
2. Segregation of duties	The cash receipting function, billing, accounts receivable, and bank reconciliations were all being done by the same person.	Duties have been reassigned to ensure proper segregation of duties. Software upgrades and streamlined procedures have been implemented to ensure that critical tasks are not performed by the same accounting staff members.
3. Cash Handling	<p>a. Cash receipts from bar operations were not compared against the inventory from the Bar Reconciliation Reports.</p> <p>b. Variance analyses were not prepared, and the Center was unaware of several spreadsheet calculation errors.</p> <p>c. "No sales" and "Void" transactions were not properly annotated and explained.</p> <p>d. Transfers of funds into and out of the upstairs floor safe were not documented.</p> <p>e. Cash funds were not kept in secured or locked bags.</p> <p>f. The Center's P-Card balance was insufficient to make required purchases of alcohol at the ABC store</p>	<p>Reconciliations are made for each bar after each event and a full accurate accounting and review of bar receipts is performed. Procedures have been updated to eliminate discrepancies and any variances are noted and explained.</p> <p>"Bar Cop Pro" Software has been purchased to eliminate any spreadsheet calculation errors. Procedures have been updated to eliminate discrepancies and any variances are noted and explained. Weekly meetings are held to review Bar reconciliation Reports with Banquet Captains and Food and Beverage Director and Accounting Staff.</p> <p>"No Sales" and "Void" are documented by the Bar Tenders on the Bar Summary Reports and review by the Banquet Captains. Resolutions are reviewed and inventories audited by accounting staff.</p> <p>There is now a log of all activity at this safe. All monies dropped or retrieved are logged and reconciliations are performed by the accounting staff.</p> <p>Cash funds are now dispersed and collected in sealable and tamper proof bags.</p> <p>The Food and Beverage Director P-Card purchasing limit has been increased from \$1,000 to \$2,000</p>

Area of Concern	Control Issues	Response
4. Inventory control	The Center's inventory processes lacked sufficient separation of duties between ordering, receiving, and counting functions.	Upon hiring the Executive Chef the responsibility to order, receive and inventory food (that is currently being solely performed by the Executive Sous Chef) will be properly segregated among the Executive Chef, the Executive Sous Chef and the Sous Chef. The Accountant I is observing the audits and periodically conducts surprise audits.
5. Building Maintenance	The facilities management staff position responsible for the overall appearance and maintenance of the building was vacant at the time of our review.	Facilities Supervisor position has been filled and the Engineering Services Division is in development.
6. Building Security	The administrative portion of the building was not properly secured to prohibit unauthorized access to personnel, supplies, equipment, and files.	Procedures have been adjusted to limit access by all staff to the administration section of the building. A security audit is being conducted to further enhance security in all areas of the building. Security cameras, access controls, and evaluating the need to implement a wholesale renovation of keys, locks, alarms, access, badges, etc...will be included in the evaluation.
7. Automated Event Management System	Although implementation of the Ungerboeck EMS software began in November 2009, it was still not fully functional by February 2011, and the version of Ungerboeck that was being implemented was two versions behind. Consequently, the Center could not use the software to manage and analyze the results of events on an ongoing basis.	Under the guidance of the City of Chesapeake Information Technology Department, upgrades to the existing Automated Event Management System have been identified. Together the IT professionals and the Conference Center Sales and Accounting Staff have identified solutions that will allow Sales Staff to efficiently book and manage events, properly forecast for monthly and annual revenues, reconcile variance and comparisons, track lost/turned down business; while providing necessary accounting reports and functionality. Additionally, the new software upgrade will provide additional capability to interface with the Treasurer's Mainframe Paid-In-Voucher (PIV) System which will further ensure segregation of duties, proper collection on all accounts and eliminate duplication of tasks.

E. Chesapeake Conference Center (Center)

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.

Area of Concern	Control Issues	Response
<p>1. Cash Handling Process</p>	<p>a. Cash funds were not counted when funds were exchanged, and cash fund counts were not always documented on a cash count sheet.</p>	<p>Cash Count sheets have been revised and combined to include the actual physical bill count breakdown and so that the cash counts are always documented on a single cash count sheet.</p>
	<p>b. Cash/bar sheets did not include 1) a cash count sheet to document the physical count of cash and show overages or shortages and 2) a place for the date and signature of the person counting the fund. Accounting was not completing cash count sheets at settlement.</p>	<p>1) Cash Count sheets have been revised and combined to include the physical bill count breakdown 2) The Bar Tenders and Banquet captains are sign and date the revised cash count sheets. This has not been an issue since accounting staff conducted additional training and reviewed procedures with banquet staff, bar staff and captains.</p>
	<p>c. A general ledger over/short account had not been established to process cash bar outages.</p>	<p>A General Ledger Over/Short account has been established to process cash bar outages.</p>
	<p>d. The cashier register Z tapes did not segregate out the various subtotals for alcohol, food, sales tax, and food tax. Sales totals for alcohol food, and taxes were being calculated manually.</p>	<p>Current Registers have been reprogrammed to insure that accurate segregation of subtotals for alcohol, beer and food items are produced. The current registers do not automatically calculate sales and food taxes and these taxes must still be calculated manually to ensure accurate reporting. Additional research is being done to explore options to remedy this issue. These options may include: acquisition of new software or to purchase of new registers that will produce the summaries that are needed and which will interface with Food and Beverage Inventory Systems that are in the process of being procured.</p>

Area of Concern	Control Issues	Response
2. Payment Processing	a. Incoming mail and payments were not logged in and checks were not endorsed when received.	In conjunction with the upgrade to the Automated Event Management Software (AEMS) the mail and payment processing procedures have been completely revised. Now the Office Specialist collects and endorses all mailed and walk-in payments and then posts them to the AEMS. The daily payment summary report is then sent automatically by the AEPS to the Accountant I who then reviews the daily payment summary report for accuracy. The Accountant I then informs the Office Specialist of the need to make any necessary adjustments or corrections. The AEMS then automatically updates the Treasurer's Paid-In-Voucher system after each business day.
	b. Walk-in customers who wanted to make payments were referred to the Accountant I located on the second floor to process payments. This practice creates a customer service and work flow issue.	Now Office Specialist receives and processes payments at the front desk as described above, thus eliminating the need to locate the Accountant I. This resolves any customer service and work flow issues.
	c. The payment receipt process did not provide for adequate segregation of duties. The Accountant I was responsible for entering payments in the Ungerboeck system to create payment receipts for customers, entering payments into the accounts receivable spreadsheets, billing, issuing receipts, and reconciling accounts receivables to the general ledger	After revising payment procedure as described above there is now an adequate segregation of duties.
	d. Payment receipt books were not controlled and the issued, unissued and voided receipts were not being accounted for on a periodic basis. There was no log kept of the number sequences assigned.	The new payment procedures have significantly reduced the need for payment receipt books; however, they may be needed only as a back up to the system currently in place. The receipt books issued and assigned in number sequence by accounting staff and those individuals receiving the receipt books have signed to acknowledge they have the books and know how they are to be used.
	e. Payments were not always processed on the date of receipt (we noted a four day lag at the time of our audit.)	Currently all payments are processed upon receipt and policy dictates that all payments must be processed no later than the business day following receipt.

Area of Concern	Control Issues	Response
3. Cash Security	a. Cash funds were not adequately secured. Three individuals had access to the lock boxes which housed the funds. In addition, the lock boxes were placed in a locked filing cabinet where all three individuals had access to all the boxes.	Currently each individual accounting staff member has access only to the lock boxes and cash funds for which they are responsible.
	b. Surprise cash counts were not being performed on a periodic basis.	Currently the Accounting Manager is conducting surprise counts of accounting staff lockboxes on a regular basis.
4. System Implementation	a. The historical data for the Center resided on the old Event Management System and was no longer supported by Information Technology (IT).	The newly upgraded Automated Event Management System is the latest version of the "old Event Management System". The historical data will be automatically updated and be included in the newly upgraded Automated Event Management System. Information Technology was heavily involved in the review and procurement of the upgrade to the Software. In addition the vacant Part-Time Client Technologies Analyst I position has been filled with the assistance of Information Technology Department personnel on the selection committee. With the addition of this personnel there is adequate support for this system.
	b. No provisions had been made for any of the historical data, except for event name and date, to be migrated to the new system.	All historic data related to any event hosted at the Center since its opening in 1997 will be migrated into the upgraded Automated Event Planning System. There is a worst case possibility that as much as 18 months of the 14 years of data may need to be input manually, but it is likely that this information will be able to migrate automatically into the upgraded system.
	c. The new Ungerboeck system did not interface with either the Treasury Revenue Collector system or the PeopleSoft system. This lack of interface created the need to manually input the data into each system which duplicated effort, took time, and increased the potential for error.	The newly upgraded Automated Event Planning System will interface with the Treasurer's Paid In Voucher System and will eliminate the need to manually input data two or three times for each transaction.
5. Reporting	a. The Banquet Summary report did not list "in house" events such as the Jingle Ball. Also, the summary did not list the various cash/cap bars or concessions that are operated as part of these events. The Ungerboeck system had not been set up to track cash events such as bars and concessions.	Currently ALL events are reported on the monthly Banquet Summary, including all "in house" events and the Jingle Ball. In addition all cash bars, capped bars and concession sales are reported on the monthly Banquet Summary Report. The new upgraded Automated Event Management System will track all cash events, including all bars and concession sales.

Area of Concern	Control Issues	Response
	b. Quarterly accounts receivable reconciliation reports were not being received in Finance when due.	Currently the Accounts Receivable reconciliation reports are completed monthly and are sent to Finance quarterly when due.

E. Chesapeake Conference Center (Center)

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.

Area of Concern	Control Issues	Response
1. Inventory Security	a. The food and alcohol inventories were not properly secured to prevent unauthorized access.	There has been a realignment of all lock and key systems to limit access between inventoried items including alcohol, beer, sodas/water/mixers and food items.
	b. There was insufficient storage space to properly store and secure the food and alcohol inventories.	There is insufficient storage for all items at the Chesapeake Conference Center in general. Strategies are being developed to rid the Center of unused items and equipment, to increase storage at the Center and to find more efficient ways of storing food and alcohol, service equipment and operational equipment . As for food storage, Food and Beverage division has increased the amount of freezer space by converting a refrigerator to a freezer to ensure proper storage of frozen foods and added shelving in the food dry storage area to ensure proper storage of dry foods.
	c. At least five employees had access to the food and alcohol storage areas.	There has been a realignment of all lock and key systems to limit access between inventoried items including alcohol, beer, sodas/water/mixers and food items. Currently, only the Banquet Captain in charge of alcohol and the Food and Beverage Director and the Office Specialist II who verifies alcohol inventories have access to the alcohol. As for food inventories only the Chefs (Executive, Executive Sous, and Sous) and the Food and Beverage Director have access to the Food stock and inventories.
2. Alcohol Inventory and Reporting Procedures	a. The scale being used to weigh the bottles was old and inaccurate.	A new digital scale has been purchased that accurately measures the alcohol contents with in one thousandth of an ounce. In addition, a software package called "Bar Cop" was purchase to calculate alcohol consumption and usage for each bar at each event and to produce accurate monthly inventories. To ensure accuracy, the accounting staff audits the alcohol inventory on a regular and surprise basis.

Area of Concern	Control Issues	Response
	b. The same individual was responsible for ordering and receiving inventory, checking in and out the inventory for bars, and taking monthly inventory counts.	Duties for Alcohol inventory and purchasing have been appropriately segregated. A Banquet Captain has been designated for ordering alcohol and the Food and Beverage Director receives the alcohol. Together the Captain and Director verify and enter the alcohol purchased into the stock.
	c. There was no process for an independent or surprise verification of the alcohol inventory.	Accounting staff members have been assigned to conduct independent and surprise audits. These audits are occurring on a regular basis.
	d. There was no perpetual inventory system and prices were not adjusted to reflect purchases.	The Food and Beverage Director has identified several software packages that will provide perpetual inventories and will provide costing information as alcohol is purchased so that pricing can be adjusted accordingly. Information Technology has recommended that the procurement and installation of this package be delayed until after the upgrade the existing Automated Event Management System, which has recently been installed and is current operating properly.
	e. The first-in first-out inventory method was not being utilized.	The FIFO inventory method is and has always been in practice at the Conference Center. Now that storage has been improved and inventory controls have been tightened issue related to not using the FIFO inventory method have been eliminated.
	f. Spreadsheets used for inventory purposes and for client billing purposes did not include all of the alcohol types held in inventory and contained inaccurate calculations.	The "Bar Cop" software package currently being used includes all alcohol items in stock.
	g. Bottles of the same type alcohol were being merged to create full bottles contrary to state requirements.	Procedures have been review with Bar Staff and bottles of alcohol are not being merged.
	h. Cash registers were not used for "Host" bars.	Procedures have been review with Accounting and Bar Staff and registers are used for all bar events, including "Host" Bars.
	i. Cash bars, capped bars, and host bars were treated differently resulting in differences in the valuation of the alcohol as it was reported to the ABC and in whether service charges applied.	Procedures have been review with Accounting and Bar Staff and registers are used for all bar events to insure the consistent valuation of the alcohol and application of service charges.

Area of Concern	Control Issues	Response
	<p>j. All alcohol sales were not reflected on the annual alcohol report. No alcohol sales were being reported to the ABC for events that had a "package" deal such as weddings and the Jingle Bell Ball.</p>	<p>Currently all Champagne sold as part of a wedding package is being recorded on an Item of Consumption Report to ensure that alcohol sales are appropriately reported to the Commonwealth. As for the "Jingle Ball" event, after contacting our Agent with the Virginia Department of Alcohol and Beverage Control the Center has been directed to treat these bar transactions as we do a typical "host" bar. As such, each bar transaction will be recorded on the register and the "host" of the event (in this case the Center) is billed according to the amount of sales.</p>
	<p>k. The Center's P-Card balance was insufficient to make required purchases of alcohol at the ABC store, and the Center had to utilize money orders for some beer and wine purchases.</p>	<p>The Food and Beverage Director P-Card purchasing limit has been increased from \$1,000 to \$2,000.</p>
<p>3. Food Inventory</p>	<p>a. Food and supplies were ordered, received, and inventoried by the same person.</p>	<p>Because of a vacancy in the position of the Executive Chef, the Executive Sous Chef had been tasked with both ordering and receiving food purchases. The Executive Chef positions is currently being advertised to provide adequate staffing for segregation of these duties.</p>
	<p>b. There was no process for an independent or surprise verification of the food and supplies inventory.</p>	<p>Currently there is an assigned accounting staff member to conduct independent and surprise audits. These audits are currently being conducted on a regular basis. Based on the recommendation of our Information Technology Department, the Food and Beverage Director will lead the purchase and implementation of automated food and beverage inventory software after the upgrade Automated Event Management Software is complete. The new Food and Beverage Inventory Software will then provide a perpetual inventory which is always current.</p>
	<p>c. Food placed into cold storage was not labeled as to what it was and when it was placed into storage.</p>	<p>A food labeling system is in place to ensure the inventory is accurate and the first-in first-out procedure is executed properly.</p>
	<p>d. Shelves were not labeled as to where to store particular items.</p>	<p>Because of improvements in storage and inventory methods there is now space to store and label consistent locations for items to be stored.</p>

Area of Concern	Control Issues	Response
	e. Food was being stored directly on the freezer floor due to lack of adequate storage space.	There is insufficient storage for all items at the Chesapeake Conference Center in general. Strategies are being developed to rid the Center of unused items and equipment, to increase storage at the Center and to find more efficient ways of storing food and alcohol, service equipment and operational equipment . As for food storage, Food and Beverage division has increased freezer space by converting a chiller to a freeze. The increased freezer space now ensures there is adequate space to proper store frozen food items.
	f. There was no perpetual inventory system and prices were not adjusted to reflect purchases.	The Food and Beverage Director has identified several software packages that will provide perpetual inventories and will provide costing information as food is purchased so that pricing can be adjusted accordingly. Information Technology has recommended that the procurement and installation of this package be delayed until after the upgrade the existing Automated Event Management System, which has been installed and is current operating properly.
	g. The first-in first-out inventory method was not being utilized.	The FIFO inventory method is and has always been in practice at the Conference Center. Now that storage has been improved and inventory controls have been tightened issue related to not using the FIFO inventory method have been eliminated.
	h. Spreadsheets used for food inventory purposes did not include all the food types held in inventory.	Inventory spreadsheets currently being used have been updated to include all food items in stock.

E. Chesapeake Conference Center (Center)

4. Sales Contracting Procedures

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

Response

<ul style="list-style-type: none"> • The sales agreement/contract had not been revised since 2/10/04. We identified a number of contract areas that needed updating or clarification including: 	<p>Both the Sales Agreement and Proposal for the Chesapeake Conference Center have been revamped. This took place once the new Director of Sales began in his position, March 1, 2011. He modeled the revisions of the agreement/contract after those commonly used in the hospitality industry for contracting properties of various sizes and owned/operated by various hospitality companies. The revised contract has been reviewed by Internal Audit and has been in use since May 1, 2011.</p>
<ul style="list-style-type: none"> ○ Cancellation policy section 	<p>The cancellation policy is adjusted differently for each booking here at the Center as the contracts are negotiated. As we develop each contract a sliding scale is used to determine the required deposit, pre-payment schedule and the cancellation policy. The contract will clearly define the cost associated with timeframe in which a group can cancel and any associated cancellation fee that would apply. Example: if an event is canceled 60 days before the contracted date, a cancellation fee of \$1,200 may apply. This dollar amount would then closely match the amount of the deposits and pre-payment schedule developed during contract negotiations and those payments are not refundable.</p>
<ul style="list-style-type: none"> ○ Definition of guaranteed funds 	<p>As defined in the revised contract guaranteed funds represent: Bank Checks; Certified Checks; Credit Cards; Money Orders and Cashiers Checks. To limit large sums of cash on hand, the conference center does not accept cash for room rental payment.</p>

Response

<ul style="list-style-type: none">○ Room rental overtime utilization fee section	<p>If a group goes over their contracted time, they pay an overtime usage fee. Typically, there is a need to "turn" the space for other events contracted by another group. If a group leaves a space late, the next group can ask for a financial adjustment because of the group limiting or preventing access to a space the Conference Center has agreed to provide. This represents "Room Rental Overtime Utilization" and is clearly defined as a condition of the Conference Center agreement.</p>
<ul style="list-style-type: none">○ Guarantee of attendance section (It uses the terms 72 hours and three working days; these two terms have two different meanings).	<p>In our contract the "Guarantee of Attendance" is required 72 hours in advance of the contracted event as to allow facility staff, food and beverage, and operations adequate time to prepare for the clients event (provide appropriate items, food and beverage and set up). The 72 hour requirement for "Guarantee of Attendance" is now clarified in the contract and the three working days requirement has been eliminated. This clarification allows for consistent interpretation for the client and the Center as to when the "Guarantee" is required.</p>
<ul style="list-style-type: none">○ Definition of the acronym "GTD"	<p>Guarantee is the meaning of "GTD" and the acronym has been removed from the revised contract for clarity. See note above concerning "Guarantee of Attendance".</p>
<ul style="list-style-type: none">○ Food and Beverage Attrition section	<p>Attrition happens when the client falls below a certain number, or the final number specific 72 hours prior to the event and considered the "Guarantee of Attendance". This is a financial safeguard for the Conference Center, and is used for proper forecasting for use of space, set up and equipment requirements, staffing, and food and beverage purchase and preparation. It is clearly defined in the revised contract that the client will be charged for food and beverage service based on the "Guarantee of Attendance" and not for the actual attendance.</p>

Response

<ul style="list-style-type: none"> ○ Asterisk (**) items 2, 3, and 4 at the end of the contract 	<p>These asterisks denoted the following: Item 2. Signed contract is to be returned to Center with clients signature, thus committing them to the event and associated payment requirements; Item 3. The contracted minimum "Guarantee of Attendance" or number of people the client agrees to pay for; Item 4. What actual dollar amount the client is contracting to pay with certified funds.</p>
<ul style="list-style-type: none"> • Sales agreements/contracts were not completed and signed by all customers holding an event. Signed agreements were not obtained by sales personnel for "pop up" events held at the conference center. 	<p>Any and all Conference Center bookings are done so on a Conference Center agreement/ contract. A signed contract is considered a binding contract. A Conference Center proposal is not a signed contract, it is just a document in with which we are making a proposal to the group/client. Once the group/client is in agreement with what is being proposed, we then provide them with a contract to sign.</p>
<ul style="list-style-type: none"> • Sales personnel were required to document the customers' social security number /tax ID # on all contracts. Contracts were kept in a file folder on the sales person's desk, which was accessible to unauthorized personnel. 	<p>There are no social security numbers or credit card numbers taken by the Sales Managers and they are not being stored in any files or Automated Event Management System.</p>
<ul style="list-style-type: none"> • All payments received prior to an event by the Center were treated as deposits and were kept regardless of when the event was cancelled. 	<p>All pre-payments are generally accepted as advance deposits in the hospitality industry, and as such deposits are non-refundable. When a client contracts the use of a space at the Conference Center, that space can no longer be sold; therefore the Sales staff must turn away other revenue generating opportunities to rent the space. So any deposit is non-refundable especially when that client wants to later cancel and or possibly move their event elsewhere. We should get something in return for holding space and turning away business.</p>

Response

<ul style="list-style-type: none">• There was no clear definition of what constituted a deposit and a prepayment.	The revised contract currently being used at the Conference Center explains what constitutes a deposit and/or advance deposit, and it is clearly defined by the contract that any deposit or pre-payment is an advance deposit and is non-refundable.
<ul style="list-style-type: none">• Event change order forms were not pre-numbered or tracked.	Change Log Forms are now numbered and dated, as well as signed and dated by that specific Sales Manager when distributed. They are also reviewed in our weekly "Banquet Event Order" (BEO) Meeting that occurs every Thursday at 1:30 PM.

E. Chesapeake Conference Center (Center)

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.

A new division, Engineering Services, has been developed at the Conference Center to ensure the building is adequately maintained and that all aesthetic and safety issues are address in an efficient manner. The division consists of a Facility Supervisor (newly hired), a Part Time Facility Technician (new advertised), and a Part Time Housekeeper (existing).

Areas Needing Maintenance/Work/Repair/Cleaning								Response
Item needing work	Promenade	Lobby	Ball Rooms	Bathrooms	Back Areas	Admin	Exterior	
Paint	X	X	X		X		X	Interior and exterior of building has been painted by City Contracted Vendor. Ballroom under design and Back Areas still being considered based on funding availability.
Floor	X	X			X			All carpets have been cleaned in the building, design of new floor treatments is underway for all areas of the building including the promenade, the rotunda, the ballrooms and bathrooms.
Carpet	X		X			X		New carpet is in process of design and purchase using State Contracted Vendors. Improvements for Administrative areas will be addressed after all other areas are completed.
Cleaning	X	X	X	X	X		X	Building has been painted, cleaned and repaired as needed. The Facilities Supervisor is developing an appropriate schedule for cleaning and preventive maintenance.
Wall Paneling			X					Treatments to address wall paneling and retractable walls is under design.
Ceiling			X					Treatment to clean and/or replace damaged ceiling tiles is being studied.
Coat check counter	X							Design for renovated Coat Check area is underway.
Overhead Lighting			X	X				An electrical and lighting study is underway.
Exit Signs	X	X	X		X	X		An electrical and lighting study is underway.
Fire Extinguishers/Signage	X	X	X		X	X		All have been replaced.
Doors	X	X	X	X	X	X	X	Study as to repair or replace doors underway. Replacement of hardware for all doors is in design or procurement process.
Landscaping							X	Current landscaping has been improved and design for new landscaping is in place but not yet procured.
Trash/Storage area							X	New exterior waste receptacles have been purchased and will match new exterior furniture after exterior landscaping renovation.
Sidewalk							X	Sidewalks will be repaired, replaced or upgraded according to new landscaping plan.
Interior Plants	X		X					Interior plant service is being address with City Contracted Vendor
Electrical			X		X			Study to address electrical, audio and visual equipment issues is underway by City Contracted Vendor.
Handicapped Accessibility						X		Handicapped bar has been installed in restroom to address accessibility issues as identified.
Plumbing				X				New design of restrooms will address necessary upgrades to plumbing fixtures to improve performance and efficiency.
Directional Signage	X	X					X	An evaluation of all signage is being conducted and the design of a signage package for the interior and exterior of the Center is underway.

Areas Needing Maintenance/Work/Repair/Cleaning

Item needing work	Promenade	Lobby	Ball Rooms	Bathrooms	Back Areas	Admin	Exterior	Response
Overflow Parking							X	An approved capital project is in place to address adjacent one acre lot improvements for overflow parking. Design for this project is complete and construction is expected to be complete by November 2011. Additionally, the Conference Center will work closely with neighboring properties to coordinate parking for all concerned.
Security Cameras	X	X	X		X	X	X	Security software and cameras are functioning properly. A security audit is underway to identify opportunities to further improve security systems (including additional cameras, alarms, and access controls to building and areas within the building).