AUDIT SERVICES DEPARTMENT

ANNUAL STATUS REPORT

JULY 1, 2001 THROUGH JUNE 30, 2002

DATE OF PREPARATION: DECEMBER 18, 2002

Chesapeake
VIRGINIA

Audit Services Department
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December 18, 2002

Mr. Clarence Cuffee
City Manager
City of Chesapeake
City Hall - 6th Floor
Chesapeake, Virginia 23328

Dear Mr. Cuffee:

Enclosed is the Audit Services Department's <u>Annual Status Report</u> for the period July 1, 2001 to June 30, 2002. The following is a summary of some of the report's highlights.

A. COMPLETED PROJECTS

1. Audits and Analytical Reviews

   a. Special Audits

We completed special audits of Central Fleet Management, Citywide Credit Card Transactions, a preliminary review of Service Practices of the Community Services Board, and follow-up reviews of fiscal year 2002 performance and special audits. These audits were conducted for the purpose of determining 1) whether departments were providing services in an economical, efficient, and effective manner, 2) whether department goals and objectives were being achieved, and 3) whether departments were in compliance with applicable City policies. The reports contained recommendations which we believe will improve operations, reduce costs, or otherwise enhance the department's operations.

- The Central Fleet Management (CFM) audit evaluated CFM purchase order practices and its process for purchasing new equipment and/or renewal or replacement equipment. Central Fleet Management agreed to implement ten of the twelve recommendations.

- The Citywide Credit Card Transactions audit evaluated whether credit card transactions were executed in accordance with applicable City policies and procedures and whether the expenses associated with these transactions were appropriate. Our recommendation was implemented.

- The Community Services Board Governance audit evaluated service practices to determine their vulnerability to risk, fraud, abuse, and other illegal activities associated with program administration and to provide baseline data for the CSB corporate compliance program. CSB implemented two of our four recommendations.

- We completed follow-up reviews of our Citywide Complaint Processing Program, Citywide Payroll System, Chesapeake Museum & Information Center, Incorporated, Risk Management, Economic Development – Conference Center, and Cable Television Franchise Fees audits to review the status of audit recommendations from previous audits.

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

2. Technical Assistance

   We provided technical assistance to the City and its affiliated organizations on 22 projects. Of these, the most significant were as follows:

- During a 1994 technical assistance project, we identified a non-interest bearing $425,700 note owed by the Chesapeake Redevelopment and Housing Authority (CRHA) to the City that had not been recorded on the City's books. On July 24, 2001, CRHA repaid the $425,700 loan to the City. CRHA also received approximately $400,000 in interest proceeds on their note from the developer.

- We assisted the City's Port Authority on matters related to the sale of Authority-owned land. In 1997, the Port Authority agreed to lease a 96-acre parcel of land it owned to a private firm that wanted to develop it. The property sold on July 31, and the proceeds from the sale were $1,940,000. The City provided $375,986 so that the remaining note balance of $2,315,986 could be retired.

- We assisted the City in its implementation of new accounting standards associated with Government Accounting Standards Board (GASB) Statement Number 34. GASB-34 requires governments to revise the way that their financial statements are presented so that they bear a greater resemblance to private sector financial statements.

- The Chesapeake Airport Authority hired a new Airport Manager in July 2001. Once the new manager was hired, we provided assistance to the Airport in a number of areas, including understanding City purchasing and payroll procedures as well as budget analysis.

- Since the inception of the City's Central Fleet Management program in 1996, Audit Services has developed the citywide lease rates. Fiscal Year 2002 was the last year that Audit Services will perform this function for the City.

Other Technical Assistance Projects

- Tax Exempt Organization Requirements – July 2001
  We reviewed State requirements for registration and filing related to tax exempt organizations involved in fund-raising activities.

- Confidential Fund – December 2001
  We assisted the Police Department in developing procedures to provide greater control and accountability for confidential funds.

- New Finance System – January 2002
  We are assisting the Finance and Information Technology Departments in reviewing and developing controls for a new Finance system.

- Interview Panels – February 2002
  We served on interview panels for four positions in Finance, Information Technology, and Social Services.

- Enterprise Funds – February 2002
  We assisted the Budget Department in analyzing matters related to enterprise fund utilization of the Central Fleet program

- City Auction – May 2002
  We attended the City Auction on May 4 and reviewed accountability procedures for the proceeds. The auction raised $147,000.

- Cost Allocation Plan RFP – May 2002
  We participated on the selection panel for the City's Cost Allocation Plan vendor.

- Finance Department – Taxes
  We assisted the Finance Department on a payroll tax related matter.

B. PROJECTS IN PROGRESS

At year-end, we were working on performance/special audits of City Charitable Solicitations, Software Licensing, and Hazardous Waste Removal, as well as a follow-up on FY 2001 audits. With the exception of the new Finance System and GASB 34, most of our technical assistance projects were nearing completion.

Very truly yours,

Signed

Jay Poole
Director of Audit Services
City of Chesapeake, Virginia

CITY OF CHESAPEAKE, VIRGINIA

AUDIT SERVICES DEPARTMENT
ANNUAL STATUS REPORT
JULY 1, 2001 TO JUNE 30, 2002

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A. SUMMARY

AUDITS & ANALYTICAL REVIEWS

Managerial Summary

A. Introduction, Scope and Background

We have completed a special audit of Central Fleet Management (CFM) for the period of July 1,1999 through December 31, 2000. Specifically, the purpose of the audit was to evaluate CFM purchase order practices and its process for purchasing new equipment and/or renewal and replacement equipment. We evaluated CFM use of the competitive bidding process to purchase high volume parts, and its management practices to administer the "just in time" parts/inventory delivery feature and to remove obsolete parts from inventory. Also, we evaluated CFM use of the FleetAnywhere System and its sufficiency to meet CFM recording, monitoring, and reporting needs. In addition, we developed a flowchart of CFM work cycle process for parts ordering, receiving, and installing. Finally, we performed a telephone survey of the City's 59 operational segments with assigned vehicles to capture vehicle travel mileage and usage. The audit was conducted in accordance with Governmental Auditing Standards and included such tests of records and other supporting documentation as we deemed necessary in the circumstances.

To conduct this review, we examined the State and City procurement policies and procedures, CFM organization charts, policies and procedures pertaining to its service functions including parts ordering, receiving, and installing, and parts contracts and selected vendors' invoices. We also evaluated the work order process in the FleetAnywhere System, and reviewed the System's guidelines, training manual, and reports. We interviewed key individuals within the CFM, the Purchasing Division of Finance (Purchasing), and the Information Technology Department to gather information on this review.

CFM provided routine maintenance, repairs, and other automotive support for a safe, reliable and economic fleet, and provided miscellaneous equipment support. The department controlled the distribution of fuel and repair parts, maintained individual vehicle and equipment records, and recommended the purchase of new vehicles and replacement equipment. During fiscal year 1997, the City implemented centralized fleet management, which transferred vehicles and equipment to the City Garage. With this change, departments were charged a monthly Central Fleet charge to cover the cost of the vehicles and all repairs and maintenance. During fiscal year 2000, Central Fleet Management employed 49 full time positions and had operational and capital costs of $5,092,057 and $4,547,568, respectively. Because the City's fleet continued to age, additional repairs were required to keep the fleet and equipment functioning.

A draft copy of this report was provided to the CFM and their comments have been considered in the preparation of the final report. CFM generally concurred with the recommendations and their comments have been included in the Managerial Summary, Audit Report, and Appendix B. We appreciate the courtesy and cooperation of CFM, Purchasing and Information Technology staff on this assignment.

In conducting the review, we attempted to focus on areas that might have negative operational impacts on the CFM. For this reason, our review focused primarily on concerns identified in those areas rather than the positive impacts of the fleet management operations on the City. However, we have incorporated a list of accomplishments prepared by CFM in Part B of this report.

Major Observations and Conclusions

While CFM generally provided departments with cost efficient maintenance and repairs of automotive vehicles and equipment, we identified several areas that needed improvement. CFM had not removed many obsolete parts from inventory, did not fully use the competitive bidding process to purchase parts, had not maximized the use of the FleetAnywhere System, and had not developed written policies and procedures to guide its operations. Because CFM had a limited budget to maintain an aging fleet, it was critical that CFM improve its practices in these areas.

B. Performance Information

CFM identified its accomplishments in managing the City's fleet. These accomplishments included negotiating contracts for automotive parts and services to receive the lowest price, purchasing two TV GROUT trucks for the Stormwater and Utilities Departments to aid the departments in inspection and grout repairs, purchasing two large high water vehicles for the Fire Department to help in rescue efforts, and purchasing three large pumps to aid in draining large volumes of water from flooded areas.

In addition, CFM reorganized its shop to focus on customer service, instituted daily email notification to the Departments to inform them when their vehicles were ready for pickup and to provide them email updates on the annual vehicle buy status, provided a draft policy to the Assistant City Manager to address the need to standardize the annual vehicle replacement procedures, and established a preventative maintenance contract with an outside vendor for our fleet of garbage and grapple trucks.

C. Parts Management

A major function of CFM was to manage parts that were used to repair and maintain the City's fleet in the most economic and effective manner. However, we found that CFM did not always negotiate parts contracts with vendors or use the competitive bidding process to obtain the lowest price for high volume parts. CFM had not significantly reduced its obsolete inventory and had not isolated those specialty parts that are one-of-a-kind from its obsolete parts list. In addition, while CFM no longer needed to charge the departments with a cost plus base to derive an operational profit, it continued to do so.

1. Contracts Needed for High Volume Parts

Finding – Several high volume purchase parts were not obtained through contracts. Specifically, we found that alternators, starters, medium and heavy-duty tires, and transmissions were omitted from the competitive bidding process.

Recommendation – Annual volume requirements should be established. The part volume identified should then be submitted to Purchasing for contract negotiation.

Response – Management agreed with our recommendation and has established volume requirements and new contracts. The full text of their response is included in the audit report.

2. Removal of Obsolete Inventory and Identification and Removal of Specialty Parts

Finding – While CFM maintained a list of obsolete items, it had not significantly reduced its obsolete inventory during 1999 or 2000. In addition, CFM had not identified and removed from the list the one-of-a-kind specialty items that were not obsolete but were infrequently used.

Recommendation – CFM should remove from inventory those items that are not needed, have been discontinued, or are obsolete in a more routine and timely manner. In addition, CFM should remove from the obsolete list, but maintain in inventory, the one-of-a-kind infrequently used specialty items.

Response – Management agreed with our recommendation and has removed many obsolete items from stock and has separated specialty items from stocked items. The full text of their response is included in the audit report.

3. Use of Cost Mark-up for Parts and Fuel

Finding – The FleetAnywhere System contained unnecessary cost mark-ups for parts and fuel.

Recommendation – Cost mark-up percentages should only be used in processing charges related to external users.

Response – Management agreed to our recommendation and has removed cost markups for internal customers. The full text of their response is included in the audit report.

D. Use of FleetAnywhere System

During the fall of 1997, CFM put in place the computerized FleetAnywhere System to help it manage and record data on equipment, costs, manpower, and inventories. We found that CFM has had a difficult time extracting data from the System's tables and fields when creating management reports because the vendor has not provided CFM with a road map (Entity Relationship Diagram) that showed the relationship between the hundreds of tables and fields. Although the System contained an inventory economic order quantity feature and a warranty function to maximize the efficient use of personnel and to assure that parts would be available when needed, CFM did not use them. We also found that CFM manually reordered stocked parts and tracked bumper-to-bumper warranties. Also, CFM did not use the automated inventory reconciliation features in the FleetAnywhere System. Finally, we found that CFM did not use the System's data fields as intended.

1. Entity Relationship Diagram

Finding – CFM did not have an Entity Relationship Diagram (ERD) for the FleetAnywhere System. As a result, CFM found it difficult and time consuming to extract data from tables and fields when creating management reports from this System.

Recommendation – CFM, with the support of IT, should discuss the possibility of having the vendor create an ERD for its FleetAnywhere System customers.

Response – Management agreed to our recommendation, however the vendor for FleetAnywhere will not create an ERD for the City. The full text of their response is included in the audit report.

2. Economic Order Quantity Function

Finding – CFM manually reordered stocked parts each day and did not use the inventory economic order quantity feature in the FleetAnywhere System.

Recommendation – CFM should use the economic order quantity feature in the FleetAnywhere System to establish reorder levels for each stocked part, automatically generate a purchase order, and reorder the stocked part.

Response – Management generally disagreed with our recommendation. They agree that FleetAnywhere should generate reorder purchase orders when items reach a pre-designated reorder point to prevent stock-outs but do not agree that the function should be used for just-in-time items that are under contract. The full text of their response is included in the audit report.

3. Warranty Management Function

Finding – CFM did not use the computerized warranty management function in the FleetAnywhere System to keep track of warranty information on new equipment, components and parts purchases.

Recommendation – To improve its effectiveness and efficiency, CFM should use the warranty management function in the FleetAnywhere System to flag warranty repairs for its equipment, components, and parts.

Response – Management agreed to our recommendation and will use the warranty function in FleetAnywhere. The full text of their response is included in the audit report.

4. Inventory Analysis

Finding – Automated inventory reconciliation features in the FleetAnywhere System were not being used during the physical inventory taking process.

Recommendation – Automated inventory reconciliation features in the FleetAnywhere System should be used during the physical inventory taking process.

Response – Management agreed with our recommendation and has used the inventory reconciliation feature during this year's annual inventory. The full text of their response is included in the audit report.

5. System Data Clean-up

Finding – The FleetAnywhere System contained inaccurate data.

Recommendation – Efforts should be undertaken to purge inaccurate data from the FleetAnywhere System.

Response – Management agreed with our recommendation and will purge inaccurate information from the system. The full text of their response is included in the audit report.

6. Employee Training

Finding – Employees did not properly enter data into the FleetAnywhere System.

Recommendation – Employees should properly enter data in the FleetAnywhere System.

Response – Management agreed with our recommendation and has provided training to responsible staff. The full text of their response is included in the audit report.

E. Operational Policies and Procedures Issues

We identified several operational policies and procedures issues at CFM. The most significant issue was that CFM lacked written standard operating policies and procedures to guide its employees in work performance. We also identified internal control weaknesses where functions were not properly separated to ensure that parts were not misappropriated. Finally, we found that there was no procedure and standard form to capture the City's fleet/vehicle travel mileage and use.

1. Written Operational Policies and Procedures

Finding – Standard policies and procedures had not been established for work performance. While each operational area had specific defined duties and functions, there was no written procedure to describe the work to be performed in any assigned area.

Recommendation – CFM should establish written standard operating policies and procedures and communicate the results to employees to ensure that its goals and objectives are attained as anticipated.

Response - Management agreed with our recommendation and has begun writing standardized policies and procedures for those areas where performance, procedures, and goals are vague or unknown. The full text of their response is included in the audit report.

2. Internal Controls for Operational Functions

Finding – Storeroom functions were not always properly separated. The storeroom inventory receipts clerk had not only been given authorization to receive inventory parts but also to charge inventory parts to user departments in the FleetAnywhere System.

Recommendation – CFM should establish internal controls to adequately separate storeroom custodial and record keeping functions.

Response – Management commented that procedures are being established to change the way they receive and issue parts. The receiving clerk will only be permitted to receive and charge out Quick Orders, that is parts that are ordered for a specific vehicle that is down and the technician is awaiting that part to complete the job. All other parts will be received and processed in the regular manner. The full text of their response is included in the audit report.

3. Procedure for Vehicle Travel Mileage and Use

Finding – A standard form had not been developed to capture the City's fleet/vehicle travel mileage. In addition, a procedure had not been established to document information regarding daily vehicle usage.

Recommendation – Standard policies and procedures should be developed to govern vehicle usage and a form to record daily travel mileage and related vehicle usage should be devised.

Response – Management does not consider governing vehicle usage to be a fleet issue but more of a departmental issue. The full text of their response is included in the audit report.

City of Chesapeake   Community Services Board
Audit Services   August 27, 2001 to April 3, 2002
June 3, 2002

<div align="center">Managerial Summary</div>

A. Introduction, Scope, and Background

We have completed our preliminary review of the service practices of the Chesapeake Community Services Board (CCSB). The audit was requested by CCSB to assist it with the implementation of its corporate governance plan. Specifically, the purpose of the audit was to evaluate service practices to determine their vulnerability or risk to fraud, abuse and other illegal activities associated with program administration, and to provide baseline data for the CCSB corporate compliance program.

Also, we evaluated clinician utilization of the automated AS400 - BTI System to manage client cases, and the sufficiency of the AS400 - BTI System to meet the requirements for documentation, billing and coding. We also evaluated the adequacy of policies and procedures to assure proper and timely documentation of client data and to guide supervisory staff in monitoring and verifying subordinate staff functions. Finally, we evaluated the need for clinicians to be properly trained to use the automated AS400 - BTI System.

The CCSB provided comprehensive community based services and support to Chesapeake residents with mental health, mental retardation, and/or substance abuse service needs. For Fiscal Year 2001, CCSB's operating budget was $10,627,643 from federal/state/local/client payments and other sources. For fiscal year 2002, CCSB's operating budget was $11,446,672. To receive these funds, CCSB must comply with applicable federal, state and City statutes and regulations.

A draft copy of this report was provided to the CCSB and their comments have been considered in the preparation of the report. Their comments have been included in the Managerial Summary, Audit Report, and Appendix A. We appreciate the courtesy and cooperation of CCSB staff on this assignment.

In conducting the review, we attempted to focus on areas that might have negative operational or financial impacts on the CCSB. For this reason this review focused primarily on concerns we have identified in these areas rather than the many positive impacts the CCSB has had on the residents of the City. The audit was conducted in accordance with Governmental Auditing Standards and included such tests of records and other supporting documentation as we deemed necessary in the circumstances.

B. Areas for Risk Assessment

In December 2001, the CCSB approved a corporate compliance program to meet the requirements of the Federal Sentencing Guidelines. The program included policy and procedures for investigating and responding to reports of potential fraud and abuse related to state and federal regulations and laws, errors in documentation, lack of documentation, coding or billing, and misuse of agency resources relating to use of staff time, supplies, materials, and equipment.

As part of its compliance effort, CCSB's Office of Quality Management Services conducted random client chart reviews from April 2001 to April 2002 in its Substance Abuse, Mental Retardation, and Mental Health Services. Programs where the largest billing occurred were among the selected program chart reviews. The results gave CCSB insights on how well the programs were being run and provided baseline outcomes for CCSB to measure the progress of individual program compliance over the next year.

However, there remained a need to assess CCSB services to determine their vulnerability or risk to fraud, abuse and other illegal activities associated with program administration. High-risk areas include potential improper payment of Medicaid, claims not supported by medical need, claims for services/costs that were not allowable, and documentation insufficient to meet the payer's requirements to prove that services billed were actually provided. Our identification of these areas as potentially high risk was based, in part, upon the following:

- In June 2001, the General Accounting Office (GAO) reported that Medicaid was potentially at risk for billions of dollars in improper payments. In summarizing responses from the 50 states' and the District of Columbia's Medicaid agencies, GAO reported that 74% of the cases of possible fraud and abuse detected by the Medicaid agencies was for inappropriate billing by providers. Improper payment errors included insufficient or no documentation, lack of medical necessity, improper or inappropriate coding of services at higher rates (up coding), and non-covered service errors.

- We analyzed a batch of client charges randomly selected on 10/27/01 that were submitted by CCSB for Medicaid reimbursement and paid by DMAS. Thirty-one of the 371 claims (8.4%) submitted were denied payment. The denied claims represented 4.7% of the total charges claimed. Reasons for denials included service limits exceeded, wrong payer billed, client enrolled in HMO, service was not emergency, client not eligible on date of service, duplicate claim, and service not authorized.

C. Operational Policies and Procedures Issues

We found that CCSB's clinicians had not always been diligent in documenting progress notes and Individual Service Plans (ISPs) in client charts and that CCSB had no written policy and procedures for requiring supervisory clinicians to monitor and verify subordinate clinicians' client documentation requirements for accuracy and timeliness. While CCSB had electronic billing for some payers, it had not established it for all payers. In addition, CCSB had no policies and procedures for directing Lead Office Specialists to monitor and verify the accuracy of data entered into the AS400 – BTI System by intake and office specialists. Finally, CCSB did not require and did not have sufficient training courses for clinicians on the use of system programs for managing caseloads and billing purposes.

1. Verification Procedures, Progress Notes and Individual Service Plan in AS400 - BTI System

Finding – CCSB's clinicians did not always write or type progress notes after their sessions with clients and they did not always insert the notes into the client charts. Also, some ISPs were not developed and updated in a timely manner. Finally, CCSB had no written policies and procedures for requiring supervisory clinicians to monitor and verify subordinate clinicians' client documentation requirements including progress notes, ISPs and discharge summaries for accuracy and timeliness.

Recommendation – CCSB should have the BTI vendor develop an application program (routines) to put lotus notes, progress notes and ISPs into the AS400 - BTI System. Also, the AS400 - BTI System should generate a listing of pending service codes that awaits the submission of chart documentation from clinicians prior to billing. These features should restrict unauthorized assess to the client database. Clinicians should be encouraged to use these automated features as part of clients case management. In addition, CCSB should implement written policies and procedures that would assign supervisor clinicians specific responsibility for verifying and monitor data collection and recording of client information by subordinate clinicians.

Response – We are not apt to have sufficient funding for the applications suggested. For FY03 the City reduced our local allocation by $271,108 and the state reduced our allocation by $276,248. The State also adopted new human rights regulations and new licensure regulation which will be costly to implement. Lastly, by April of 2003 we must come into compliance with portions of the HIPAA regulations. Coming into compliance with the security and privacy regulations will require a considerable investment in our computer system and our facilities. In light of budget cuts and considerable increase compliance related costs, I do not believe we will be able to afford the items recommended.

There has always been a supervisory responsibility to monitor documentation. However the extent and manner vary from supervisor to supervisor. We have just developed a draft of "Performance Expectations Relative to Auditing of Charts" that sets out clear, concise expectations for program supervisors. The program supervisors are currently reviewing the draft. We expect to have a final version by mid July. This would

become one of our standard operating procedures and a performance expectation for supervisors. The expectation would be that there are monthly supervisory audits of case record documentation. In areas that have very high caseloads it will only be possible to audit a sample of records and not every chart. There would be regular supervision meetings to discuss the outcomes and assist with corrective action plan development. Results of audits and follow up would need to be tied back to staff performance expectations and evaluations.

The Quality Management Services Office performs ongoing audits of case record documentation to support billing as another internal control check providing supervisors and directors reports and requiring corrective action plans and follow through. There are re-audits if problems are found. The correction problems identified in audits are tied back to staff performance expectations and evaluations.

The Quality Assurance Utilization committee and the Supervisor of Quality Management Services have developed and implemented standardized forms for documentation which will structure criteria/standards required by payers, i.e., by asking questions "Does the ISP need to be modified?," adding section to document "progress toward goals" and "staff interventions", to increase likelihood of compliance. Supervisory and agency trainings related to documentation to include that of high risk assessments/interventions are planned.

2. Electronic PMG Billing

Finding – Electronic billing with a PMG program had not been established for some payers. While CCSB had electronic billing for Medicaid, Medicare and Sentara (Medicaid), CCSB did not use electronic billing for other payers.

Recommendation - CCSB should negotiate an agreement with the BTI vendor to set up electronic billing with a PMG program for payers that do not have electronic billing. In addition, CSB should encourage the payers to accept and set up electronic billing.

Response – The CSB has signed an agreement with BTI in May, 2001 to become HIPAA compliant. Part of this agreement was to implement electronic billing for all payers and also electronic payment posting from insurers. BTI estimates that the modification to the software will be completed in the Fall of 2002.

3. Verification Policy and Procedures Needed

Finding – There were no policies and procedures for directing Lead Office Specialists to monitor and verify the accuracy of data entered into the system by intake and Office Specialists on client demographic and financial information during the initial interview and assessment.

Recommendation – CCSB should establish policies and procedures to guide supervisors in monitoring and verifying the accuracy of data entered into the system by intake and office specialists.

Response - Lead Office Specialists are not always the point of contact for proofing data entered. For example, MIS data entry staff review data entered into Lotus by the Office Specialists and Clinicians for accuracy prior to downloading this data in to BTI. We need to develop a consistent approach across our CSB for whom will do what verification. This will assure nothing is overlooked and that we don't waste resources by having the same data checked twice. However there are varying amounts of clerical help across the agency. Have multiple sites makes it very difficult to share these resources. A single building for most of our agency would allow us to use the limited resources we do have in the most effective manner.

4. Training Needed for Clinicians

Finding – Clinicians did not fully use the Lotus and the BTI client database program to enter and review client information on the system to manage their caseloads. Also, CCSB did not require and did not have sufficient training courses for clinicians on the use of these programs.

Recommendation – CCSB should provide training and encourage clinicians to use the automated Lotus and AS400 - BTI System more extensively for caseload management and billing purposes. More advanced AS400 - BTI System training courses should be developed for CCSB staff.

Response - Additional training on the BTI and Lotus systems had been scheduled for CSB staff by the MIS unit. We will need to develop classes for supervisors to learn how to audit case documentation against the BTI screens for accuracy of documentation to support billing. However this is a resource issue. We have one staff person who conducts our training, does all of our queries, is our help desk providing software support, tests new programming that is developed for us, and writes reports. In addition we use our boardroom for all of our training. This room will only handle a limited number of staff and computers; thus the number of staff that can be trained at one time is restricted.

<u>Managerial Summary</u>

A. Introduction, Background, and Scope

We have reviewed Citywide Credit Card Transactions in the City of Chesapeake, Virginia (City) for the period July 1, 2000 to June 30, 2001. Our review was conducted for the purpose of evaluating whether credit card transactions were executed in compliance with applicable City policies and procedures and whether the expenses associated with these transactions were appropriate. We attempted to identify and address additional problem areas as requested by management or determined from the audit itself. The audit included review and evaluation of credit card procedures, practices, and controls throughout the City. The review was conducted in accordance with <u>Government Auditing Standards</u> for performance audits and included such tests of records and other supporting documentation as we deemed necessary in the circumstances.

At the time of our review, the City utilized the Bank of America to issue its credit cards. We noted that 26 credit cards had been used to execute 915 transactions totaling $137,359 during the audit period. These transactions were reviewed for compliance, appropriateness, and reasonableness. Items reviewed included Vendor Invoice Payment Certification forms, actual credit card receipts, and departmental approval of transactions.

Major Observations and Conclusions

Based on our review, it appeared that the City's credit cards were generally being used for legitimate City business purposes. Of the 915 transactions reviewed, we found only six transactions totaling only $146 that were made for non-business purposes. In each case, the non-business purchase appeared to have been made in error, and the City was promptly reimbursed. Thus, we did not identify concerns about the propriety of most of the transactions. However, in the course of completing the review, we noted that the City's credit card policy had not been updated since 1991. Since there has been a substantial change in the manner in which the City utilizes credit cards during the past several years, it would appear to be prudent for the City to update the credit card policy as soon as is feasibly possible.

Responsible official during our review was:

Victor Westbrook   Purchasing and Contracts Manager

We have discussed our finding with the Purchasing and Contract Manager, and he concurred that an update to the credit card policy was warranted. He also indicated that he would begin preparing an updated draft policy for review by Finance and City Manager's staff.

B. Concern Identified

As we noted, most of the transactions we reviewed appeared to be for legitimate City business purposes. However, the City's credit card policy had not been updated since 1991 and thus had not kept up with the changes in the manner in which credit cards were utilized in the City.

1. Credit Card Policy

Finding – The City had not updated its credit card policy since 1991. As a result, non-travel related uses for the credit cards were not reflected in the policy.

Recommendation – The City should update its credit card policy. The update should include provisions for non-travel related credit card use.

Response - No formal response was requested for this report. However, we did discuss our finding with the Purchasing and Contracts Manager. He concurred with our recommendation and has begun drafting a policy revision for review by the Finance Department and the City Manager's Office.

December 28, 2001

Mr. Clarence V. Cuffee
Acting City Manager
City of Chesapeake
City Hall--6th Floor
Chesapeake, Virginia 23328

Dear Mr. Cuffee:

We have completed follow-up reviews of our Citywide Complaint Processing Program and Citywide Payroll System audits for FY 00. We have also completed follow-up reviews of our Chesapeake Museum and Information Center, Incorporated, and Risk Management audits from FY 99. In addition, we have completed follow-up reviews of our Economic Development Department - Conference Center audits from FY 98; and our Cable Television Franchise Fees audit from FY 97. These prior year audits were selected because the recommendations from these reports were not fully implemented. The reviews were conducted in December 2001. The status of 20 recommendations from these reports was as follows:

    9 had been implemented
    5 were in the process of being implemented
        was\were partially implemented
    4 had not yet been implemented
        was not agreed to & was not implemented
    2 will not be implemented

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

Sincerely,

(Signed)

Jay Poole
Director of Audit Services
City of Chesapeake, Virginia

NLS

**CABLE TELEVISION FRANCHISE FEES
SPECIAL AUDIT**

December 2001

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Franchise Agreement Control

1. Franchise Fee Computations

Finding - TCI reported and paid to the City, Franchise Fees based upon gross revenues on the cash basis of accounting instead of the accrual basis of accounting. The accrual basis is expressed in the language of the Franchise Agreement.

Recommendation - The City should contact the franchisee, and/or its successor(s), and communicate the need for the franchisee to report and remit payment of Franchise Fees computed on accrual basis gross revenues.

Status - This recommendation had been implemented. The franchisee agreed to comply with the language of the Franchise Agreement with the City to pay fees based on the franchisee's accrued gross revenues. Subsequently, a Commissioner of the Revenue audit concluded that the franchisee owed the City $119,354.23 in franchise fees from January 1997 (when the current franchisee took over the existing franchise agreement from its predecessor) to the second quarter of 2000. In late 2000, the City received the money owed it and will continue to receive franchise fees based on accrued gross revenues.

<u>FOLLOW-UP REPORT</u>

**ECONOMIC DEVELOPMENT DEPARTMENT
CONFERENCE CENTER SPECIAL AUDIT**

December 2001

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Financial Management Issues

1. <u>Job Titles</u>

Finding - The job titles designated for the Center by the City's <u>Personnel Management System and Compensation Plan</u> (PMSCP) were in some cases substantially different than those used in the conference and tourism industry. In addition, actual duties and responsibilities for these positions extended well beyond those outlined in the PMSCP job descriptions, resulting in significant overtime and compensatory time costs.

Recommendation - The Center should request a reclassification for several of its positions.

Response - Management generally concurred with our recommendation.

Status – The recommendation will not be implemented. Based on Human Resources analysis changing the operations manager classification from non-exempt to exempt could potentially violate the Fair Labor Standards Act requirement that that position consist of at least 80% administrative duties. The conference's operations manager job will never be 80% administrative and therefore cannot be classified exempt.

<u>FOLLOW-UP REPORT</u>

**CHESAPEAKE MUSEUM AND
INFORMATION CENTER, INC
SPECIAL AUDIT**

December 2001

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Fund Raising

1. Fund Raising Plan

Finding - The Museum did not have a comprehensive fund-raising plan.

Recommendation - The Museum should develop a comprehensive fund raising plan as soon as feasibly possible.

Response - First, the Museum was successful in petitioning the Virginia Department of Historic Resources to release $84,926.50 that had been appropriated for the Museum. As a result, Museum's cash balance in December 1998 exceeded $100,000. We believe that this amount will be sufficient to cover operations costs through the entire 1999 calendar year.

Second, to assist with long-term fund-raising, the Board has added William B. Cuthriell as Second Vice President. Mr. Cuthriell has had great success in fund raising in Chesapeake for many years, and we believe that his efforts for the Museum will be successful as well.

Third, the Board is also seeking grants from foundations, corporations, and other sources, and is very optimistic that these efforts will be successful. The Board is also in the process of developing a written plan formalizing these initiatives.

Status - This recommendation was in the process of being implemented. The Museum was in the early stage of establishing a comprehensive fund-raising plan and the recently hired Director stated that no timeframe was established to complete a written plan. The Museum has a fund-raising committee to develop the plan. The Museum's Board of Director members, the Museum Director and community citizens were members of the fund-raising committee.

FOLLOW-UP REPORT

RISK MANAGEMENT
SPECIAL AUDIT

December 2001

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Operational Findings

1. Staffing

Finding – The Liability Specialist position was vacant. As a result, responsibility for claims administration had effectively been delegated to a Claims Technician with no accounting background and no formal training in claims management.

Recommendation – The position of Liability Claims Specialist should be filled or other arrangements made to reduce the existing gap between level of expertise and level of responsibility.

Response – Concur. The present approach to this situation was discussed in the recent budget hearing. There are two relatively permanent fixes: (a) Engage a third party administrator, and/or (b) fill the vacant position with an experienced adjuster. Current direction from top management is to continue with the present arrangement until the vacant Director of Finance position is filled. At that time, questions about the degree of support, the style of adjusting, and entry level salary will be decided.

Status – This recommendation had been implemented. The Liability Claims Specialist position had been eliminated. In its place a new position, Liability Claims Adjuster II, had been written and management had filled the position effective October 1, 2001. The position has been upgraded to include supervisory multiple-line duties and vocational/educational requirements. In addition, management had upgraded the Liability Technician to include additional duties and vocational/educational requirements and had renamed the position, Liability Claims Adjuster I. Management was to fill the position during fiscal year 2001.

<u>FOLLOW-UP REPORT</u>

**CITYWIDE COMPLAINT PROCESSING PROGRAM
SPECIAL AUDIT**

December 2001

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Complaint System Findings & Recommendations

1. Mainframe System Usage

Finding – The Mainframe Complaint System was initially designed for citywide use; however, only the City Manager's Office used the system extensively.

Recommendation – The City should eliminate the use of different programs and centralize complaint resolution activities.

Response – Agree that the duplication of various individual departmental programs should be eliminated. Replacement of the existing system would provide enormous improvement over the current system as it relates to the efficacy of managing citizen concerns, customer responsiveness and analytical capabilities. After the Y2K issue is behind us, this should receive high priority attention for implementation.

Status - The City Manager has elected to delay the implementation of this recommendation until issues relating to the 2002 Operating Budget have been resolved.

2. System Attributes

Finding – Some mainframe system capabilities had not been fully used, many attributes were considered inadequate for the proper handing of complaints received. We found that the current VM/ESA system was outdated and did not provide options considered necessary in work performance.

Recommendation – The City should gain an understanding of complaint activity handling and processing needs so that complaint system attributes can be fully utilized. Consideration should also be given to replacement of the existing Mainframe Complaint System.

Response – Generally agree, the current system is so limited I question the value of requesting that it be used more fully. In planning for the purchase of the new system, City Manager's Office and departmental needs for handling and processing citizen concerns should be further analyzed. (See above for replacement discussion).

Status - The City Manager has elected to delay the implementation of this recommendation until issues relating to the 2002 Operating Budget have been resolved.

3. Complaint System Accuracy

Finding – We found complaint statuses were not accurate in the City's Mainframe System and in some departmental databases.

Recommendation – The City should continue to evaluate systems that would enhance citywide complaint processing.

Response – Agree with the recommendation that the accuracy of complaint system processing and participation should be monitored. This office believes that responsiveness to citizen concerns is foremost a department head responsibility and should be given priority attention. This office should only serve as the conduit and not have to "badger" departments for responses. Further, many localities are now moving the citizen concern process out of the Manager's office and going to a centralized information "call center concept". (See attached memo).

Status – The City Manager has elected to delay the implementation of this recommendation until issues relating to the 2002 Operating Budget have been resolved.

Citywide Policy and Procedures

Finding – A standard citywide uniform policy had not been adopted for complaint processing and resolution. We also noted that consideration had not been given to use of complaint processing accountability standards in the employee evaluation process, and that a citywide information/communication flow had not been established. In our review, we found that complaint resolution written policies and procedures were not current in three of the six areas that handle high volumes of external complaints.

Recommendation – Citywide complaint processing policies and procedures should be developed and adopted.

Response - Agree that citywide standards for complaint processing should be developed and followed to ensure consistency in complying with standards.

Status - The City Manager has elected to delay the implementation of this recommendation until issues relating to the 2002 Operating Budget have been resolved.

CITYWIDE PAYROLL SYSTEM AUDIT
SPECIAL AUDIT

December 2001

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System Accuracy Issues

Overall, Departments of Finance, Human Resources, and Information Technology have improved the operations of the current payroll system since the issuance of our report. In addition, the departments concur with our conclusion that the purchase of a new payroll system is needed. The new system would result in a more efficient process and Improved payroll reporting and management.

1. Data Entry Errors in Employee Master File

Finding – Over 8,100 errors were found in the Employee Master File.

Recommendation – The errors identified should be corrected immediately and periodic reviews of the information contained in the payroll system database should be initiated.

Response – The departments generally concur. By agreement of a committee, the response presented in the body of this report was selected from the three responses submitted by the departments. However, the full response of each department is included in the appendices.

Status – This recommendation was in the process of being implemented. Human Resources stated that, with the exception of the Departments of Fire and Police, the reported errors in the individual Employee Master Files were corrected. Information Technology updated the employee records to designate "0" for non-handicapped and "1" for handicapped. Departments had the responsibility to identify the correct codes and salary information for all of their employees and to request relevant changes to employees' master files. To improve the accuracy and efficiency of payroll information, Human Resources and Information Technology developed "view-only" screens that displayed each employee's current payroll information for use by department payroll clerks. Human Resources provided the department payroll clerks in-depth instructions on the "view-only" screen in a September 2000 training class. Also, prior to finalizing the payroll and issuing checks, Finance provided each department with a report to verify payroll information. In addition, to determine changes in the employee's master screen, Finance reviewed a payroll transaction file printout prior to finalizing the payroll.

To improve accuracy of data, Information Technology is in the process of developing an on-line data entry program for Personnel Action Forms that the departments could access. Once that occurs, departments should have the tools to key data directly into the system and review the data to ensure payroll data integrity. Also, Information Technology is developing a one time program to change the codes of full-time and part-time employees who are no longer probationary and developing a mechanism that would ensure that part-time employees were not being worked inappropriately and still allow this category of worker to work full-time hours when appropriate without the payroll system reflecting ongoing payroll errors.

2. Payment Errors Caused by Data Entry Errors

Finding – We noted several payment errors, including two employees who received overpayments totaling $21,662, and seven other employees who appeared to have been underpaid by approximately $2,887. These payment errors were the result of data entry errors.

Recommendation – The errors identified should be referred to Human Resources for appropriate action.

Response – The departments generally concur. By agreement of a committee, the response presented in the body of this report was selected from the three responses submitted by the departments. However, the full response of each department is included in the appendices.

Status – This recommendation had been implemented. As states above the departmental payroll clerks had assess to the "view only" screen on the employee's master file and received in-depth instructions on the use of the screen. Also, Finance provided the payroll clerks with reports to verify employee cost and fringe benefits distribution prior to finalizing the payroll. In addition, Human Resources addressed the overpayments to the two employees. The first employee resigned and after consultation with the City Attorney's Office no legal action was taken to collect the overpayment. The second employee signed a promissory note to repay a portion of the money overpaid and subsequently filed for bankruptcy.

3. Database Ownership

Finding – No responsibility had been effectively assigned to maintain the accuracy of information entered into the Employee Master File. There was no database ownership established and no verification process was in place for any information other than social security number.

Recommendation – Primary responsibility for payroll database information and accuracy should be assigned to departments. Departments should take steps to ensure their databases are adequately maintained.

Response – The departments generally concur. By agreement of a committee, the response presented in the body of this report was selected from the three responses submitted by the departments. However, the full response of each department is included in the appendices.

Status – This recommendation was in the process of being implemented. Primary responsibility for payroll database information and accuracy had been assigned to the departments. As discussed earlier, a view-only screen that displays each employee's current payroll information was being use by departments' payroll clerks to improve the accuracy and efficiency of payroll information. Also, department payroll clerks had been provided training on the use of the view-only screen. In addition, Human Resources

provided a printout annually to each department payroll clerk to sign and date that he/she verified the accuracy of employee information. When a correction was required, the payroll clerk filled out and sent Human Resources a Personnel Action Form.

However, there was a need by Information Technology to complete an online Personnel Action form that the departments could access. Once that occurs, departments should have the tools to key data directly into the system and review the data to ensure payroll data integrity.

4. Kronos System Inaccuracies

Finding – The Kronos Timekeeping System experienced problems while updating the Employee Master File.

Recommendation - The Information Technology Department should develop an accurate program to facilitate Kronos data transfer. The department should also ensure that file updating within Kronos is performed in a timely manner.

Response – Some departments were concerned that the audit had addressed these issues because the Kronos System was still in the implementation stage at the time of the audit. The concerns that were identified in the audit have been corrected. By agreement of a committee, the response presented in the body of this report was selected from the three responses submitted by the departments. However, the full response of each department is included in the appendices.

Status - This recommendation had been implemented. Finance and Information Technology indicated that all problems identified in our audit report had been resolved in the testing phase and before full implementation.

5. Other Inaccuracies

Finding – The payroll system utilized a different chart of accounts than the general ledger system, which could create confusion regarding payroll accounts.

Recommendation – The City should implement a single set of account numbers to unify the various systems within the City as soon as feasible.

Response – The departments generally concur. By agreement of a committee, the response presented in the body of this report was selected from the three responses submitted by the departments. However, the full response of each department is included in the appendices.

Status – This recommendation had been implemented. The chart of account codes for the various systems (payroll, fringe benefits) were converted to the general ledger system.

Use of System Resources

1. <u>File Layouts</u>

Finding - The file layout did not appear to be designed to efficiently provide and maintain specified information in the system.

Recommendation – The use of unnecessary filler should be evaluated. Also, the file layout should be expanded for fields that do not have adequate space to include relevant information. The usefulness of maintaining fields such as "CLASS CD" should be evaluated.

Response – The departments generally concur. By agreement of a committee, the response presented in the body of this report was selected from the three responses submitted by the departments. However, the full response of each department is included in the appendices.

Status – This recommendation has been implemented. First, Information Technology had evaluated the use of unnecessary fillers and had determined that no changes were required in the system. The use of filler space was a common and accepted practice in the information technology field. The filler space allowed room for expansion in the system without having to convert the file to the new size. Second, Finance had determined that the Class Code field was needed and was used in the view-only employee master file.

2. <u>Deduction Codes</u>

Finding – Continued use of two of the ten deduction codes appeared to be necessary.

Recommendation – These codes should be removed from the deduction fields.

Response – The departments generally concur. By agreement of a committee, the response presented in the body of this report was selected from the three responses submitted by the departments. However, the full response of each department is included in the appendices.

Status – This recommendation will not be implemented. The concerned deduction codes 10 and 15, which were the City's fringe benefits for VRS retirement and VRS group life insurance, will not be relocated outside of the payroll deduction fields. Information Technology stated that relocating the codes outside of the current payroll deduction fields would require 4 to 6 months of programming time and would not benefit the payroll application.

3. Payment Controls

Finding – The automated control for identifying checks that were unusually high appeared to need adjustment.

Recommendation – The automated control should be modified to identify checks that are truly unusually high.

Response – The departments generally concur. By agreement of a committee, the response presented in the body of this report was selected from the three responses submitted by the departments. However, the full response of each department is included in the appendices.

Status – This recommendation had been implemented. The automated control that identified unusually high checks had been increased from $700 to $800 limit for weekly employees and from $2800 to $3000 limit for semi-monthly employees. If an employee's gross pay was greater than these limits in his/her respective pay cycles, an error code 6 appeared on the payroll report. The payroll technician than reviewed the employee master file, validated the employee's gross pay and any overtime or standby pay. If the gross was not justified, the payroll clerk was contacted to provide additional analysis for accuracy.

Control Issues

1. ## System Design and Function

Finding – The design and function of the City's payroll system lacked sufficient controls to detect data entry errors.

Recommendation – Additional internal data verification routines should be developed.

Response – The departments generally concur. By agreement of a committee, the response presented in the body of this report was selected from the three responses submitted by the departments. However, the full response of each department is included in the appendices.

Status – This recommendation was in the process of being implemented. The City took several steps to increase <u>manual</u> controls to detect data entry errors in the payroll system including developing the "view only" employee master screens, providing payroll procedure training, distributing a payroll newsletter and a cost distribution report to the department payroll clerks. However, additional data comparison and verification routines should be developed for the <u>automated</u> payroll system. Such routines would provide assurance that erroneous payments are not processed and that payroll information is complete. Information Technology has projected a First Quarter 2002 date to complete these routines.

2. ## Payroll Requirements

Finding – The City's payroll processing manuals were outdated. Payroll clerks did not have an up-to-date, single information source concerning preparation of the Personnel Action Form or performance of the payroll processing function. This situation resulted in payroll processing errors.

Recommendation – The City's payroll manuals should be consolidated and updated.

Response – The departments generally concur. By agreement of a committee, the response presented in the body of this report was selected from the three responses submitted by the departments. However, the full response of each department is included in the appendices.

Status – This recommendation was in the process of being implemented. The City's three payroll manuals had not been consolidated and updated into one Payroll Policy and Procedures Manual. However, Human Resources had updated the personnel processing function related to payroll in one manual and had it out for review. Finance anticipated the completion date for the updated and consolidated Payroll Policy and Procedures Manual would be June 2002.

<u>Pay Plan</u>

<u>1. Non-exempt Hourly and Salaried Classifications</u>

Finding – Certain non-exempt hourly and salaried classifications were not clearly listed with their corresponding pay codes in Article 8 of the Pay Plan.

Recommendation – All classifications and pay codes should be clearly listed in the Pay Plan.

Response – The departments generally concur. By agreement of a committee, the response presented in the body of this report was selected from the three responses submitted by the departments. However, the full response of each department is included in the appendices.

Status - This recommendation had been implemented. Information Technology has linked the pay codes in the system to the position codes in the Pay Plan.

<u>2. Inconsistencies in Pay Plan</u>

Finding – There were differences in the Pay Plan between the alphabetical listing and the categorical listing of the Pay Plan's *"Schematic List of Classes and Assignments to Salary Range".*

Recommendation – The inconsistencies in the Pay Plan should be corrected.

Response – The departments generally concur. By agreement of a committee, the response presented in the body of this report was selected from the three responses submitted by the departments. However, the full response of each department is included in the appendices.

Status - This recommendation had been implemented. In its February 2000 response to our report, Human Resources stated that the Schematic List in the pay plan has been reviewed and all errors have been identified and corrected. In addition, all amendments since the printing of the July 1999 edition of the Compensation Plan have been identified and revised. When new positions were established outside of the regular printing schedule, departments impacted were notified by memorandum. Human Resources incorporated the pay code, FLSA status, EEO category and creation or revision date on the new or revised class descriptions.

Year-end Work (FY00- 01)

Each year, Audit Services assists the external auditors in the completion of the audit requirements for the City's Comprehensive Annual Financial Report. The areas in which we provide assistance to the external auditors are as follows:

- Year End – Audit Planning
- Year End – Cash Counts
- Year End – CIC
- Year End – Internal Controls
- Year End – Inventories
- Year End – Social Services
- Year End - VDOT

B. SUMMARY

TECHNICAL ASSISTANCE

CRHA Repayment - July 2001

During a 1994 technical assistance project, we identified a non-interest bearing $425,700 note owed by the Chesapeake Redevelopment and Housing Authority (CRHA) to the City that had not been recorded on the City's books. CRHA held a corresponding note from a developer for the same amount. Each time there was a management change at CRHA, Audit Services advised the incoming management about the existence of the notes. In the spring of 2001, the CRHA Executive Director was able to negotiate an arrangement with the developer where the developer agreed to repay its obligation two years early. On July 24, 2001, CRHA repaid the $425,700 loan to the City. CRHA also received approximately $400,000 in interest proceeds on their note from the developer.

Port Authority – July 2001

We assisted the City's Port Authority on matters related to the sale of Authority-owned land. In 1997, the Port Authority agreed to lease a 96-acre parcel of land it owned to a private firm that wanted to develop it. The lease included a purchase option, and the Port Authority used the monthly lease payments to reduce the principal balance and make interest payments on a $3,150,000 note held by a local bank. Since the City had provided a guarantee on this note and was spending approximately $150,000 annually for interest costs associated with it, and since the projected sales price from the exercise of the purchase option was insufficient to retire the note, the City agreed to make up any shortfall. The property sold on July 31, and the proceeds from the sale were $1,940,000. The City provided $375,986 so that the remaining note balance of $2,315,986 could be retired.

GASB 34 – June 2002

We assisted the City in its implementation of new accounting standards associated with Government Accounting Standards Board (GASB) Statement Number 34. GASB 34 requires governments to revise the way that their financial statements are presented so that they bear a greater resemblance to private sector financial statements. The City organized a task force to help with the transition. Audit Services participated on a number of committees including the Fixed Asset, Internal Service Fund and Component Unit subcommittees. The City was required to implement GASB 34 for its Fiscal Year 2002 financial statements

Airport Authority – June 2002

The Chesapeake Airport Authority hired a new Airport Manager in July 2001. Once the new manager was hired, we provided assistance to the Airport in a number of areas, including understanding City purchasing and payroll procedures as well as budget analysis. Also, once the Airport's financial operations had been separated from Economic Development, we provided training and assistance in helping the Airport establish its own independent accounting records. The Airport Manager nominated one of our staff members for a Star Performer Award. (Note: Due to amendments to

government auditing standards, as of July 1, 2002, Audit Services can no longer assist potential auditees in setting up their primary accounting systems).

Central Fleet Management – June 2002

Since the inception of the City's Central Fleet Management program in 1996, Audit Services has developed the citywide lease rates. Fiscal Year 2002 was the last year that Audit Services will perform this function for the City. (Note: Due to amendments to government auditing standards, as of July1, 2002, Audit Services can no longer perform functions that involve originating data for potential auditees.) The Budget and Finance Departments have agreed to take over this function, and we provided assistance on various matters during the transition.

Other Technical Assistance Projects

- Tax Exempt Organization Requirements – July 2001
  We reviewed State requirements for registration and filing related to tax exempt organizations involved in fund-raising activities.

- Confidential Fund - December 2001
  We assisted the Police department in developing procedures to provide greater control and accountability for confidential funds

- New Finance System – January 2002
  We are assisting the Finance and Information Technology Departments in reviewing and developing controls for a new Finance system.

- Interview Panels – February 2002
  We served on interview panels for four positions in Finance, Information Technology, and Social Services.

- Enterprise Funds – February 2002
  We assisted the Budget Department in analyzing matters related to enterprise fund utilization of the Central Fleet program.

- City Auction – May 2002
  We attended the City Auction on May 4 and reviewed accountability procedures for the proceeds. The auction raised $147,000.

- Cost Allocation Plan RFP – May 2002
  We participated on the selection panel for the City's Cost Allocation Plan vendor.

- Finance Department – Taxes
  We assisted the Finance Department on a payroll tax related matter.

C. SUMMARY

OTHER PROJECTS

OTHER ITEMS SUMMARY

Peer Review – June 2002

In June 2002, Audit Services underwent its second Peer Review. A Peer Review is an analysis of at least a sample of the audits completed during a specific time period to evaluate whether the audits were conducted in accordance with applicable audit standards. The review is conducted by experienced auditors from other localities and, at the conclusion of the review, the Peer Review Team indicates in writing whether the audit department reviewed was in full compliance, substantial compliance, or non-compliance with the standards. The Peer Review Team for our review was lead by the Internal Audit Director for Frederick County, Maryland, and was staffed by the Information Technology Auditor for Fairfax County, Virginia and the City Auditor for Norfolk, Virginia. The Audit Services Department received a "Full Compliance" opinion, which meant that we had a very high level of compliance with the applicable government auditing standards. The Peer Review Team also made a number of operational recommendations, the most significant of which was that Audit Services report directly to City Council. One of our Senior Auditors also led a Peer Review for the City of Roanoke.

Training – FY 2002

We attended the following Training Sessions during FY 2002:

- GroupWise – Intermediate Level
- Supervisory Certificate Program
- City Payroll Procedures Training
- Microsoft Word, Excel, and PowerPoint – Intermediate Level
- Health Insurance Portability and Accountability Act of 1987.
- Virginia State Society of Certified Public Accountants Annual Accounting and Auditing Day.
- Virginia Local Government Auditors Association Spring and Fall Conferences
- Institute of Internal Auditors Regional Conferences and Monthly Meetings.
- City Terrorism Response Training
- Human Resources Mutual Respect Training
- Conference of Minority Public Administrators Regional Conference
- Association of Certified Fraud Examiners Regional Conference

Professional Organizations

For the last several years, we have served as editors of the Virginia Local Government Auditor's Association newsletter. This newsletter is distributed on a quarterly basis to the approximately 100 members of the VLGAA and contains news and information about local government auditing. We also have served as coordinators of the Certified Internal Auditor examination for the local chapter of the Institute of Internal Auditors.

D. SUMMARY

PROJECTS IN PROGRESS

Chesapeake Expressway and Jordan Bridge

Each month, Audit Services obtains toll collection data from the Chesapeake Expressway and the Jordan Bridge. We currently plan to incorporate our analysis and review of this data into an upcoming Public Works audit. We anticipate recommending that this audit begin sometime during 2003.

Software Licensing

Audit Services is working with the Information Technology Department to develop an inventory of all the software being used within the City. Once this inventory is completed, we will audit it to ensure that all of the City's software is properly licensed.

Citywide Charitable Solicitations

At year-end, Audit Services was working on a Citywide Charitable Solicitations audit. The audit reviewed the charitable solicitation activities of various City departments to verify whether the departments were complying with the City's Charitable Solicitation Policy. The audit was completed in October 2002.

Follow-up Review – FY 2001

At year-end, Audit Services had begun conducting follow-up reviews of audits completed in FY 2001 and prior years. The audits included Citywide Complaint Processing, Citywide Payroll System, Pavement Management System, Citywide Expenditure Transactions, and the Airport Authority. The follow-up review was completed in September 2002.

E. SUMMARY

TIME (HOURS) EXPENDED DURING YEAR

A. COMPLETED PROJECTS - AUDITS & ANALYTICAL REVIEWS

Central Fleet Management - Reporting	68.00
Citywide Credit Card - Administration	13.50
Citywide Credit Card - Planning	25.25
Citywide Credit Card - Reporting	2.00
Citywide Credit Card - Testwork	173.25
Community Services Board Governance - Administration	195.00
Community Services Board Governance - Planning	80.00
Community Services Board Governance - Reporting	133.00
Community Services Board Governance - Testwork	486.50
Followup Review - FY 00	327.00
Year End - Audit Planning	7.00
Year End - Cash Counts	46.50
Year End - CIC	83.50
Year End - Internal Controls	545.00
Year End - Inventories	15.00
Year End - Social Services	40.25
Year End - VDOT	92.75

B. COMPLETED PROJECTS - TECHNICAL ASSISTANCE

Airport Authority	322.50
Budget/Police Issues	2.50
Capital Projects Task Force	0.50
Central Fleet Management	524.75
Chesapeake Expressway	2.50
Chesapeake Interagency Consortium	2.50
Chesapeake Volunteers in Youth Services	1.00
City Auction	33.50
Confidential Fund	18.00
Employee Suggestion Program Review	1.00
Interview Panel - Finance Department	6.50
Interview Panel - Information Technology	12.00
Interview Panel - Social Services	14.00
Parks & Recreations	1.50
Planning Department Work Schedule	3.50
Police Department - Petty Cash Reconciliation	1.00
Police Department - Vehicle Acquisition	5.50
Port Authority Note	16.00
Public Works - VDOT	1.50
Tax Exempt Organization Requirement	22.50
Total Hours - Completed Projects	3,326.25

C. PROJECTS IN PROGRESS - AUDITS & ANALYTICAL REVIEWS

Airport Authority	76.00
Chesapeake Expressway	203.50
Chesapeake Interagency Consortium	8.50
Citywide Charitable Solicitations - Administration	165.50
Citywide Charitable Solicitations - Planning	155.50
Citywide Charitable Solicitations - Reporting	13.25
Citywide Charitable Solicitations - Testwork	426.25
Contracted Services: Hazardous Waste Removal Contract - Planning	17.00
Contracted Services: Hazardous Waste Removal Contract - Testwork	944.25
Cost Allocation RFP	6.50
CRHA - Repayment	7.00
DOJIG Audit (COPS Grant)	3.00
Enterprise Funds (Budget Dept)	7.00
Finance Department/Taxes	7.00
Fire Department	1.50
Followup Review (FY 01) - Administration	17.50
Followup Review (FY 01) - Planning	8.00
Jordan Bridge	16.00
Software Licensing	309.25
Social Services Laser Report	13.25
VDOT	59.75
Year End Administrative	3.75
Year End Cash Counts	66.00
Year End Internal Controls	27.25
Year End Inventory	10.00

D. PROJECTS IN PROGRESS - TECHNICAL ASSISTANCE

GASB-34	207.25
New ERP (Finance) System	39.00
Total Hours - Projects in Progress	2,818.75

E. OTHER

Administrative	2,721.75
Holiday	540.00
Leave - Administrative	78.00
Leave - Annual	539.50
Leave - Compensatory	158.50
Leave - Sick	425.00
Meetings	162.75
Miscellaneous	41.50
Peer Review - Audit Services	399.00

Peer Review - City of Roanoke	125.50
Professional Organizations	259.00
Training	306.25
Total Hours - Other	5,756.75
Total Hours	11,901.75