



AUDIT SERVICES DEPARTMENT

ANNUAL STATUS REPORT

JULY 1, 2005 THROUGH JUNE 30, 2006

DATE OF PREPARATION: AUGUST 14, 2006

August 14, 2006

The Honorable Dalton S. Edge and
Members of the City Council
City of Chesapeake
City Hall - 6th Floor
Chesapeake, Virginia 23328

Dear Mayor Edge and Members of the City Council:

Enclosed is the Audit Services Department's Annual Status Report for the period July 1, 2005 to June 30, 2006. The following is a summary of some of the report's highlights.

A. COMPLETED PROJECTS

1. Audits and Analytical Reviews

We completed performance and special audits of the Police Department, the Community Services Board, Human Services, the Treasurer's Department Tax Collection, and follow-up reviews of fiscal year 2004 and prior year performance and special audits. These audits were conducted for the purpose of determining 1) whether services were being provided in an economical, efficient, and effective manner, 2) whether stated goals and objectives were being achieved, and 3) whether City policies and contracts were being complied with. The reports contained recommendations which we believe will improve operations, reduce costs, or otherwise enhance the department's operations.

- The Police Department audit evaluated whether the Police Department was providing services in an economical, efficient, and effective manner, whether its goals and objectives were being achieved, and whether it was complying with applicable City and Department procedures in areas of cash, revenues, payroll, procurement, vehicle inventory, safety, information technology, training, and grants management. A final report was issued on May 18th. The report contained six recommendations, five of which the department agreed to implement.

- The Community Services Board audit focused primarily on CSB's compliance with the Health Insurance Portability and Accountability Act. The report contained five recommendations, four of which the department agreed to implement.
- The Human Services audit evaluated whether services were provided in an economical, efficient, and effective manner, whether its goals and objectives are being achieved, and whether it was complying with applicable City procedures in its handling of cash, revenues, payrolls, expenditures, fixed assets, safety, staffing, and other areas. This audit included our first attempt to incorporate a variety of "meaningful" performance indicators; i.e., measures that the department was actually using to monitor and assess its own performance. The report contained eight recommendations, all of which the department agreed to implement.
- The Treasurer's Department Tax Collection audit evaluated collection rates for real and personal property taxes. We found that the Treasurer's collection rates were generally comparable to other localities. Since the Treasurer's collections were generally consistent with those of other localities examined, we decided that a written report was not needed. Instead, we shared our results verbally with the Treasurer. The Treasurer generally concurred with our assessment and did not have additional comments.

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 two projects.

B. PROJECTS IN PROGRESS

At year-end, we were working on performance audits of Citywide Credit Cards, Fair Labor Standards Act, Parks & Recreation, and Purchase Order Limits, as well as Year End work associated with the City's FY 2006 financial audit. The Project LINK technical assistance projects are likely to continue for some time.

Very truly yours,

Signed

Jay Poole
City Auditor
City of Chesapeake, Virginia

c: Anne F. Odell, Acting City Manager

CITY OF CHESAPEAKE, VIRGINIA

AUDIT SERVICES DEPARTMENT
ANNUAL STATUS REPORT
JULY 1, 2005 TO JUNE 30, 2006

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A. SUMMARY

AUDITS & ANALYTICAL REVIEWS

Treasurer's Department Tax Collection

We were asked by the Treasurer's Office to review collection rates for real and personal property taxes. We found that the Treasurer's collection rates were generally comparable to other localities. Since the Treasurer's collections were generally consistent with those of other localities examined, we decided that a written report was not needed. Instead, we shared our results verbally with the Treasurer on August 23, 2005. The Treasurer generally concurred with our assessment and did not have additional comments.

Managerial Summary

A. Objective, Scope, and Methodology

We have completed our review of the Chesapeake Community Services Board (CCSB) for the Fiscal Year (FY) 2005. Our review was conducted for the purpose of determining whether CCSB was in full compliance with the Health Insurance Portability and Accountability Act (HIPAA) of 1996 and other policy and procedures requirements. The review was conducted in accordance with Government Auditing Standards and included such tests of records and other audit procedures as we deemed necessary in the circumstances.

CCSB provided comprehensive community-based services and support to Chesapeake residents with mental health, mental retardation, and/or substance abuse services needs. For FY 2005, CCSB had an operating budget of \$13,306,495 with over 150 full-time positions. CCSB funding sources included federal, state, and City funds, and client payments. CCSB must comply with applicable federal, state and City laws and regulations. One such federal law, HIPAA, was enacted in 1996 to improve the Medicare and Medicaid programs by encouraging the development of a health information system through the establishment of standards and requirements to facilitate the exchange, and to protect the privacy and security, of certain health information. Specifically, the U.S. Department of Health & Human Services issued and enforced the HIPAA regulations that required that covered entities, such as CCSB, meet transaction and code sets standards by October 16, 2002, privacy standards by April 14, 2003, and security standards by April 20, 2005.

To determine how well CCSB complied with the HIPAA requirements and standards relating to transactions and code sets, privacy, and security, we reviewed the federal law and corresponding regulations, state requirements, and CCSB policies and procedures. We discussed and documented information from CCSB management and staff and associated City department's officials that related to HIPAA privacy and security requirements. Also, we reviewed, analyzed, and obtained the status of CCSB implementation of report recommendations of KPMG's July 2004 Executive Summary entitled "City of Chesapeake, Fire and Community Services Departments, HIPAA Security Standards – Gap Analysis and Strategy Planning Engagement". In addition, we reviewed CCSB administrative and operational processes, documentation, and reports pertaining to quality assurance, reimbursement, budget, privacy, security, and client recordation.

We reviewed Quality Management Services chart review results and follow-up audits conducted in FY 2004 and 2005 to determine the quality of the reviews and the level of compliance with HIPAA standards and CCSB policy and procedures. In

addition, we judgmentally selected 5 of 10 supervisors in CCSB's mental health, mental retardation, and substance abuse programs and reviewed their FY 2005 audit results of staffs' client charts for compliance with HIPAA privacy and the related CCSB policy and procedures. Finally, we reviewed documentation to determine the status of CCSB implementing two recommendations presented in our June 2002 report entitled, "Service Practices of the Community Services Board, Preliminary Review".

Major Observations and Conclusions

Based on our review and analysis, we have determined that CCSB had made significant and substantial progress in implementing the comprehensive HIPAA standards. Specifically, CCSB had been very effective in meeting the requirements of HIPAA regulations concerning transactions and code sets and privacy of its clients' protected health information and had made substantial progress in meeting the HIPAA security standards. However, we did identify several areas that CCSB needed to address to assure itself of HIPAA compliance. Specifically, CCSB needed to finalize Business Associate agreements with the Departments of Finance and Information Technology and with the City Treasurer. Also, the City had not developed a risk analysis methodology and written policies and procedures, and had not completed disaster recovery backup requirements to fully implement the HIPAA security standards.

This report, in draft, was provided to CCSB 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. CCSB management and staffs were very helpful throughout the course of this audit, and we appreciate their courtesy and cooperation on this assignment.

B. HIPAA Privacy and Security Issues

As previously noted, we have determined that CCSB had made significant and substantial progress in complying with the comprehensive HIPAA standards. Specifically, CCSB has been very effective in meeting the requirements of HIPAA regulations concerning transactions and code sets and privacy of its clients' protected health information. In addition, it has made substantial progress in meeting the HIPAA security standards. However, we did identify several areas that CCSB needed to address to assure itself of HIPAA compliance. Specifically, CCSB needed to finalize the Business Associate agreements with the Departments of Finance and Information Technology and with the City Treasurer. Also, the City had not developed a risk analysis methodology and written policies and procedures, and has not met disaster recovery backup requirements to fully implement the HIPAA security standards. (See additional details and analysis concerning the HIPAA security standards in Appendix B).

HIPAA Privacy Issues

1. Memorandum of Understanding with Business Associates

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

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

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

2. Quality Assurance Checklist

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

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

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

HIPAA Security Issues

1. Risk Analysis Methodology

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

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

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

2. Written Policies and Procedures

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

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

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

3. Disaster Recovery Plan Requirements

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

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

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

A. Objective, Scope, and Methodology

We have completed our review of the City of Chesapeake's (City's) Human Services Department (Human Services) for the period July 1, 2003 to June 30, 2005. Our review was conducted for the purpose of evaluating whether Human Services was providing services in an economical, efficient, and effective manner, whether its goals and objectives are being achieved, and whether it was complying with applicable City procedures in its handling of cash, revenues, payrolls, expenditures, fixed assets, safety, staffing, and other areas. All divisions of Human Services, including Social Services, the Tidewater Detention Home, and Interagency Consortium were subject to evaluation. We also attempted to identify and address any additional problem areas as requested by Human Services or determined from the audit itself. The audit included review and evaluation of procedures, practices, and controls of the various divisions of Human Services on a selective basis. Samples were taken as appropriate to assist with our evaluation.

The audit was conducted in accordance with Governmental Auditing Standards for performance audits and included such tests of records and other supporting documentation as we deemed necessary in the circumstances. A review was made of the relevant internal control structure, compliance tests were performed using various sampling techniques, and sufficient competent evidential matter was gathered.

The Human Services divisions including Social Services, the Tidewater Detention Home, and the Interagency Consortium, employed a work force of approximately 343 full-time employees and 14 part-time employees. Their budget for Fiscal Year (FY) 2005 exceeded \$27 million dollars, and accounted for 3.77% of the City's current budget. Areas of operational responsibility included Food Stamp Administration, Bureau of Public Assistance, Virginia Initiative for Employment not Welfare (VIEW), Public Assistance Grant, Welfare to Work, and the Fatherhood program in addition to Tidewater Detention Home and the Interagency Consortium.

Major Observations and Conclusions

Based on our review, we found that Human Services generally had sound practices and procedures which complimented the overall mission of their programs. It also came to our attention that management had instituted additional controls to enhance its operations and special attention had been placed on employee morale, and the monitoring of activities to assist management in coaching its employees. We found that most of the divisions of Human Services had developed more meaningful performance measurements to meet requirements of the Virginia Department of Social Services (VDSS) and were meeting, and in some cases, exceeding their performance goals. However, we noted that the performance measures used for City budget purposes tended to be less meaningful. Also, we identified concerns related to cost

reimbursements, special investigation procedures, system access, donations, petty cash, and staffing.

Human Services management concurred with most of the report recommendations and has already begun addressing them. Their comments have been included behind each report as outlined in the table of contents. The Human Services staff was very helpful and courteous throughout the audit and we appreciate their cooperation on this assignment.

B. Departmental Practices, Procedures, and Performance Measurements

While we were not able to analyze all Human Services operations and practices in detail, we noted that the Human Services generally had sound practices and procedures which complimented the overall mission of their programs.

Human Services administration directed the activities of the Social Services division. It administered programs of public assistance according to federal and state legislation and local policies. This function researched and developed resources for Social Services' programs and directed implementation of the programs. It supported and counseled clients in their use of agency services; coordinated activities with ancillary agencies, such as clinics, employment services, hospitals, schools, and courts; and provided protection and care to abandoned, abused, or neglected children and adults at risk.

The Chesapeake Interagency Consortium (CIC) was comprised of two functions: the Interagency Consortium and Pool Funds. The CIC was responsible for creating, maintaining and managing a collaborative system of services and funding that was child-centered, family-focused and community based, which addressed the strengths, weaknesses, and needs of troubled and at-risk children and their families. The CIC fostered the development of services through a collaborative team approach, coordinating agency efforts, and managing available funds.

The Tidewater Detention Home (TDH) was a division of the Department of Human Services. TDH was a dynamic regional facility dedicated to providing quality secure detention services and daily programming to include education, group counseling, individual counseling, medical services, mental health assessments, behavior management and recreational activities for residents from the cities of Chesapeake, Virginia Beach, Portsmouth, Suffolk, and Franklin and the Counties of Isle of Wright and Southampton. Since October 2004, the population decreased by more than 64% from 140 to 50 due to Virginia Beach obtaining its own detention home. In response to this change, TDH implemented two new programs: the Community Placement Program and the Post Dispositional Program to provide services locally to juveniles who had committed low level offenses that would normally be sent away from the locality. These programs allowed parents and probation officers and local agencies to be participative in the juveniles' rehabilitative process. Additionally, TDH was in the process of developing an evaluation form for both programs to track the number of juveniles that were rehabilitated.

1. Revenue Maximization Development Initiative

We also noted that the Department had initiated a number of practices and programs to enhance its operations. One such program in this category was the Revenue Maximization Development Initiative (RMDI) program which was designed by the VDSS to help localities 1) Identify and claim missed opportunities for federal reimbursement and, 2) Utilize these new funds for expanding or enhancing local human service programs, or to develop new initiatives to better meet social service needs, as identified by the locality in collaboration with local partners. Human Services proactively initiated the RMDI program in FY 2000, allowing it and its partner organizations to obtain funding that otherwise would not have been received. From its initiation in FY 2000 through FY 2004, the RMDI program identified \$3,980,067 in Federal Financial participation. These funds were utilized to provide a wide variety of services and programs within the Human Services Department. However, recent changes to federal and state reporting policies and procedures will impact future funding from RMDI.

2. Summary of Performance Indicators

In addition to the RMDI program, we identified other programs and grants that utilized written guidelines and procedures, performance measurements, performance goals, controls to monitor the status of program goals, written performance documentation, controls to prevent or detect fraud, and eligibility controls. These programs included Food Stamps, Temporary Assistance to Needy Families, and General Relief within the Bureau of Public Assistance, the Virginia Initiative for Employment not Welfare, Welfare-to-Work and Fatherhood programs, and other grants.

3. Bureau of Public Assistance

The purpose of the Bureau of Public Assistance was to provide financial assistance programs to eligible City residents including Food Stamps, Temporary Assistance to Needy Families, General Relief, and other programs. The Benefits Administrator had streamlined and added value to the various benefits programs by establishing higher goals that incorporated performance measurements into performance evaluations at the employee level, by establishing quality reviews by supervisors, by developing an internal Quality Assurance Review that provided summary error rate data to determine where training was needed, and by comparing actual performance to performance standards, and taking corrective action.

4. VIEW

The Virginia Initiative for Employment not Welfare (VIEW) provided assistance to TANF and Food Stamp customers in obtaining meaningful employment to reduce or eliminate their need for assistance and make them self-sustaining. Based upon the May 2005 Virginia Independent Program report that contained comparative data for 122 VIEW programs across the State, the average percentage of VIEW participants employed was 66%. Chesapeake's VIEW program had an employment rate of 69% or 3% higher than the average.

5. Welfare-to-Work and Fatherhood Programs

The goal of the Welfare-to-Work Program was to provide intensive case management and other services for TANF/VIEW customers. In FY 2005, the Welfare to Work Program had served 136 people which exceeded the 25 originally projected for budget purposes. The Fatherhood Program was designed to lead fathers to self-sufficiency by actively involving fathers in the lives of their children and securing gainful employment to meet the financial obligations to their children. In FY 2005, the Fatherhood Program had served 36 people which also exceeded budget projections.

6. Grants

The overall guiding mission of Human Services Grants was to seek funding to support additional programs. The Guardianship Grant acted as a guardian or conservator of last resort and provided assistance with healthcare, residence or financial needs. The Foster Care Reunification Grant attempted to reunite short term foster care children with their families. The Respite Care Grant helped prevent foster care disruptions. Finally the Title IV-E Grant assisted with foster care readiness and well being of children.

C. Administrative and Operational Issues

As previously noted, we determined that Human Services had been extremely effective in providing services to the public. While Human Services appeared to be effectively accomplishing its overall mission, we did identify some areas where administrative and operational practices could be enhanced. However, we noted that the performance measures used for City budget purposes tended to be less meaningful. Also, we identified concerns related to cost reimbursements, special investigation procedures, system access, donations, petty cash, and staffing.

1. Performance Measures (Human Services)

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

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

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

2. Cost Reimbursement Reconciliation (Human Services)

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

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

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

3. Special Investigation Case Files Documentation (Human Services)

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

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

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

4. Application Security Access (CIC)

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

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

Response - The Harmony software system utilized for data collection provides each CIC staff to have access to a different level of usage (access to various groupings of information and review capabilities). All information for data collection purposes is password protected. The administrative password is only given out on an as needed basis at the discretion of the coordinator. There is a tracking system for the program. It

documents who uses and makes changes to or updates the system. There is the capability available to enter into the tracking log and determine if anyone else is on the system.

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

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

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

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

6. Management of Charitable Solicitations (Human Services)

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

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

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

7. Staffing Issues

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

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

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

8. Administrative Petty Cash Fund

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

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

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

January 20, 2006

The Honorable Dalton S. Edge and
Members of the City Council
City of Chesapeake
City Hall--6th Floor
Chesapeake, Virginia 23328

Dear Mayor Edge and Members of the City Council:

We have completed the follow-up reviews of our Citywide Payroll Transactions, Service Practices of the Community Services Board, and City Practices for Software Licensing and Management. These prior year audits were selected because the recommendations from these reports were not fully implemented. The reviews were conducted in December 2005. The status of six recommendations from these reports was as follows:

- 3 had been implemented
- were in the process of being implemented
- was/were partially implemented
- were not agreed to & were not implemented
- 3 will not be implemented

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

Sincerely,

(Signed)

Jay Poole
City Auditor
City of Chesapeake, Virginia

NLS

C: Dr. Clarence V. Cuffee, City Manager

FOLLOW-UP REPORT

**CITYWIDE PAYROLL SYSTEM REPORT
SPECIAL AUDIT**

January 2006

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CITYWIDE PAYROLL SYSTEM REPORT

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.

To address these data entry errors on a comprehensive, citywide basis, we suggest the following five actions:

1. Departments should be assigned primary responsibility for their payroll databases. Each department should take steps to ensure that their database is accurately maintained.
2. Human Resources should update the supporting documentation for the system to establish an authoritative reference for coding in the system and correct any errors in the Pay Plan document. Once the documentation is complete, extensive training should be provided to all payroll clerks so that they are all aware of what the correct database entries should be.
3. After training sessions are completed, all departmental payroll clerks should verify the accuracy of each payroll record in the system. This verification should occur in conjunction with the implementation of the on-line data entry program for Personnel Action Form that is being developed by the Information Technology Department.
4. Once the verification is complete, Information Technology should verify the payroll updating routines and programs to ensure that they still function properly.
5. Departments should verify the accuracy of their database on at least an annual basis. Information Technology should facilitate the annual verification by making the appropriate read-only screens and reports available to payroll clerks.

While these procedures should help reduce the volume of data entry errors, we believe that, in the long term, the most effective means of addressing the data entry and other payroll processing issues is by purchase of a new payroll system. Certainly we recognize that the system will be expensive. However, over time, it would make the City's entire payroll process more efficient, reduce time spent manually verifying data and correcting errors, and provide the City with improved management and reporting capabilities.

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 because the Information Technology Department does not want to spend critical resources trying to “patch” problems on an old payroll system that is riddled with issues. Discussions continue on finding funds to replace the payroll system.

2. 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 will not be implemented because the Information Technology Department does not want to spend critical resources trying to “patch” problems on an old payroll system that is riddled with issues. Discussions continue on finding funds to replace the payroll system.

3. 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 will not be implemented because the Information Technology Department does not want to spend critical resources trying to “patch” problems on an old payroll system that is riddled with issues. Discussions continue on finding funds to replace the payroll system.

FOLLOW-UP REPORT

**SERVICE PRACTICES OF THE COMMUNITY SERVICES BOARD
PRELIMINARY REVIEW**

January 2006

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COMMUNITY SERVICES BOARD PRELIMINARY REPORT

2. Electronic Billing with Error Detection Program

Finding – Electronic billing with an error detection program had not been established for some payers. While the Community Services Board (CSB) had electronic billing for Medicaid, Medicare, and Sentara (Medicaid), the Board did not use electronic billing for other payers.

Recommendation – The Community Services Board should negotiate an agreement with the Boston Technologies Incorporated vendor to set up electronic billing with an error detection program for payers that do not have electronic billing. In addition, the Community Services Board should encourage the payers to accept and set up electronic billing.

Response – Management agreed with the recommendation and has signed an agreement with Boston Technologies Incorporated (BTI) in May 2001 to become Health Insurance Portability and Accountability Act 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.

Status – This recommendation has been implemented. CSB reimbursement and management information system staff have worked to implement electronic billing/payment postings which have been satisfied for some payers. Modification of BTI software has been completed and was in the process of being implemented. CSB continued to mail hard copy bills for these claims for several smaller insurance companies.

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 – The Community Services Board 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 – Management agreed with the recommendation and indicated the need to develop a consistent approach across the Community Services Board for monitoring and verification.

Status – This recommendation has been implemented. The Department of Mental Health, Mental Retardation and Substance Abuse Services (DMHMRSAS) has

implemented a new data reporting system, the Community Consumer Submission, for the community services boards to implement for state performance contract reports. It was developed to extract required data from the CSB database and is then forwarded to DMHMRSAS who then generates an invalid data error report. This data error report is then forwarded back to the CSB for follow up. Management Information System staff distributes the report to the program supervisors in which the service data errors occurred for further investigation and data correction by CSB staff.

FOLLOW-UP REPORT

**CITY PRACTICES FOR SOFTWARE LICENSING
AND MANAGEMENT
SPECIAL AUDIT**

January 2006

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CITY PRACTICES FOR SOFTWARE LICENSING AND MANAGEMENT REPORT

3. Policies and Procedures

Finding – The City had no policies and procedures for maintaining and managing the licenses required for operating systems and software applications, and limited written policies and procedures for the maintenance and use of its recently established City-wide inventory system.

Recommendation - The City should develop written policies and procedures to establish custodial and repository responsibilities for the required licenses for computer software products used by the City. In addition, written policies and procedures should be developed for the maintenance and use of the City-wide computer inventory system.

Response – We are in the process of developing and documenting standard procedures to ensure that the current inventory is kept accurate and that licenses' documentation are kept in a centralized and accessible location. Part of this process will include set policies for purchasing computer software and hardware procurement. It will be I.T. responsibility to meet these requirements. Non Microsoft licenses will be kept by the individual departments and Audit Services will do periodic checks of these procedures during departmental audits.

Status - This recommendation has been implemented. The Department of Information Technology issued a PC Replacement Plan policy that included a section on maintaining and managing licenses for operating systems and software applications.

Managerial Summary

A. Objective, Scope, and Methodology

We have completed our review of the Chesapeake Police Department (Police Department) for July 1, 2004 to December 31, 2005. Our review was conducted for the purpose of determining whether the Police Department was providing services in an economical, efficient, and effective manner, whether its goals and objectives were being achieved, and whether it was complying with applicable City and Department procedures in areas of cash, revenues, payroll, procurement, vehicle inventory, safety, information technology, training, and grants management. The review was conducted in accordance with Government Auditing Standards and included such tests of records and other audit procedures as we deemed necessary in the circumstances.

The Police Department provided essential services within the 353 square miles of the City of Chesapeake. The primary police services included prevention and deterrence of crime, apprehension of offenders, recovering and returning lost and stolen property, facilitating the safe and expeditious movement of vehicle and pedestrian traffic, and assisting and advising the public in routine and emergency situations. During Calendar Year 2004, the Police Department received 475,891 emergency 911 calls; made 13,708 adult, 1,195 juvenile, and 1,243 DUI arrests; and issued 58,916 traffic summons. In addition they responded to 3,491 vehicle accidents.

For Fiscal Year 2006 the Police Department had an operating budget of \$36,600,317 and an authorized compliment of 375 sworn officers and 153 non-sworn, which includes Animal Control Officers. The Police Department received funds from the Federal, State, and City and public donations. The Police Department has its Headquarters and the 1st Precinct in Great Bridge, and has four precincts in South Norfolk, Deep Creek, Western Branch and Greenbrier areas. In addition, it maintained a Police Academy in the southern part of the City.

The Police Department has maintained a high productive police force while having the lowest ratio of officers to city population in the region. The Department's extensive training at its Police Academy for new recruits and sworn-officers has helped to maintain a high quality of service. The Department has made significant advances in the use of technology including 800 MHz communications devises that were both portable and mounted in patrol vehicles, laptop computers designed to save time for patrol officers, and cameras mounted on vehicle dashboards.

To conduct this audit, we reviewed and evaluated City and Police Department administrative policies and procedures, annual budgets, and other financial and operations documents and reports. Also, we evaluated the strategic plan and

expenditures for worker's compensation, analyzed documents related to the management of grants, and the facilitation of recruit training. We interviewed and discussed these audit areas with Police headquarters and precinct management and officers, supervisors, and administrative staff, and Departments of Finance and Budget staff and the City's Fleet Manager.

Major Observations and Conclusions

Based on our review, we have determined that the Police Department had accomplished its overall mission of working with the community to promote a safe City through prevention of crime and enforcement of laws. In addition, the Department has made substantial progress in developing and implementing a Strategic Plan. However, we did identify areas where practices and procedures could be enhanced. Specifically, certain elements of the Strategic Plan had not been developed or implemented. The Department had not been following written procedures at the revenue collection unit. The annual workers compensation budget was significantly less than actual expenditures. The City's vehicle replacement schedule and assignment practices did not meet Department needs. Finally, there were delays in expending certain COPS technology Grant funds.

This report, in draft, was provided to Police 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. Police Department management and staffs were very helpful throughout the course of this audit, and we appreciate their courtesy and cooperation on this assignment.

B. Performance Information - Implementation of Strategic Plan

1. Management of Strategic Plan

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

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

Response – While the Department did not assign any one person to manage the Strategic Plan, the plan was reviewed frequently and discussed at various staff meetings. Additionally, each Bureau Commander submitted an annual report on their efforts in developing initiatives and meeting the targeted measures. In the future, the

Department's Planner will be responsible for the coordination and management of the Strategic Plan. A meeting has been scheduled to review and make appropriate changes to the existing Strategic Plan that will provide the framework for initiatives/changes for the upcoming fiscal year.

C. Administrative and Operational Issues

1. Vehicle Replacement Policy

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

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

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

2. Assignment of Vehicles

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

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

Response – The utilization of the full-sized vehicles throughout the department has enabled the department to prolong the life expectancy of vehicles by rotating vehicles among assignments. This rotation is completed after the evaluation of the needs of the department, vehicle age, mileage, and history. The mixing of various sizes of vehicles

into the department's fleet will prohibit this ability. Full-size vehicles allow officers who are assigned collateral duties, such as SWAT, Underwater Search and Rescue, and Special Incident Response Team, to carry the extra equipment required for these assignments. Smaller vehicles, with limited trunk space, severely limit the amount of extra equipment that can be carried, in addition to the routine equipment required. It must be noted that the patrol vehicles are an officer's office during their tour of duty. As such, they must carry a multitude of items from summons books to patrol rifle. Chesapeake officers work solo except during field training when the recruit officer accompanies the Field Training Officer. The lap top computers take up a portion of the passenger compartment in the front passenger area and pose additional safety and comfort risks for the passenger. We have currently placed several smaller vehicles throughout the department and additional vehicles are on order for this coming year. These vehicles have been assigned to more experienced officers not normally involved in routine patrol duties. We have experienced several mechanical problems with the smaller vehicles that will be further compounded when the small vehicles are placed into general use. The vehicle is low to the ground and tends to bottom out in some circumstances, increasing the chance of damage. The move from the rear wheel drive vehicles to the front wheel drive vehicles will involve the training in high speed maneuvers for all officers having access to these vehicles. This is due to the difference in handling characteristics and is both a time and cost factor for the department.

3. Separation of Duties for Record Management Fees

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

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

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

4. Budget for Worker's Compensation

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

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

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

5. Administration of COPS Grant

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

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

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

B. SUMMARY
TECHNICAL ASSISTANCE

ADP Demo – August 2005

We viewed a presentation by ADP to the City. ADP was proposing to take over the City's payroll operations. The City decided not to pursue this option because of the cost.

City Manager's Office Interview Panel – November 2005

We assisted the City Manager's Office by participating on an interview panel for their vacant Administrative Assistant position.

C. SUMMARY
OTHER PROJECTS

Training – FY 2006

We attended the following Training Sessions during FY 2006:

- ACFE - Fraud Examiners Conference
- Diversity in the Workplace
- Eat For Your Health
- Give 'em the Pickle
- Institute of Internal Auditors - Auditor's Role In Fraud Prevention, Detection & Handling
- KPMG - Government Accounting & Overview Update
- Mistake Proof Writing
- Myer Briggs Type Indicator
- Association of Local Government Auditors Annual Conference
- New Employee Orientation/Fish Philosophy
- Problem Solving & Decision Making
- The 7 Habits of Highly Effective People
- Virginia Local Government Auditors Association's Fall Conference
- Virginia Local Government Auditors Association's Spring Conference
- Workplace Violence Prevention

Professional Organizations

For the last seven years, we have served as editors of the Virginia Local Government Auditors Association (VLGAA) newsletter. This newsletter is distributed on a quarterly basis to approximately 100 members of the VLGAA and contains news and information about local government auditing. One auditor is active in the Association of Local Government Auditors and serves as the Eastern Region Coordinator for its Advocacy Committee.

D. SUMMARY
PROJECTS IN PROGRESS

1. Audits and Analytical Reviews

Citywide Credit Cards

The Citywide Credit Cards audit was in progress at year end. A draft report had been issued, and we were awaiting the response. We expect the audit to be finalized by the beginning of September

Fair Labor Standards Act

The Fair Labor Standards Act audit was in progress at year end. We had completed most of the field work and had begun preparing the draft report.

Parks & Recreation

The Parks & Recreations audit was in progress at year end. We had begun working on the draft report and hoped to have it issued by the beginning of September.

Purchase Order Limits

The Purchase Order Limits audit was in progress at year end. We received the final response to the report at the end of July, and issued the report on August 11th.

Year End Work

Audit Services was completing year-end audit work for FY 2006 in our normal areas including Cash, Inventories, Budget, Personal Property Tax Relief, E911, Tax Assessments, Highway Maintenance, and Comprehensive Services Act.

2. Technical Assistance Projects

Community Services Board - We assisted the Community Services Board in reviewing a number of internal control issues related to the security of cash funds and equipment.

Performance Measurements – We assisted the City Manager’s Office in evaluating the City’s participation in the ICMA’s performance measurement program.

Project LINK – We continue to serve as ad-hoc advisors to the Project LINK steering committee

Purchase Cards – We participated as advisors to a committee the City Manager's Office established to revise the City's credit card procedures. This committee was formed as a response to our Citywide Credit Cards 2005 audit.

Small Asset Management System Application Project – We served as advisors to a committee that was evaluating the potential acquisition of a small asset management system for the City

SPSA – We provided litigation support for the various Southeastern Public Service Authority (SPSA) proceedings the City was involved in.

E. SUMMARY

TIME (HOURS) EXPENDED DURING YEAR

A. COMPLETED PROJECTS - AUDITS & ANALYTICAL REVIEWS

Community Services Board - Administrative	46.50
Community Services Board - Testwork	14.50
Community Services Board - Reporting	141.50
Follow-up Review (FY04) - Administrative	3.50
Follow-up Review (FY04) - Planning	9.25
Follow-up Review (FY04) - Testwork	10.00
Follow-up Review (FY04) - Reporting	18.50
Human Services - Administrative	91.00
Police Department - Administrative	164.00
Police Department - Planning	351.00
Police Department - Testwork	656.25
Police Department - Reporting	163.00
Human Services - Reporting	377.00
Treasurer's Department Tax Collection - Administrative	102.75
Treasurer's Department Tax Collection - Planning	12.00
Year End - Budget	58.75
Year End - Cash Counts	6.00
Year End - CSA	80.25
Year End - E911	94.75
Year End - Inventories	22.00
Year End - Payroll	119.00
Year End - PPTRA	112.25
Year End - Tax Assessment	218.25
Year End - VDOT	82.00

B. COMPLETED PROJECTS - TECHNICAL ASSISTANCE

ADP Demo	2.50
City Manager's Office Interview Panel	7.50
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Total Hours - Completed Projects	2,964.00
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C. PROJECTS IN PROGRESS - AUDITS & ANALYTICAL REVIEWS

Citywide Credit Cards - Planning	41.50
Citywide Credit Cards - Reporting	45.50
FLSA - Administration	2.50
FLSA - Planning	266.50
FLSA - Testwork	243.00
Fraud Hotline	31.00

Parks & Recreation - Administrative	22.75
Parks & Recreation - Planning	369.50
Parks & Recreation - Testwork	790.75
Parks & Recreation - Reporting	6.00
Purchase Order Limits - Administrative	46.50
Purchase Order Limits - Planning	72.25
Purchase Order Limits - Testwork	363.25
Purchase Order Limits - Reporting	49.50
Year End - Cash Counts	54.50
Year End - Inventories	19.50

D. PROJECTS IN PROGRESS - TECHNICAL ASSISTANCE

Community Services Board	37.50
Performance Measures	18.50
Project LINK	13.00
Purchase Cards	294.00
Small Asset Management System Application Project	12.00
SPSA	8.00

Total Hours - Projects in Progress	<u>2,807.50</u>
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E. OTHER

Administrative	2,332.00
Annual Status Report	11.00
Holiday	390.00
Leave Administrative	25.00
Leave - Annual	550.75
Leave - Compensatory	193.00
Leave - Funeral	7.50
Leave - Sick	514.25
Leave Without Pay	117.00
Meetings	67.50
Miscellaneous	38.75
Professional Organizations	388.00
Semi-Annual Status Report	13.75
Training	443.00

Total Hours - Other	<u>5,091.50</u>
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Total Hours	10,863.00
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