AUDIT SERVICES DEPARTMENT

ANNUAL STATUS REPORT

JULY 1, 2003 THROUGH JUNE 30, 2004

DATE OF PREPARATION: SEPTEMBER 24, 2004

September 24, 2004

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 <u>Annual Status Report</u> for the period July 1, 2003 to June 30, 2004. The following is a summary of some of the report's highlights.

A.   COMPLETED PROJECTS

1. Audits and Analytical Reviews

We completed special audits of Cellular Telephone Services, Chesapeake Museum, and follow-up reviews of fiscal year 2002 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 Cellular Telephone Services audit reviewed cellular telephone usage throughout the City. The report contained two recommendations, both of which the department agreed to implement. The report also identified $41,863 in potential savings and $2,372 in overbilled costs.

- The Chesapeake Museum follow-up report examined the Museum's financial and operational activities and the status of $27,500 in funding provided to the Museum by the City. The City has since assumed responsibility for the Museum facility.

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 15 projects. Of these the most significant were as follows:

- Project LINKs (Leading Information, iNtergration, and Knowledge) - We are assisting the City with its review of systems and controls as part of the implementation process associated with the City's new financial management system.

B. PROJECTS IN PROGRESS

At year-end, we were working on a special audit of Citywide Contract Processes; performance audits of the Public Works Department and Clerk of the Courts, as well as, Year End work associated with the City's FY 2004 financial audit. With the exception of Project LINKs, FEMA, and the Mowing Contract, most of our technical assistance projects were nearing completion.

Very truly yours,

Signed

Jay Poole
City Auditor
City of Chesapeake, Virginia

c: Dr. Clarence V. Cuffee, City Manager

CITY OF CHESAPEAKE, VIRGINIA

AUDIT SERVICES DEPARTMENT
ANNUAL STATUS REPORT
JULY 1, 2003 TO JUNE 30, 2004

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A. SUMMARY

AUDITS & ANALYTICAL REVIEWS

City of Chesapeake   CONTRACTED SERVICES
Audit Services   Citywide Cellular Telephone Services
December 9, 2003

Managerial Summary

A. Introduction, Background, and Scope

We have completed our review of Citywide Cellular Telephone Services for the period July 1, 2001 to June 30, 2002. The review was performed as part of our review of the City's negotiated contracts. We identified the existing cellular telephone service plans used by the City and analyzed activity incurred to determine whether contracted plans adequately met departmental needs. Cellular telephone call volume within each department was reviewed and analyzed to ensure that services received were economical. We compared service levels and the associated costs with other plans identified and available for City department use to ensure that the best pricing plan had been utilized. 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.

To complete our review, we met with representatives from Purchasing and had discussions with Information Technology Department personnel to gather information specific to the City's cellular telephone service plans. We analyzed paid vendor files to ascertain the service levels provided and compared those services to the costs made available to the City in other identified cellular service plans to identify potential cost savings.

The City's mainframe system indicated that $291,118.60 had been paid to the authorized cellular telephone vendor, Verizon Wireless. Of that paid amount, we reviewed $212,053.11. We did not review charges unrelated to cellular telephone activity, prior period payment amounts, or missing paid file documentation.

It should be noted that the primary objective of this audit was to identify cellular telephone service plans and examine the adequacy of the service levels and associated costs provided by them. We anticipate that the nature of our findings will prove helpful in future bidding of contracts and follow-up reviews of costs related to cellular telephone service plans.

B. Cellular Telephone Service Cost Analysis

In our review and comparison of costs related to the City's cellular telephone service needs, we found that cost savings could have been realized had the departments used other plans that had been made available to the City as a whole. It appears that in some instances the existing contractual arrangements had not been comprehensively evaluated and compared with other available options to the City.

1. Cellular Telephone Service Contract Review

Finding – The City was not monitoring its cellular telephone plans to ensure that its identified service levels were obtained under the best terms and prices made available to the City as a whole. We identified $41,863.77 in potential savings related to the services.

Recommendation – The City should consider consolidating its cellular telephone activities under one service plan.

Response – The Information Technology and the Purchasing departments generally concur. The responses presented in the body of this report were selected from the responses submitted. The full response of each department is included in the appendices.

C. Cellular Telephone Service Overpayments

We noted call period rate discrepancies during our review of the vendor's invoices. It appeared that the accuracy of call period rates was not always reviewed prior to payment processing of the vendor's invoice.

1. Overbilled Cellular Telephone Service

Finding – In our review of the vendor's invoices, we noted that certain cellular telephone billable minutes had been charged at rates higher than those agreed upon. We identified $2,372.41 in overpayments.

Recommendation – The City should develop payment processing review procedures for cellular telephones.

Response – The Information Technology and the Purchasing departments generally concur. The responses presented in the body of this report were selected from the responses submitted. The full response of each department is included in the appendices.

D. Operational Policies and Procedures

While we found a brief reference to cellular telephones in one policy, the City did not have a policy that specifically addressed cellular telephone usage. Management intent regarding the assignment and subsequent usage has not been clearly defined and disseminated to employees.

1. Written Policies and Procedures

Finding – The City has not developed a specific policy to govern cellular telephone assignment and subsequent usage.

Recommendation – The City's cellular telephone activities should be governed by a specific policy that clearly states business intent and provides employee guidance on cellular telephone assignment and usage.

Response - The Information Technology and the Purchasing departments generally concur. The responses presented in the body of this report were selected from the responses submitted. The full response of each department is included in the appendices.

October 23, 2003

Mr. Raymond L. Harper
President, Board of Directors
Chesapeake Museum
3815 Bainbridge Boulevard
Chesapeake, Virginia 23324

Dear Mr. Harper:

Pursuant to Mayor William E. Ward's letter of September 16, 2003, Audit Services is presenting the results of our review of the Chesapeake Museum's (Museum's) operations. This review is structured as a follow-up to our 1998 audit and includes the results of our three previous follow-up reviews of the Museum conducted in 2000, 2001, and 2002. We have also updated the status of a finding related to fund-raising activities that has been outstanding for most of the follow-up periods. In addition, we have discussed the current status of the Museum, including the Museum's use of grants totaling $27,500 provided by the City of Chesapeake (City) during the months of March and May 2003.

Based upon our review, while the Museum experienced a significant number of programmatic and operational successes during the five-year period since our 1998 audit, the Museum was experiencing severe financial difficulties. The Museum's unpaid bills exceeded the cash available to pay them by approximately $9,542. This shortfall appears to be the result of an inability to raise significant funds outside of those provided by state and local government entities. In addition, while we noted that the City funds provided to the Museum appear to have been spent on legitimate Museum business items, there were periods where the Museum's scrutiny of its expenses did not appear to be adequate.

Due to the lack of available funds, it does not appear that the Museum will have sufficient cash to continue operating as an independent entity. For this reason, we have prepared a schedule that estimates projected Museum operating costs for a one-year period exclusive of personnel costs. We anticipate that this information will assist the City Council in its deliberations regarding the future use of the Museum facility.

Very Truly Yours,

(Signed)

Jay Poole
City Auditor
City of Chesapeake, Virginia

cc: Honorable Mayor William E. Ward and Members of the City Council
        Clarence V. Cuffee, City Manager

November 3, 2003

The Honorable William E. Ward and
     Members of the City Council
City of Chesapeake
City Hall--6th Floor
Chesapeake, Virginia 23328

Dear Mayor Ward and Members of the City Council:

We have completed the follow-up reviews of our Central Fleet Management, Services Practices of the Community Services Board, and Citywide Credit Card Transactions audits for FY02; our Citywide Expenditure Transactions and Airport Authority audits for FY01; and our Citywide Complaint Processing Program and Citywide Payroll System audits for FY00. These prior year audits were selected because the recommendations from these reports were not fully implemented. The reviews were conducted in October 2003. The status of 27 recommendations from these reports was as follows:

     _11_ had been implemented
     _7_ was in the process of being implemented
     ___ was/were partially implemented
     _1_ was not agreed to & was not implemented
     _8_ 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

c: Clarence Cuffee, City Manager

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<u>FOLLOW-UP REPORT</u>

**CITYWIDE COMPLAINT PROCESSING PROGRAM
SPECIAL AUDIT**

November 2003

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CITYWIDE COMPLAINT PROCESSING PROGRAM REPORT

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 – This recommendation has not been implemented. The City Manager is proposing to hire a Community Affairs Coordinator during FY04. It will be the responsibility of this position to look at issues such as this.

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 mainframe 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 – This recommendation has not been implemented. The City Manager is proposing to hire a Community Affairs Coordinator during FY04. It will be the responsibility of this position to look at issues such as this.

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".

Status - This recommendation has not been implemented. The City has looked at the possibility of moving to a centralized #311 system. The goal is to implement such a system in FY05.

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 – This recommendation had not been implemented. This will be the responsibility of the Community Affairs Coordinator once hired.

FOLLOW-UP REPORT

**CITYWIDE PAYROLL SYSTEM AUDIT
SPECIAL REPORT**

November 2003

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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 was in the process of being implemented. The data entry errors in Employee Master File have been corrected. Information Technology is currently responding to a request for the development of an improved Position Control System of which one component of that request would include an on-line Personnel Action processing system. However, Information Technology could not provide an estimated completion date for the on-line Personnel Action processing system because of higher priorities and limited programming resources.

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 was in the process of being implemented. Information Technology is currently responding to a request for the development of an improved Position Control System of which one component of that request would include an on-line Personnel Action processing system and ownership by departments. However, Information Technology could not provide an estimated completion date for the on-line Personnel Action processing system because of higher priorities and limited programming resources.

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 was in the process of being implemented. Information Technology is currently responding to a request for the development of an improved Position Control System of which one component of that request would include an on-line Personnel Action processing system and ownership by departments. The system will identify payment errors at the time the departments enter the changed data instead of when the payroll has been run. Changes in data will be logged to the responsible departments and an authorized supervisor will have to sign off on changes. However, Information Technology could not provide an estimated completion date for the on-line Personnel Action processing system because of higher priorities and limited programming resources.

4. 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 Departments of Finance, Human Resources, and Information Technology submitted the final draft of the consolidated Payroll Manual to City departments for review in September 2003 and expect that the final Manual will be distributed to the departments in late 2003. Subsequently, City-wide Payroll Tech Training will be scheduled for all department payroll clerks.

FOLLOW-UP REPORT

**CITYWIDE EXPENDITURE TRANSACTIONS
SPECIAL AUDIT**

November 2003

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CITYWIDE EXPENDITURE TRANSACTIONS REPORT

Application of Discounts

Finding – Discounts were not applied consistently**.**

Recommendation - Finance should attempt to ensure that discounts are consistently applied. Finance should review that the required initials and highlighted discounts are indicated on the invoices.

As a practical matter, it is difficult for the City to process conventional discounts such as 2% net 30 under the current system. Therefore, with the assistance of Purchasing staff, Finance should attempt to identify vendors willing to accept discounts and the terms under which such discounts would apply. Finance should then notify the departments of these terms and encourage them to submit invoices for these vendors within the specified time frames. Such actions will help ensure that the City consistently receives available discounts.

Response - Accounts Payable will work with Purchasing to ascertain which vendors actually offer discounts. Once such vendors are identified, Purchasing will be responsible for notifying the various departments of these vendors, their discounts, and the payment terms required for capturing these discounts. Accounts Payable staff will then be trained as to which vendors offer discounts and how these discounts should be emphasized by the various departments, so that discounts can be monitored during the audit of vendor payments.

Status - The recommendation has been partially implemented and the remainder of the recommendation will not be implemented. In April 2001 Finance held refresher training for the Accounts Payable staff. The training reiterated the need for staff to apply discounts, re-emphasized the need to circle the discounts in red and initial the invoice to certify completion, and promptly process the discounted invoice for payment. However, because of staffing limitations, Purchasing will not develop and continually update a listing of vendors that provide discounts to the City and thus will not notify the departments of these vendors.

FOLLOW-UP REPORT

AIRPORT AUTHORITY
PRELIMINARY REPORT

November 2003

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AIRPORT AUTHORITY PRELIMINARY REPORT

Potential Noncompliance with Federal Aviation Administration Requirements

Finding – The Federal Aviation Administration has notified the Authority that it may not be in compliance with some of its Federal requirements.

Recommendation – The Authority should attempt to comply with the Federal Aviation Administration's recommendation.

Original Preliminary Comments – Your audit team addressed the issue of the ongoing discussions between the Authority and the Federal Aviation Administration regarding a complaint that an air service company was being unfairly excluded from operating at the Chesapeake Airport. The Authority strongly disagrees with this item being included in your audit report. It is not relevant to the financial scope of the audit as initially directed. That said, following continued correspondence with the Federal Aviation Administration and our insurance provider, the Authority will notify the Federal Aviation Administration of its intent to review its minimum standards, as they requested, in accordance with the Advisory Circulars recently published by the Federal Aviation Administration.

Revised Comments – The original preliminary comments remain valid.

Status – This recommendation has been implemented. In January 2003, the Federal Aviation Administration determined that the Authority's Correction Action Plan satisfied the concerns and deficiencies identified by the Federal Aviation Administration and stated that the Authority's action concluded the Part 16 complaint made by Mr. Leonard and that the Authority was in compliance with its Federal obligations and was eligible to receive Airport Improvement Program grant funds.

In August 2003 the Federal Aviation Administration awarded a grant to the Authority for $447,178 for three combined projects: Acquire Land Runway 23 – Reimbursement; Perimeter Fence Phase III (Construction); and Obstruction Removal, Transitional Surface Runway 5 (Design/Construction).

FOLLOW-UP REPORT

**CENTRAL FLEET MANAGEMENT
SPECIAL AUDIT**

November 2003

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CENTRAL FLEET MANAGEMENT REPORT

C. Parts Management

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.

Status – This recommendation has been implemented. In FY02, Central Fleet Management added nine new parts contracts for high volume parts. In FY04, Central Fleet Management contracted out its parts operation to a private stockroom vendor; therefore, all parts are now under contract.

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

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

Recommendation – Central Fleet Management 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, Central Fleet Management 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.

Status – This recommendation has been implemented. Central Fleet Management indicated that 341 line items of obsolete parts valued at $67,152.26 were removed from stock prior to its physical inventory in FY02 and 272 line items of specialty items valued at $22,086.81 were identified and separated from stocked items. Additionally, Central Fleet Management identified $15,360 obsolete parts in its inventory; returned $2,565 to distributors for credit, and auctioned off the remaining parts in FY02. Because a private contractor purchased the parts inventory and were responsible for operating the stockroom this became a non-issue. Central Fleet Management will continue to monitor

the few parts it continues to control and will eliminate these parts from stock as it becomes necessary.

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.

Status – This recommendation has been implemented. Central Fleet Management removed the 25 percent cost markup for its City customers effective July 1, 2001, and markups are only to be used for external customers**.**

D. Use of FleetAnywhere System

1. Entity Relationship Diagram

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

Recommendation – Central Fleet Management, with the support of Information Technology, should discuss the possibility of having the vendor create an Entity Relationship Diagram for its FleetAnywhere System customers.

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

Status – This recommendation will not be implemented. The Entity Relationship Diagram was not available from the FleetFocus (formerly FleetAnywhere) vendor.

2. Economic Order Quantity Function

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

Recommendation – Central Fleet Management 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.

Status – This recommendation was not agreed to and will not be implemented. Central Fleet Management indicated that the parts stocked in the storeroom was now owned and maintained by a private contractor; therefore, it was not the City's responsibility. In addition, the few remaining parts in the City's possession would be ordered by the contractor based upon demand history and stocked accordingly.

3. Warranty Management Function

Finding – Central Fleet Management 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, Central Fleet Management 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.

Status – This recommendation has been implemented. Central Fleet Management loaded the warranty data into the FleetFocus System for vehicle warranties and parts warranties and the stockroom contractor tracked the parts they issued.

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.

Status – This recommendation has been implemented. Central Fleet Management has begun to use the inventory reconciliation feature for its annual parts inventory.

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.

Status – This recommendation has been implemented. Central Fleet Management indicated that data in FleetFocus was constantly being corrected. However, due to the large amount of inaccurate data and the difficulty of discovering the various errors, corrections were being made as they were identified.

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.

Status – This recommendation has been implemented. Central Fleet Management supervisors and key employees were provided training on the major aspects of the FleetFocus system and all employees were provided system training on their particular work areas.

E. Operational Policies and Procedures Issues

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 - Central Fleet Management 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.

Status – This recommendation has been implemented. Written operational policies and procedures were developed as the need for those specific documents become apparent. Central Fleet Management written policies and procedures include Safety Shoes, Automotive Service of Excellence Testing and Reimbursement, City Vehicle Travel Log, Replacement of Personally Owned Tools, Return of Parts to the Stockroom, and Maintenance of Garage Forklift.

1. 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 – Central Fleet Management 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.

Status – This recommendation will not be implemented. Because a private contractor purchased Central Fleet Management's parts inventory and operates the stockroom, this recommendation requires no further action by Central Fleet Management.

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.

Status – This recommendation was in the process of being implemented. Central Fleet Management developed a travel log policy and has had the draft approved through the Human Resources Department, the City Attorney's Office, and the City Manager's Office. A draft policy will be provided to the department heads in October 2003 for comment before going final.

FOLLOW-UP REPORT

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

November 2003

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COMMUNITY SERVICES BOARD PRELIMINARY REPORT

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

Finding – The Community Services Board'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 Individual Service Plans were not developed and updated in a timely manner. Finally, the Community Services Board had no written policies and procedures for requiring supervisory clinicians to monitor and verify subordinate clinicians' client documentation requirements including progress notes, Individual Service Plans, and discharge summaries for accuracy and timeliness.

Recommendation – The Community Services Board should have the Boston Technologies Incorporated vendor develop an application program (routines) to put Lotus notes, progress notes and Individual Service Plans 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, the Community Services Board should implement written policies and procedures that would assign supervisor clinicians specific responsibility for verifying and monitoring data collection, and recording of client information by subordinate clinicians.

Response – Because of limited funding, management can not implement the recommendation.

Status – This recommendation was partially implemented; but, due to limited funding the remainder of the recommendation will not be implemented. Due to State budget cuts ($434,116 in 1/03) and the increased administrative cost of implementing the Health Insurance Portability and Accountability Act's Privacy Rule, the Community Services Board was unable to invest in an electronic system of record keeping which includes progress notes and Individual Service Plans. Clinicians have reported increased use of the Lotus Note software program and some case record forms have been added to Lotus. A Corporate Compliance program has been developed and implemented effective March 2002. This program consists of a Corporate Compliance Committee and a Corporate Compliance Officer that provides oversight to compliance with all payer and licensure regulations. This includes the auditing of case record documentation against the billing of payers to ensure accuracy and timeliness.

A policy, "Performance Expectations Relative to Auditing Charts," was written and implemented by the Leadership Team this past year. This policy increases the oversight and accountability of program supervisors by setting up a compliance rating system for staff documentation performance to be included in the individual staff's performance evaluation. Chart reviews of clinical data are to be conducted by the supervisors on an ongoing monthly basis. Every six months, the results are tabulated and reported to the

Corporate Compliance Officer who provides a report for the Executive Director, Program Directors, and Board of Directors.

Corrective action plans have also been implemented by program supervisors to correct staff billing errors in response to reports provided via the chart audits from the Corporate Compliance program. The implementation of standardized clinical forms has been completed to increase the likelihood of the compliance of clinical data provided by clinicians' agency wide. High risk assessment/intervention documentation training is scheduled October 17, 20, and 29, 2003 and will be provided by the Community Services Board Medical Director. It will emphasize the need for timely documentation.

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 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 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. Boston Technologies Incorporated estimates that the modification to the software will be completed in the Fall of 2002.

Status – This recommendation was in the process of being implemented. The Community Services Board is currently training the Management Information System staff to use the new Boston Technologies Incorporated Version 6 database to be Health Insurance Portability and Accountability Act compliant with electronic billing. It is scheduled to be implemented prior to the October 16, 2003 start date for the Act's Transaction Code Set Rule. However, the Virginia Department of Medical Services is experiencing significant difficulties with its new billing system which may need to be taken into consideration in the conversion of billing under the Transaction Code Set Rule guidelines. Also, due to this Transaction Code Set Rule, payers are requiring that providers who previously submitted manual billing be placed on a waiting list for electronic billing sometime after October 16. Therefore, the Community Services Board is unable to implement electronic billing with all payers at this time. Additionally, given that the Board only bills a few transactions with some payers, it would be an increased administrative burden to electronically bill these payers for such an insignificant volume that will vary from month to month.

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 was in the process of being implemented. The Management Information System data specialist staff have been trained to provide data verification and monitoring of data submitted to Lotus prior to downloading such data into the AS400 - BTI database. Additionally, these staff provided data error reports for supervisory follow up when a significant number of data errors are cited. The Management Information System Administrator has also contracted the Boston Technologies Incorporated vendor to increase the number of internal quality controls and electronic data error checks in the computer program that downloads data from Lotus notes to prevent common data errors that have been discovered by data specialist staff.

4. Training Needed for Clinicians

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

Recommendation – The Community Services Board 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 the Community Services Board staff.

Response – Management agreed to the recommendation and has scheduled additional training on the Boston AS400 - BTI and Lotus systems for the Community Services Board staff.

Status – This recommendation has been implemented. The Management Information System staff had provided agency training of both the AS400 - BTI and Lotus Notes software over the past couple of years for a total of 125 agency staff. Fifteen AS400 - BTI basic trainings were held for staff from June 2002 through January 2003. Supervisors were provided AS400 - BTI training in September 2002. Twenty-seven different Lotus training sessions were held for agency staff between 2001 and 2003. Given the city's hiring freeze, additional training had not been scheduled for new staff since January 2003. However, now that the freeze has been lifted and new staff was being hired, training will resume in the near future as the need arises.

FOLLOW-UP REPORT

CITYWIDE CREDIT CARD TRANSACTIONS
SPECIAL AUDIT

November 2003

Table of Contents

CITYWIDE CREDIT CARD TRANSACTIONS REPORT

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.

Status – This recommendation has been implemented. The City issued the City Credit Card Policy and Procedures Regulation (Number: 44.3), effective February 26, 2003, in response to the recommendation. The regulation enhanced the internal controls applicable to the utilization of City credit cards.

B. SUMMARY

TECHNICAL ASSISTANCE

<u>Project LINKs - July 2003 – June 2004</u>

We are assisting the City with its implementation of the new PeopleSoft Financial Management System. Audit Services staff members participate as ex-officio members of both the Steering and Functional Committees. We have been reviewing system modules to ensure that control issues are adequately addressed.

<u>COPS Audit – July 2003</u>

We assisted the Police Department in preparing a response to an audit conducted by the Department of Justice Inspector General's Office. We prepared an analysis of the report identifying areas where the audit conclusions were not consistent with the audit evidence on file in the Police Department.

<u>FAS 144 – August 2003</u>

FAS 144 applies to long-lived assets such as plant or fixed assets, to intangible assets being amortized, and to long-lived assets to be disposed of. Based upon a request from the City Attorney's Office, we researched various accounting methods for such assets.

<u>Interview Panel (Finance Department) – September 2003</u>

We assisted the Finance Department by participating on an interview panel for a Grants accountant. While Finance was able to successfully fill the position, the successful candidate left shortly thereafter.

<u>Payroll Manual Review – September 2003</u>

We completed and submitted our comments the draft payroll manual. The manual was finally completed and issued in May 2004.

<u>Chesapeake Museum – October 2003</u>

Prior to initiating our follow-up up audit, we reviewed certain accounting transactions at the Museum. After conducting this initial inquiry, we determined that there was a need for more follow up work.

<u>Audit RFP – January 2004</u>

The City issued an RFP for a new audit contract. After receiving four responses and interviewing the top two candidates, the City elected to continue its relationship with its current audit firm.

Cellular Telephone Overpayment Schedules – February 2004

We prepared workpapers and analysis for their use in recovering overcharges identified during our Cellular Telephone audit. Purchasing was successful in recovering the overcharges.

Auction Surplus – March 2004

We observed the e-mail auction of City property. The auction was conducted by a vendor selected by purchasing that specialized in online auctions for local government entities.

FLSA Issues – May 2004

We attended a training session on the new overtime rules issued by the U.S. Department of Labor. The new rules will have impact on a number of positions, particularly in the public safety area.

Purchasing (Cellular Telephones) - May 2004

To assist Purchasing in negotiating their next cellular telephone contract, we prepared an analysis of cellular telephone charges based upon our cellular telephone audit.

C. SUMMARY

OTHER PROJECTS

<u>Training – FY 2003</u>

We attended the following Training Sessions during FY 2004:

- Document Security and Fraud Prevention
- Working with Technology (Access)
- Customer Satisfaction
- Introduction to IT Audit
- Access 2000: Basic Databases & Tables
- VLGAA 2003 Fall Roundtable
- Best Business Practices Audit Roundtable
- Access 2000: Filters & Queries
- Communicating Effectively
- Transforming Government with Technology
- A Manager's Guide to Avoiding Sexual Harassment
- Motivating Your Employees – Strategies for Success
- Dealing with Workplace Conflict
- Disaster Prevention Methods Taken for Isabel
- Delivery of Quality Litigation Services
- What Matters Most
- Federal Tax Law Update
- The FISH Philosophy
- Myers Briggs Type Indicator
- The 7 Habits of Highly Effective People
- Diversity in the Workplace
- What Does Your Audit Committee Really Want to Hear
- Strategic, Risk, & Audit Quality Issues
- Communicating for Success
- Generations In Our Workplace
- ACFE – Fraud Examiners Conference
- FLSA Exemption Regulations
- Whose Financial Plan Is It Really
- KPMG Government Accounting Overview & Update
- NALGA Conference
- Effective Supervisory Training

<u>Professional Organizations</u>

For the last five 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. We have also served as coordinators of the Certified Internal Auditor examination for the local chapter of the Institute of Internal Auditors. Finally, we have recently been named to the Advocacy Committee of the National Association of Local Government Auditors.

D. SUMMARY

PROJECTS IN PROGRESS

Citywide Contracting Process

The Citywide Contracting Process audit was finalized in September 2004. It covers various aspects of City contracting from both a Purchasing and a user department perspective. The report contains four recommendations.

Public Works

The Public Works audit was finalized in September 2004. It covers Public Works operations including Stormwater Management, Jordan Bridge, and Chesapeake Expressway, as well as, General Fund administrative and operational functions. The report contains 17 recommendations.

Clerk of the Courts

The Clerk of the Court audit was finalized in September 2004. It covers the Clerk's operations as well as the transfer of payroll processing for the Clerk's operation to the City and the reduction of the deed recordation backlog. The report contains two recommendations.

Year End Work

At year end, Audit Services was completing audit work on cash counts, inventories, and internal control testing associated with the City's annual financial audit.

Follow-up Review – FY 2003

At year-end, Audit Services had begun conducting follow-up reviews of audits completed in FY 2003 and prior years. The audits included Citywide Payroll Transactions, Central Fleet Management, Contracted Services Hazardous Waste Removal Contract, Service Practices of the Community Services Board, Citywide Charitable Solicitations, and City Practices for Software Licensing and Management. The follow-up review will be completed in October 2004.

E. SUMMARY

TIME (HOURS) EXPENDED DURING YEAR

A. COMPLETED PROJECTS - AUDITS & ANALYTICAL REVIEWS

Cellular Telephone Service - Administrative	84.25
Cellular Telephone Service - Testwork	26.00
Cellular Telephone Service - Reporting	72.75
Chesapeake Museum - Administrative	92.00
Chesapeake Museum - Planning	126.75
Chesapeake Museum - Testwork	186.00
Chesapeake Museum - Reporting	8.25
Follow up Review (FY02) - Planning	51.75
Follow up Review (FY02) - Testwork	46.50
Follow up Review (FY02) - Reporting	33.75
Year End - Cash Counts	35.75
Year End - Internal Controls	485.50
Year End - Inventories	1.75
Year End - Payroll Testwork	112.00
Year End - PPTRA	81.75

B. COMPLETED PROJECTS - TECHNICAL ASSISTANCE

Auction Surplus	0.75
Audit RFP	70.50
Cellular Telephone Overpayment Schedules	14.50
Chesapeake Museum	40.00
COPS Audit	16.50
FAS 144 Question	4.50
FLSA Issues	2.00
Interview Panel - Finance Department	10.75
Payroll Manual Review	15.00
Purchasing - Cellular Telephones	48.50
Total Hours - Completed Projects	1,667.75

C. PROJECTS IN PROGRESS - AUDITS & ANALYTICAL REVIEWS

Chesapeake Expressway	31.50
Citywide Contracting Process - Administration	85.25
Citywide Contracting Process - Planning	264.00
Citywide Contracting Process - Testwork	167.50
Citywide Contracting Process - Reporting	150.25
Clerk of the Courts - Administrative	116.50
Clerk of the Courts - Planning	31.75
Clerk of the Courts - Testwork	71.00

Jordan Bridge	17.25
Project LINK RFP	13.00
Public Works - Administrative	192.75
Public Works - Planning	1,249.25
Public Works - Testwork	1,595.00
Public Works - Reporting	200.00
Social Services LASER Report	7.75
Year End - Audit Planning	4.00
Year End - Cash Counts	21.75
Year End - Inventories	6.00

D. PROJECTS IN PROGRESS - TECHNICAL ASSISTANCE

CFM - Vehicle Accident Accountability	1.25
FEMA	90.00
Mowing Contract	5.00
Project Link	46.25
Self Insurance	15.50
Total Hours - Projects in Progress	4,382.50

E. OTHER

ACL	43.25
Administrative	2,749.50
Annual Report	14.50
Holiday	510.00
Leave - Administrative	89.50
Leave - Annual	663.00
Leave - Compensatory	210.00
Leave - Sick	383.50
Meetings	86.50
Miscellaneous	43.25
Miscellaneous - Hurricane Isabel	120.50
Professional Organizations	166.75
Semi-Annual Report	9.00
Training	578.00
Total Hours - Other	5,667.25
Total Hours	11,717.50