



AUDIT SERVICES DEPARTMENT

ANNUAL STATUS REPORT

JULY 1, 2004 THROUGH JUNE 30, 2005

DATE OF PREPARATION: SEPTEMBER 29, 2005

September 29, 2005

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, 2004 to June 30, 2005. 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 Citywide Contracting Process, Clerk of the Circuit Court, Public Works, and Mosquito Control, and follow-up reviews of fiscal year 2003 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 Public Works audit evaluated the effectiveness of certain operations within the Public Works department. The report contained 17 recommendations, and Public works concurred with all but one. One of the recommendations addressed correction of a billing methodology for Stormwater Management that was not in compliance with City Code and resulted in underbilling of certain Stormwater fees.
- The Clerk of the Circuit Court audit evaluated the effectiveness of certain operations as it transitioned to the City's payroll process. The report contained two recommendations, both of which the Clerk agreed to implement. We noted that the Clerk was able to reduce the backlog of unrecorded from four months to one month within a five month period.

- The Citywide Contracting Process audit evaluated the overall effectiveness of the City's contracting methodologies. The report contained four recommendations, all of which the department agreed to implement. One of the recommendations requested that the City consider raising purchase order limits to improve the efficiency of the City's procurement process. This change was approved by the City Council in June.
- The Mosquito Control Commission audit evaluated Mosquito Control's compliance with a reorganization plan developed in 2002. The report contained eight recommendations, all of which the department agreed to implement. One of the recommendations discussed transfer of funds not needed for mosquito control purposes to the City for its own use.

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 continuing to assist 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 performance audits of Human Services and the Community Services Board, as well as Year End work associated with the City's FY 2005 financial audit. The Project LINK and Asset Management technical assistance projects are likely to continue for some time.

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, 2004 TO JUNE 30, 2005

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A. SUMMARY

AUDITS & ANALYTICAL REVIEWS

Managerial Summary

A. Introduction, Background, and Scope

We have completed our review of the City of Chesapeake's (City) Public Works Department (Public Works) for the period July 1, 2002 to June 30, 2004. Our review was conducted for the purpose of determining whether Public Works 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 procedures in its handling of cash, revenues, payrolls, expenditures, fixed assets, safety, staffing, and other areas. All divisions of Public Works were subject to evaluation. We specifically addressed financial issues related to Fiscal Year (FY) 2002-2003 and operational concerns for FY 2002, FY 2003 and FY 2004. 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.

Public Works employed a work force of approximately 495 employees. Its operational responsibilities included Administration, Engineering, Resource Management, Operations Division, Solid Waste Collection, Bridges Division, Chesapeake Expressway, and the Stormwater Management Division. Its major operational activities included:

- Maintenance of 90 bridges and overpasses, and four movable span (draw) bridges.
- Maintenance of over 2,500 miles of open ditch, nearly 1,000 miles of underground pipe and 36,936 drainage structures.
- Maintenance of almost 2,100 lane miles of streets and highways.
- Weekly refuse collection for over 60,000 residences.
- Professional engineering design, surveying, construction management and inspection services.

Major Observations and Conclusions

Based on our review, we noted that Public Works had sound practices and procedures which complimented the City's overall mission. It also came to our attention that management had instituted additional controls to enhance its operations and special attention had been placed on workplace safety, employee morale, and the monitoring of activities to assist management in coaching its employees. We found the department generally in compliance with City policies, procedures, and guidelines. However, we did identify concerns related to equipment replacement, stormwater compliance and billing, and Jordan Bridge Operations.

This report is divided into two sections. Section I provides a general overview of departmental practices and procedures and discusses a department-wide concern. Section II highlights four areas in Public Works for which we issued segment reports.

These included Stormwater Management Operations, Traffic Operations Inventory, Jordan Bridge Initiatives and Improvements, and Chesapeake Expressway - Cash and Toll Collections

SECTION I – DEPARTMENTAL OVERVIEW

While we were not able to analyze all Public Works operations and practices in detail, we noted that the Public Works generally had sound practices and procedures which complimented the City's overall mission. We also noted that the department had developed and instituted a number of department-wide practices to enhance its operations and provide decision making information. Special focus and attention had been given to enhancing workplace safety, improving employee morale, and monitoring of activities to assist management in coaching its employees. We did identify a department-wide concern related to equipment renewal and replacement,

1. Equipment Renewal & Replacement

Finding - The estimated service life for some on-hand equipment items had been surpassed and funding was not sufficient for renewal and replacement of those items.

Recommendation - The City should consider increasing its funding pool to meet its future renewal and replacement needs. Such action would allow the equipment to more readily provide adequate and timely delivery of services.

Response - There has been some improvement in this area since the City's plan does include 6 new garbage trucks per year and other vehicles and equipment have been included in the annual purchase. The city has developed and presented an equipment replacement plan to the city council at a work session. Additionally, Public Works has made it a practice to use a portion of the August increase in State maintenance funds to purchase needed qualified equipment. A copy of the approved list for this year and the past two years is attached for reference.

SECTION II – SEGMENT REPORTS

STORMWATER MANAGEMENT OPERATIONS

A. Introduction, Scope, and Background

The review of Stormwater Management operations was conducted to determine whether policies, procedures, and practices were sufficient to provide for effective and efficient use of personnel and funds. Also, we reviewed Stormwater Management, and to a lesser extent, Engineering operations to determine whether policies, procedures and practices were sufficient to provide for effective and efficient inspections of erosion and sediment control measures and facilities. Finally, we reviewed the Neighborhood Services' Inspection operations as they related to the inspection of erosion and sediment control measures.

A significant part of Stormwater Management's responsibility included the inspection and enforcement of erosion and sediment control measures for land disturbing activities. To assure itself that developers comply with State and City land disturbing control requirements, the City should maintain an adequate inspection and enforcement presence and should use certified inspectors when inspecting the construction and maintenance of erosion and sediment control measures. In addition, for more efficient operations the City must maintain proper recordation of inspection results and coordination of the inspection process between divisions and departments.

In order to maximize stormwater operations and meet requirements of City Code, Stormwater Management should dedicate stormwater fees exclusively to stormwater activities. Also, Stormwater Management should comply with City Code requirements that exempted some property owners from stormwater fees and that required new properties brought into the stormwater fee system to be charged a fee at the time a building permits was issued. Non-compliance with the latter City Code requirement resulted in approximately \$542,000 in unbilled stormwater fees since the program's inception. Finally, because some City departments have not maintained accurate data including the tax map number for properties requiring City services, the City may not be charging and collecting all of the revenues due it including stormwater fees. Thus, assigning a tax map number earlier in a property's development process would improve the tracking of City services.

B. Erosion and Sediment Control - Inspection, Data, and Guideline Issues

Stormwater Management has significant responsibility for the City's inspection and enforcement of erosion and sediment control measures for land disturbing activities. During our review we found that Stormwater Management inspectors had not been able to conduct the required number of inspections of individual building lots for potential erosion and sediment control violations and that the Engineering Division inspectors, who were not certified to inspect erosion and sediment control measures, continued to do these inspections for the City. Also, Neighborhood Services' Building Inspection inspectors had been asked to inspect erosion and sediment control measures although they were not certified. Also, we found that inspection data was not readily available to satisfy the Virginia Pollutant Discharge Elimination System (VDPES) reporting requirements for land disturbing erosion and sediment control activities.

In addition, we found that written policies and procedures did not address the need for coordination of the inspection process for erosion and sediment control measures, the release of various construction bonds, and the transfer of maintenance of stormwater and drainage facilities between Engineering and Stormwater Management Divisions. The inspections effort of Stormwater and Neighborhood Services also needed to be coordinated. Finally, we found that the Stormwater enterprise funds that should be dedicated to stormwater activities were used to pay selected staff's salaries for time that was not spent on these activities.

1. Need for Inspectors

Finding – Stormwater Management inspectors have not been able to conduct the required number of inspections of individual building lots for potential erosion and sediment control violations.

Recommendation – The City should upgrade the inspector position to full time and hire a full-time Construction Inspector II to fulfill the Stormwater Management's Technical Services erosion and sediment control inspection requirements as expeditiously as possible.

Response - The current permit requires inspections of active building sites once every two weeks and 48 hours following runoff producing storm events. The vacant Stormwater Construction Inspector I position was filled on July 19, 2004, and it has been reclassified to a full time position. Routine inspections will resume by September 1, 2004, once he has completed his training and received provisional E&SC Inspector Certification from the Virginia Department of Conservation & Recreation (DCR). Currently, funding is not adequate to hire a full-time Construction Inspector II.

2. Certificate of Erosion and Sediment Control Required by Inspectors

Finding - Seven Public Work's Engineering Division Inspectors who were not certified to inspect erosion and sediment control measures, performed these inspections for the City. In addition, five Neighborhood Services' Building Inspection inspectors have been asked to inspect erosion and sediment control measures although they were not certified.

Recommendation - The City should continue to (1) stress the importance of certification and (2) provide training while those Engineering inspectors that had not yet passed the examination should continue to inspect those erosion and sediment control measures.

Response - The City currently has 31 E&SC inspectors. Of these, 25 are now certified. (Two Engineering inspectors who were not certified at the time of the audit have received their certification). Stormwater hired a Construction Inspector I to conduct E&SC inspections on July 19th. The Stormwater E&SC Inspector received inspector training on August 4th. He is considered provisionally certified for a year until he passes the certification exam.

Additional training and disciplinary action are being used to encourage the remaining five uncertified inspectors from Engineering to become certified. Until they are certified, all E&SC enforcement actions must be coordinated with a certified Engineering staff member.

3. Inspection Data for VDPEs Annual Report

Finding - Inspections data was not readily available to satisfy the Virginia Pollutant Discharge Elimination System (VDPEs) reporting requirements for land disturbing erosion and sediment control activities.

Recommendation - Public Works should require that each inspector that inspects erosion and sediment control maintain a current accounting of the number of (1) site inspections completed, (2) notices of non-compliance, and (3) stop work orders pertaining to erosion and sediment control. The statistics should be maintained in a Department-wide database by the Stormwater Management Division.

Response - A new multi-part form has been developed and printed for use by all inspectors, both in Public Works and in Neighborhood Services. Inspectors have been trained on basic erosion and sediment control by DCR, the regulatory agency, and in the standard procedure established for enforcement. This documentation should allow accurate reporting of inspections.

4. Written Policies and Procedures on Coordination

Finding - Written policies and procedures did not address the need for coordination of the inspection process for erosion and sediment control measures, the release of various construction bonds, and the transfer of maintenance of stormwater and drainage facilities between Engineering and Stormwater Management Divisions. The inspections effort of Stormwater Management and Neighborhood Services also need to be coordinated.

Recommendation - The Stormwater Management and Engineering Divisions should establish comprehensive written policies and procedures to better coordinate the inspection process.

Response - A written SOP has been developed to address the coordination between the groups involved in the E&SC process. This SOP was distributed in June 2004.

5. Use of Stormwater Enterprise Fund

Finding - The Stormwater Enterprise Fund was used to pay selected staff's salaries for time that was not spent on stormwater activities.

Recommendation - To comply with Section 26-372 of the Chesapeake City Code, Public Works should apportion the use of the Stormwater Enterprise Fund to pay staff members' salaries depending on the percentage of work actually done on stormwater activities.

Response – The recommendation to apportion the use of the Stormwater Enterprise Fund to pay staff salaries in relation to the percentage of time they spend working on stormwater activities will be implemented as soon as the necessary accounting and payroll changes can be made. Note that Public Works disagrees with the finding that the Drainage Engineer I spends 0% of his time on Stormwater issues. We believe that he actually spends 100% of his time working on Stormwater issues, as stormwater and drainage are essentially the same.

C. Stormwater Fees - Exempted Properties, Compliance, and Tracking Issues

The City collected stormwater fees from residents to support the state and federally mandated stormwater management program. Most of the developed residential and non-residential properties in the City were charged a fee. During our review we found that the Stormwater Management Division was charging stormwater fees to some property owners that were exempt from the fees. Also, Stormwater had not complied with the City ordinance that required new properties brought into the stormwater management fee system to be charged a fee at the time a valid building permit was issued. This situation has resulted in approximately \$542,000 in unbilled stormwater fees since the inception of the program. In addition, because some City departments have not maintained accurate data including the tax map number for properties requiring City services, the City had not been charging and collecting all of the revenues due it including stormwater fees. Assigning a tax map number earlier in a property's development process would improve the tracking of City services.

1. Billing of Exempted Properties

Finding – We found that exempted properties were erroneously billed a stormwater fee.

Recommendation – Stormwater management should comply with Section 26-432 of the City Code that exempts a property owner with a private drainage and stormwater system and a permit from the State's DEQ from being charged a stormwater fee.

Response - In reference to the billing of exempt parcels, Stormwater has reviewed all of the exempt/permitted parcels, and corrected those being billed 1 ERU. In compliance with the audit report and City Code, Chapter 26, Section 26-432, they no longer pay Stormwater fees as long as they have a valid Virginia Pollutant Discharge Elimination System (VPDES) permit. We will continue to comply with Audit Services' recommendation and City Code in the future concerning this issue. City staff (i.e., Casey Magruder) provides written notice to owners of permitted properties when their permit is about to expire. This offers them the opportunity to provide us with a copy of their current permit in order to continue to receive an exemption. This process will also continue in the future.

2. Compliance with City Code Requirements

Finding - Stormwater Management was not charging stormwater fees to owners of developed residential and non-residential properties in accordance with City Code.

Recommendation – Stormwater Management should comply with Chapter 26, Section 402(e) of the Chesapeake City Code that required new residential and non-residential properties brought into the stormwater management fee system to begin to charge a fee at the time a valid building permit was issued. In addition, Stormwater should meet Section 402(e) requirement that a bill be issued in the next billing cycle and will be prorated for the number of full months in which service was provided.

Response - Stormwater Management will start billing based on the date of a valid building permit being issued as currently noted in the City Code. This will require that a Stormwater representative have access to the Bureau of Inspections/Neighborhood Services mainframe database (cbbid) in order to obtain a weekly list/report of building permits issued. Joyce Compton, of Neighborhood Services, stated she didn't have a problem with us accessing the database. Stormwater Management will set up an account would have to be set up by IT at our request.

3. Need to Track City's Administrative Services for Properties

Finding – Stormwater Management was not charging stormwater fees to some eligible developed residential and non-residential properties.

Recommendation – Each property should have a tax map number assigned to it that would be used by City departments to track the administrative services provided to the property including assessments, charges for fees, and other revenues.

Response - Stormwater Management will seek information from Mr. Vic Hofer in the Department of Utilities (DPU) on how DPU utilizes the building permit process to capture new accounts.

TRAFFIC OPERATIONS INVENTORY

A. Introduction, Background, and Scope

The review of Traffic Operations inventories was conducted to determine whether policies, procedures, and practices provided adequate safeguards against losses of City property and resulted in reasonably accurate valuations of on-hand inventories. We reviewed the results of the semi-annual physical inventory count process which began December 15, 2003 and ended December 19, 2003, attended storeroom locations, observed the sign fabrication inventory taking process, inquired regarding practices associated with inventory maintenance and toured the yard storage location.

Storeroom management had written policies and procedures to facilitate inventory maintenance; however, the standards established were not always followed. Our review of storeroom operations revealed concerns which we believe need to be addressed to improve overall inventory maintenance. Those concerns specifically relate to inventory reporting and accountability, physical inventory count performance, obsolete inventory, inventory system capability, storeroom accessibility, and work order tracking.

B. Traffic Operations Inventory

Our review of storeroom operations revealed other concerns which we believe need to be addressed to improve overall inventory maintenance. We specifically noted the following:

- Inventory reports considered critical in determining inventory maintenance accountability and count accuracy were not requested.
- Physical inventory counts had not been performed as directed.
- Obsolete inventory items had not been purged from the inventory system.
- Inventory system capability often led to inventory count inaccuracies.
- The storeroom was not always manned and the area was left unsecured at times. Employees had open access to the area and items could be removed without the Storekeeper's knowledge.
- Issued work orders were not formally tracked. The work orders were prenumbered but there was no awareness that all issued work orders had been properly accounted for.

1. Inventory Reporting and Accountability

Finding – Reports were not obtained to adequately analyze, measure, and critique the discrepancies noted during the physical inventory count process.

Recommendation – The storekeeper should ensure that critical inventory reports be requested for review and analysis.

Response – The Physical Stock Inventory Procedures will be revised to assign the Operation's Administrative Assistant the responsibility for insuring that reports are requested, analyzed, and reviewed with the Operations Manager and other appropriate personnel.

2. Physical Inventory Count Performance

Finding – Physical inventory counts had not been performed as required.

Recommendation – Management should reinforce its policy and procedure to conduct inventory counts twice a year

Response- The Operation’s Administrative Assistant will be responsible for insuring that physical inventory counts are performed as required and major discrepancies are investigated and brought to the attention of the Operations Manager and other appropriate personnel. In addition, random spot checks will be conducted between full physical inventory counts.

3. Obsolete Inventory

Finding – The computerized inventory system had not been purges of obsolete inventory items.

Recommendation – Storeroom management should identify items no longer used and request a system purge to remove those items from the inventory listing.

Response - Steps have been taken over the last 3 months to identify items no longer used and to request a system purge to remove those items from the inventory listing.

4. Inventory System Capability

Finding – The data field section for the dollar value associated with an inventory purchase was not adequately sized.

Recommendation – The Information Technology Department should be contacted to determine the cost/benefit of expanding the data field in the current inventory system.

Response – Our goal is to replace this mainframe application temporarily with Microsoft Access by July 1, 2004. Steps will be taken to ensure that the data field is expanded in the new application.

5. Storeroom Accessibility

Finding – The storeroom was not always manned and the area was left unsecured at times. This situation made it difficult to ensure that all inventory was properly controlled.

Recommendation – Inventory usage should be properly controlled. A storeroom clerk should be stationed to facilitate inventory issuances needed for work performance efforts.

Response – Steps will be taken immediately to resolve this issue. The locks will be changed since “everyone has a key”. Keys will be issued only to staff approved by the Operations Manager. Signage will be placed on the door that the door is to remain

locked at all times and only authorized persons are allowed entry. Spot checks by Traffic engineering management will be made to ensure compliance. Changes to the stock room layout are currently under consideration. The proposed changes will address the need for after hours access to stock and will strengthen over all security. Security issues will be addressed in the revised Physical Stock Inventory Procedures.

6. Work Order tracking

Finding - A procedure had not been developed to formally track work orders issued for work assignments.

Recommendation – Management should establish a formal worksheet to highlight the issuance of work orders and track work assignment performance.

Response - As a temporary solution until another application can be adopted, the work orders will be pre-numbered by the Account Technician and assigned as warranted. The Account Technician will be responsible fore tracking and logging the work orders. The Account Technician will advise the supervisor of missing work orders. This tracking system will be addressed in the revised Physical Stock Inventory Procedures.

JORDAN BRIDGE INITIATIVES AND IMPROVEMENTS

A. Introduction, Background, and Scope

We reviewed Fiscal Year 2004 Initiatives and Improvements at the Jordan Bridge as part of our performance audit of Public Works. The review was conducted with a number of objectives including (1) review of controls over toll collections; (2) evaluate the status of funding for maintenance of the Jordan Bridge and other movable bridges; and (3) determine the fiscal effect of the damage to the Jordan Bridge caused by a barge collision of January 3, 2004.

To conduct our review, we examined plans for the replacement of the existing toll registers, which were more than 40 years old. We made inquiries about efforts to increase funding for bridge repairs in the Virginia General Assembly. We also reviewed downtime, the cost of repairs, insurance coverage, legal action taken, and the amount of lost toll revenue related to the collision.

The Jordan Bridge has taken a number of steps to improve both its infrastructure and its toll accountability, including resurfacing the bridge and purchasing a new toll booth. It is attempting to acquire new toll registers and security equipment for the bridge, and we believe this acquisition should be completed as quickly as feasibly possible. In addition, although efforts to obtain bridge maintenance funding in the 2004 General Assembly were not successful, we would recommend that the City continue to pursue such efforts. Finally the City is going forward with efforts to recover damages from the barge collision accident.

B. Jordan Bridge Initiatives and Improvements

We asked management at the Jordan Bridge to prepare a summary of what they viewed as their most significant accomplishments during the past year. Their summary included initiatives to improve infrastructure assets and facilities, introducing and implementing different technologies to improve productivity, communication, and bring about efficiency, and administrative changes.

C. Operational Issues

The Jordan Bridge has taken a number of steps to improve both its infrastructure and its toll accountability, including resurfacing the bridge and purchasing a new toll booth. It is attempting to acquire new toll registers and security equipment for the bridge, and we believe this acquisition should be completed as quickly as feasibly possible. In addition, although efforts to obtain bridge maintenance funding in the 2004 General Assembly were not successful, we would recommend that the City continue to pursue such efforts.

1. New Toll Registers and Security Systems

Finding – The new toll registers and the new equipment and software for the security systems had not yet been installed.

Recommendation - The Jordan Bridge should ensure that the new toll registers and security systems are installed by the targeted date.

Response - A contract for the new toll equipment was awarded in July 2004, and the equipment and related systems should be installed by October 20, 2004, as required by the contract.

2. Funding for Bridge Maintenance

Finding - City bridges did not receive highway maintenance payments sufficient to cover their actual maintenance costs, and the Jordan Bridge received no highway maintenance payments at all.

Recommendation - The City should continue to request funding for bridge maintenance as part of its legislative package. The City should also request that VDOT include the Jordan Bridge as an entity eligible for maintenance payments.

Response – In August 2004, Public Works received \$1.0 million for maintenance of bridges; however, this does not include the Jordan Bridge. A request will be sent to VDOT to request that the Jordan Bridge be included in their inventory.

CHESAPEAKE EXPRESSWAY CASH & ELECTRONIC TOLL COLLECTIONS

A. Introduction, Background and Scope

We performed an on-site review of the Chesapeake Expressway toll revenue process. We began with the toll booth collection transactions at the toll lane and proceeded to the collection process in the control room. We also reviewed the cash counting in the audit room, reviewed the daily deposit and end of month reconciliations, including toll violations and toll discount programs. We reviewed the audit process that had been conducted internally by the Chesapeake Expressway staff and concluded with the verification of reconciliations/reports from Chesapeake Expressway by Public Works' Accounting in City Hall.

We were not able to examine all areas of operations at the Chesapeake Expressway due to Audit Services' operating constraints. However, based upon our review, the Chesapeake Expressway appeared to 1) have effectively functioning revenue controls 2) properly receive and record revenues, 3) meet bond indenture requirements and 4) deposit amounts required by bond indentures in a timely manner. Consequently, we had no formal findings or recommendations.

Managerial Summary

A. Introduction, Background, and Scope

We have reviewed the Clerk of the Circuit Court's (Clerk's) operations and practices for Fiscal Years (FY) 2003 and 2004. The purpose of this audit was to evaluate whether the Clerk's Office 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 State procedures in its handling of cash, revenues, and payrolls. All divisions of the Clerk's Office related to the audit scope were subject to evaluation. The audit included review and evaluation of procedures, practices, and controls in the various divisions of the Clerk's Office on a selective basis. Samples were taken as appropriate and discussions were held with judicial auditors of the Auditor of Public Accounts (APA) to assist with our evaluation.

In addition to conducting our normal performance audit process, we reviewed the Clerk's previous payroll process to ensure compliance with applicable payroll requirements prior to the City's assumption of the process. We also reviewed the Clerk's deed recordation process to evaluate their progress in reducing the backlog of unrecorded deeds. 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, and sufficient competent evidential matter was gathered, both manually and through the use of an audit software package.

The Clerk's Office employed a work force of approximately 27 employees. Their FY 2004 budget exceeded \$656,000, and accounted for .10% of the City's total operating budget. The Clerk's Office maintained all permanent records of the Court; filed and maintained Circuit Court papers in criminal, civil law, and chancery cases; recorded and maintained deeds, certificates of satisfaction, wills, all other permanent records of the court; and maintained custody of marriage licenses, trade names, financing statements, judgments, and notary appointments. In FY 2005, funding was provided for the continuation of services, and payroll related resources and expenditures were added to the Clerk's City budget amount. As a result, the FY 2005 budget was projected to increase to \$1,565,000.

Major Observations and Conclusions

While we were not able to review all areas of the Clerk's operations in detail due to time constraints, it appeared that the Clerk's policies, procedures, and practices were functioning with a high degree of effectiveness in the areas we did review. The cash, revenue and payroll controls generally appeared to be adequate, and the Clerk appeared to have well-functioning operational practices within the divisions as well. As a result, we had no significant concerns related to the City's assumption of the Clerk's payroll process, although we did make recommendations related to timesheets and benefits. In addition, the Clerk was able to reduce the backlog of unrecorded deeds from over four months in December 2003 to just over four weeks by June 2004.

The Clerk's Office was provided a copy of the report in draft, and their comments have been included in the preparation of this report. We appreciate their courtesy and cooperation on this assignment.

B. Reduction of Deed Recordation Backlog

To help reduce the backlog, the previous Clerk requested and received a special appropriation of \$31,334 in September 2003 and used this special appropriation to train and hire temporary workers. When the new Clerk took office in January 2004, she brought in a consultant to provide additional training and also reorganized the office. Finally, in May 2004 she requested and received a second special appropriation of \$20,000 to extend the employment of the temporary workers.

As a result of the Clerk's efforts, as of June 18, 2004 the deed department was only five weeks behind in processing. The effects were reflected in the increased local revenues processed by the Clerk's office. The increase in local revenues was directly related to the increase in City grantee tax and grantor tax related to deed recordation. We also noted that, from February through May 2004, the Clerk's Office processed 23,237 deeds to help reduce the backlog. This pace represented an annualized rate of almost 70,000 deed transactions.

C. Overview of Other Operational Processes

While we were not able to review all areas of the Clerk's operations in detail due to time constraints, it appeared that the Clerk's policies, procedures, and practices were functioning with a high degree of effectiveness in the areas we did review. This conclusion was based upon our review of revenue and cash handling, local commission, expenditures, payroll, and fixed asset processes.

D. Operational Findings

As we noted, it appeared that the Clerk's policies, procedures, and practices were functioning with a high degree of effectiveness in the areas we did review. We did identify two concerns. One was related to the use of timesheets while the other was related to employee benefits. These concerns are discussed in detail below.

1. Timesheets

Finding – The Clerk’s Office was not maintaining timesheets for some of its employees as required.

Recommendation - Timesheets should be maintained for non-exempt regular employees.

Response - The Clerk’s Office has established a policy of maintaining timesheets for all non-exempt full-time, part-time and temporary employees. Adherence to these procedures brings the office in full compliance with the Fair Labor Standards Act.

2. Payroll Benefits

Finding – Employees of the Clerk’s Office did not receive certain payroll benefits that were enjoyed by employees of other local Clerk’s and Constitutional Offices.

Recommendation – The City and the Clerk’s Office should explore alternatives that would allow the Clerk’s employees to be compensated for accumulated leave balances similarly to other Clerk and Constitutional Offices.

Response - A review of the level of payroll benefits received by the staff of the Clerk’s Office clearly shows a disparity in services when compared to the City’s other constitutional offices. The impact to the employees has been manifested in the areas of:

- Inclusion in the pay performance plan;
- Accumulated vacation leave pay upon retiring or resigning;
- Accumulated sick leave pay (up to \$7,000) upon retirement;
- Maintenance and reporting of individual leave records;
- Securing of new City funded positions to support an increased workload.

Managerial Summary

A. Introduction, Background, and Scope

We have reviewed the City of Chesapeake's (City) City-wide Contracting Process for the period July 1, 2002 to March 15, 2004. Our review was conducted for the purpose of determining (1) whether contract processes were conducted in an economical, efficient, and effective manner, (2) whether contract processes maximized the City's resources to ensure purchased materials and contracted services are received at reasonable costs, and (3) whether the City's contracting processes complied with applicable City policies, procedures, and guidelines. The review was conducted in accordance with Government Auditing Standards and included such tests of records and other procedures as we deemed necessary in the circumstances.

Purchasing employed a work force of approximately 11 employees. Their budget for FY 2004 exceeded \$724,000, and accounts for 0.12% of the City's 2004 budget. Purchasing, in coordination with other user departments, is responsible for the purchase or contract for all supplies and services needed by a division or department of the City.

Since 2000, Purchasing has recognized the need for change in the administrative process. Their focus has been to lead the City's purchasing function to a higher level of performance with the objective of consolidating city-wide purchases to reduce prices while increasing the vendor service levels to the City. In order for this change to occur, they recognized the need to first analyze historical purchasing trends, while slowly introducing process changes in light of the issues experienced with the City's purchasing processes today.

Meanwhile, in the fall of 2002, a Purchasing Progress Committee (Committee) was formed within the City to make recommendations to enhance the City's purchasing system. According to a January 22, 2004 memorandum from the Director of Public Works (who chaired the Committee), its goals were to:

- Survey the customer base and staff through questionnaires and personal interviews to identify major concerns and issues, and
- Establish sub-committees to interview staff members both within and outside Purchasing and describe the existing process as a basis to establish interim procedures. They would then follow with recommendations to the Committee for changes in those interim procedures to make them more efficient, effective, and customer friendly. Following committee review, finalized proposals would be forwarded to the City Manager for consideration.

As part of Audit Services' FY2004 audit plan, the City Manager requested that we perform an audit of the city-wide contracting process. To conduct this audit, we reviewed the Committee's survey results, interviewed a sample of user departments about city-wide contracting processes, summarized the common issues, and made general recommendations to enhance that process.

The responsible official during our review was Victor Westbrook, the Purchasing and Contracts Manager.

A draft copy of this report was provided to Purchasing and their comments have been considered in the preparation of the final report. We also solicited feedback from our sampled user departments. Purchasing concurred with most of the report's recommendations and has already begun implementing some of them. Their comments have been included in Appendix A.

Major Observations and Conclusions

We were not able to examine all aspects due to Audit Services' operating constraints. However, based upon our review, it appeared that while Purchasing was making good faith efforts to address contracting issues, there were a number of areas where the contracting process could be enhanced. These areas included developing an operating manual, reducing the volume of small transactions, improving information sharing, and improving inter-departmental coordination. We also identified contracting issues related to processing delays, information sharing, coordination between departments, and special departmental accommodations. Our recommendations are being presented primarily for the purpose of enhancing the city-wide contract processes.

We would like to extend our appreciation to the City's staff from the following departments for their valuable insight into the city-wide contracting process: Purchasing, City Attorney, Public Works, Facilities Management, Public Utilities, Parks and Recreation, Community Services Board, and the Fire Department.

B. Overview of Contracting Processes

The following is an outline of the Request for Proposal (RFP) as described in Administrative Regulation 10.2, dated November 10, 1999. According to this administrative regulation, projects are divided into two categories known as major and minor. Major projects will be those for which estimated professional service costs will be more than \$30,000 in the aggregate or for the sum of all phases of a contract or project. Minor projects are those for which the estimated professional service costs will be less than \$30,000. (Projects with fees less than \$5,000 may be handled through direct negotiation.)

C. Purchasing Progress Committee Survey Results

The Purchasing Progress Committee solicited responses from user departments about the city-wide purchasing processes through a survey, which included a series of open-ended questions. Type of information requested included:

- Three major issues departments had with the purchasing system
- Items that were liked about the purchasing system
- Purchasing issues unique to the departments
- Purchasing issues common city-wide
- A specific occasion when there was a problem experienced with the procurement process
- A specific occasion when the procurement process was successful
- Three items (in priority order) that needed to be addressed in the Procurement Policy and Process
- Three recommendations on how to improve the working relationship of the department with Purchasing, Finance, and the City Manager's staff
- Types of procurement training that would be helpful for the departments
- The ultimate goal of the Purchasing Progress Committee (from the departments' perspective)
- The next steps of the Purchasing Progress Committee (again from the departments' perspective)

We were provided a copy of the Committee's compiled¹ survey responses provided by the various departments throughout the City. Our review of the survey responses indicated that, although the contract process was functional, it did not always appear to be operating across departmental lines in an economical, efficient, and effective manner.

D. Process Issues

We attempted to identify how City ordinances, administrative regulations, and a standard policy and procedures manual addressed aspects of city-wide contracting. However, because an operating manual did not exist, departments tended to develop their own processes resulting in (1) the inconsistent application of policies and regulations, and (2) delayed administrative processes involving contracts.

1. Policy and Procedures Manual

Finding - A written operating or policy and procedures manual did not comprehensively address the city-wide contracting processes.

Recommendation - The City should develop a contracting process policy and procedures manual as soon as feasibly possible.

¹ Survey responses were compiled in November 2002.

Response - The Purchasing administration recognized the need for such a manual as well as training². However, staffing resources and time have limited the Purchasing and Contract Manager's ability to develop such a manual.

The Purchasing Management realized in the absence of a manual the immediate need for a standard contract format. Purchasing is in the process of publishing a standard contract format on the City's intranet for all user departments to follow. In addition, Purchasing Management in cooperation with Finance and Budget are planning to publish a joint document of interim procedures to clarify processing instructions for user departments.

With the acquisition of the new PeopleSoft Financial Management System selected by the City's Enterprise Resource Planning (Project Link) Committee, the Purchasing administration has consciously chosen to wait to develop a manual until the City's new Financial Management Software is tested and fully implemented. Once the new system is in effect (a year from now) and is fully functional, the Purchasing and Contracts Manager plans to develop a manual and publish it on the City's intranet. Meanwhile, a customer service representative has been established within Purchasing to research and track the status of department inquiries.

2. Volume of Purchasing Transactions

Finding - The large volume of small purchase orders processed by Purchasing may have impacted its ability to focus on larger contracts.

Recommendation - The City should consider raising the threshold for small purchases to (1) streamline the purchasing process, and (2) allow Purchasing staff to focus on larger purchases and contracts.

Response - Purchasing plans to issue purchasing cards to user departments to reduce the level of current administrative processing time for all user departments. Purchasing will also continue to pursue higher thresholds of delegated purchasing authority provided user departments can justify the need and attend purchasing training. (e.g., CSB *purchases of service for a client*)

E. Information Sharing and Coordination

We surveyed user departments in an attempt to determine reasons for, and the effects of, the breakdown in information sharing related to the contracting process. We noted that when user departments and/or Purchasing did not share and process contract documents in a timely manner, the renewal of contracts was delayed, and another level of unnecessary administrative processing was created. In addition, when some departments did not have copies of contracts on file, it hindered their ability to monitor vendor contracts for compliance.

² Certain state agency transactions do not fall within the Virginia Public Procurement guidelines and should be addressed in training (e.g., transactions for Social Services and Community Services Board).

1. Information Sharing and Coordination

Finding - When user departments and/or Purchasing did not share and process RFP or IFB contract documents in a timely manner, the situation could result in delayed renewal of contracts and create unnecessary administrative processing for both the user department and Purchasing.

Recommendation - Purchasing and user departments should explore methods of improving the information sharing and coordination process.

Response - Purchasing has recognized the need to address department issues by establishing a customer service coordinator who can filter incoming calls, conduct in-house research, and follow-up with user departments on their inquiries. In addition, Purchasing has started a correspondence tracking system using an Access database. The tracking list is printed once a week and represents the status of incoming and outgoing correspondence.

2. Physical Access to Contracts

Finding - Some departments did not have copies of contracts on file for the purpose of monitoring vendor compliance.

Recommendation - Purchasing and user departments should work cooperatively to ensure that relevant contract documents are available to assist in the oversight and monitoring of projects until copies of contracts are made available on-line.

Response - To aid in the cooperative process, Purchasing has placed a list of the City's contracts on the intranet and will be working in coordination with Information Technology to hyperlink each contract listed to the full contract for all user departments to view. Purchasing has the imaging software to scan the documents and will begin the scanning process as time and resources permit.

November 2, 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:

We have completed the follow-up reviews of our Citywide Payroll Transactions, Central Fleet Management, Service Practices of the Community Services Board, Citywide Charitable Solicitations, Contracted Services Hazardous Waste Removal Contract, 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 September 2004. The status of 16 recommendations from these reports was as follows:

10 had been implemented
4 were in the process of being implemented
 was/were partially implemented
 were not agreed to & were not implemented
 will not be implemented
2 will be evaluated later

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
Anne F. Odell, Deputy City Manager
Amar Dwarkanath, Deputy City Manager

FOLLOW-UP REPORT

**CITYWIDE PAYROLL SYSTEM REPORT
SPECIAL AUDIT**

October 2004

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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 the Employee Master File have been corrected. Information Technology was responding to a request for an improved Position Control System of which one component of that request would include an on-line Personnel Action processing system. A preliminary document has been prepared that describes what was needed to implement an enhanced Position Control 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 was responding to a request for an improved Position Control System of which one component of that request would include an on-line Personnel Action processing system. A preliminary document has been prepared that describes what was needed to implement an enhanced Position Control 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.

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. However, due to a major operating system conversion, on-going system maintenance, and responding to routine requests for service, little progress has been made by Information Technology in the implementation of this recommendation during the fiscal year.

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 has been implemented. The City’s new Payroll Manual was completed and distributed to the departments on March 26, 2004. The manual was developed by the Departments of Finance, Human Resources, and Information Technology. The departmental payroll clerks received introductory training on the use of the manual during 2004. The City anticipates that the Payroll Manual will be included on the City net website in the near future.

FOLLOW-UP REPORT

**CENTRAL FLEET MANAGEMENT
SPECIAL AUDIT**

October 2004

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CENTRAL FLEET MANAGEMENT REPORT

E. Operational Policies and Procedures Issues

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 has been implemented. The City issued the City Vehicle Travel Log Policy, Administrative Regulation Number 33.2.1, that became effective on December 1, 2003. The policy requires all employees of the City and constitutional offices to adhere to uniform procedures when using City vehicles and recording travel information on a City travel log.

FOLLOW-UP REPORT

**CONTRACTED SERVICES
HARZARDOUS WASTE REMOVAL CONTRACT
SPECIAL AUDIT**

October 2004

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CONTRACTED SERVICES HAZARDOUS WASTE REMOVAL CONTRACT REPORT

1. Contract Arrangements

Finding – Contractual Arrangements were not always approved or updated as necessary. This led to confusion about applicable contract terms and may have resulted in lost savings to the City.

Recommendation - Future HWR contracts should be more closely scrutinized to ensure that they serve the City's best interests.

Response - We concur with the findings of the Auditor and are taking steps to avoid similar problems in future contracts. The City is currently soliciting proposals for a new contract that separates emergency from non-emergency hazardous waste removal. For emergency hazardous waste removal, the contractor will conduct immediate removal services based on the severity of the emergency at pre-negotiated contract prices.

Non-emergency waste remove will require the new contractor to provide a research report of the nature and extent of the proposed environmental waste removal. Upon review by the City, the contractor will furnish a formal quote for each job to include all costs associated with the unique job. The contractor will be required to provide a methodology for the job, and will not be permitted to charge costs above that negotiated.

Finally, the contract will provide that only the Purchasing and Contracts Manager is authorized to modify the contract, whether the job is short or long-term. In addition, an annual cost review will be conducted by the Fire Department of the jobs performed to avoid escalating costs and misunderstandings.

Status - This recommendation has been implemented. To correct deficiencies discussed in our 2003 audit report, the Purchasing and Contracts Manager has strengthened the requirements in the City's new contract for emergency and non-emergency waste removal services. Specifically, provisions have been included in the contract to provide for separate pricing for emergency and non-emergency hazardous waste removal; to allow for the purchasing and contracts manager to modify the contract to change its terms, conditions, or prices; and to annually review the contract by the Fire Department and Purchasing to detect cost escalation, or resolve contractual misunderstandings should they occur.

With regards to the reported cost recovery on the previous hazardous waste removal contract, the City could not exercise recover because the contractor provided supporting documentation for its costs.

FOLLOW-UP REPORT

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

October 2004

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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 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 – Later in Fiscal Year 2005, Audit Services will commence a follow up audit on the Community Services Board's operating practices and its implementation of a corporate compliance program. As part of the audit we will determine the actions taken by the Board to implement this recommendation.

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 – Later in Fiscal Year 2005, Audit Services will commence a follow up audit on the Community Services Board's operating practices and its implementation of a corporate compliance program. As part of the audit we will determine the actions taken by the Board to implement this recommendation.

FOLLOW-UP REPORT

**CITYWIDE CHARITABLE SOLICITATIONS
SPECIAL AUDIT**

October 2004

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CITYWIDE CHARITABLE SOLICITATIONS REPORT

1. Maintenance of Official Records

Finding - We found that departments did not always maintain written records to summarize their charitable solicitation activities.

Recommendation - Departments should ensure that written records are maintained for all charitable solicitation activities.

Response – Department management generally concurred that records should be maintained for monetary transactions related to its charitable solicitation activities.

However, they generally considered it burdensome to record and account for the voluminous non-monetary gifts received and the donors associated with those gifts. In such instances, management preferred not to record these transactions.

Status – This recommendation has been implemented. The two departments that had not followed all of the practices and procedures described in Administration Regulation 18, have indicated that they have strengthen their controls to enhance the overall charitable solicitation activity accountability and have implemented the report's recommendations.

2. Record Retention Period

Finding – Records were not always maintained for the required 4-year period.

Recommendation – Departments should ensure that records are maintained for the required 4-year period.

Response – Department management generally agreed with this recommendation. Records will be maintained for the required 4-year period.

Status - This recommendation has been implemented. The two departments that had not followed all of the practices and procedures described in Administration Regulation 18, have indicated that they have strengthen their controls to enhance the overall charitable solicitation activity accountability and have implemented the report's recommendations.

3. Bank Account Establishment

Finding - Bank accounts were not always established in the City of Chesapeake's name and did not bear the City's federal identification number.

Recommendation - Departments should ensure that when separate bank accounts are opened, they are properly established in the name of the City of Chesapeake, and that the accounts bear the City's federal identification number.

Response – Department management stated that the identified activities will be closed out and that future charitable solicitation events will be accounted for within the City's mainframe system. This action will eliminate the need for the established separate bank account.

Status – This recommendation has been implemented. The two departments that had not followed all of the practices and procedures described in Administration Regulation 18, have indicated that they have strengthen their controls to enhance the overall charitable solicitation activity accountability and have implemented the report's recommendations.

4. Use of the Solicitation Request Form

Finding – Department Head authorization and approval for the conduct of charitable solicitation activity within its responsibility areas was not always noted on the Solicitation Request Form.

Recommendation - Departments should always use the Solicitation Request Form to indicate proper authorization and approval for ongoing charitable activities.

Response – Department managers concurred with this recommendation. The solicitation request form will be used to note the authorization and approval for department sponsored charitable solicitation activities.

Status – This recommendation has been implemented. The five departments that had not followed all of the practices and procedures described in Administration Regulation 18, have indicated that they have strengthen their controls to enhance the overall charitable solicitation activity accountability and have implemented the report's recommendations.

5. Reconciliation of Receipts and Disbursements

Finding - Monthly reconciliations of charitable solicitation activity receipts and disbursements had not always been performed.

Recommendation - Departments should enforce reconciliation of monthly receipt and disbursement transactions to ensure that all items have been properly included.

Response - Management concurred with this recommendation. Responsible individuals will be instructed regarding the reconciliation requirement for receipts and disbursements transactions against the official bank statements received.

Status - This recommendation has been implemented. The two departments that had not followed all of the practices and procedures described in Administration Regulation 18, have indicated that they have strengthen their controls to enhance the overall charitable solicitation activity accountability and have implemented the report's recommendations.

FOLLOW-UP REPORT

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

October 2004

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CITY PRACTICES FOR SOFTWARE LICENSING AND MANAGEMENT REPORT

1. Baseline Inventory

Finding - Information Technology had not completed the inventory for the laptops and spare computers used occasionally by the departments.

Recommendation – Information Technology should either complete the inventory of the laptops and spare computers used occasionally by the departments or remove these items from the City’s inventory.

Response – In the past, because of our distributed environment where every department purchased and kept track of their equipment, it has been a challenge to develop and maintain a current and accurate central inventory of desktop equipment. However, Microsoft’s request for a software license audit emphasized the need for a centralized and complete record of all PCs and software owned by the City. Therefore, this last summer/fall we conducted a “hands-on” inventory of all personal computers in use in City offices. Stored equipment and spare equipment was not included in this inventory, as our aim was to keep track of desktops that were in actual use. Laptops were not included in this inventory as most of these are used as secondary workstations - not primary desktops.

With the information gathered we created an automated database and provided each agency with a report of the equipment located in their offices. Departments have been given access to update their own inventory and they can print inventory reports as needed. Recognizing the importance of a complete inventory and following Audit’s recommendation, this summer we will conduct a “hands-on” inventory of laptop computers. In the future, departments will not have a need to keep spare PCs. As per our FY 03-04 work plan, we will keep enough spare PCs on hand to satisfy our customers’ needs when a break-down occurs.

Furthermore, in order to develop a more proactive and efficient strategy for the use of desktop equipment, Information Technology recently proposed and received approval for a PC Replacement plan that will centralize PC procurement/inventory thus ensuring lower prices, regular replacement of outdated technology and increased productivity in City offices.

Status – This recommendation has been implemented. In June of each year, Information Technology will perform a manual inventory of City computers and laptops and updates the information in the centralized inventory application. For example, in June 2004, Information Technology completed a manual inventory of City computers and laptops with the exception of the Police Department’s laptops in police cars and other Police laptops. The Police department has internal Information Technology staff that track their computers and laptops. However, since the Police computers are covered under the PC Replacement Plan, Information Technology listed Police computers in Information Technology’s centralized inventory. In order to improve efficiency and accuracy, this information was gathered using a barcode scanner. The manual inventory was required to update any changes to the inventory and provided a

baseline inventory in preparation for the yearly computer replacements covered by the PC Replacement Plan. The goal of Information Technology has been to purchase an automated inventory application for the City, however because of limited resources it has not done that yet.

Since the implementation of the PC Replacement Plan, spare computers have been removed from City departments with the exception of Police. Information Technology has nine spare computers that can be assigned to departments when needed.

2. Procurement Documentation

Finding – Some City departments had not found copies of procurement documentation required by Microsoft for some of the active computers' operating systems and software applications.

Recommendation - The departments should again attempt to locate the outstanding procurement documentation required for proof of purchase. However, for those active operating systems and/or software applications without supporting documentation, the City should remove the software products from the computers.

Response - Acknowledging that assembling the procurement documentation for existing software licenses is not completed, we plan to continue gathering procurement documentation required by software license manufacturers. Only a handful of departments have not completed this task. However, the PC Replacement Plan further described in our attachment, will ensure that old and outdated equipment is replaced and removed during this upcoming fiscal year (FY 03-04) – most of the missing procurement documentation is related to this old equipment. Future standard enterprise Microsoft, IBM and Novell purchases documentation will be kept by Information Technology. Information Technology will create a centralized repository/library of media to keep software keys and CDs.

Status – This recommendation has been implemented. The Department of Information Technology indicated that the PC Replacement Plan has removed any concern for missing Microsoft procurement documentation. Every computer purchased by the PC Replacement Plan comes with a new Microsoft Office and operating system license. All licenses are purchased by Information Technology in bulk and stored in Information Technology.

Licensing for other software applications and procurement information is managed by the individual departments. The department's point of contact updates the computer inventory with the software application along with the corresponding purchase information.

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 was is in process of being implemented. The Department of Information Technology has a draft PC Replacement Plan policy that included a section on maintaining and managing licenses for operating systems and software applications.

Managerial Summary

A. Objectives, Scope, and Methodology

We have completed our review of the Chesapeake Mosquito Control Commission (Mosquito Control) for the period July 1, 2003 to February 28, 2005. Our review was conducted for the purpose of determining whether Mosquito Control was providing services in an economical, efficient, and effective manner, whether its goals and objectives were being achieved, and whether it was complying with its policies and procedures in revenues, payrolls, expenditures, fixed assets, staffing, and other areas. We specifically addressed financial issues related to Fiscal Year (FY) 2005 and beyond and operational concerns for FY 2004 and FY 2005. 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 Mosquito Control Commission was created in FY 2003 through the merger of five independent mosquito commissions that previously served various portions, but not all, of the City. Effective July 1, 2004, the Chesapeake City Council appointed 6 Commissioners and designated the City's Health Director to be the Chairperson of the Board of Commissioners that provided oversight to Mosquito Control operations. Mosquito Control employed a work force of over 60 full-time employees and a few part-time employees that included a Director appointed by the Commissioners, an Operations Director, district and field supervisors, administrative staff, biologists, mechanics, and technicians. The newly reorganized Mosquito Control had 3 operational districts - Deep Creek, Greenbrier, and Southern Chesapeake - that provided services to the entire City. Mosquito Control was required to manage resources to ensure that regular operations, emergency responses, and capital equipment and improvements could be funded from its annual operating revenues and available reserves. Mosquito Control was funded through real estate and personal property tax rates specifically enacted to support mosquito control programs in the City.

The goal of Mosquito Control was to reduce and control the mosquito population using the safest and most effective means available in order to protect the public's health and welfare. Specifically, mosquitoes can transmit diseases to humans and animals and they are an annoyance. During FY 2004, Mosquito Control responded to over 2,350 citizens' requests, cleaned 105 miles of ditches, removed 105 tons of debris, trapped over 289,000 mosquitoes, lavricided (application of chemicals to kill mosquito larvae and pupae in water) 18,106 acres, and adulticided (spraying pesticide to kill adult mosquitoes) 509,235 acres in the City.

To conduct this audit, we reviewed State, City, and Mosquito Control administrative policies and procedures; analyzed the Recommendations for the Reorganization of Mosquito Control Services for the City of Chesapeake approved by the City Council in 2003; and evaluated annual budgets and other financial documents, revenue streams and operating expenses, payroll records, and other management and

operations documents and reports. Also, we interviewed Mosquito Control's Director, Operations Director, district and field supervisors, and administrative staff. In addition, we conducted a survey of several cities and counties to develop basic comparative information on budgets, staffing, and operations for mosquito control programs.

Major Observations and Conclusions

Based on our review, we determined that Mosquito Control had been extremely effective in executing the reorganization plan. Services had been extended to the southern end of the City, the consolidated entity continued to respond to service requests and provide services in an effective manner, and Mosquito Control had developed and instituted a number of organizational and operational changes to enhance its effectiveness in servicing the entire City. Also, we found that Mosquito Control generally complied with its own policies and procedures. Consequently, our recommendations were made for the purpose of assisting Mosquito Control as it continued to implement the reorganization.

Because Mosquito Control was likely to receive revenues in future years that exceeded its foreseeable expenditure requirements, we recommended that it transfer excess funds to the City on an annual basis. Also, as positions become vacant, Mosquito Control should attempt to identify situations where part-time staff can be substituted for full-time staff. Finally, we identified a number of administrative and operational conditions that should be addressed to ensure the continued success of the reorganization.

This report, in draft, was provided to Mosquito Control 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 in Appendix A. Mosquito Control management and staff were very helpful throughout the course of this audit, and we appreciate their courtesy and cooperation on this assignment.

B. Mosquito Control Practices and Procedures

While we were not able to analyze all Mosquito Control operations and practices in detail, we noted that Mosquito Control generally had sound practices and procedures in place to accomplish its overall mission. We also noted that it had developed and instituted a number of practices to enhance its operations and provide decision-making information. Overall, Mosquito Control had been extremely effective in consolidating five independent Mosquito Control Commissions into one and extending its coverage into the southern area of the City. As part of the reorganization and in an effort to become more efficient in its operations, Mosquito Control had purchased property and begun to design the facilities to house its service operations in Southern Chesapeake, and had consolidated its small equipment (chain saws and weed eater) purchases and repairs. Also, Mosquito Control had established an on-line reverse auction system to purchase chemicals, budgeted annually at \$500,000, at the lowest cost.

Mosquito Control had begun to use aerial spraying to control mosquitoes in both larvae and adult stages. This practice proved to be very effective over large areas and areas that were hard to reach by trucks or hand-held spraying equipment. In addition, Mosquito Control had received approval to use Special Conservator of the Peace status to enforce requirements to reduce mosquito infestation and the transmission of diseases to humans and animals on private property.

Finally, Mosquito Control had requested potential vendors to provide an automated pesticide/chemical delivery control-data logging and reporting system that would be mounted on Mosquito Control vehicles. The system would provide management with a tool to better manage chemical resources and personnel by 1) reducing instances where some neighborhood streets were treated multiple times while other streets were missed entirely, 2) verifying the timing, placement, and quantity of chemical applications needed, 3) managing risk, and 4) bringing together functions such as surveillance, larviciding, adulticiding, service request tracking, and mosquito borne disease tracking into one database for analytical review and trend analysis purposes.

C. Excess Revenues and Staffing Changes

Mosquito Control received its revenues from general property taxes on real estate (\$0.02/\$100) and personal property (\$0.08/\$100) and from interest income on its unspent cash balances. We found that Mosquito Control's current and projected revenues exceeded corresponding expenditures, which may cause Mosquito Control to accumulate excessive reserve balances in future years. Finally, Mosquito Control used full-time staff in situations where the use of part-time staff may have been more optimal.

1. Excess Revenues Projected in Future Years

Finding – Mosquito Control was likely to receive revenues in future years that exceeded its foreseeable expenditure requirements.

Recommendation – Mosquito Control should consider transferring funds not needed for mosquito control expenditures to the City.

Response – We have reviewed the finding and we concur. We plan to work with the City's budget office annually to determine amounts of future transfers.

2. Staffing Levels and Deployment

Finding – Mosquito Control utilized full-time staff in situations where the use of part-time staff may have been more optimal.

Recommendations - As vacancies occur, Mosquito Control should explore opportunities for converting full-time positions to part-time positions.

Response – The Commission is already in the process of recruiting more part-time staff; ads and notices have been posted. Most of these staff would be utilized as ULV Operators for the night time truck spraying during the mosquito season (this is where Virginia Beach utilizes their part-time staff).

D. Other Administrative and Operational Issues

As previously noted, we determined that Mosquito Control had been extremely effective in executing the reorganization plan. While Mosquito Control appeared to be effectively accomplishing its overall mission, we did identify some areas where administrative and operational practices could be enhanced. Mosquito Control did not have an operations manual to guide day-to-day activities. Some required workload indicators were not being tracked and recorded. Answers to service requests were not fully documented. There were procedural inconsistencies in the recording and documentation of work hours. Supervisors had not received substance abuse detection training. Finally, there was a salary line item error in the FY 2005 budget. We have developed a number of recommendations to assist Mosquito Control in addressing these issues as it continues to implement the reorganization.

1. Operations Manual

Findings – Mosquito Control had not yet developed a formal operations manual.

Recommendation – Mosquito Control should develop an operations manual as soon as feasibly possible.

Response – The Mosquito Control staff are and have been working to develop an Operations Manual and have recently attended a training seminar on February 24, 2005 with Public Works emphasizing how to properly develop an Operations Manual. The development will proceed and will hopefully be completed in the near future.

2. Tracking Workload Indicators

Finding - Due to changes in data collection procedures, Mosquito Control did not track and record data separately for one workload indicator and had not recorded all pertinent data for three other indicators.

Recommendation – Mosquito Control should take steps to ensure that the Commissioners are aware of changes that impact workload indicators.

Response - Mosquito Control is already taking the steps indicated, Information Technology's staff are working with us to make changes in our data base to help track these needed indicators. Also, in a RFP that is currently out for proposals, we hope to help address this issue in a great way. These indicators are reported to the Board of Commissioners monthly via our monthly work report and the additional indicators will be included as soon as the changes in the data base are completed.

3. Responding to Service Requests

Finding - Mosquito Control had not developed a formal policy requiring a response to all service requests within 48 hours. In addition, the database system was not configured to collect information verifying response times.

Recommendation – Mosquito Control should develop a formal policy statement implementing the 48 hour response requirement, and should ensure that its database system is configured to record and report response times.

Response – Though the Commission has always taken pride in being able to respond to service requests within the first 48 working hours, a written policy will be proposed to the Board in the near future to establish what an unwritten policy is already. Information Technology staff are also working with us to develop a reporting mechanism to track these responses through our service request database.

4. Documentation of Work Hours

Finding – Mosquito Control did not always document time worked as required and did not use uniform documentation and recordation procedures when recording employees' regular and overtime work hours.

Recommendation – Mosquito Control should take steps to ensure that 1) time worked is documented as required and 2) payroll documentation and recordation procedures are consistent throughout Mosquito Control.

Response – The reporting procedures for the previous five (5) commissions were dramatically different and though most of these reporting procedures have been standardized, we are still making changes in the process to assure that all time is accounted for in a standard way. The aforementioned RFP will also help with this endeavor as some of the options requested is for a database designed to track our control efforts.

5. Compliance with Substance Abuse Policies

Finding – We found that Mosquito Control supervisors had not been formally trained to detect drug and alcohol abuse by employees. Also, the custodian of the Random (drug test) Selection Spreadsheet participated as a witness to the random number selection process which was not permitted under substance abuse policy and procedures.

Recommendation – Mosquito Control should take steps to ensure that 1) supervisors receive the appropriate drug and alcohol abuse detection training and 2) the custodian of the Random Selection Spreadsheet does not participate as a witness to future random number selection processes for drug testing.

Response – 1) There are steps already underway to have the supervisory staff trained for abuse detection. We have recently again contacted the Human Resources staff and they state that they are developing such training and will include us when it is

completed. Additionally we have contacted the Police Department who have stated that they will provide us with training in the interim and 2) this was allowed to happen in error. The custodian was allowed to observe the process and inadvertently signed the witness sheet. This will not happen again!

6. Budget Error

Finding – Mosquito Control’s FY 2005 operating budget contained an error related to supervisory salary estimates.

Recommendation – Mosquito Control should take steps to ensure that budgeting errors do not recur.

Response – Steps have already been taken to ensure that such an error does not occur again. FY 2005 was our first fully consolidated budget. We just made an error in calculations; but, this has already been corrected and is so indicated by our FY 2006 budget.

B. SUMMARY
TECHNICAL ASSISTANCE

HIPAA/Gap Vulnerability Analysis – July 2004

We provided assistance to the Community Services Board, Fire Department, and Information Technology Department in evaluating the results of a HIPAA Gap analysis prepared by KPMG. The gap analysis highlights vulnerabilities or gaps in control procedures that might result in noncompliance with important HIPAA security provisions.

Clearfield Industrial Park – November 2004

We advised Economic Development on matters relating to financing alternatives for the development of the Clearfield Industrial Park. We also provided Economic Development with a cost tracking methodology that we previously used to track acquisition and development costs for the Cavalier Industrial Park.

Mosquito Control Follow-up Issues - April 2005

Once the Mosquito Control Audit was completed, Audit Services worked with Mosquito Control to provide advice on implanting the recommendations. We paid particular attention to the recommendation involving transfer of excess revenues to the City.

Portlock Galleries – May 2005

We provided advice on cash and revenue controls for the newly opened Portlock Galleries at SoNo.

Finance Department Interview Panel – June 2005

We assisted the Finance Department by participating on an interview panel for their vacant Accounting Manager position.

C. SUMMARY
OTHER PROJECTS

Training – FY 2005

We attended the following Training Sessions during FY 2005:

- ACFE – Fraud Examiners Conference
- Auditing in the Real World
- Communicating Effectively
- Effective Supervisory Training
- EOC Call Taker Training
- Federal Income Tax Updates
- GFOA Generally Accepted Accounting Principles (GAAP) Update
- Institute of Internal Auditors' Fraud Training
- Institute of Internal Auditors' Regional Conference
- IT Security - It's Not Just A Good Idea, It's The Law
- KPMG's GASB 34 Training
- Sarbanes-Oxley Section 404 Internal Controls
- Success in Internal Audit
- The FISH Philosophy
- Virginia Local Government Auditors Association's Fall Conference
- Working With Technology (Excel)
- Workplace Violence Prevention

Professional Organizations

For the last six 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 National Association of Local Government Auditors and serves as the Eastern Region Coordinator for its Advocacy Committee. A second auditor serves as Coordinator of the Certified Internal Auditor examination for the local chapter of the Institute of Internal Auditors. A third auditor serves as program chair. Finally, a fourth auditor was recently elected President of the Institute of Internal Auditors Tidewater Chapter for FY 2006.

D. SUMMARY
PROJECTS IN PROGRESS

Community Services Board

The Community Services Board audit was in progress at year-end and finalized during the month of September. The audit focused predominantly on compliance with the Health Insurance Portability and Accountability Act (HIPAA).

Human Services

The Human Services audit was in progress at year-end and finalized during the month of September. This audit is our first attempt at incorporating what we consider to be meaningful performance measures into one of our departmental performance audits.

Treasurer's Department Tax Collection

The Treasurer's Department Tax Collection audit was in progress at year-end and finalized during the month of August. This was a technical assistance project that we converted to an audit after consulting with our external Peer Review team. We attempted to get information from localities throughout the state to compare their collection rates with Chesapeake's. However, since we were unable to obtain information from a sizable number of the localities, we elected to provide an oral report to the Treasurer rather than a written one.

Year End Work

Audit Services was completing year-end audit work for FY 2005 in our normal areas including Cash, Inventories, Budget, Personal Property Tax Relief, E-911, Tax Assessments, Highway Maintenance, and the Comprehensive Services Act.

Asset Management Systems

The City has had several asset management system task forces during the past year. The first task force listened to presentations from a number of vendors, but did not make any formal recommendation. The second task force is attempting to better define user needs before it solicits any proposals.

Project LINK

We provided assistance to the Project LINK PeopleSoft implementation throughout the entire year. Our assistance included serving on the Steering Committee and working with the Technical Group. We also reviewed the control processes for each of the system's five modules.

E. SUMMARY

TIME (HOURS) EXPENDED DURING YEAR

A. COMPLETED PROJECTS - AUDITS & ANALYTICAL REVIEWS

Citywide Contracting Process - Administration	13.00
Citywide Contracting Process - Reporting	22.50
Clerk of the Courts - Administrative	143.50
Clerk of the Courts - Reporting	74.25
Follow-up Review (FY03) - Administrative	15.50
Follow-up Review (FY03) - Planning	13.75
Follow-up Review (FY03) - Testwork	48.00
Follow-up Review (FY03) - Reporting	15.75
Mosquito Control Commission - Administrative	145.25
Mosquito Control Commission - Planning	272.50
Mosquito Control Commission - Testwork	541.00
Mosquito Control Commission - Reporting	306.25
Public Works - Administrative	120.00
Public Works - Testwork	83.00
Public Works - Reporting	94.75
Year End - Administrative	1.75
Year End - Cash Counts	7.25
Year End - CSA	3.75
Year End - E911	33.25
Year End - Internal Controls	131.50
Year End - Inventories	8.75
Year End - Payroll	34.00
Year End - PPTRA	115.50
Year End - Social Services Laser Report	29.50
Year End - Tax Assessment	92.75
Year End - VDOT	164.75
Year End - Walk Throughs	15.50

B. COMPLETED PROJECTS - TECHNICAL ASSISTANCE

Clearfield Industrial Park	4.00
Finance Department - Interview Panel	3.00
Portlock Galleries	4.00
Treasurer's Department - Tax Collection	70.00

Total Hours - Completed Projects	<u>2,628.25</u>
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C. PROJECTS IN PROGRESS - AUDITS & ANALYTICAL REVIEWS

Community Services Board - Administrative	38.00
Community Services Board - Planning	115.00
Community Services Board - Testwork	290.75
Community Services Board - Reporting	96.00
Human Services - Administrative	200.50
Human Services - Planning	347.00
Human Services - Testwork	1,322.00
Human Services - Reporting	86.25
Jordan Bridge	1.25
Treasurer's Department Tax Collection - Administrative	7.00
Treasurer's Department Tax Collection - Planning	17.00
Year End - Cash Counts	38.50
Year End - Inventories	3.50
Year End - Social Services Laser Report	28.00

D. PROJECTS IN PROGRESS - TECHNICAL ASSISTANCE

Asset Management Systems	9.00
HIPPA/GAP Vulnerability Analysis	31.25
Mosquito Control Follow-up Issues	57.00
Project LINK	768.75

Total Hours - Projects in Progress	<u>3,456.75</u>
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E. OTHER

Administrative	2,393.75
Annual Status Report	17.00
Holiday	420.00
Leave Administrative	71.50
Leave - Annual	572.75
Leave - Compensatory	92.25
Leave - Sick	375.75
Meetings	83.25
Miscellaneous	53.25
Peer Review - Audit Services	101.75
Professional Organizations	138.00
Semi-Annual Status Report	7.50
Training	541.25

Total Hours - Other	<u>4,868.00</u>
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Total Hours	<u>10,953.00</u>
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