



**AUDIT SERVICES DEPARTMENT**

**ANNUAL STATUS REPORT**

**JULY 1, 2009 THROUGH JUNE 30, 2010**

**DATE OF PREPARATION: SEPTEMBER 15, 2010**

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September 15, 2010

The Honorable Alan P. Krasnoff and  
Members of the City Council  
City of Chesapeake  
City Hall - 6th Floor  
Chesapeake, Virginia 23328

Dear Mayor Krasnoff and Members of the City Council:

Enclosed is the Audit Services Department's Annual Status Report for the period July 1, 2009 to June 30, 2010. 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 Public Procurement Department, Libraries and Research Services Department, American Recovery & Reinvestment Act (ARRA) funding, Internal Control Impact of Staff Reductions, and follow-up reviews of fiscal year 2007, fiscal year 2008, 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 Procurement Department audit evaluated City and Public Procurement policies, procedures, and operations, contract documents and reports. The report contained 8 recommendations, all of which the department agreed to implement.
- The Libraries and Research Services Department audit evaluated City and Library policies and procedures, operations documents and reports, conducted surveys of other Libraries, and conducted tours of the Library's seven branches and bookmobile. The report contained 9 recommendations, 8 of which the department agreed to implement.

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 4 projects. Of these, the most significant was the implementation of a directive for the Parks and Recreation Department to charge parking fees for certain events, such as the City's Fourth of July celebration.

## B. PROJECTS IN PROGRESS

At year-end, we were working on performance audits of the Economic Development Department, Central Fleet Operations, and technical assistance projects related to the HRIS System.

Very truly yours,

Jay Poole  
City Auditor  
City of Chesapeake, Virginia

c: William E. Harrell, City Manager

CITY OF CHESAPEAKE, VIRGINIA

AUDIT SERVICES DEPARTMENT  
ANNUAL STATUS REPORT  
JULY 1, 2009 TO JUNE 30, 2010

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**A. SUMMARY**

**AUDITS & ANALYTICAL REVIEWS**

September 15, 2010

The Honorable Alan P. Krasnoff, and  
Members of the City Council  
City of Chesapeake  
City Hall--6th Floor  
Chesapeake, Virginia 23328

Dear Mayor Krasnoff and Members of the City Council:

We have completed our follow-up of the City of Chesapeake's (City) Mosquito Control Commission, Community Services Board, Purchase Order Limits, Citywide Credit Cards, Parks & Recreation, Fair Labor Standards Act, Emergency Communications, and Fire Department for Fiscal Years 2005, 2006, 2007 and 2008. These prior year audits were selected to evaluate the status of recommendations that had not been fully implemented. The reviews were conducted in July and August 2009. The status of 33 open recommendations from these reports was as follows:

22 had been implemented  
9 were in the process of being implemented  
1 was planned but not yet implemented  
     was partially implemented  
1 will not be implemented  
     is no longer applicable

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

Sincerely,

(Signed)

Jay Poole  
City Auditor  
City of Chesapeake, Virginia

C: William E. Harrell, City Manager

**FOLLOW-UP REPORT**  
**MOSQUITO CONTROL COMMISSION**  
**PERFORMANCE AUDIT**

**September 2009 and February 2010**

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## MOSQUITO CONTROL COMMISSION PERFORMANCE AUDIT

### C2. 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).

**2007 Status** – This recommendation has been in the process of being implemented. While the Commission recruited six to eight more part-time staff, they have had problems retaining them due to the inability to guarantee steady part-time employment. There also had been some difficulty in finding part-time employees who could be state certified (in applying the chemicals) and were willing to be on standby without pay. When part-time staffing levels dropped, the Commission relied on overtime from full-time employees to compensate for work required. The Commission plans to implement a recruiting campaign to increase the level of part-time staff. However, unless the Commission is given permission to guarantee a minimum number of hours for part-time employees, this situation will continue to be an issue.

**2008 Status** – This recommendation is still in the process of being implemented. There have been four permanent positions removed. However, Mosquito Control and the City had not yet worked out an arrangement to share staff resources for mutually beneficial projects related to stormwater or drainage operations.

**2009 Status** - This recommendation is still in the process of being implemented. Mosquito Control plans to utilize part-time employees for use in their ULV spraying operations, similar to what is done in the City of Virginia Beach. They are awaiting word from their insurance company as to whether their insurance will cover part-time workers whose primary responsibility is spraying chemicals.

**2010 Status** - This recommendation has been implemented. To reduce staffing costs, Mosquito Control will restrict overtime to exempt supervisory personnel, thereby reducing overtime expenses. Mosquito Control also plans to implement the following;

- Provide a pool of employees that were cross-trained for all the ULV routes in all four districts, instead of using the same small group of employees per district.
- Maintain a call back list from the pool of employees when ULV operations are needed, and start with Field Technicians before hiring back higher paid staff.

- Assign overtime scheduling to the operations Director, to ensure more controlled overtime procedures are followed.

## **D1. 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.

**2007 Status** – This recommendation has been in the process of being implemented. The progress in development of the Operations Manual had stopped due to the retirement of a key employee who had been working on updating the document. They will continue to work on the manual after newly assigned employees have been acclimated to their job responsibilities.

**2008 Status** – This recommendation is still in the process of being implemented. During the process of developing a manual, Mosquito Control discovered that many of the policies, procedures, and practices that would normally be associated with an operations manual had been incorporated into Mosquito Control's employee handbook. Consequently, the manual could be created by reorganizing the information in the handbook and incorporating new and updated operating procedures. Mosquito Control hopes to have this project completed by Fall 2008.

**2009 Status** – This recommendation has been implemented. Mosquito Control has developed a very comprehensive Operations Manual that incorporates activities specific to Mosquito Control as well as City procedures. Mosquito Control plans to update the manual as needed to ensure that it remains up-to-date.

## **D2. 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 database 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.

**2007 Status** - This recommendation has been in the process of being implemented. Information Technology has worked with the Commission to complete a tracking system that tracks time and other significant items; however, the GIS system is still not functioning as intended as it was still not able to accurately track their equipment. They hope to acquire an improved system shortly.

**2008 Status** – This recommendation is still in the process of being implemented. There have been several service agreement updates with the vendor due to delays from the vendor in order to provide the best product to Mosquito Control and a product that is usable. The Director has been coordinating with the vendor to ensure that the software and hardware fit the needs of the City and Mosquito Control.

**2009 Status** - This recommendation is still in the process of being implemented. The vendor was continuing to experience difficulties and delays in providing a usable product. The Director has continued to work with the vendor and believed that most of the implementation issues had finally been resolved. The vendor was beginning to test the functionality of the software with some of the Mosquito Control staff.

**2010 Status** - This recommendation has been implemented. Mosquito Control purchased a functioning data management product (VCMS) in 2009. As of January 2010, 42 employees had been trained and were successfully utilizing the product in the field and/or office. Benchmark Indicators were implemented and in effect, and the Mosquito Control Commission was receiving Benchmark Indicator reports on a monthly basis.

### **D3. 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.

**2007 Status** - This recommendation has been in the process of being implemented. The progress of the Operations Manual stopped due to the retirement of a key employee who had been working on updating the document. They will continue to work on this written policy as part of the manual after newly assigned employees have been acclimated to their job responsibilities.

**2008 Status** – This recommendation is still in the process of being implemented. Once completed, the Operations Manual will also include the formal policy for timely responses to service requests.

**2009 Status** - This recommendation is still in the process of being implemented. Mosquito Control plans to incorporate tracking of these requirements into the software that they are in the process of acquiring.

**2010 Status** - This recommendation has been implemented. Mosquito Control purchased a functioning data management product (VCMS) in 2009. As of January 2010, 42 employees had been trained and were successfully utilizing the product in the field and/or office. Benchmark Indicators were implemented and in effect, and the Mosquito Control Commission was receiving Benchmark Indicator reports on a monthly basis.

**FOLLOW-UP REPORT**  
**CHESAPEAKE COMMUNITY SERVICES BOARD**  
**PERFORMANCE AUDIT**

**September 2009**

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## CHESAPEAKE COMMUNITY SERVICES BOARD PERFORMANCE AUDIT

### HIPAA Privacy Issues

#### 1. Memorandum of Understanding with Business Associates

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

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

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

**2008 Status** – This recommendation is the process of being implemented. The City Attorney's Office is still evaluating whether or not there is a legal need to have the City Treasurer sign a Memorandum of Understanding, since most of the localities in the state do not require it.

**2009 Status** – This recommendation has been implemented. The City Attorney's Office has determined that the City Treasurer does not need to sign a Memorandum of Understanding. All of the other required departments have signed them.

### HIPAA Security Issues

#### 1. Risk Analysis Methodology

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

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

**Response** - As of May 12, 2005, CCSB has not created a Risk Analysis methodology to determine the risks and vulnerabilities to electronic protected health information. Thus no documentation exists. Prior to May 2005 the City's Information Technology Department approved a Management Analyst position and was in the process of conducting interviews. The Analyst was to do the risk assessment to identify technical and non-technical threats and vulnerabilities to electronic protected health information. However, on May 12, 2005, the CCSB MIS Administrator said that they would not hire a

Management Analyst to do this work; but, would outsource the work regarding the creation, performance, and documentation of a risk assessment during the next fiscal year (2006). In addition the outsourced company would implement a process to perform periodic updates to the risk analysis. The MIS Administrator indicated that they would follow the NIST guide exclusively to create the risk assessment. The RFP has been written to contract for the services of a Risk Manager. Once this position has been outsourced, we will be able to move forward with the risk analysis and implement a risk methodology that will bring us into compliance with HIPAA.

**2008 Status** – This recommendation is in the process of being implemented. CCSB contracted with a vendor to evaluate the electronic security, and the vendor did not identify any penetrable areas. Information Technology was planning to assign its recently hired Network Specialist the task of conducting a HIPAA risk analysis.

**2009 Status** – This recommendation is still in the process of being implemented. CCSB participated in the City Information Technology Security/Vulnerability and penetration test in August 2008. No HIPAA-related risks were identified. Also, the CCSB Network Specialist has completed 75% of the “CCSB Risk Analysis and Control Plan”. The projected completion date is estimated to be October 1, 2009. Testing, verification, and any necessary modification of control procedures will occur throughout FY 2010.

## **2. Disaster Recovery Plan Requirements**

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

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

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

**2008 Status** – This recommendation has yet to be implemented. While the CCSB has undertaken the necessary steps to develop a contingency plan from its end, it still needs the City to develop a Citywide contingency plan. Starting in FY 2009, the City is developing a plan to meet the requirements of 45 CFR §164.308(a) (7) (ii) (B) (Contingency Plan Implementation Specifications).

**2009 Status** – This recommendation is in the process of being implemented. CCSB has a “CCSB System Disaster Recovery Plan” which was put in place in 2003 but has not been fully tested. CCSB will be using the aforementioned “Risk Analysis Assessment and Control Plan” to fulfill their disaster recovery/business continuity needs. Also, CCSB is providing input to the City’s disaster recovery plan, including information related to off-site backup and disaster recovery-related documents.

**FOLLOW-UP REPORT**  
**PARKS & RECREATION DEPARTMENT**  
**PERFORMANCE AUDIT**

**September 2009**

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## **C. Operational Findings**

### **1. SAFARI System**

**Finding** - The Athletic Programs Group was unable to register participants and record their deposit fees in the SAFARI software system for athletic sporting events. Instead, athletic sporting events registration and deposit fees were collected and manually recorded by the athletic staff and forwarded to the Parks and Recreation central office.

**Recommendation** - Parks and Recreation should continue to work with the vendor on the system enhancements for the collection of revenue for athletic sporting events and the recordation of participants.

**Response** - The original League Scheduling Module of the SAFARI system did not meet the requirements of the Parks and Recreation Department Athletic Programs Group staff. However, the vendor has developed a new replacement application that will be available to us at a lower cost that resolves the issues of concern to the staff. It is in the demo phase at this time but is expected to be implemented within the next twelve months.

**2009 Status** – This recommendation has been implemented. The SAFARI system was replaced with a system provided by Active Network software. The new system performs most of the registration tasks required. Parks and Recreation continues to explore alternatives to enhance the system.

### **2. Northwest River Park**

**Finding** – The water tanks at Northwest River Park were corroded. The corrosion was particularly extensive on the underside of the tanks where moisture had collected and condensed. The corrosion existed on both the storage tank and the pressurized primary tank. A number of the supporting structures and connecting pipes were deteriorating as well.

**Recommendation** – We recommend that Parks and Recreation ensure that the tank replacement is a top priority on their repair list and include the cost of replacement of the water tanks in the FY 2007 capital budget. The replacement of the tanks should ensure that the costs will not escalate due to replacement/repair and damages caused by their failure.

**Response** – On October 10, 2006, \$140,000 was appropriated by City Council for replacement of the water system. Following receipt of bids, an additional \$20,000 was appropriated on February 13, 2007 to provide sufficient funding for this project.

**2009 Status** - This recommendation has been implemented. The water tank replacement was completed in April 2007.

### **3. Community Centers**

**Finding** – We noted that the Community Center buildings were 15 to 30 years old and needed repairs and/or renovations.

**Recommendation** – Parks and Recreation should work with Facilities Management to develop a list of repairs and renovations that need to be made to the Community Centers.

**Response** - The 2007-2008 capital budgets includes \$550,000 to air condition the five community center gyms currently without air. This was one of our top priority renovation needs. In regards to a list of repairs and renovations, recreation staff does a yearly inspection of the community centers interiors and exteriors (including grounds). Representatives from housekeeping, facility maintenance and grounds are asked to attend. A list of needed repairs is prepared at that time. We have asked them about the possibility of a maintenance schedule in regards to painting and are waiting on a response.

**2009 Status** – This recommendation has been implemented. Each Community Center is inspected on an annual basis, and a listing is developed for all needed repairs and renovations.

### **4. Combining of Recreation Enterprise and NWRP Enterprise Funds**

**Finding** - Parks and Recreation prepared separate enterprise fund budgets for Northwest River Park and Recreation.

**Recommendation** - Parks and Recreation should consider submitting a combined budget to the Budget Office for Northwest River Park and Enterprise Funds.

**Response** - Discussions on this matter continue with the Departments of Budget and Finance. Our concern is that it is absolutely necessary for internal management purposes that the data be maintained separately as is currently the case. We are willing to submit a combined budget for reporting purposes so long as the data is separately maintained and separate reports are available internally.

**2009 Status** - This recommendation has been implemented. All of the Department's functions were reorganized into a Special Revenue Fund for the FY 2008-09 Fiscal Year.

## **5. Community Centers versus YMCA**

**Finding** - The Great Bridge and Indian River Community Centers were approximately 30 years old. Parks and Recreation staff at Great Bridge and Indian River Community Centers were concerned that they could lose patrons to the YMCA because the YMCA had more updated equipment.

**Recommendation** - The City and Parks and Recreation may wish to consider developing a partnership with the YMCA for the Great Bridge and Indian River Community Centers that allows them access to some of the YMCA's facilities and/or programs.

**Response** - Community Centers versus YMCA – Due to the large difference in the membership rates to use our facilities versus the YMCA's rates, it is unclear how much they would want to partner with us to allow our members to use their facilities. However, it is certainly an idea that staff can explore in the future. Currently we are concentrating on ways we can reduce Enterprise budget expenses to enable us to be able to update the equipment in our weight rooms.

**2009 Status** – This recommendation has been implemented. Parks and Recreation has undertaken a number of joint efforts with the YMCA, including partnering with the YMCA in making the First Tee and YMCA Mobile Interactive Center programs available at the City's Community Centers. The First Tee program teaches golf and life skills, while the Mobile Interactive Center provides computer and job readiness training.

## **6. Economic Benefit**

**Finding** - Parks and Recreation had not developed a methodology to measure the economic benefit of the events it sponsors.

**Recommendation** - Parks and Recreation should develop a methodology to measure the economic benefit of the events it sponsors. This methodology should be generic enough so that it can be used for a wide variety of events.

**Response** - After meeting with Audit several times on this, it was determined there are a few events that we can track whether a participant is or could be staying in a hotel (Dock dogs, Chesapeake Bike Race, Paddle for the Border). However, the majority of the events draw thousands of people (Bark in the Park, American Indian Festival, Eggstravanza, etc.) and it could not be determined how you could measure this....assuming any participants visit these events from outside the Hampton Roads, northern North Carolina area.

**2009 Status** - This recommendation has been implemented. The Recreation Superintendent collects demographic information on major events such as the Dismal Swamp Stomp and Paddle for the Border. This information includes data on out-of-area visitors and hotel stays for visitors who participate in the events.

**FOLLOW-UP REPORT**  
**PURCHASE ORDER LIMITS**  
**SPECIAL AUDIT**

**September 2009**

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## **B. Operational Findings**

### **1. Competition on Non-Purchase Order Vouchers**

**Finding** – We noted that City departments had not properly sought competition on 27 (out of 494) non-purchase order voucher transactions.

**Recommendation** – Competition should be sought on all purchases where required, and the City should take steps to ease the purchasing process for some of these purchases.

**Response** - The audit findings reflect many of the concerns we have expressed regarding the procurement process under the decentralized arrangement created during the PeopleSoft implementation. That arrangement created a separate process for purchases up to \$4,999.99, and that process does not require Purchasing's participation or approval. Most of the transactions cited in the audit were in that category.

**2009 Status** – This recommendation has been implemented. Finance staff reviews non-purchase order voucher transactions in the \$1,000 to \$5,000 range to ensure that required competition has been sought. Finance also utilizes the Manage Requisitions and Expedite Requisition functions within PeopleSoft to identify potential purchases that should be set up as purchase orders and processed by Public Procurement.

### **2. Split Orders**

**Finding** – In reviewing purchases for transaction splitting, we identified one instance where competition had not been sought as required and another instance where a vendor was paid twice for the same invoice.

**Recommendation** – In addition to specifically addressing issues associated with these two transactions, the City should periodically review the PeopleSoft database for similar transactions.

**Response** – The strength of the PeopleSoft system is in the built-in internal controls delivered in the software. A system control exists specifically to prevent invoices from being paid twice inadvertently by not allowing users to pay an invoice to the same vendor with the same number. To circumvent the system to pay this invoice, the user added the letters INV to the invoice number because the system rejected the original attempt to pay the invoice the second time. This rejection of the system to allow the invoice to be paid the second time was a beneficial internal control. The Finance Department believes there are two type of controls provided. One type of control is to prevent fraud and the other type of control is provided to prevent inadvertent error. This control falls under the latter category. Users were taught how to use the reports to search for vouchers that may be duplicated, and finally, the users were trained in the inquiry tools available in the PeopleSoft system. A specific JOB AID (see attachment) has been prepared to educate users on how to avoid this exact problem.

**2009 Status** - This recommendation has been implemented. In addition to utilizing the Manage Requisitions and Expedite Requisition functions within PeopleSoft and using a three-month time window to identify potential split purchases, Finance also provides training to departmental accounting staff and reviews questionable transactions.

### **3. User Concerns**

**Finding** – Several of the larger departments that were key users of the PeopleSoft system were still experiencing difficulty using and understanding the system.

**Recommendation** – The City should continue to make additional training opportunities available to users on the system.

**Response** - The Finance Department agrees with that finding and has implemented many different strategies to assist all departments and users that were experiencing some difficulties to assist in resolving their challenges with the new system.

**2009 Status** - This recommendation has been implemented. Finance has used three primary training strategies to provide additional training opportunities. First, an e-newsletter called The Bottom Line is sent to PeopleSoft users each month highlighting critical items and upcoming issues and deadlines. Second, Finance hosts monthly LINKage meetings to cover topics related to PeopleSoft usage. Third, one-hour training sessions are held dedicated to a specific topic or topics. These training strategies have increased the City staff's knowledge of and satisfaction with PeopleSoft.

**FOLLOW-UP REPORT**  
**FAIR LABOR STANDARDS ACT**  
**SPECIAL AUDIT**

**September 2009**

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## **B. Changes to Non Exempt Positions**

**Finding** - Almost all of the overtime incurred as a result of the changes in FLSA occurred in public safety-related First Responder positions. Vacancies in the public safety area appeared to be a contributing factor to the overtime.

**Recommendation** - The City should continue to attempt to reduce the number of vacancies in the Fire and Police Departments.

**Response:** In response to our conversation regarding the FLSA Audit, my office has taken steps to work with the departments to fill their vacancies and potentially offset some of the overtime costs being incurred in the City. We will continue to assist these departments by developing innovative approaches for recruitment and retention.

**2009 Status** – This recommendation has been implemented. Since the completion of this audit in 2007, the Fire Department has held two training academies, with 74 total graduates, and the Police Department has held four training academies, with 73 total graduates. These graduates have been instrumental in reducing the need for overtime in both departments.

**FOLLOW-UP REPORT**  
**CITYWIDE CREDIT CARDS 2005**  
**SPECIAL AUDIT**

**September 2009**

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## **B. Administrative and Operational Issues**

### **1. Number of Credit Card Programs**

**Finding** - The City had three different credit card programs, and this led to confusion over rules governing the individual programs. Also, no one in the City was keeping track of all of the cards issued.

**Recommendation** – The City should consolidate its three card programs into one program with one set of requirements that governed all credit card purchases, and should also create a comprehensive list of all card users.

**Response** - The City will implement a comprehensive single purchase card program in the near future governing card usage including the draft Administrative Regulation for Chesapeake Purchase Card (P-Card) Procedures Manual. The existing Administrative Regulation 1.17 will be rescinded, as will the existing fuel credit cards. A comprehensive list of card holders will be maintained at the Purchasing Division of General Services.

**2009 Status** – This recommendation is in the process of being implemented. The City has completed a pilot program that consolidates credit card usage into a single P-Card program and will begin implementing the program throughout the City in October 2009.

### **2. Guidance within Existing Credit Card Programs**

**Finding** - The guidance provided by the City's existing credit card policies was not sufficiently comprehensive to adequately control credit card purchases.

**Recommendation** – The City should provide more specific guidance on allowable or unallowable purchases in future credit card policies. The City should also proceed with a planned task force evaluation of certain food and meals-related card charges.

**Response** - The draft Administrative Regulation for Chesapeake Purchase Card (P-Card) Procedures Manual enumerates clearly disallowed and unsupported uses. Further, the Administrative Regulation contains clear consequences for failure to follow the Manual including employee reimbursement, disciplinary procedures to include potential termination.

**2009 Status** – This recommendation has been implemented. On September 5, 2008 the City issued Administrative Regulation 1.23 entitled Chesapeake Purchase Card (P-Card) Policy. The policy governed the use of the P-Cards that were to be issued and detailed the responsibilities of departments, supervisors, and individual card holders.

### **3. Credit Card Limits and Cash Advances**

**Finding** – At least 25 employees were given Purchasing Cards with credit limits of least \$10,000, with seven additional employees receiving Purchasing Cards in the range of \$25,000 to \$100,000. Also some employees were authorized to receive cash advances against their Business Cards.

**Recommendation** – Limits should be lowered on credit cards with unnecessarily high balances. Also, future credit cards should eliminate the option of obtaining cash advances.

**Response** – Since March 6, 2006 all P-cards have been suspended except travel cards. The draft Administrative Regulation for Chesapeake Purchase Card (P-Card) Procedures Manual stipulates the maximum expenditure limit of \$4,999.99 including \$2,500 for travel unless specifically authorized in writing by the City Manager. The draft Administrative Regulation specifically prohibits cash advances via P-cards.

**2009 Status** – This recommendation is in the process of being implemented. The City has initially limited P-Cards to limits of \$1,000 and \$4,999 respectively. While there may be some future adjustments to the limit amounts based upon need, any such adjustments would have to be approved by the City Manager's Office.

### **4. Departmental Review of Credit Card Purchases**

**Finding** - City departments had not been sufficiently assigned responsibility for management and control of their own credit card purchases prior to their submission to the Finance Department.

**Recommendation** – City Departments should take a greater role in reviewing their own credit card purchases internally.

**Response** – The draft Administrative Regulation for Chesapeake Purchase Card (P-Card) Procedures Manual mandates clear accountability, roles and responsibility within user departments at each level and for the Finance and General Services Departments which will administer the card program.

**2009 Status** – This recommendation has been implemented. On September 5, 2008 the City issued Administrative Regulation 1.23 entitled Chesapeake Purchase Card (P-Card) Policy. The policy governed the use of the P-Cards that were to be issued and detailed the responsibilities of departments, supervisors, and individual card holders.

**FOLLOW-UP REPORT**  
**FIRE DEPARTMENT**  
**PERFORMANCE AUDIT**

**September 2009**

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## **C. Payroll, Staffing, and Systems Issues**

### **1. Telestaff System**

**Finding** – The Fire Department was not utilizing the Telestaff system to its optimal capacity.

**Recommendation** - The Fire Department should reconfigure the Telestaff system and provide additional training, so that the system can be better utilized.

**Response** - The Telestaff system is currently utilized to automate and manage the staffing needs of the department. Daily staffing is currently managed by one of our on-duty Battalion Chiefs. On a daily basis, there are three Battalion Chiefs on duty. The Battalion Chief in this assignment acts as a Staffing Chief. In addition to the Fire Department's staffing responsibilities, this person is responsible for their daily administrative duties along with responding to emergency calls for service. He or she is responsible for initiating the system to staff all vacancies.

**2009 Status** – This recommendation has been implemented. Parameters have been developed within the Telestaff System to ensure the maximum 24-hour workday is not exceeded. Privileges to the Telestaff System have been narrowed to ensure that changes after finalizing the system each day at 9 a.m. can be made only by those authorized to do so (supervisory staff). On-screen notification is provided when errors occur (i.e. member assigned does not meet certification requirements for position to which they are being assigned; in excess of 24-hours worked). All reports are reviewed on a daily, weekly, and monthly basis. Also, the Fire Department's Telestaff Technician was to have attended "Crystal" Software training but end of year budget reductions required cancellation of this training. As a result, we have developed, in-house, other methods to produce exception reports utilizing applications available with the current Telestaff system.

Department policy changes with regard to hiring back fire officers to overtime positions below their pay grade have been developed and implemented to ensure officers are not routinely filling seats below grade. When necessary to meet staffing requirements, mandatory overtime will be employed. Status Reports have been developed and are reviewed by the Division Chiefs of Operations and Support Services at the end of each pay period. These reports provide the status of overtime usage and the reasons for the overtime. All CFD members have received training regarding the documentation of time and attendance records. Monitoring is on going; however, few errors occur and when found, are handled on a case-by-case basis to ensure consistency of application.

### **2. Payroll**

**Finding** – The Fire Department Payroll process needed to be enhanced. Supporting documentation was not always submitted in a timely manner. Discrepancies existed between forms received and entries processed on the Telestaff system, and the approval process for overtime forms was inconsistent.

**Recommendation** - The Fire Department should document internal payroll policy and procedures. Also, all supporting documentation for leave and overtime should be processed in the pay period in which it occurred.

**Response** - The Fire Department's payroll system is supported by 1.5 FTEs. With limited staff, we are experiencing time-consuming payroll processing and inaccuracy issues during data collection. Because payroll deadlines are prior to the end of each pay period, it is difficult at best to process leave and overtime within the pay period in which it has occurred. The Fire Department has requested an upgrade to our Part-Time Payroll position.

**2009 Status** – This recommendation has been implemented. Payroll policies and procedures have been re-enforced at all levels of management. These policies define payroll reporting procedures and are mirrored with the City's established payroll period reports. Overtime worked is reviewed and approved at the appropriate managerial level (company officer/battalion chief). All leave and attendance documents are submitted as a package to the Department's Support Services/Payroll Division before the City's established payroll dates, minimizing discrepancies. When discrepancies occur, they are caught immediately and corrected. Finally, cut-off dates for submission of cycle attendance records (Telestaff Reports) and leave slips have been provided to all management level supervisors via Department Policy.

### **3. Sick Leave Accrual**

**Finding** - The accrual rate for sick leave for City firefighters was 24 hours a month. This rate was three times the sick leave accrual rate of regular City employees. Sick leave for regular employees was being accrued at 8 hours per month as defined in the City's Employee Handbook. The work day for sworn firefighters who work a 56- hour workweek was defined as 11.2 hours. In addition, the sick leave accrual rate was also two to two and one half times the accrual rate of other cities in this geographic area. The work day for firefighters was not adequately documented in the City's Human Resources Administrative Regulations and related policies.

**Recommendations** - The sick leave accrual rate for firefighters who work 56 hours per week should be defined to be one 11.2 hour work day per month rather than the current accrual of 24 hours per month. The agreement should also be formalized as an Administrative Regulation.

**Response** –The sick leave accrual rate for firefighters who work 56 hours per week is defined as 24 hours for one day's leave per month. This rate was established in 1963 and has been in place since the Department's inception.

**2009 Status** - This recommendation has been implemented. The firefighter sick leave accrual rate was changed to reflect 11.2 hours per month effective July 1, 2008. Administrative Regulation 2.53, effective 07/08/08 was revised to formalize leave accrual rates for all City employees, including firefighters. Also, meetings were held with

the Departments of Human Resources, Information Technology, Finance, and Fire to ensure all procedures were in place to accurately calculate and track hours accrued and hours used under both old and new systems.

#### **4. Overtime**

**Finding** - Overtime increased by 15.4% from FY 2006 to FY 2007 and was over budget by \$1,743,952 for FY 2007 and \$1,969,977 for FY 2006. The Fire Department did not use cost as a factor in assigning overtime.

**Recommendation** - The Fire Department should take steps to enhance its efforts to manage and control overtime costs.

**Response** – There are many factors that contribute to overtime usage. Retirements, attrition, minimum staffing requirements, sick leave usage, annual leave usage, Military deployments, members on extended sick leave, temporary duty assignments to supplement the training staff for recruit academies, postponement of previously scheduled recruit schools are all contributing elements of staffing shortages.

**2009 Status** – This recommendation has been implemented. Overtime expenditures have dropped approximately 68% as a result of recruits from the last Academy being released to function at full certification. Overtime usage is monitored by the Operations Division Chief daily. An Overtime Usage Report is generated and reviewed weekly at Senior Staff meetings. Various Overtime Exception Reports have been developed and incorporated into the weekly review and are working well to track overtime usage in the Battalions. Department policy has been revised to ensure that fire officers are not routinely placed in overtime positions at a lower pay grade than that to which they are normally assigned. Finally, a Fire Recruit Academy began March 2, 2009 with 19 recruits completing our total compliment barring any further resignations/retirements or separations.

## **D. Other Administrative and Operational Issues**

### **5. Response Time**

**Finding** – The Fire Department was not able to meet the five minute first response time guideline promulgated by National Fire Protection Association Standard 1710 (NFPA 1710). In addition the existing twenty-year plan did not fully address the trend of the Fire Department toward increased EMS calls and decreased fire suppression calls, and only incrementally addressed the need to meet the NFPA 1710 requirement of a five minute first response time with full compliance in 2025.

**Recommendations** - The Fire Department should develop a comprehensive action plan that illustrates how it plans to achieve this goal of a five minute first response time.

**Response** – The Fire Department is committed to achieve the goals established in the NFPA 1710 standard. However, due to the intricacy of the NFPA 1710's response time requirement, the Fire Department would have to increase its complement of personnel, apparatus, and fire stations. There are some fire station locations that make it geographically impossible to achieve the response goals of the NFPA 1710 standard. The Fire Department recommended a Long-Range Plan to City Council in 2005. This plan includes incremental accompaniments of fire station relocations, new fire stations, personnel, fire apparatus and medic units. Due to the high cost of the entire plan, the Fire Department was advised to create a plan that was incremental. Thus, the plan encompasses 20 years.

**2009 Status** – This recommendation has been implemented. A blanket five-minute response time is no longer considered the benchmark for best practices for safety and customer service. On some types of calls, both fire alarms and EMS responses, the Chesapeake Fire Department has intentionally instituted policies and practices to actually slow down our response. Examples are dispatches to commercial alarms where statistics have shown that 99% are false alarms. It is simply an unsafe practice to have second and third due engines respond through heavy traffic and intersections in the emergency mode. On the EMS side, a response to a patient with the flu certainly requires medical attention, but not in an emergency response mode. The final patient outcome will be the same whether the arrival time is five minutes or 30 minutes. In other practices, to reduce risks to both the public and our employees, it is mandated that emergency equipment come to a complete stop at red lights and stop signs before proceeding through any intersection.

The Fire Department now has direct connection to VDOT's Smart Traffic Center, through both radio communication and traffic cameras. Emergencies on the interstate highways are now routinely a coordinated effort between the Fire Department and VDOT. The foundation necessary to institute the "Priority Dispatch System" has been completed. Various types of emergency medical calls have been categorized to include the appropriate level and speed of response. This prescription has been approved by the Department's Operational Medical Director. Also, the Fire Department is moving

closer to implementation of an automated Pre-hospital Patient Care Report System. The hardware has been mounted in the units and discussions are underway with Police, Fire, and Information Technology to coordinate the transfer of data from the 911 Center's CAD System to the E-PPCR System.

A new level of patient care, referred to as "Non-Emergency Treatment Care" (NETCare) has been developed to relieve the strain on the EMS delivery system during peak load demand times. This unit is a van-type ambulance, which cost about one third the price of our current advance life support (ALS) units, which will be staffed by part-time and Encore EMT-basic technicians. It will be used to transport basic life support (BLS) patients to the hospital, freeing cross-trained firefighter/medics for more serious, life-threatening responses and fire alarms. By placing this unit in service, more ALS units will be available for service directly effecting response time and service delivery. Applications for this part-time employment opportunity are being processed with salaries funded by vacancy savings when available. The vehicle has been purchased and is being outfitted for service. Due to the most recent budget cuts to the Department's overtime account, it is doubtful that sufficient funds will now be available to implement this new program this fiscal year 2009-10.

Turn-a-round time at the hospital has been addressed and resolved. A Joint Task Force involving the Fire Department and Chesapeake Regional Medical Center was formed to determine appropriate methods for reducing the turn-over time when CFD units deliver patients to the Emergency Room. Turnover time has been dramatically reduced enabling most units to be available for service within 15 minutes of arrival at the hospital, resulting in an increased the number of medic units on the street and reduced response times in many instances. Also, a Pilot Program using mobile EMS paramedic "Zone Cars" was introduced and proven successful for responses requiring ALS care/supervision. A three-year plan was developed and presented to City administrators to illustrate the effectiveness and efficiency of a system that utilizes both zone cars and NETCare transport units: this project will be deferred until adequate funding can be established. In addition, since release of this audit, two (2) additional medic units have been placed in service; one in the Bell's Mill Station (Sta. 15) and the second in the Bower's Hill Station (Station No. 10). These new units bring the total number of units in the City to 12, improving system capacity and response times. The Department's 20-year Plan will be revised to include the above mentioned EMS components.

Where practical and affordable, recommendations provided for this particular component of the audit have been or will be implemented. In some cases, however, extreme budgetary restrictions will prohibit the Fire Department from fully meeting all expectations as defined by the auditors. In all cases, we will continue to pursue best practices and the most effective and efficient methods for the delivery of service.

## **6. Donation Account**

**Finding** - The donation account was not being used as originally intended. Funds were not endorsed and deposited immediately upon receipt, cash receipt and cash disbursement journals were not being maintained, and the account has not been reconciled monthly.

**Recommendation** - The donation account should only be used for donations. Supporting documentation should be maintained for all transactions. The donation account should be reconciled on a monthly basis.

**Response** - In the past, the City disposed of the deferred accounts in the mainframe and created a "donations" account in PeopleSoft. We were told to use the account in the same manner as the deferred account. Therefore, we continued to include refunds and reimbursements. Much later a recovery and rebates account was established to deposit these funds and segregate them from the donations. Deposits were made as batches and not on a daily basis. This has been corrected and deposits are made when a payment is received. A monthly reconciliation is now part of the closing process.

**2009 Status** – This recommendation has been implemented. Only donations received for the express purpose of supporting Fire Department activities are deposited into the Department's "Donations" account. Accounting staff attended PeopleSoft training and all funds are now processed through the PeopleSoft accounting system. The Accounting Supervisor or designee maintains disbursement and receipt journals for the account. All donations in the form of checks are copied and date stamped before deposit. Cash deposits are noted on the appropriate forms and date stamped prior to deposit. All supporting documentation is maintained for the appropriate time frame as determined by the Library of Virginia Records Retention Schedules. All donations are deposited, through the City Treasurer's System, within 24-hours of their being received. The Department's Accounting Technician reconciles the "Donations" Account on a monthly basis in conjunction with the monthly statements for the account. Finally, all donations/expenditures from the "Donations" Account are properly documented and reviewed prior to deposit/expenditure to ensure such actions are appropriate to the accounts.

## **7. Review of the Public Access Defibrillator (PAD) Program at the City Hall Building**

**Finding** – The list of Access Emergency Defibrillator (AED) Operators at the City Hall building was not current, contact numbers were not listed, and several AED Operators' listed had not been recertified. In addition, the equipment was not being tested in accordance with the Fire Departments Standard Operating Procedures.

**Recommendation** – The Fire Department should ensure that the PAD program is monitored and is operating in accordance with Fire Department Standard Operating Procedures. In addition, we recommend that all buildings and departments where PAD units were placed be reviewed to ensure the lists of AED operators contain current information that AED operators have been recertified.

**Response** – A revision to the Standard Operating Procedure for the Fire Department's PAD Program has been completed. This standard operating procedure outlines the processes for training, recertification, equipment maintenance and testing, and Fire Department integration.

**2009 Status** – This recommendation has been implemented. In an effort to correct this issue, Chief Fermil attended the November 5, 2008 Department Head Meeting and gave an informational presentation on the PAD program and solicited volunteers to participate in the program. The City Manager directed all department heads to provide a list of names of employees from their respective departments to participate. Since that time, additional training and certification classes have been conducted.

AEDs have been placed on floors 2, 4 and 6, and appropriate directions have been provided. Every floor in the City Hall Building now has an AED readily accessible. The list of AED Operators on each of the floors is updated as training occurs. This will be an on-going program with changes to the lists made as appropriate. A list of qualified operators has been revised to include the operator's name, department, and telephone extension, and has been placed at each PAD location. Procedures for deployment of the devices have also been included. Ten (10) employees from Public Utilities and thirteen (13) employees from Information Management have been certified. Training of employees and addition of AEDs to the program is on-going.

Current policy is under review to meet the requirements of new AEDs. Certification and re-certification has begun and is on-going. During the certification process policy and procedures are reviewed with participants. A retired fire lieutenant has agreed to help manage this program on a volunteer basis.

## **8. Hot Zone Enterprise**

**Finding** - Our test of the records revealed that Hot Zone Enterprise was not legally established as a not-for-profit entity.

**Recommendation** - The Fire Department should ensure Hot Zone Enterprise's compliance with the IRS tax code, State Corporation Commission rules, and trademark regulations.

**Response** - The Hot Zone is a not-for-profit fund raising enterprise that supports the Morale and Recreation activities for the firefighters, paramedics, civilian support staff and their families. One-hundred percent of the donations are used to fund special events such as the Family Picnic Day, the Annual Retirement Dinner, and the Christmas Parade Cook-out.

**2009 Status** – This recommendation has been implemented. All issues with regard to the “Hot Zone” have been resolved. Non-stock corporation status has been approved and all appropriate paperwork filed with the state to achieve non-stock corporation status.

**FOLLOW-UP REPORT**  
**EMERGENCY COMMUNICATIONS**  
**SPECIAL AUDIT**

**September 2009**

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## **B. Staffing Shortages and Working Conditions**

**Finding** – During the past four years, the staffing level of Emergency Communications has been short by an average of 9 people. This condition was exacerbated by a 35 percent turnover rate among new hires. As a result, there was a lack of fully trained personnel, and Emergency Communications experienced mandatory overtime, high stress levels, and lowered morale. Also, the dispatchers indicated that the working environment contributed to the morale issue.

**Recommendation** - We recommend that Emergency Communications take immediate action to attempt to hire sufficient qualified candidates to bring Emergency Communications up to the total number of authorized full time equivalents (FTEs) and develop a contingency plan in the advent that the current staffing level drops below the functional minimum. Steps should also be taken to improve working conditions.

**Response** - In Section B. Staffing, Shortages and Working Conditions, the second paragraph states the staffing requirement was set at 30 people per day. This is incorrect as the minimum staffing requirement is 27 persons per day composed of 10 each for day and evening shift and 7 for midnight shift. While the minimum staffing level is 27, a staffing level of 30 is suggested to allow personnel to take meal breaks, restroom breaks and perform necessary administrative duties (i.e. cycle sheets, training evaluations, etc.). Without the addition of 1 person per shift, the inability or very decreased capability for personnel to have meal or restroom breaks only adds to the stress and environmental discomfort. Without the additional person, administrative duties would have to be performed on overtime after normal work hours, again adding to discontent. Additionally, scheduling at minimum staffing levels was attempted, but only caused more severe issues when personnel who called out had to be replaced by keeping someone over from the previous shift. This meant employees had to work unplanned double shifts as a common practice.

**2009 Status** – This recommendation is in the process of being implemented. The Department is continuing to fill dispatcher vacancies and had made procedural arrangements with Human Resources that initially helped expedite the hiring process. However, as a result of additional procedures necessitated by the citywide hiring freeze, the Department is no longer able to utilize the expedited process, and an additional delay, averaging approximately one month, has been added to the process.

## **C. Hiring Process**

**Finding** - Emergency Communications hiring process was not as streamlined as it could be.

**Recommendation** - Emergency Communications management should develop and implement a streamlined hiring process. In addition, recruitment efforts should be expanded to increase the population of quality candidates.

**Response** - The audit report states that our hiring process takes between 4 and 9 months which is not consistent with the actual times (Auditor's Note: The report language has since been revised). While the hiring process taken one piece at a time may take months, several parts are often combined or overlap to cut the actual hire time as much as possible. The table below shows the Emergency Communications employees hired from 7/1/06 to the one that will start next Monday, 4/16/07.

**2009 Status** – This recommendation is in the process of being implemented. The Department is continuing to fill dispatcher vacancies and had made procedural arrangements with Human Resources that initially helped expedite the hiring process. However, as a result of additional procedures necessitated by the citywide hiring freeze, the Department is no longer able to utilize the expedited process, and an additional delay, averaging approximately one month, has been added to the process.

#### **D. GIS Deficiencies**

**Finding** – Emergency Communications identified significant GIS deficiencies related to the new CAD system that had not been corrected.

**Recommendation** – We recommend that, in the short term, sufficient GIS resources be designated to work with Emergency Communications management to resolve all GIS issues immediately. In the long term, Emergency Communications needs to have a dedicated GIS resource that places the needs of Emergency Communications as its first priority.

**Response** - In Section D, we completely agree there are GIS issues which need to be immediately addressed, the Police Department needed additional GIS resources before the implementation of the new CAD system and still, has substantial GIS issues related to the new CAD system that must be resolved. The Police Department requested a position that would handle GIS and specific related CAD/GIS tasks in the last 3 years of budget requests. In the budget request, we outlined the issues that would result without direct and dedicated GIS support. The Police Department was not granted that position, nor was the GIS support position approved for any other department. As such, we worked with City GIS personnel that were not dedicated to E911 GIS issues and did not have the best working knowledge of how the CAD would work or of how GIS issues would affect public safety responses. In the proposed budget for fiscal year 2007-2008, there are 2 GIS positions that would assist with E911 & CAD issues. One of the GIS positions, although assigned to the City's Information Technology Department, would be for direct support of E911 GIS issues. Until that time, we will need to work on as many of the GIS issues as possible.

**2009 Status** – This recommendation has not been implemented. While the City originally planned to hire two GIS Analyst positions as part of the FY 2008 budget process, with one position assigned to Information Technology and the other to Emergency Operations, only one position (Information Technology's) was filled, apparently because of budget concerns. While the GIS Analyst that was hired does review Emergency Operations issues on a case-by-case basis, according to the Department, the involvement usually happens after some kind of problem and/or system failure. Therefore, most of the GIS deficiencies noted in the audit have not yet been resolved, and dispatch personnel have to perform essential GIS work instead of their dispatcher duties, which exposes the City to potential liability. Consequently, the Department would like to see the position filled so that the dispatchers can better focus their efforts on their regular duties.

### **E. Realignment and Relocation of Emergency Communications**

**Finding** – It did not appear that the continuation of Emergency Communications operation within the Police Department was an optimal organizational structure.

**Recommendation** – The City should strongly consider transferring responsibility for Emergency Communications to another area, such as Information Technology, or a similar entity, that will ensure sufficient technological support for Emergency Communications.

**Response** - Section E is a recommendation to realign and relocate Emergency Communications. First, the basis for the recommendation appears to be biased as the only two managers that the Auditor states meeting with both are civilian managers over emergency communications centers falling under non-public safety departments. I consider both of these managers to be friends of mine, respect their opinions and am confident that neither of them would state that Chesapeake Emergency Communications is any less effective or efficient than their own centers. I believe equal time should have been given to managers under public safety departments. If that had been done, I believe the audit would have shown there to be just as many valid reasons for Emergency Communications to remain as either under a public safety department or realigned as an independent public safety department.

**2009 Status** – This recommendation will not be implemented. After reviewing the matter and noting that 90 percent of the 911 calls are police-activity related, City management and the Police Department have decided to maintain Emergency Operations as a Police function. They do plan to pursue facility improvements in the future to enhance the working environment for the dispatchers.

## **Managerial Summary**

### **A. Objectives, Scope, and Methodology**

We have reviewed the City of Chesapeake Virginia's (City's) internal controls over American Recovery and Reinvestment Act (ARRA) funding. The purpose of this audit was 1) to evaluate the City's quality assurance procedures for financial and operational reporting relative to ARRA and 2) evaluate the accuracy of the City's initial ARRA reporting and the effects that any potential changes in federal reporting requirements may have on future City-submitted ARRA reports.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The American Recovery and Reinvestment Act was signed into law on February 17, 2009. It had five stated purposes:

- To preserve and create jobs and promote economic recovery;
- To assist those most impacted by the recession;
- To provide investments needed to increase economic efficiency by spurring technological advances in science and health;
- To invest in transportation, environmental protection and other infrastructure that will provide long-term economic benefits; and
- To stabilize state and local government budgets, in order to minimize and avoid reductions in essential services and counterproductive state and local tax increases.

ARRA included 23 title chapters covering appropriations, taxes, unemployment, health care, state fiscal relief, and other provisions. The \$787 billion stimulus package contained \$288 billion in tax credits, \$144 billion in state and local fiscal relief, and \$355 billion of federal spending programs.

Within the City of Chesapeake, as of December 31, there were eleven grants totaling \$7,534,571 for which funds had been appropriated, and another five grants totaling \$7,466,667 which the City had been awarded but for which funds had not yet been appropriated. Grant expenditures totaled \$3,590,199, or 23.93 percent of total grant awards of \$15,001,238. Only two people had been hired or retained utilizing City ARRA funding, though several additional hires were planned. However, we did note that 120 youths participated in the City's ARRA-funded Summer Youth Employment Program. A summary of each program is included in Appendix B.

To conduct this audit, we reviewed Citywide ARRA reporting practices to ensure that 1) the City was following federal requirements and 2) City directives for financial reporting, jobs-creation reporting and other relevant operational reporting were being followed. We also evaluated City reporting procedures against adjustments in federal reporting requirements, to help ensure that future ARRA reports maintained compliance with federal reporting guidelines.

## **Major Observations and Conclusions**

Based upon our review, we found that the City was well prepared to receive and expend ARRA Act funds. Overall, procedures to meet basic requirements had been implemented. Consequently our recommendations were made predominantly for the purpose of improving future ARRA reporting and accountability processes rather than correcting material weaknesses.

We recommended that the City ensure that funding for Social Services-related ARRA grants was appropriated in amounts sufficient to cover grant expenditures. We also recommended that the City take steps to ensure that jobs funding statistics were reported accurately for its Community Development Block Grant (CDBG-R) project.

This report, in draft, was provided to City ARRA Compliance Team members for review and response. Their comments have been considered in the preparation of this report. These comments have been included in the Managerial Summary, the Audit Report, and Appendix A. All of the team members and ARRA program managers were very helpful throughout the course of this audit. We appreciated their courtesy and cooperation on this assignment.

### **B. Overview - City ARRA Programs**

According to guidelines developed by the Federal Office of Management and Budget (OMB), the City was considered to be a primary recipient on four of its appropriated grants, totaling \$3,663,126, a Sub-recipient on seven appropriated grants, totaling \$3,871,445, and five unappropriated grants totaling \$7,466,667. Grant expenditures as of December 31, 2009 totaled \$3,590,199 or 23.93 percent of total grant awards of \$15,001,238. The City was also planning to issue ARRA bonds totaling at least \$2,555,000. Information on these programs is provided in Appendix B.

In addition, the City had developed an extensive quality control program to help ensure the accuracy of reports submitted for ARRA. We noted there was only one relatively minor Federal correction on each of the City's October 10, 2009 and January 10, 2010 quarterly report submissions.

## **C. Findings and Recommendations**

Based upon our review, we found that the City was well prepared to receive and expend ARRA funds. Overall, procedures to meet basic requirements had been implemented. Consequently our recommendations were made predominantly for the purpose of improving future ARRA reporting and accountability processes rather than correcting material weaknesses.

We recommended that the City ensure that funding for Social Services-related ARRA grants was appropriated in amounts sufficient to cover grant expenditures. We also recommended that the City take steps to ensure that jobs funding statistics were reported accurately for its Community Development Block Grant (CDBG-R) project.

### **1. Expenditures for ARRA-related Social Services Programs**

**Finding** – Expenditures for the City’s ARRA-related Social Services programs were likely to exceed funding initially appropriated for the programs.

**Recommendation** – The City should ensure that funding is appropriated sufficiently to cover expenditures for all ARRA–related Social Services programs.

**Response** - The City has fully implemented this recommendation and has ensured that adequate appropriation is available to cover expenditures related to all ARRA Social Services programs. Currently, there are no grant documents provided by the State. The City Department of Human Services is notified on a monthly basis when reimbursement rates are revised. Review and adjustments of estimated budgets are prepared quarterly.

### **2. Jobs Funding Statistics for CDBG-R Grant**

**Finding** - The City was planning to allow a third party contractor to develop jobs funding statistics for an ARRA project funded by the CDBG-R grant.

**Recommendation** – In this particular instance, the City should assume primary responsibility for reporting the jobs funding information.

**Response** - The City agrees with the recommendation. As part of the City’s Quality Assurance Plan special terms and conditions are included in all contracts funded in whole or in part with ARRA funds. Included in these special terms and conditions is a checklist for the sub-recipients and vendors to address jobs created or retained under ARRA. The City has chosen not to delegate its reporting responsibility to its sub-recipients and has instead assumed primary responsibility for all reporting where the City is the prime recipient of ARRA funds.

## **Managerial Summary**

### **A. Introduction, Background, and Scope**

We have completed a special audit on the Control Impacts of Staffing Reductions for the period July 1, 2009 to January 31, 2010. The purpose of this audit was to evaluate the effect of staffing reductions on internal controls and departmental operations. This audit was requested by the City Manager's Office and also was recommended by the City's external auditors.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

In May 2009, the City Council voted to eliminate 37 largely vacant positions as part of its Fiscal Year 2010 Operating Budget (FY 2010 budget) approval process. When the elimination of these positions and a City-sponsored voluntary retirement incentive program did not provide sufficient savings to balance the FY 2010 budget, the City instituted a Reduction-in-Force (RIF), laying-off 23 employees in filled positions as part of the process. The retirement incentive program allowed 65 employees to retire, which then resulted in 18 full-time, 15 part-time, and 6 Encore positions being deleted or reduced in hours or classification. Those positions vacated with the retirement incentive program will be evaluated during subsequent departmental performance audits.

In November 2009, the City Manager's Office requested that Audit Services review the internal control impacts associated with the positions eliminated during the operating budget approval process as well as the positions associated with the RIF. The City's external audit firm, Cherry, Bekaert & Holland, also raised the issue of the internal control impacts during its year-end presentation to the City Council's Audit Committee. The Audit Committee concurred with this request and Audit Services initiated this audit in December 2009.

To conduct this audit, we utilized the FY 2010 budget document's listing of positions eliminated as well as a listing from Human Resources of staff positions that were eliminated in the October 2009 RIF. We then surveyed City departments that had lost positions, and evaluated the internal control and service delivery impacts of the losses.

## **Major Observations and Conclusions**

Based upon our review we noted that, although there were several positions whose eliminations did not have adverse internal control or service delivery impacts, there were many other positions whose elimination created these adverse impacts. Generally we found that the services provided were still provided, but certain non-emergency services were not carried out in as timely a manner as before. We also found that internal controls as defined by (1) Effectiveness and efficiency of operations; (2) Reliability of financial reporting and (3) Compliance with applicable laws and regulations were being met, but with increased risk, particularly as it related to separation of functions.

We noted significant adverse internal control impacts in Finance, General Services, Information Technology, Parks and Recreation, Police, Public Utilities, and the Treasurer's Office. We also noted significant service delivery impacts in Development and Permits, Health, Human Resources, Libraries and Research Services, Parks and Recreation, Planning, Public Utilities, and the Sheriff's Office. To address this situation, we recommended that the City develop an Administrative Regulation that provided guidance to departments for assessment of internal controls, operational controls, and service impacts whenever reductions occurred.

This report, in draft was provided to the City Manager's Office for review and response, and their comments have been considered in the preparation of this report. These comments have been included in the managerial summary, the Audit Report, and Appendix A. All of the City departments we worked with were very helpful throughout the audit, and we appreciated their courtesy and cooperation on this assignment.

### **B. Background**

In response to a budgetary shortfall in local revenues that was initially projected to be as large as \$30 million, the City Manager proposed eliminating 44 positions in the FY 2010 Operating Budget. Most of these positions were vacant although, in seven instances, the budget proposed changing filled full-time positions to part-time status.

When the position eliminations and a voluntary retirement incentive program did not provide cost savings sufficient to balance the FY 2010 budget, the City initiated a RIF. The City Manager's letter to all City employees (dated October 30, 2009) identified Group 1 employees as outlined in Administrative Regulation 2.17 as subject to the Reduction-in-Force (RIF). Those were part-time and full-time employees whose last overall performance evaluation had a rating of "Improvement Required" or "Unsatisfactory Performance."

### **C. Administrative and Operational Issues**

Based upon our review we noted that, although there were several positions whose eliminations did not have adverse internal control or service delivery impacts, there were many other positions whose elimination created these adverse impacts. Generally, we

found that the services provided were still provided, but certain non-emergency services were not carried out in as timely a manner as before. We also found that internal controls as defined by (1) Effectiveness and efficiency of operations; (2) Reliability of financial reporting and (3) Compliance with applicable laws and regulations were being met, but with increased risk, particularly as it related to separation of functions.

**Finding** – The City’s internal control structure and service delivery were being adversely impacted by the elimination of positions occurring as a result of the budget process and the RIF.

**Recommendation** – To minimize the effects of staff reductions and vacancies, the City should implement guidance, preferably in the form of an Administrative Regulation, for assessment of internal controls and operational service impacts. Additionally, the City should take steps to ensure that controls in areas impacted by staffing reductions are adjusted to compensate for the positions lost.

**Response:** We have reviewed the subject draft report. Our response is three-fold as follows:

As I shared with you last week, the report does not account for reductions related to the Voluntary Retirement Incentive Program. Human Resources reviewed the report and provided additional information and comments. These were provided to you last week via e-mail.

The report has been reviewed by City Manager's staff and we intend to work with departments to address areas of concern. Some of the stated impacts of reductions were not information which was shared with management when budget decisions were made in developing the FY 2009-10 Operating Budget. However, we believe some of the impact can be addressed through sharing of resources and some changes in operational practices. Other impacts are simply the unavoidable consequence of reduced resources. We anticipate additional and more significant impacts on services in FY 2010-11.

We have contacted the Government Finance Officers Association to seek models for administrative guidance for ensuring maintenance of internal controls in an environment of shrinking personnel resources. If you or your staff is aware of such a model, we would welcome such information as we wish to meet your recommendation of providing such guidance to departments as quickly as possible. Developing such guidance "from scratch" will require time, given resource constraints. We will share the guidance we develop with you as soon as it can be developed.

## **Managerial Summary**

### **A. Introduction, Background, and Scope**

We have completed our review of the City of Chesapeake's Libraries and Research Services Department (Library) for March 30, 2009 to November 30, 2009. Our review was conducted for the purpose of determining whether the Library was providing services in an economical, efficient, and effective manner, whether its goals and objectives were being achieved, and whether it was complying with applicable City and Department procedures in the areas of operations, collections management, cash, fees and fines, and information technology.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The Library provided needed services within the 353 square miles of the City of Chesapeake (City) through seven established branch libraries and a bookmobile which served the various neighborhoods of the City. The Library served as the main educational and cultural repository of information and literature for the City, and was tasked with acquiring educational, informational, and recreational material in various formats whether print, electronic, or virtual. The Library also continually developed new and updated programming and services to meet the needs of the City's citizens. Part of its strategic plan was to become an even more popular destination and "community living room." In addition to its public programming, the Library also maintained and coordinated the City's Records Management program as well as the Law Library.

For Fiscal Year (FY) 2009-2010, Library and Research Services received State and City funds, had an operating budget of \$7,880,761, and an authorized compliment of 84 full-time personnel. The Library's administrative offices were located primarily on the second floor of the Central Library.

To conduct this audit, we reviewed and evaluated City and Library policies and procedures, operations documents and reports, conducted surveys of other Libraries, and also conducted tours of the Library's seven branches and bookmobile. We discussed these audit areas and conducted interviews with the Director, Assistant Director, Branch Managers, Collection Management Services Manager, Information Systems Manager, Records Manager and several administrative support employees.

## **Major Observations and Conclusions**

Based on our review, we determined Library and Research Services had accomplished its overall mission of serving as the educational and cultural repository of information and literature for the City. The Library successfully provided information, recreational, and educational resources, and developed services, technology and programs to meet the interests and needs of Chesapeake citizens.

Although the Library had accomplished its overall mission, we did identify some areas of concern. Those areas included cash controls; unpaid patron accounts, the process for collecting delinquent patron accounts, general building safety and security, controls and decisions concerning Information Technology, affiliated nonprofit organizations, and Collection Management (ordering, receiving, and cataloging books and other items within the Library).

This report, in draft, was provided to Library 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, and the Audit Report. The Library concurred with most of the report's recommendations and has either implemented or begun the process of implementing many of them. Library management, supervisors, and staff were very helpful throughout the course of this audit. We appreciated their courtesy and cooperation on this assignment.

### **B. Performance Information**

The Library provided at no charge to Chesapeake residents and employees access to DVDs, CDs, written books, books on tape, graphic novels, events, public computers, learning resources, and quiet reading and study areas. The Library provided the same services to those living outside Chesapeake for an annual fee of \$35.

The Library has had a positive impact on the City's residents. A telephone survey of Chesapeake citizens was conducted by Continental Research Associates, Inc., a Hampton Roads marketing research firm. A total of 301 interviews were completed from August 23<sup>rd</sup> through September 18<sup>th</sup> of 2007. The purpose of the study was to learn how Chesapeake residents felt about their community and the services that were provided by the City. In this survey, the Library had the third highest score for level of satisfaction of any City department or service ranked in the survey. Only the Fire and Police Departments scored higher. The Library had a satisfaction score of 82.4%. The Library also scored 75.1% when it came to services most important to the citizens.

### **C. Cash Controls**

We identified some areas where cash control practices could be enhanced. For example, there was no audit trail of which employee conducted cash transactions; and cash was left in filing cabinet drawers or in cash registers overnight.

## **1. Cash Handling Processes**

**Finding** – The Library’s cash handling processes needed to be improved and controls and safeguards over cash needed to be enhanced.

**Recommendation** – The Library should establish and document cash handling and control procedures that ensure cash is adequately safeguarded. The procedures should address cash controls for Circulation, Reference, and Courier personnel. In addition, the Library should develop an ongoing monitoring process to ensure adherence to cash handling, cash control, and courier procedures.

**Response** – The Library recognizes the importance of training staff on cash handling, developing written policies and training manuals, and ensuring that all policies are consistently practiced and monitored. The Library is producing written cash handling procedures and will work with the Treasurer’s Office in the development of these procedures. Based on the Auditor’s recommendations several new processes have already been put into place and additional procedures will be implemented in 2010. (Note: The full text of the Library response is included in the body of the audit report.)

## **D. Unpaid Balances and Delinquent Accounts**

We noted that there was a significant unpaid library fine and fee balance that exceeded \$271,000. We also found that the delinquent account collection process utilized to collect the unpaid fines and fees was labor intensive and cumbersome. As a result, we recommended that the Library become more proactive in attempting to collect the fees. We also recommended greater coordination between the Library staff and the Treasurer’s Office in collecting the unpaid balances.

### **1. Unpaid Balances**

**Finding** – The Library carried an unpaid fine/fee revenue balance in excess of \$271,000, and the delinquent account notification process was cumbersome.

**Recommendation** - The Library should take steps to revise the collection process to so that it (1) pursues uncollected fines/fees in a more proactive manner and (2) streamlines the delinquent account collection process.

**Response** - The auditor’s examination of the Library overdue collection system correctly identifies the need for an overhaul of the process. The methodology has not been updated for many years to reflect changing realities; including personnel costs, postage costs, and the possibility of electronic transfer of information between City Departments. The overdue collection process will be streamlined and modernized. Between 04/01/09 and 3/31/09 the Library had an overall loss rate of less than .4% of all circulated items. Less than 3% of all circulated items have outstanding fines. Both the Auditor and the Library agree that the new proactive policies should significantly reduce the amount of outstanding debt. (Note: The full text of the Library response is included in the body of the audit report.)

## **E. Building Security and Safety**

We observed and conducted testing of the safety and security of the Library branches. We noted that patron and staff safety and security in general were satisfactory, although there were some areas of concern. We observed that the children's section of all but one branch had obstructions blocking the staff from observing all areas of the room. Additionally, the Library did not have written and practiced procedures for emergencies. Also, there was no standardized procedure for ensuring that the required safety and security checks of equipment occurred. Finally, there were concerns of the physical condition of the Library facilities.

### **1. Patron and Employee Safety and Security**

**Finding** – The patron and employee safety and the physical security practices and procedures of the Library buildings needed to be enhanced.

**Recommendation** – The Library should develop, document, and implement a comprehensive security program that addresses the various types of emergency situations and the physical security of buildings.

**Response** - The Library has multiple safety and security procedures in place to handle a wide range of daily routines and emergencies, but it does not have an updated and comprehensive plan. The Library is currently developing a new security and emergency management plan for implementation this summer (2010). Ensuring the safety of the public and the staff is an administrative priority.

### **2. Condition of Library Facilities**

**Finding** – The Library's building facilities had a number of unresolved maintenance requests, and there was no centralized system to monitor the status and frequency of service requests.

**Recommendation** – The Library should work with Facilities Management to 1) complete open maintenance requests and 2) develop a more efficient centralized internal maintenance request system that could summarize maintenance requests and provide follow-up information in a timely fashion.

**Response** – The Library will work with General Services to develop a comprehensive long-range facilities maintenance plan for the system. The plan will also include a replacement cycle for furniture, wall coverings, painting, upholstery, carpet, and other needed renovations on an ongoing basis. The Library facilities, with almost two million visits per year, must have a designated budget and replacement cycle for the interiors that coincides to the life cycle of the item.

## **F. Information Technology**

We observed the operation of the Library's Information Technology (IT) department and had several areas of concern that included: security and redundancy of the computer systems, independence from the City's IT, and capabilities of Symphony in areas of financial management.

### **1. System Security Procedures**

**Finding** – Security procedures and system access and software controls related to information technology needed to be enhanced. In addition, the Library IT staff was not adequately trained to extract data from the library's automated systems and was not provided with a test environment to manipulate data outside the production environment.

**Recommendation** – The Library should take steps to enhance its security procedures and system access and software controls related to information technology operations.

**Response** - The IS Department maintains innovative, current, secure, efficient, and cost effective technology that keeps the Chesapeake Library System in the forefront of library technology. Our technology stands a cut above our contemporaries in the Hampton Roads area. CPL was the first Library to introduce Wi-Fi to our patrons, content filtering as required by law, fully compliant RFID self-checkout, PC reservation and print management.

## **G. Non Profit Agreements and Controls**

There was no written agreement between the Friends of the Library or the Chesapeake Public Library Foundation and the City authorizing City employees to handle their funds. Also, donations to the Friends of the Library were not adequately controlled, and the Foundation accounting process lacked segregation of duties.

### **1. Formal Nonprofit Agreement**

**Finding** – The City did not have a formal agreement with the Friends of the Library (FOL) or the Chesapeake Public Library Foundation (Foundation) that authorized the Library to use City resources to handle financial transactions on behalf of the FOL or the Foundation.

**Recommendation** - The City should obtain formal signed agreements with the FOL and the Foundation that authorizes use of City resources to collect funds, sign checks, and handle cash or process financial transactions on their behalf.

**Response** – The Library will develop a written Memorandum of Understanding between both the Friends of the Library and the Chesapeake Public Library Foundation and the City authorizing City employees to handle their funds. The Memorandum will specifically outline the responsibilities of both parties according to the auditor's recommendations. Donations to the Friends of the Library are now strictly controlled following the Auditor's recommendations.

## **2. Controls Over Friends of the Library Donations**

**Finding** – Donations received on behalf of the (FOL) at various library locations were not counted, controlled and locked in a safe each night.

**Recommendation** - The Library should establish and document procedures for handling and controlling cash/check donations and sales received on behalf of the Friends of the Library. In addition, the Library should establish a monitoring process to ensure that Library branches are adhering to established procedures.

**Response** – All recommendations have been fully implemented.

## **3. Foundation Accounting Process**

**Finding** – The accounting process for the Chesapeake Public Library Foundation (Foundation) lacked adequate segregation of duties. In addition, donations received at library locations were not always deposited within three days from receipt.

**Recommendation** – The Library should ensure that adequate segregation of duties is included in the accounting process. In addition, the Library should develop documented procedures for handling donations made to the Foundation.

**Response** - The Foundation Treasurer has access to the accounts online and reviews all statements on a monthly basis. The Foundation Treasurer is an authorized signer for the Foundation checking account. The individual signing the checks reviews all supporting documentation and initials/dates the material provided before signing the check.

## **H. Collection Management**

The Collection Management System Department ordered, received, and cataloged each item added to the Collection. The process was divided into three groups: ordering and receiving, processing and cataloging written items, and processing and cataloging other items such as DVDs and CDs. While the Library had centralized the ordering process to streamline and economize the process, we observed Collection Management practices that needed to be addressed to enhance performance and costs and ensure the validity of the Collection.

### **1. Inventory Spot Checks**

**Finding** – The Library did not have a formalized process for spot checking inventories, and was not optimizing its use of RFID scanners and labels.

**Recommendation** – The Library should develop a more formalized process for spot checking inventories, and should explore methods of optimizing its use of the RFID scanners.

**Response** – During the past year the Library implemented the new RFID system, tagged over half a million items, and implemented self check. The self check has been enormously successful with a current 95 percent use rate. The savings in staff time has allowed the Library to keep pace with the large increases in use over the past year with a reduced staff. The Library is excited and intrigued by the possibilities of inventory management that RFID offers, but has not yet had time to pursue. We look forward to the opportunity to fully explore the options mentioned by the Auditor, as well as other possible applications.

## **Managerial Summary**

### **A. Introduction, Background, and Scope**

As part of the annual audit plan, we reviewed the City of Chesapeake's Public Procurement processes for the period of July 1, 2005 to December 31, 2009. Our review was conducted for the purpose of evaluating the function's procurement practices to determine whether (1) processes were effective and efficient, and (2) written procedures ensured that goods and services were procured "...in a fair and impartial manner with avoidance of any impropriety or appearance of impropriety, that all qualified vendors had access to public business and that no offeror be arbitrarily or capriciously excluded, and that competition be sought to the maximum feasible degree" consistent with the Virginia Public Procurement Act (VPPA). This Public Procurement audit focused significantly on automated controls and system processes.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

For Fiscal Year (FY) 2009-2010, Public Procurement had an operating budget of \$793,636 and an authorized compliment of 9 full-time personnel. Of these, one Procurement Specialist was temporarily assigned to work on the Human Resources Information System implementation project and was not available for regular purchasing duties during most of the review process. Public Procurement occupied offices on the fifth floor of City Hall and operated the City Hall mailroom on the first floor.

The City's procurement practices were subject to the VPPA, City Ordinances Chapter 54, and Administrative Regulations 4.01 and 4.12. These laws, rules and regulations were established to provide fair and equitable treatment for all persons involved in providing goods and services to the City, and were intended to maximize the purchase value of public funds in procurement, establish purchasing authority within the City, and to provide safeguards for maintaining a procurement system of equality and integrity. Small businesses and businesses owned by women and minorities were encouraged to participate in the City's procurement transactions. Public Procurement was also charged with the responsibility to dispose of all City owned property that was declared surplus by City departments.

To conduct this audit, we reviewed and evaluated City and Public Procurement policies, procedures, and operations, contract documents and reports. Also, we reviewed the Virginia Public Procurement regulations, the related Vendor Manual, as well as PeopleSoft (PS) documentation and manuals. We discussed these audit areas and conducted interviews with the Deputy City Manager for Finance and Administration, the former Purchasing and Contract Manager, acting Procurement Administrator, Office Coordinator, both Office Assistants, Assistant Buyer, and the Procurement Specialists. We also held in depth discussions with Information Technology's (IT) independent PeopleSoft consultant contracted to assist with the 9.0 upgrade, and extracted data from PeopleSoft for analytical purposes.

### **Major Observations and Conclusions**

Based on our review we determined that, although Public Procurement strived to provide a responsive, efficient, and cost effective purchasing operation which would safeguard Chesapeake's resources, there were several significant operational issues that hindered Public Procurement's ability to carry out its objectives. These issues included significant system implementation deficiencies, excess use of certain contracts by departments, lack of centralized contract administrative procedures, changes in Public Procurement's reporting structure, purchase order creation and management issues, potential for conflict-of-interest, and service delivery perception issues.

We recommended that Public Procurement revisit its system implementation, ensure that departments use contracts consistent with their intended purposes, and work with the City to develop an administrative regulation for contract administration. Also, the City should stabilize Public Procurement by returning it to full departmental status, and Public Procurement should develop procedures for purchase order creation and management, develop written conflict-of-interest procedures for internal use, and continue to work with departments to improve perceptions of its service delivery.

This report, in draft, was provided to Public Procurement officials for review and response, and their comments have been considered in the preparation of this report. These comments have been included in the Managerial Summary, the Audit Report, and Appendix A. Public Procurement management, supervisors, and staff were very helpful throughout the course of this audit. We appreciated their courtesy and cooperation on this assignment.

## **B. Performance Information**

Public Procurement had a direct impact on all other agencies, departments, and functions of the City of Chesapeake. City Ordinances established Public Procurement as the City's key control for processing and monitoring purchases valued at \$5,000 or more in accordance with procurement laws and regulations. Their objective was to ensure that goods and services processed through their department were competitively awarded prior to purchase, and to act as responsible stewards of public funds. However, purchasing processes were not limited solely to Public Procurement. Various components were decentralized into other areas of the City. They included purchases under \$5,000, direct connects, and purchase cards. These areas were not included in the scope of this audit, although both purchases under \$5,000 and credit cards have been addressed in previous audits.

## **C. System Implementation and Contract Management Issues**

Although Public Procurement strived to provide a responsive, efficient and cost effective purchasing operation that safeguarded the City's resources, we identified several significant operational issues that hindered Public Procurement's ability to achieve its objectives. These issues included significant system implementation deficiencies, excessive use of a maintenance contract, lack of compliance with competitive requirements, and a lack of centralized contract administration procedures.

### **1. System Implementation Deficiencies**

**Finding** - The City did not adequately implement the purchasing components of the PeopleSoft system. The lack of an adequate implementation process had a significant adverse impact on the City's Public Procurement operations.

**Recommendation** - The City should identify resources to adequately implement and update the purchasing functions of the PeopleSoft system.

**Response** – Purchasing and Information Technology staffs have reviewed the audit findings surrounding this recommendation. While not every module was deemed necessary, Procurement Contract and Supply Chain Portal Pack modules were recommended. \$350,000 has been identified in FY 2009-10 resources to move forward on implementation of these modules. The Contract Management module will provide a framework to create and manage the transactional procurement contracts used for executing purchasing, as well as providing document management authoring capabilities to create and manage the written contract document using Microsoft Word. PeopleSoft Supply Chain Portal Pack provides data from PeopleSoft Order Management, PeopleSoft Promotions Management, and PeopleSoft Billing in pagelets.

## **2. Excessive Use of HVAC Contract**

**Finding** - The \$122,500 HVAC maintenance contract awarded to a City vendor appeared to have been used as a sole source for equipment replacement and confirming orders, which resulted in the vendor receiving \$2,407,051 over the life of the five-year contract.

**Recommendation** - The City should take steps to ensure that contracts are utilized consistently with their intended purposes.

**Response** – Purchasing is conducting training sessions with user departments emphasizing the importance of using existing contracts within the scope of work, and the importance of the competitive bid process. Purchasing and Finance are working together to limit the use of confirming POs unless absolutely necessary. Purchasing is specifying spending limits on all ID/IQ contracts, and will ensure that invoices and other payment documents are submitted with sufficient details. This will allow the City to monitor the usage of the contracts.

Change orders exceeding 10% of contract are reviewed by the City Manager's Office staff. Departments are being advised that large changes are not an acceptable alternative to sizing the contract for the needed services during the bid process nor will large changes continue to be allowed to avoid procuring a new contract for additional services.

## **3. Compliance with Competitive Requirements**

**Finding** - Public Procurement did not comply with the Code of Virginia in its initial negotiations for the City's recycling contract.

**Recommendation** - Public Procurement should ensure that it follows State requirements when initiating negotiations with potential vendors.

**Response** – Administrative Regulation 4.01 is being revised in accordance with the City's ordinance that relate to professional services.

## **4. Contract Administration Policies and Procedures**

**Finding** - The City did not have centralized contract administration policies and procedures. The absence of centralized contract administration policies and procedures adversely impacted monitoring and enforcement of contractual requirements.

**Recommendation** - The City should develop an Administrative Regulation as quickly as possible that addresses policies and procedures for contract administration.

**Response** – Purchasing will develop an Administrative Regulation describing the policies and procedures for contract administration.

## **D. Other Operational Issues**

We noted that, beginning in 2001, Public Procurement underwent a number of reporting level changes that appeared to adversely impact City oversight of the function. In addition, City departments required additional training on the creation and management of purchase orders. Also, Public Procurement needed to develop internal policies on conflicts-of-interest. Finally, Public Procurement had to work within the City to address perceptions about its service delivery.

### **1. Changes in Management Oversight**

**Finding** - Beginning in 2001, City Management transferred Public Procurement's line of reporting from the City Manager's Office to the Finance Department and then later to the General Services Department. These transfers adversely impacted oversight of the City's procurement processes.

**Recommendation** - The City should strongly consider returning Public Procurement to full department level status to promote stability in its oversight as well as enhance the authority and independence of the function.

**Response** – The Purchasing Division has reported directly to the Deputy City Manager for Administration and Finance since April 2009. This has the effect of providing high-level consistent oversight of the Division. In addition, in April 2010, the Procurement Administrator was added to the list of those attending monthly Management Meetings which include all department heads.

### **1. Purchase Order Creation and Management**

**Finding** - Public Procurement lacked procedures that instructed users how to properly create purchase orders, especially multi-year purchase orders. The lack of procedures led to inappropriate use of Non-PO vouchers, as well as difficulties in closing out purchase orders at year-end for financial reporting purposes.

**Recommendation** - Public Procurement should develop procedures that instruct users on proper creation and management of purchase orders within the PeopleSoft system.

**Response** – Purchasing will develop an Administrative Regulation on procedures that will instruct users on proper creation and management of purchase orders within the PeopleSoft system. These procedures will also consist of close-out of purchase orders at year-end.

### **2. Conflict of Interest Procedures**

**Finding** - Public Procurement did not have any written policies and procedures that defined and emphasized the need to avoid conflicts-of-interest.

**Recommendation** - Public Procurement should develop policies and procedures that address the need to avoid conflicts-of-interest.

**Response** – All staff members will be required to sign an Ethics in Public Contracting Employee Agreement in accordance with the Virginia Public Procurement Act stating that they fully understand and agree to comply with the provisions of the policy and that violation of this policy will be subject to disciplinary action, up to and including termination.

### **3. Service Delivery Perceptions**

**Finding** - Public Procurement attempted to respond to User Departments' concerns over the need for improved service and system processes. Public Procurement developed an action plan to address the perception of "bottlenecks" in the purchasing approval processes and departmental concerns regarding communications, inaccessibility, and responsiveness. However, the problems inherent within both Public Procurement Procurement's PeopleSoft purchasing processes and their related training issues limited their response.

**Recommendation** - Public Procurement should continue to attempt to address user department concerns about its service delivery.

**Response** – Purchasing has begun taking appropriate steps to deal with the perceived "bottleneck" in the approval processes as well as departmental concerns regarding communications, inaccessibility and responsiveness. Purchasing began meeting with all department heads establishing lines of communications and addressing any concerns that they might have. Purchasing will meet with all department heads on a yearly basis. Purchasing is working diligently to establish process time lines for Invitation for Bids, Request for Proposals, Request for Quotes, etc. Purchasing will revisit the survey to ensure that customer needs are being met. Purchasing will continue to educate users on the procurement processes while providing a level of transparency by giving user departments access to check the status of requisitions and related purchase orders on a share drive in cooperation with Information Technology. Attendance of the Procurement Administrator at management meetings will enhance communications on issues of concern.

**B. SUMMARY**  
**TECHNICAL ASSISTANCE**

Community Services Board – We assisted the Community Services Board in their review of the use of client expenditures and gift cards.

Parks and Recreation Parking - We provided technical assistance to Parks and Recreation as they implemented a directive to charge parking fees at certain events, such as the City's Fourth of July celebration.

Police - We provided technical advice to members of the Police staff regarding a foundation that had been created to assist department employees.

Police Investigation - We assisted the Police Department in their investigation of an internal department disciplinary matter.

**C. SUMMARY**  
**OTHER PROJECTS**

## Training – FY 2010

We attended the following Professional Training Sessions during FY 2010:

- Association of Certified Fraud Examiners (ACFE) – Two staff members attended the April 2010 Williamsburg Fraud Conference
- Virginia Society of Certified Public Accountants – One staff member attended the Tidewater VSCPA Chapter’s annual training day
- Cherry, Bekaert, and Holland (CBH) Accounting & Auditing Update – In May 2010, we once again hosted CBH’s Accounting and Auditing update for accounting and auditing personnel in the City and Schools.
- Virginia Local Government Auditor’s Association (VLGAA) - We attended the fall 2009 and spring 2010 VLGAA training conferences. The Spring 2010 Conference featured a segment on purchasing, and was also attended by the City’s new Procurement Administrator.
- Institute of Internal Auditors (IIA) – Most of the staff attended the IIA Fall Conference session in October 2009.

We attended the following City-sponsored Training Sessions during FY 2010:

- Chesapeake Leadership University

## Professional Organizations

One auditor is active in the Association of Local Government Auditors (ALGA), serves on the National Board of Directors, and was elected National Secretary in May 2010. Another auditor is the President of the local chapter of the Association of Certified Fraud Examiners, Past President of the Virginia Local Government Auditors Association, and serves on the Board of the local chapter of the Institute of Internal Auditors.

**D. SUMMARY**  
**PROJECTS IN PROGRESS**

Economic Development – We have begun our audit of the City’s Economic Development activities. The audit will examine the status of the City’s Tax Increment Financing projects that are managed by Economic Development. We also plan to review operational issues related to the Conference Center and Chesapeake Conventions and Tourism.

Central Fleet – As a result of the City’s decision to eliminate the General Services Department, we have converted the audit of that department into an audit of Central Fleet operations. The audit will focus on contractual issues and also cover fuel usage. The Facilities Management areas of General Services will be reviewed as part of the Public Works audit in FY 2011.

HRIS System – We are continuing to provide technical assistance related to the City’s implementation of its new Human Resources Information System. The system is expected to be fully operational by the end of the year.

Cherry, Bekaert and Holland Contract - We continue to manage the CBH external audit contract on behalf of the City.

## **E. FRAUD HOTLINE**

## **FRAUD, WASTE, AND ABUSE HOTLINE REPORT**

During Fiscal Year 2010 we received five complaints through the City's Fraud, Waste, and Abuse Hotline (Hotline). The Hotline was created by the City in Fiscal Year 2006 utilizing the City's Customer Contact Center and its 382-CITY telephone number. In July of 2006, a State Law took effect that required the City Auditor to authenticate (i.e., evaluate the validity of) all complaints received on the Hotline and provide an annual report on the status of complaints received to the City Council. These complaints were as follows:

Complaint #1 – We received a citizen complaint about a City grappling truck being used to remove tree debris created by a private company. After investigating the matter, we observed the private company removing its own debris from the address in question. Therefore, the complaint was not authenticated.

Complaint #2 – We received a citizen complaint about a possible inappropriate property use. We referred the complaint to Neighborhood Services (now Development and Permits). They investigated and concluded that the property was in fact being used consistently with its zoning. Therefore, the complaint was not authenticated.

Complaint #3 – We received an anonymous complaint about a possible inappropriate usage of a City vehicle. Unfortunately, the vehicle was not identified sufficiently in the complaint for Central Fleet to be able to identify it. Therefore, we could not authenticate the complaint.

Complaint #4 – We received a citizen complaint about a possible inappropriate usage of a City vehicle. Unfortunately, the vehicle was not identified correctly in the complaint, and Central Fleet could not identify it. Therefore, we could not authenticate the complaint.

Complaint #5– We received an anonymous complaint about city employees parking in a public lot reserved for citizens until after 12 noon. Since this was a routine General Services Department item, we forwarded the complaint to them for resolution.

## **F. SUMMARY**

**TIME (HOURS) EXPENDED DURING YEAR**

YEAR TO DATE SUMMARY REPORT  
JUL 1, 2009 - JUN 30, 2010

TOTAL

A. TIME (HRS) EXPENDED DURING FY 10 - COMPLETED PROJECTS

1. Audits & Analytical Reviews:

ARRA Audit - Administrative	38.75
ARRA Audit - Planning	102.00
ARRA Audit - Testwork	100.00
ARRA Audit - Reporting	80.00
Control Impact of Staff Reduction - Administrative	23.50
Control Impact of Staff Reduction - Planning	53.50
Control Impact of Staff Reduction - Testwork	77.00
Control Impact of Staff Reduction - Reporting	91.50
Follow-up Reviews (FYs 07 & 08) - Administrative	6.00
Follow-up Reviews (FYs 07 & 08) - Testwork	108.00
Follow-up Reviews (FYs 07 & 08) - Reporting	78.75
Libraries - Administrative	137.50
Libraries - Planning	495.75
Libraries - Testwork	552.00
Libraries - Reporting	795.00
Mosquito Control Follow-up	38.00
Neighborhood Services - Administrative	7.75
Neighborhood Services - Reporting	18.50
Public Procurement - Administrative	258.75
Public Procurement - Planning	377.25
Public Procurement - Testwork	891.00
Public Procurement - Reporting	402.75
Public Utilities - Administrative	73.25
Public Utilities - Reporting	26.50
Sheriff's Office	29.00

2. Technical Assistance:

CSB Investigation	220.75
Interview Panel - Budget Director	13.00
Interview Panel - Finance Department	12.00
Interview Panel - Information Technology	17.00
Parks & Recreation Parking	64.00
Police Foundation	23.00
Police Investigation	108.50

Total Hours - Completed Projects	5,320.25
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B. TIME (HRS) EXPENDED DURING FY 10 - PROJECTS IN PROGRESS

1. Audits & Analytical Reviews:

Audit Quality Control	44.00
Economic Development - Administrative	18.50
Economic Development - Planning	380.50
Economic Development - Testwork	64.00
General Services - Administrative	2.00
General Services - Planning	733.50
General Services - Testwork	12.50
Mosquito Control Follow-up	2.00

2. Technical Assistance:

ARRA Stimulus Funds	30.50
Bi-Weekly Payroll/HRIS System	522.75
CB&H Contract Oversight	97.50
Fleet Utilization	3.00
Fraud Hotline	29.25
Proffers	7.00

3. Other

Administrative	2,401.75
Annual Status Report	42.75
Audit Quality Control	81.25
Holiday	696.00
Leave - Administrative	122.50
Leave - Annual	504.75
Leave - Sick	379.50
Meetings	119.25
Miscellaneous	33.25
Professional Organizations	342.75
Records Management	15.25
Semi-Annual Status Report	22.00
Training	605.75

Total Hours - Projects in Progress 7,313.75

Total Hours 12,634.00