



AUDIT SERVICES DEPARTMENT

ANNUAL STATUS REPORT

JULY 1, 2011 THROUGH JUNE 30, 2012

DATE OF PREPARATION: NOVEMBER 15, 2012

November 15, 2012

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, 2011 to June 30, 2012. The following is a summary of some of the report's highlights.

A. Completed Projects

1. Audits and Analytical Reviews

We completed a performance audit of the Public Works Department. This audit was conducted for the purpose of determining whether the Department was providing services in an economical, efficient, and effective manner, whether its goals and objectives were being achieved, and whether it was complying with applicable City and Departmental procedures related to its resource management and customer service, engineering, operations, street and bridge maintenance, traffic operations, contractual services, storm water management and drainage, waste management, facilities management, and Chesapeake Expressway activities and operations. We also completed a follow up review on nine audit reports issued in FY 2010 and earlier. 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 organization on 9 projects. Of these, the most significant was a drainage investigation. A report on the investigation was provided to the City Council by Development and Permits in February 2012.

3. Projects in Progress

At year-end, we were continuing performance audits of the Human Services Department and the Parks and Recreation Department and completing work on our Public Works Department audit which was issued in August. We were also still providing ongoing technical assistance on projects related to the City's new Human Resources Information System and Public Utilities Billing System implementations.

Sincerely,



Jay Poole
City Auditor
City of Chesapeake, Virginia

c: Amar Dwarkanath, Interim City Manager

CITY OF CHESAPEAKE, VIRGINIA

**AUDIT SERVICES DEPARTMENT
ANNUAL STATUS REPORT
JULY 1, 2011 TO June 30, 2012**

Table of Contents

<u>Contents</u>	<u>Page</u>
A. Summary – Audits and Analytical Reviews	1
Follow-up Review – City Wide Credit Card Program	3
Follow-up Review – Sherriff's Department	5
Follow-up Review – Emergency Communications	8
Follow-up Review – Neighborhood Services	10
Follow-up Review – Public Utilities	13
Follow-up Review - Libraries 2007 & 2008 Performance & Special Audits	20
Follow-up Review – Public Procurement	24
Follow-up Review - American Recovery & Reinvestment Act	27
Follow-up Review – Control Impact of Staff Reductions	29
Public Works Department – Performance Audit	31
B. Summary – Audits in Progress, Technical Assistance, and Training	42
Public Works	43
Human Services	43
Parks and Recreation	43
Technical Assistance Projects	43
Training and Other	44
C. Fraud Hotline	46
Fraud, Waste, and Abuse Hotline Report	47
D. Time (Hours) Expended	49
Completed Projects	50
Projects in Progress	51
Other	51

A. SUMMARY

AUDITS & ANALYTICAL REVIEWS

Audit Services Department
306 Cedar Road
Post Office Box 15225
Chesapeake, Virginia 23328-5225
(757) 382-8511
Fax. (757) 382-8860

November 15, 2012

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 Citywide Credit Cards, Sheriff's Department, Emergency Communications, Public Utilities, Neighborhood Services, Libraries, Public Procurement, American Recovery & Reinvestment Act(Quality Control), and the Control Impact of Staff Reduction for Fiscal Years 2009 & 2010. These prior year audits were selected to evaluate the status of recommendations that had not been fully implemented. The reviews were conducted in November 2011. The status of 32 open recommendations from these reports was as follows:

11 had been implemented
15 were in the process of being implemented
 was planned but not yet implemented
 3 was partially implemented
 2 had not been 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,



Jay Poole
City Auditor
City of Chesapeake, Virginia

C: Amar Dwarkanath, Interim City Manager

FOLLOW-UP REVIEW

CITY WIDE CREDIT CARD PROGRAM

2005

PERFORMANCE AUDIT

FOLLOW-UP REVIEW DATE: DECEMBER 2011

Table of Contents

<u>Contents</u>	<u>Page</u>
1 Number of Credit Card Programs	4

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.

2010 Status – This recommendation is in the process of being implemented. The City is gradually transitioning the existing Travel Card and Business Card programs into the P-Card program. The City Manager's office has directed the Purchasing Department to work with Central Fleet to develop a process to eliminate fuel cards and issue P-cards for fuel only to employees who require refueling outside the limits of city-fueling facilities.

2011 Status- This recommendation has been implemented. The City has transitioned from the previous Travel and Business Card programs into one consolidated P-Card Program which is Universally Accepted and reduces paperwork. A comprehensive list of users of the card has been established and mandatory training is required for both the Cardholder and the Program Manager. This internet-based software system maintains transactions, and is owned and Managed by Bank of America. This system provides Statements and other essential reports (Cardholder Reports) that is verified and printed by the cardholder. This system also consists of an Audit Function which helps to fight fraud by identifying and reporting potentially fraudulent transactions, and allows cardholders to dispute questionable transactions. Oversight is addressed by obtaining prior approval of purchases from supervisor, manager, or department heads and requires transaction approval by the Program Manager via the "Works" system before being submitted for payment.

FOLLOW-UP REVIEW

SHERIFF'S DEPARTMENT

PERFORMANCE AUDIT

FOLLOW-UP REVIEW DATE: DECEMBER 2011

Table of Contents

<u>Contents</u>	<u>Page</u>
C1. CCC Building Maintenance and Repair	6
C3. Staffing Standards	6

C1. CCC Building Maintenance and Repair

Finding – During our jail tour, we identified several items which needed ongoing maintenance and repairs at the CCC.

Recommendation – The Department should work with Facilities Management to complete the open maintenance requests.

Response – We agree with the findings above. Regarding the leaks in the domestic hot water system, a coordinated effort between CCC maintenance and Facility Management resulted in Southern Steel being contracted to complete the work. The repair work has been completed.

Regarding the medical unit ceiling, the medical housing unit, including the holding cell was treated and painted by an outside contractor, French Painting. The repair work has been completed.

Regarding the peeling paint in the gym, a coordinated effort between CCC maintenance and Facility Management resulted in French Painting being contacted to complete the work. The repair work has been completed.

Regarding the missing heating coils for the variable air volume boxes, efforts to remedy this condition required a coordinated effort between CCC maintenance and Facility Management. Tim Winslow, General Services Facilities Manager, is aware of the existing problem. Plans for a new facility and renovation of the existing facility have been presented to the City Manager for review. Until a decision is determined on the expansion project, Tim Winslow has requested that we stand by for a decision.

2010 Status – This recommendation is in the process of being implemented. The hot water system leak, medical unit ceiling repair, and peeling paint have been addressed. As for the replacement of the five Variable Air Volume (VAV) boxes, the Sheriff's Office will continue discussions with the City's Facilities Manager to include this project within the Energy Efficiency and Conservation Block Grant Program funding the City received in 2009 under the American Recovery & Reinvestment Act (ARRA).

2011 Status- This recommendation is in the process of being implemented. The recommendation relating to the missing heating coils for the variable air volume boxes is being addressed by the Energy Efficiency Project overseen by Facilities Maintenance. At the conclusion of the project, the entire HVAC system will be re-commissioned to ensure that the proper repairs were made.

C3. Staffing Standards

Finding – The Department was not adequately staffed to service the ongoing inmate population.

Recommendation - The City should continue to work with the Department to attempt to obtain additional state funded jail deputy positions.

Response - We agree. The Sheriff's Office has been aware of the staff shortages, (Deputy v. Inmate ratio.) The Sheriff's Office has been working closely with the City Manager and Facility Management in reference to the expansion of our existing facility. The expansion addresses our staffing needs.

The City obtained a consultant that conducted a Jail Needs Assessment and their findings concur with the auditors noting that we are understaffed and 186% over our rated bed capacity. A decision from the City Managers Office in reference to our expansion is forthcoming. The required timeline is to be determined by the City Manager's Office.

2010 Status – This recommendation has not been implemented. The state has denied additional funding for jail deputy positions due to current state budgetary limitations. The Sheriff's Department will continue to work with the City Manager's Office to address the staffing shortages and develop solutions that address staffing concerns.

2011 Status- This recommendation has not been implemented. The state will not approve additional funding for jail deputy positions due to current state budgetary limitations. The Sheriff's Office will continue to work with the City Manager's Office to address the staffing shortages and continue to develop solutions that address staffing concerns.

FOLLOW-UP REVIEW

EMERGENCY COMMUNICATIONS

PERFORMANCE AUDIT

FOLLOW-UP REVIEW DATE: DECEMBER 2011

Table of Contents

<u>Contents</u>	<u>Page</u>
C1 Hiring Process	9

C1. 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) A. 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 that has averaged averaging approximately one month has been added to the process.

2010 Status – This recommendation is in the process of being implemented. The Department is still working with Human Resources on ideas to reduce the time needed to hire new personnel and would like to have the over hire of 5 persons reinstated (as recommended in the Matrix and Burracker reviews). Previously all applicants who took the Critical Pre-Employment Test were interviewed. With the permission of Human Resources, they streamlined this process so that they only interview the top (5) applicants for each vacancy. Recruitment does not seem to be an issue at this point. During our last vacancy posting we received (323) applications for Dispatcher Trainee and (97) for Dispatch Call Taker.

2011 Status- This recommendation has been implemented. We have not had the turn-over levels experienced in the past and have not needed to hire at the previous frequency. With the new administration in Human Resources and a new liaison for our Department, we will be working collaboratively on ideas to reduce the time needed to hire and promote personnel as well as requesting the over-hire of 5 persons be reinstated. Allowing for 5 over-hire positions was as recommended in two separate staffing studies; the Matrix Group Report and the Burracker Report. Attempts to make changes to the hiring process and allowing the reinstatement of over-hires were not previously successful.

FOLLOW-UP REVIEW

NEIGHBORHOOD SERVICES

PERFORMANCE AUDIT

FOLLOW-UP REVIEW DATE: DECEMBER 2011

Table of Contents

<u>Contents</u>	<u>Page</u>
D1 Permit Issuance Process	11
E1 Permit Inspection Process	11

D1. Permit Issuance Process

Finding – The effectiveness and efficiency of the permit issuance process needed to be improved to better meet customer expectations.

Recommendation – Neighborhood Services needs to observe, analyze and reengineer the permit issuance process so that it is effective, efficient, and meets the expectations of customers.

Response – Agree. The permit issuance process at the front counter has been studied and initial modifications have been made. Additional modifications have been suggested and will be implemented incrementally on a trial basis. (Note: The full text of the response is included in the body of the audit report.)

2010 Status – This recommendation is in the process of being implemented. The Department of Development and Permits and Information Technology are currently working with City elected officials and staff, professional building organizations, and business community partners to assess the needs to effectively and efficiently improve the permit issuance process. The Department has also assigned staff to consistently provide oversight of the customer service counter and provide customers with a referral sheet to be utilized for contacts within the Department to address their requests and/or concerns. The Director of Development and Permits is also working closely with the City Manager's office to continually improve customer service and satisfaction as well as organizational efficiency.

2011 Status- This recommendation has been implemented. The hiring of a Permits Manager has proven to be a very positive improvement for the permit processes and customer service. The Manager is equipped to assist customers with unique permit and zoning issues with quick resolution. Additionally, the physical location of the Manager near the front counter allows for monitoring of service needs. By Christmas 2011, the department will have positioned a staff member in the lobby area on the second floor to greet customers, provide forms and information, assist with EZpermit applications and direct them to the proper department/staff. In addition, the department will have two work stations equipped with computers for customers to utilize in obtaining information and processing EZpermit applications. The Department considers the improvements made as completion of this item's issues.

E1. Permit Inspection Process

Finding – The effectiveness and efficiency of the permit inspection process needed to be improved to ensure the quality of inspections.

Recommendation – Neighborhood Services should review, analyze and reengineer the inspection process so that it is effective, efficient and ensures that all inspections of commercial and residential projects are properly documented and reviewed.

Response – Agree with most findings. Although the recommendations will lead to better productivity there are limitations to the City's data base system that will not allow full implementation. The Department has determined the phased-in use of laptop computers can greatly enhance the productivity and accuracy of the current paper system. The Department plans to implement the first phase of laptops in FY09-10 and the second phase is projected to be mid year of FY09-10 or early FY10-11. (Note: The full text of the response is included in the body of the audit report.)

2010 Status – This recommendation is in the process of being implemented. The Department of Development and Permits and Information Technology are currently working with City elected officials and staff, professional building organizations, and business community partners to assess the needs to effectively and efficiently improve the permit issuance process. Based on this collaboration, the Department will work with Information Technology to purchase and install an Application Hub that will reconcile inspection requests generated through the Customer Call Center (C3) and Development and Permits AIS system, and provide expanded customer service for permit issuance.

2011 Status- This recommendation will not be implemented. The second phase purchase of laptop equipment for field inspectors is on hold until the Information Technology Department staff is able to resolve some connectivity issues with the mainframe. The progression of technology has caused the Department to consider I-Pad's instead of laptop equipment due to price and functionality. The purchase of this equipment is anticipated within this budget year. Additionally, the Information Technology Department is considering many changes to the mainframe that must be determined prior to any further program enhancements such as interface between C-3 and the AIS system.

FOLLOW-UP REVIEW

PUBLIC UTILITIES

PERFORMANCE AUDITS

FOLLOW-UP REVIEW DATE: DECEMBER 2011

Table of Contents

<u>Contents</u>	<u>Page</u>
C1 Contract System Implementation and Control Difficulties	14
C2 Delays in Processing Customer Credits	14
C3 Invoice Format Confusion and Adjustment Discrepancies	15
C4 Formal Non-Profit Agreement	16
D1 Contingency Plan	16
D2 Programming Changes and Potential Conflict of Interest	17
E1 Bill Monitoring Process	18
F1 Connection Fee Charge	18
F2 Meter Replacement	19

C1. Contract System Implementation and Control Difficulties

Finding - The implementation of the Customer Payment Agreement (Agreement) between HRSD and the City did not adequately control billing and cash handling collections processes. In addition, HRSD did not adequately test its new billing software, creating billing discrepancies for over 5,500 Chesapeake customers.

Recommendation – The City should take steps to ensure that HRSD satisfies its internal control obligations as stated in the Agreement. The City should also take steps to make sure that future billing discrepancies are minimized.

Response – During the May 14, 2009 conference call with HRSD, we asked about the current status of the HRSD internal control procedures and documentation. The HRSD Director of Information Services stated the internal control documentation has not been updated to reflect the implementation of the CC&B system. He indicated that they have focused on correcting billing concerns with the multiple jurisdictions and could not commit to a schedule to complete the documentation for a review. (Note: The full text of the Public Utilities response is included in the body of the audit report)

2010 Status – This recommendation is in the process of being implemented. An RFP for Customer Information System (CIS) Software and Implementation Services was issued by the City on October 14, 2010 (RFP no. 11021). This RFP indicates that Public Utilities desires to alter the agreement with HRSD and calculate, print and present their own bills. Additionally, the RFP indicates that Public Utilities will require a new bill format including scan lines, historical usage, usage graphs and customer messages. Offerors are requested to provide multiple standard bill print samples with their proposals which are due on November 15, 2010. This alternative would minimize billing discrepancies.

In the interim, the Department of Public Utilities has a monitoring process in place. Adjustment and payment files received from HRSD contain control records for the number of records and dollar value of adjustments or payments to be received on the nightly interface. The files are processed through a pre-load edit process that verifies the number of records and dollar value of transactions as well as a validation of key data fields to insure data validity. Only after these edits/audits are completed are the payment and adjustment files processed to customer accounts.

2011 Status- This recommendation is in the process of being implemented. The monitoring process remains in place and is effective. This will continue until the new Customer Information System “goes-live”. The current schedule projects the “go-live” date to be in late 2012.

C2. Delays in Processing Customer Credits

Finding - HRSD did not always recognize adjustments made by Public Utilities for reduced water consumption. As a result, customers sometimes had to wait as long as eight months to receive HRSD account credits due them.

Recommendation – Public Utilities should take steps to ensure that its adjustments for reduced water consumption are reflected in HRSD’s sewer charge adjustments in a timely fashion.

Response - A process has been initiated to sample the timeliness of HRSD's adjustment processing to their customers. Two weeks after the adjustment to our charges has been made, accounts will be randomly selected to see if HRSD has processed their side of the adjustment.

While this process will let us know if HRSD is adjusting the accounts in a timely fashion, it may not affect how HRSD processes their respective adjustments. HRSD has internal policies and procedures for processing their own adjustments.

2010 Status – This recommendation is in the process of being implemented. As previously stated, the RFP for the selection of a new CIS has been issued by the City, and provides for the alternative of in-house customer billing processes. In the interim, Public Utilities has established a monitoring process to ensure adjustments for reduced water consumption are reflected in HRSD's sewer charge adjustments in a timely fashion.

2011 Status- This recommendation is in the process of being implemented. The monitoring procedure is still in effect. Timeliness of posting has improved. Some of the problem may have been the number of adjustments that were pending at that time.

C3. Invoice Format Confusion and Adjustment Discrepancies

Finding - Public Utilities' Customer Service Representatives found it difficult to explain the invoices because of the HRSD invoice format and inconsistency between methods used by HRSD and Public Utilities to apply adjustments. HRSD also back-dated adjustments in the customer history, creating discrepancies in customer balances.

Recommendation – Public Utilities should clearly define its invoice format expectations and to continue to explore new billing system alternatives that would work with the Customer Information System to provide Public Utilities with accurate data to address customer questions regarding their invoice adjustments.

Response – We have constantly informed HRSD about the confusing bill format. We have been successful in convincing HRSD to make minor clarifications; but those are still far from resolving the issue. (Note: The full text of the Public Utilities response is included in the body of the audit report)

2010 Status – This recommendation is in the process of being implemented. The RFP for the new CIS has been issued, and offerors are requested to provide multiple standard bill print samples with their proposals, to minimize billing discrepancies and invoice confusion.

2011 Status- This recommendation is in the process of being implemented. This recommendation has been incorporated into the current implementation. The new Customer Information System has been contracted and is currently scheduled to "go-live" by the end of 2012. Sample copies of several bills have been received. Discussion are underway on information to be included on the bill as well as it's formatting, with a goal of providing clear information to our customers. Late November received notice of change to HRSD bill format. Copies have been received and are under review. HRSD projected implementation date 3rd week of December 2011.

C4. Provision of Customer Histories

Finding - HRSD was not contractually obligated to provide Chesapeake with customers' service billing history and notes at the end of the contract term.

Recommendation – If Public Utilities continues to outsource the customer and billing activity, it should ensure that the new Agreement include a requirement for customer billing history and notes to be transferred to the department.

Response – When the City executed the contract with HRSD, only the mailing of the bills was transferred out of our hands. The only two observable changes were the originator of the mailed bills and that there was now one combined bill.

We have always maintained our original Customer Information System. So, no Chesapeake information would be expected to be lost should we disengage from HRSD. (Note: The full text of the Public Utilities response is included in the body of the audit report)

2010 Status – This recommendation is in the process of being implemented. As was previously noted, an RFP has been issued by the City to request proposals from vendors for the purchase and implementation of a new Customer Information System (CIS).

2011 Status- This recommendation is in the process of being implemented. As part of the implementation process the new CIS will be populated with approximately 5 years of consumption history for each service address. In addition, respective account notes and other pertinent information will either be imported into the new system or maintained in a way to insure that no history is lost.

D1. Contingency Plan

Finding - At the inception of the Agreement, the Information Technology Department disabled the Public Utilities Department's ability to print Chesapeake invoices, leaving Public Utilities without a contingency plan or recourse if HRSD did not satisfy all of the provisions of the Agreement.

Recommendation – Public Utilities should continue to work with Information Technology either to (1) make necessary upgrades to the existing system (to include creating printing capacity), or (2) evaluate the acquisition of a new system to provide a contingency plan in the advent of unanticipated issues with the existing billing and payment arrangements.

Response - Our current Customer Information System was identified in an early IT Master Plan as obsolete and at risk of failure. It is written in an obsolete language (COBOL) similar to the Human Resources program currently being phased out. The last such programmer has retired from the City.

AAC Utility Partners were brought on board as our consultants in January 2009. Our goal is to objectively evaluate all possible CIS alternatives and identify the best solution(s) for our business environment. (Note: The full text of the Public Utilities response is included in the body of the audit report)

2010 Status – This recommendation is in the process of being implemented. As was previously noted, an RFP has been issued by the City to request proposals from vendors for the purchase and implementation of a new Customer Information System (CIS).

2011 Status- This recommendation is in the process of being implemented. The status is relatively the same; however the update to this response is that the consultant will actively review and recommend the most favorable procedure prior to implementation and the “go-live” date. Discussions are underway as to the method to be used to print the bills. Several options are being examined to determine the most feasible and cost effective method to print and mail the bills. One of the options being examined is to create the bills in PDF format, which would allow changing the printing location with minimal effort. The other option is to transfer data files to a vendor for processing and printing, returning electronic copies to the City. As the data formats vary by vendor, this process would be more cumbersome, however, the CIS vendor (Cogsdale) has worked with numerous print vendors.

D2. Programming Changes and Potential Conflict of Interest

Finding - Information Technology programming changes allowed HRSD files to automatically upload adjustment and payment changes into internal customer account records without prior Public Utilities management review, validation, or authorization. In addition, HRSD hired a former City programmer who continued to have access to production changes on the City’s Public Utilities Billing System. This situation created the appearance of a conflict of interest.

Recommendation – Public Utilities should continue to address technology in their overall strategic plans. Within those plans, Public Utilities should take steps to ensure that adjustments and payment changes from HRSD to customer accounts receive appropriate management review, validation, and authorization prior to uploading data to City records. In addition, any programming changes should be well documented, reviewed, and authorized by both Public Utilities and Information Technology management, and management should review the accuracy and completeness of data transmitted. These actions should help mitigate the risks associated with the potential conflict of interest.

Response – Technology is a key part of the Department’s strategic plan and has continuously been addressed. This can be evidenced by many examples throughout the Department. Our water treatment plants use advanced treatment technology to function. Three operators monitor the processes at each plant. Our water distribution system and sanitary sewer system are both monitored with telemetry.

Our field forces are converting to the Maximo software system and laptop computers. These will allow more efficient work flow and information transfer. The MISS Utility group uses laptops and air cards to receive marking notices via WiFi. This eliminates trips in to the office to retrieve e-mails. They also utilize the data from GIS in their work. (Note: The full text of the Public Utilities response is included in the body of the audit report)

2010 Status – This recommendation is in the process of being implemented. An RFP has been issued by the City to request proposals from vendors for the purchase and implementation of a new Customer Information System (CIS), and explore in-house billing as an alternative to minimize billing discrepancies.

In the interim, the Department of Public Utilities has a monitoring process in place. Adjustment and payment files received from HRSD contain control records for the number of records and dollar value

of adjustments or payments to be received on the nightly interface. The files are processed through a pre-load edit process that verifies the number of records and dollar value of transactions as well as a validation of key data fields to insure data validity. Only after these edits/audits are completed are the payment and adjustment files processed to customer accounts.

2011 Status- This recommendation is in the process of being implemented. The monitoring procedure is still in effect. A new CIS is currently being populated and prepared for implementation.

E1. Bill Monitoring Processes

Finding - The bill-monitoring processes that Public Utilities used after the inception of the Agreement needed improvement.

Recommendation – Public Utilities should take steps to enhance its bill monitoring processes. Also, Public Utilities should consider expanding its customer history.

Response – Public Utilities considers its bill monitoring system as very effective. We suspected the HRSD problem months before it was divulged.

Our customer screens go back six billing periods; further info is available but not on-line. This is probably a result of the age of our software and will probably desist once a new Customer Information System is acquired. The process of evaluating the entire system is underway (see #D1 above). (Note: The full text of the Public Utilities response is included in the body of the audit report)

2010 Status – This recommendation is in the process of being implemented. As was previously noted, an RFP has been issued by the City to request proposals from vendors for the purchase and implementation of a new CIS. Public Utilities will be exploring the possibility of in-house billing as an alternative to minimize billing discrepancies.

2011 Status- This recommendation is in the process of being implemented. It is currently under way during the implementation process. Also, please refer to earlier responses on transferring customer histories and notes.

F1. Connection Fee Charges

Finding - Public Utility water connection and disconnection fees appeared to be lower than amounts charged in other localities.

Recommendation – Public Utilities should conduct a cost analysis to determine if fees associated with connecting or disconnecting water services should be increased.

Response - Public Utilities rates and fees are established to allow the department to be self-sufficient. The Public Utilities Department has a Rate Study/Financial Plan done approximately every five years. Additionally, the City had a cost of services study done several years ago. As the chart reflects, each municipality apparently has a unique method for calculating the fees. This recommendation will be kept in mind for the next review/study.

2010 Status – This recommendation is in the process of being implemented. The City issued an RFP on September 20, 2010, for a Financial Plan and Rate Analysis. Proposals have been received and are currently being evaluated. This Analysis will review cash flow, current rates and fees and projected expenditures, and will ensure that revenue is recouping the cost of the services provided.

2011 Status- This recommendation is in the process of being implemented. Certain fixed fees (e.g. sewer only, etc.) are being reviewed in parallel with the rate structure. A recommendation will be forwarded at a later date to bring these fees in line with more recent costs.

F2. Meter Replacement

Finding - According to a water service representative, antiquated and out-of-warranty meters were not being replaced in a timely manner.

Recommendation – When funds become available, Public Utilities should take steps to ensure that meters are replaced in a timely fashion.

Response - One of the tasks of our current CIS consultant is to also recommend a schedule/plan to possibly implement a system of automated meter reading. This will identify likely candidate meter vendors as well as systems. The intention of slowing down the meter replacement program was to avoid locking the Department to a meter contract that may not be compatible with the eventual CIS and AMR systems selected. All meters will eventually be replaced via the AMR program. (Note: The full text of the Public Utilities response is included in the body of the audit report)

2010 Status – This recommendation is in the process of being implemented. An RFP has been issued by the City to request proposals from vendors for the purchase and implementation of a new Customer Information System. Meter replacement will resume when the new CIS has been identified and the compatible meters are identified for use in the meter replacement program.

2011 Status- This recommendation is in the process of being implemented. Some meter replacement is being performed. A pilot program to investigate remote reading is under way in one Chesapeake neighborhood. The meters have also shown an advantage in identifying usage patterns for customers' information.

FOLLOW-UP REVIEW

LIBRARIES 2007 & 2008

PERFORMANCE & SPECIAL AUDITS

FOLLOW-UP REVIEW DATE: DECEMBER 2011

Table of Contents

<u>Contents</u>	<u>Page</u>
E1 Patron and Employee Safety & Security	21
E2 Condition of Library Facilities	21
F1 System Security Procedures	21
G1 Formal Non-Profit Agreement	22
G3 Foundation Accounting Process	22
H1 Inventory Spot Checks	23

E1. 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.

2011 Status- This recommendation has been implemented. The Safety and Security manual has been updated. The branch libraries are required to send a quarterly calendar of drills and door checks to the Central Library.

E2. 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.

2011 Status- This recommendation has not yet been implemented. The Library is still in the process of working with Facilities Management in order to implement a more efficient centralized maintenance request system for repairs, maintenance and follow-up.

F1. 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.

2011 Status- This recommendation has been partially implemented. The Library has worked with the Information Technology Department in implementing and updating the department's systems. They are working with the IT Department to establish a separate energy source or generator for the main server which they do not currently have.

G1. 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.

2011 Status- This recommendation is in the process of being implemented. The memorandum of understanding has been drafted however it has not yet been signed by the authorized persons.

G3. 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.

2011 Status- This recommendation has been partially implemented. The Foundation currently does not have another person in place for the separation of these duties. They do have an additional backup person to sign checks, and they also have an Independent Auditor to review the records.

H1. 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.

2011 Status- This recommendation has not been fully implemented. The RFID system has been implemented however, it is not working as needed. The Library is outsourcing the cataloging feature, and they have also implemented a centralized buying system which helps them identify and purge older books that have not been requested within the past two years, allowing them to bring in a newer updated genre of books.

FOLLOW-UP REVIEW

PUBLIC PROCUREMENT AUDIT

FOLLOW-UP REVIEW DATE: DECEMBER 2011

Table of Contents

<u>Contents</u>	<u>Page</u>
C4 Contract Administration Policies and Procedures	25
D1 Changes in Management Oversight	25
D2 Purchase Order Creation and Management	25
D3 Conflict of Interest Procedure	26

C4. 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.

2011 Status- This recommendation is in the process of being implemented. Public Procurement is developing an Administrative Regulation that describes the policies and procedures for contract administration. They anticipate that it will be completed by January 2012.

D1. 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.

2011 Status- This process is in the process of being implemented. Public Procurement is now a stand-alone department and the Procurement Administrator's position is in the process of being reclassified.

D2. 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.

2011 Status- This recommendation is in the process of being implemented. Public Procurement is developing an Administrative Regulation that describes the policies and procedures for properly creating purchase orders, including multi-year purchase orders. They anticipate that it will be completed by January 2012.

D3. Conflict of Interest Procedure

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.

2011 Status- This recommendation is in the process of being implemented. Written policies and procedures concerning avoiding conflicts of interests will be included in the manual that is expected to be completed January 2012. It will require each employee to read and sign an Ethics in Public Contracting Employee Agreement in accordance with the Virginia Public Procurement Act.

FOLLOW-UP REVIEW

AMERICAN RECOVERY & REINVESTMENT ACT AUDIT

FOLLOW-UP REVIEW DATE: DECEMBER 2011

Table of Contents

<u>Contents</u>	<u>Page</u>
2. Jobs Funding Statistics for CDBG-R Grant	28

**American Recovery & Reinvestment Act
Quality Control Audit**

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.

2011 Status- This recommendation has been implemented. The City's Bureau of Community Programs develops the calculations for jobs funding statistics related to the CDBG-R grant.

FOLLOW-UP REVIEW

CONTROL IMPACT OF STAFF REDUCTION AUDIT

FOLLOW-UP REVIEW DATE: DECEMBER 2011

Table of Contents

<u>Contents</u>	<u>Page</u>
C. Administrative and Operational Issues	30

C. Administrative and Operational Issues

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.

2011 Status- This recommendation has been implemented. The City Manager's office has worked diligently with the Human Resources Staff as well as the Department's that were impacted greatest by the staffing reductions. Essential positions in the Finance, Information Technology, and Development and Permits Departments has been restored and filled addressing and minimizing the negative effects that staff reductions were having on these departments. The hiring freeze was also amended, so the hiring freeze is only applicable to higher level positions allowing the departments to fill vacancies faster especially in departments with higher turnover rates such as Public Works, Public Utilities, and Parks & Recreation.

Managerial Summary

A. Objectives, Scope, and Methodology

We have completed our review of the City of Chesapeake (City) Department of Public Works (Department) for the period May 2011 to June 2012. Our review was conducted for the purpose of determining whether the Department was providing services in an economical, efficient, and effective manner, whether its goals and objectives were being achieved, and whether it was complying with applicable City and Departmental procedures related to its resource management and customer service, engineering, operations, street and bridge maintenance, traffic operations, contractual services, stormwater management and drainage, waste management, facilities management, and Chesapeake Expressway activities and operations.

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 conclusion 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 Department provided essential services for the City. The Department consisted of eight divisions, two of which were operated as enterprise funds. The remaining divisions were part of the City's General Fund. Its primary services included collection and recycling of solid waste; design, review, approval, and inspection of capital improvement plans for the construction of roads, bridges and major highways; installation, repair, and maintenance of traffic signals, signs, and pavement markings; street cleaning; construction inspection and maintenance of municipal buildings; and storm water management. The Department has been accredited by the American Public Works Association (APWA) since September 2006 and was re-accredited in December 2010.

For Fiscal Year (FY) 2011- 2012, the Department had an operating budget of over \$84 million and an authorized complement of approximately 445 personnel. The Central Office was located in the City Hall Building with an Operations Center at Butts Station and smaller centers in the Bowers Hill and Hickory sections of the City. Also, in July of 2010, the former General Services Department divisions of Facilities Maintenance and Facilities Construction were reorganized and placed into Public Works.

To conduct this audit, we reviewed and evaluated City and Department policies, procedures, operations documents, and reports, both internal and external. We also reviewed the Department's Self-Assessment and evaluated various aspects of departmental operations. We conducted extensive site visits to obtain a general understanding of various departmental processes. We discussed these audit areas and conducted interviews with departmental management and various other personnel.

Major Observations and Conclusions

Based on our review, we determined the Department had accomplished its overall mission of providing a variety of services that were critical to the operations of the City. However, we did identify several areas of concern that needed to be addressed. Those areas included oversight of facilities construction and maintenance projects, utilization of Maximo and other software packages and support staff, citywide stormwater planning, inventory control, and other items.

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

B. Performance Information

Public Works had eight divisions which provided a wide variety of different citizen and City services. These divisions included Resource Management/Customer Service, Engineering, Operations, Streets and Bridges (which reported to Operations), Stormwater Management/Drainage (which also reported to Operations), Facilities Management, Waste Management, Traffic Operations, Contractual Services, and the Chesapeake Expressway.

1. Resource Management/Customer Service Division (Customer Service, Accounting, and Safety)

The Resource Management Division was comprised of three major components: Customer Service, Accounting, and the Safety Program. Customer Service processed Public Works-related calls received by the City's Customer Contact Center. Accounting processed over \$13 million in invoices annually, coordinated and tracked the Department's operating and capital improvement budgets, and managed the payroll for full and part-time employees. Safety ensured that procedures were followed to minimize work-related accidents, and was also responsible for coordinating the activities of the Safety Board.

2. Engineering Division

The Engineering Division consisted of seven sections including Environmental, Survey, Traffic Engineering, a partial section of Stormwater Management, Right-of-Way, Design/Construction Services, and an Administrative staff person. The professional engineering services provided were quite extensive with differing areas of expertise. Because the City was continuously developing and revitalizing, Engineering was hard pressed to keep pace with the growing workload. Much of the design and construction services and inspections were outsourced and administered through Design/Construction Services (DCS). A large pool of vehicles was also assigned to Engineering for fieldwork.

3. Operations Divisions

Operations provided oversight and technical support to several divisions and budgetary sections of Public Works including Street Maintenance/Bridges and Structures, Traffic Operations, Contractual Services, and Stormwater Management/Drainage. Operations had primary responsibility

for managing the Department's APWA accreditation program. The APWA's accreditation program provided a means of formally recognizing and verifying public works agencies compliance with the recommended practices set forth in the Public Works Management Practices Manual.

4. Street Maintenance/Bridges and Structures (Operations Division)

The Street Maintenance/Bridges and Structures Division reported to Operations and maintained and repaired the City's right-of-way, which included more than 2,300 lane miles. It also maintained 96 bridges and overpasses and four movable span draw bridges. These bridges opened approximately 30,000 times a year for water vessels.

5. Traffic Operations (Operations Division)

The Traffic Operations section was separately identified in the City's operating budget, but was functionally part of Operations. It provided for the safe, efficient, and convenient movement of vehicles and cargo on the City's roadways in accordance with state and federal guidelines through the installation, maintenance, and repair of traffic signals, signs, and pavement markings. It maintained road markings in accordance with state and federal standards; operated and maintained traffic signals and signs; and ensured traffic control measures were in place.

6. Contractual Services (Operations Division)

Contractual Services, also a separately identified section in the City's budget that was functionally part of Operations, procured and administered contracts for Street Maintenance/Bridges, Traffic Operations, Stormwater Management/Drainage, and other functions within Public Works.

7. Stormwater Management/Drainage (Operations Division)

Stormwater Management, which also reported to Operations, was a mandated federal and state program that required the City to regulate stormwater runoff in an effort to reduce pollution. Since neither the federal or state government provided funding, the revenues needed to support the program were provided through a Stormwater Utility fee, which was the primary source of revenue for the Stormwater Management Enterprise Fund. Owners of developed property (property that contained impervious areas), both residential and non-residential, were billed this fee. Residential property owners were billed a flat rate. In addition to the enterprise fund activities, Stormwater Management also provided oversight for drainage activities and projects funded through the City's general fund.

8. Waste Management

Waste Management provided refuse collection once every week for over 60,000 residences in Chesapeake. Over 100,000 tons of refuse was collected annually. The City's solid waste was transported to the Southeastern Public Service Authority (SPSA) transfer station on Greenbrier Parkway or the regional Refuse Derived Fuel Facility in Portsmouth. Waste Management was responsible for bulk trash pick-up, and they also managed the City's five-year contract with TFC Recycling, a recycling contractor. Waste Management had become more fuel efficient as a result of the City's purchase of approximately 25 trucks that ran on natural gas. Also, eleven grappler trucks had been outfitted with GPS technology for tracking purposes.

9. Facilities Management (Facilities Maintenance and Facilities Construction)

Facilities Management was the City's internal resource for constructing and maintaining City-owned facilities. It included two sections: Facilities Maintenance and Facilities Construction. In July 2010, these sections were transferred into Public Works from the General Services Department, which was eliminated. Although Public Works managed the two sections separately, they were still consolidated under Facilities Management in the City's operating budget.

10. Chesapeake Expressway (Expressway)

The Expressway, a 16 mile long, four lane divided highway, opened in 2001 and linked Interstate 64 to North Carolina and the Outer Banks. Expressway staff managed an electronic toll collection system which incorporated open-road technology. Vehicles equipped with an E-Z Pass transponder could pass through the "express lane" at the toll facility without stopping. The Expressway was built parallel to Battlefield Boulevard, which it crossed in three places. As many as 40,000 vehicles would pass through the toll plaza on a peak weekend day.

C. Facilities Construction and Maintenance

In reviewing Facilities Construction and Facilities Maintenance projects, we noted that they were not always planned and managed effectively and efficiently, particularly relative to planning and defining the scope of work. Based on our review of several projects, we identified issues related to the Temporary Inmate Housing project, the Overhaul/Renovation of the City Hall Elevators, operating policies and procedures, and project tracking.

1. Temporary Inmate Housing

Finding – Facilities Management did not always fully define the scope of work for contracts and did not always develop a comprehensive, executable plan for its construction projects, nor did it ensure that the contractor always obtained the compliance approvals necessary for the project. As a result, a temporary inmate housing facility project 1) experienced significant cost overruns and 2) could not be used for its intended purpose.

Recommendation – Facilities Construction should work with affected City departments on future projects to ensure that the projects are adequately planned and that the scope of work is fully developed. It should also ensure that all required approvals are obtained prior to initiating the contract.

Response – We concur with the recommendation, and as noted above, have already taken steps to ensure that future projects are adequately scoped and that appropriate cost controls and reporting procedures are in place.

The General Services section was reorganized in 2010 to separate the Purchasing Office, which now reports directly to a Deputy City Manager. The Facilities functions were broken into two divisions under Public Works – Facilities Construction and Facilities Maintenance. Public Works has been integrating the new divisions into Public Works and streamlining and standardizing their project management, purchasing and accounting practices into the APWA accredited PW department's well established policies and procedures. Minor updates to incorporate vertical construction and building maintenance IDIQ repair contracts are

underway and will be completed in the next two months. (Note: the full text of the response is included in the body of the audit report.)

2. City Hall Elevator Overhaul Project

Finding – Facilities Maintenance did not develop an adequate scope of work definition that included vendor performance timelines and specifications for its emergency Overhaul/Renovation contract for the City Hall elevators.

Recommendation – For future projects, Facilities Maintenance should ensure that an adequate scope of work definition is developed for each emergency/overhaul/renovation contract. The scope definition should include vendor performance timelines and specifications.

Response – Facilities Maintenance will work more closely with the Purchasing Office to ensure that any emergency contracts include appropriate contract terms to include completion schedules and liquidated damages. Indefinite Delivery Indefinite Quantity (IDIQ) contracts such as that used for elevator maintenance and repair, continue to be essential vehicles to procure services that have highly variable scope or unknown or infrequent delivery dates. These contracts, which are competitively bid for basic labor costs or estimated unit prices, can save significant response time and still provide best value.

Working with the Purchasing office, Facilities Maintenance terminated the previous non-performing IDIQ elevator contractor and has put in place another qualified contractor to maintain, and repair if necessary, city elevators and escalators. While there are limited contractors performing these services in Tidewater, the City and Schools now share the same contractor. The previous contractor had performed well in previous years but due to circumstances beyond the City's control was unable to prosecute the repair work on the City Hall elevators on a reasonable schedule.

3. Operating Policies and Procedures

Finding – Facilities Management's sections had not developed written operating policies and procedures for managing projects. Also, checklists were not frequently used to assist with the project management process.

Recommendation – Facilities Management's sections should develop written operating policies and procedures for the management of facilities construction and maintenance projects. These procedures should include checklists to assist in the project management and oversight process.

Response – Facilities Construction and Facilities Maintenance are continuing the process of integrating all procedures and policies of the Public Works Department. Specifically, the two divisions are adapting project administration, programming, design, construction, monitoring, and close-out procedures to align with the User Guide. Where checklists and other project administration tools exist, they will be standardized to the User Guide format; where they do not exist or are deemed inadequate, they will be developed/modified. Many processes and procedures have already been changed within the last two years to conform to Public Works

standards (change order routing/approval, contract execution, budget development, project reporting to chain-of-command, etc.). All recent repair project contract documents have included firm schedules and liquidated damages clauses – discussion also has been initiated between Public Works and Purchasing on the best way to incorporate these elements into IDIQ maintenance contracts when task orders are particularly critical and/or reach a certain dollar threshold. In other areas such as safety, yard inspections/environmental stewardship, training (to name a few), Facilities’ two divisions are already fully integrated into Public Works procedures.

4. Project Tracking

Finding – Facilities Construction did not always track construction projects in compliance with City policies and best practices.

Recommendation – Facilities Construction should develop a more effective tracking procedure for its construction projects.

Response – Some deficiencies have resulted from the excessive project workload of the Facilities divisions and lack of support staff. For instance, both division managers have been managing several projects each (including multiple multi-million dollar projects) due to insufficient project officer and support staffing. This has worsened over the last few years as the project load has increased and has diverted critical time away from strategic and management oversight duties. Public Works is in the process of assigning additional resources to the Facilities divisions, but more direct project support may be needed. The Facilities divisions will continue working with Public Works accounting and Budget/Finance to allocate funding for non-capitalizable project items, improve spending controls and improve overall financial management of project budgets/finances. Some of this work has already taken place over the past year as Facilities Project Managers have become more familiar with Public Works procedures and accounting personnel. Public Works will work Purchasing to clarify confusing issues related to IDIQ contracts and rewrite/rebid contracts to improve efficiency and repair project delivery times and quality. (For instance, the “value” of an IDIQ contract cannot be related solely to bid labor costs. In many instances, the equipment/materials costs are the majority of a repair project’s cost and must be taken into account when establishing a reasonable annual “cap” on the IDIQ contract.) Facilities does utilize a tracking board for permits, but this has not been standardized across all projects. Both divisions will develop a common checklist to be used by all Project Managers and management personnel to improve code compliance oversight.

D. Technology Issues

Public Works utilized several different software packages to help it accomplish its assigned tasks. We identified a number of issues with the utilization (or lack thereof) of several software packages including the Maximo Asset Management System, SharePoint software and RouteSmart software within the Department as a whole, as well as lack of utilization of Global Positioning Software (GPS) within the Waste Management Division.

1. Maximo System

Finding –The Maximo Asset Management system was not being utilized to its fullest potential by the Department.

Recommendation – The Department should take a more active role in ensuring that the Maximo system is utilized to its fullest potential, with sufficient support as required from Information Technology (IT)

Response – The general characterization of the Department’s use of Maximo as presented does not adequately reflect the significant efforts or the progress made since implementation. The department is very large with multiple functions and Maximo use continues to be phased in across our various divisions. Some smaller divisions have easily accommodated the new system while large divisions with less computer literate users have required additional support. As detailed below, the system purchased was not optimized for Public Works activities and significant modification of the latest version of the IBM software was required. Furthermore, integration with the existing Customer Service request system, Munis/Kronos payroll systems and PeopleSoft accounting systems did not exist and is being phased in to allow automation of many manual processes that have reduced the functionality and efficiency of using the system. (Note: the full text of the response is included in the body of the audit report.)

2. Workflow Process Deficiencies

Finding – The Department was using a manual, inefficient document routing workflow process and tracking system to capture budgetary approvals for projects instead of the SharePoint software available on the CityPoint intranet.

Recommendation – Public Works and IT should continue to develop a tracking system, using SharePoint to create a centralized document management system.

Response – Public Works has been partnering with the Information Technology Department to implement an automated document routing and approval system. Issues of electronic signatures need to be resolved for the project to advance. Additionally further discussions need to occur on delegation of approval authority and purchasing limits that require director and/or City Manager approval. Often relatively small but time-sensitive actions are unnecessarily delayed by the approval requirements on relatively low cost items. Additional PeopleSoft modules are being implemented which may also improve efficiency and tracking of contracts and modifications.

3. RouteSmart Software

Finding – The Department was not utilizing its RouteSmart routing system software to its fullest potential.

Recommendation – The Department should locate the RouteSmart software, properly complete the implementation, and train the staff on its use.

Response – The RouteSmart program was originally installed on a Public Works Operations computer. It has since been transferred to another user who is GIS trained and will be the point of contact for RouteSmart updating and the technical aspects of the program. Training is projected to begin in September.

4. GPS Technology

Finding – The Waste Management Division (Division) did not have the ability to track and monitor the location and progress of its Grapple and Rear Loader trucks on an automated basis.

Recommendation – Public Works should attempt to identify funding to allow the Waste Management Division to install GPS tracking devices on at least the Grapple and Rear Loader trucks, so that the location and progress of the trucks can be monitored on an automated basis.

Response – Funding has been identified for this project. Due to contract stipulations with the proposed GPS vendor, the current procurement has been delayed and we are working with Purchasing and a new supplier. A pilot demonstration project for our grapple trucks will occur this fall. GPS for use in our rearloaders and remaining grapple trucks will be initiated if the pilot with this vendor is successful. Following that pilot we intend to outfit street sweepers and eventually snow plow and sanding trucks.

E. Stormwater Management/Drainage

In reviewing Stormwater Management and Drainage operations, we noted that a citywide comprehensive plan to manage the operations had not been fully implemented. We also noted that the Stormwater Enterprise Fund was funding salaries for non-Stormwater activities in some instances. Finally, pending regulatory changes had the potential to impact Stormwater Management operations.

1. Preventative Maintenance

Finding – The Stormwater Management/Drainage Division had not fully implemented a comprehensive maintenance plan to maintain the City’s stormwater/drainage systems.

Recommendation – Stormwater Management/Drainage should fully implement a comprehensive preventive maintenance plan for the City.

Response – Within the past two years, the Stormwater Management/Drainage operations group has reduced the backlog of service requests to such an extent that they were able to begin implementing a program of preventative maintenance for the City’s drainage infrastructure.

A regular schedule for street sweeping was set up in Maximo by the Operations Planner/Scheduler prior to the transfer of sweeping operations from the Division of Streets and Highways to Stormwater Management. This schedule has been maintained after the transfer. Operations improved sweeping cycles from one to four on residential streets and began publishing the sweeping schedules on the City website three years ago. (Note: the full text of the response is included in the body of the audit report.)

2. Stormwater Enterprise Fund

Finding – The Stormwater Enterprise Fund was used to pay selected employee salaries for time that was not spent on stormwater activities.

Recommendation – To comply with Section 26-372 of the Chesapeake City Code, the Department should apportion the use of the Stormwater Enterprise Fund to pay employee salaries depending on

the percentage of work actually performed on stormwater activities.

Response – The Department continues to apportion the time spent by select employees and manually make subsequent transfers to/from the General Fund. However, the current PeopleSoft, Maximo and Munis systems do not support detailed time accounting and apportionment based on hours worked per a particular function. The 27 employees identified in the audit do spend a majority of their time on stormwater functions. The Stormwater division also makes a significant contribution to the City’s General fund for support services whose cost allocation is determined annually by the Maximus Study conducted by the Finance Department.

3. Pending Federal/State Stormwater Regulations

Finding – Implementation of upcoming federal and state mandates may require additional Stormwater Management resources.

Recommendation – Stormwater Management should have a contingency plan ready to be executed in the event that additional resources are required to comply with the upcoming mandates.

Response – Stormwater Management has developed an Action Item list with all tasks, due dates, leads, and current status shown for all of the expected requirements. The Public Works Director has reorganized the Stormwater Management team to respond most effectively to the new mandates. (Note: the full text of the response is included in the body of the audit report.)

F. Inventories

Public Works inventories had a value of \$1,130,542 according to FY 2011 data in the City’s financial system. Several of our previous Public Works audits had identified issues with inventory controls. Since we continued to identify inventory control issues on this audit, we have prepared a more detailed analysis of these findings and recommendations, to better assist the Department in addressing them.

1. Inventory Controls

Finding – Public Works’ inventory processes needs to be improved to enhance inventory security, inventory controls, record keeping, and reporting accuracy.

Recommendation – Public Works should strengthen departmental inventory operating processes to improve and enhance access controls, security, accuracy of records and accountability over the various inventories.

Response – Public Works Operations has consolidated its storeroom for the most part and is developing a road map, attached. Additionally a study of best management practices and other localities and local DoD facilities will be undertaken and recommendation implemented.

We will evaluate each of the detailed suggestions recommended in the Audit for implementation. Several actions outlined in the detailed recommendations have already been taken by the Department, and we will further evaluate each of the detailed suggestions recommended in the Audit for implementation.

G. Other Items

We made observations in several other areas that we believe will assist the department in enhancing its operations and practices. These items included safety monitoring, pothole repair guidelines, ID/IQ contract access, and Monthly Progress Report reconciliations.

1. Safety Monitoring

Finding – The Safety Handbook did not require documentation of ongoing safety monitoring inspections.

Recommendation – The Safety Office should develop (1) a schedule for monitoring safety procedures during routine inspections, and (2) a safety checklist customized for use by Department supervisors for the purpose of documenting the supervisor’s inspections.

Response – Currently all safety inspections are conducted without prior notice (surprise inspections). We will consider developing a schedule for routine inspections. The Supervisors currently record their findings in their daily log books. The Safety Office uses a checklist that can be shared with the Supervisors.

2. Safety and Security Procedures- Chesapeake Expressway

Finding – We identified safety and security procedures at the Chesapeake Expressway (Expressway) that could be enhanced.

Recommendation – Pull alarms should be installed, facility access should be restricted to staff only, and the Expressway should discontinue the use of cones and use a more automated process for lane closure.

Response – The Expressway Staff have taken the following action on the suggested findings:

A complete Security upgrade is currently being installed with expected completion to be by the end of the Summer 2012. The Security upgrade includes a new pull alarm system to all Toll Booths and the EZPass Customer Service Counter. The number of Security cameras has been nearly doubled to 71 with a new Video Recording System and Intercom System.

Facility Access has been restricted to only Expressway Personnel. Access for the Armored Courier has been deactivated.

A review of the suggestion to discontinue the use of cones and to install an automated lane closure device has been found to be cost prohibitive and that the current process is within industry standards. (Note: the full text of the response is included in the body of the audit report.)

3. Potholes

Finding – Although the Operations Division completed pothole repairs within the guidelines established in its Service Level Agreement (SLA), the Division did not consistently complete potholes repairs within 48-hours after notification as required by Public Works regulations.

Recommendation – Public Works should revisit its regulation 609 to create consistency with the Division’s SLA.

Response – PW will discuss service goal expectations with regard to potholes and the various classifications of streets and recommend revisions to the PW regulation accordingly. Pothole repair response is heavily dependent on weather/temperature, workload, and availability of materials and can be very seasonal. The original intent of the 48 hour response was for primary and major roadways only; emergency repairs are handled the same day.

4. Indefinite Delivery/Indefinite Quantity (IDIQ) Contracts

Finding – Public Works did not have access to sufficient details of the specific terms of ID/IQ contracts, except for the general ID/IQ list provided on CityPoint. As a result, staff could not verify contract expiration dates, accuracy of vendor invoices, or other specific commodity types offered by ID/IQ vendors.

Recommendation – Public Works should work with Public Procurement and Information Technology to get full actual details of ID/IQ contracts posted on SharePoint for all user departments to see.

Response – Public Works offered this initiative to Purchasing in 2009 but was unable to move forward due to staffing shortages in Purchasing. Purchasing is now implementing a new PeopleSoft module that will partially address this tracking issue by establishing notifications to the buyer of contract limits approaching maximums and for upcoming expirations of contracts. Public Works remains committed to providing administrative support for the scanning and posting of contracts for citywide accessibility. Public Works internal regulations will reinforce the requirement to use existing IDIQ contracts.

5. Monthly Progress Reports - Division of Construction Services (DCS)

Finding – DCS and Public Works Accounting did not reconcile Monthly Progress Reports against the City’s PeopleSoft expenditure reports.

Recommendation – A periodic reconciliation should be performed between the DCS’s design/construction Monthly Progress reports and the PeopleSoft Expenditure Reports.

Response – Project managers receive detailed expenditure reports (ME Reports) twice a week on their projects. They will periodically review and communicate to PW Accounting any discrepancies. Currently ME reports have a limited number of staff that receive the reports. If they could be placed on share point other non-PeopleSoft users would have access (Eng. Techs etc.)

B. SUMMARY

AUDITS IN PROGRESS, TECHNICAL ASSISTANCE & TRAINING

AUDITS IN PROGRESS, TECHNICAL ASSISTANCE, & TRAINING

Audits in Progress

Public Works – The final audit report was presented to City Council on August 21, 2012. A preliminary report containing two findings was presented publicly to City Council on June 19th. At June 30, all field work was completed and the draft report had been issued.

Human Services – As of June 30th, we had begun planning work for the Human Services audit.

Parks and Recreation – We had also begun planning work for the Parks and Recreation audit and also began assisting them with their investigation of a personnel matter.

Technical Assistance Projects

Human Resources Information System (HRIS) – We are continuing to provide advice related to the HRIS system implementation

Public Utilities – We are continuing to provide assistance to Public Utilities as they implement their new Customer Information System. Acquisition of this system was included in the recommendations included with our most recent Public Utilities audit.

We have provided assistance on the City's IT modernization project.

We have provided contract management for the external auditor contract. The results of the external audit were shared with the audit committee on November 29th.

We completed our planned work related to the investigation of a drainage matter on Etheridge Road that was requested by the City Council.

One of our staff members participated in a Peer Review in Wyandotte County, Kansas.

We conducted a special project review of a complaint received related to Economic Development activities.

Training & Other

July 2011

Training – Staff attended training offered by the IIA entitled “What Color is your Information Risk Today, and Ethics Training through the Tidewater Chapter of the Virginia Society of CPA’s.

August 2011

Training – Staff attended training entitled “Prosecuting Financial Crimes in the Eastern District of Virginia and The Silver Lining: Getting Value and Mitigating Risk in Cloud Computing offered by the IIA and the Association of Certified Fraud Examiners.

September 2011

Training – Staff attended an informative training entitled *Accountability-The Center of The Universe*, offered by the Virginia Local Government Auditors Association.

October 2011

Training – Staff attended the Mid-Atlantic District Conference sponsored by the Institute of Internal Auditors.

November 2011

Training – Staff attended the 2011 Fraud Prevention and Detection Workshop sponsored by the Association of Certified Fraud Examiners and the Institute of Internal Auditors.

December 2011

Training – Staff participated in several trainings from Report Writing to Taxation.

January 2012

Training – Staff participated in the Institute of Internal Auditors Annual Tax Update as well as a session entitled Anti-Corruption: What Every Internal Auditor needs to know.

February 2012

Training – Staff participated in the Institute of Internal Auditors Communication and Behavioral Skills seminar for Auditors as well as an Economic Forecast seminar conducted by the Virginia Society of Certified Public Accountants.

March 2012

Training – Staff participated in a training session on benchmarking items, fraud, and the federal budget sponsored by the City’s external auditors.

April 2012

Training – Staff participated in the Annual Williamsburg Fraud Conference hosted by the Institute of Internal Auditors.

May 2012

Training – The City Auditor attended the ALGA Annual Conference in Tempe, Arizona. Also, all staff members participated in the annual training day provided the City's external audit firm as part of its annual contract.

June 2012

Training – One of our staff members attended a fraud training conference.

Our Audit Technician position became vacant on June 1st, and subsequent to City Council's June 12 action continuing funding for the position, we began a new recruitment process.

C. FRAUD HOTLINE

FRAUD, WASTE, AND ABUSE HOTLINE REPORT

During Fiscal Year 2012 we received thirteen 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:

Compliant #1 – A citizen called about an employee on assignment with a City vehicle who entered a bank on his lunch hour. This complaint was not authenticated.

Complaint #2 – A citizen complained that someone was receiving Social Services benefits inappropriately. This matter was referred to Human Services but was not authenticated based upon the results of their investigation.

Complaint #3 – A citizen complained about a number of City vehicles that periodically gathered and parked in a subdivision. The complaint was authenticated, and Department management instructed staff to discontinue that practice.

Complaint #4 – A citizen complained about an inappropriate boat registration. The complaint was referred to the Commissioner of the Revenue's Office; however, they were unable to authenticate it.

Complaint #5 - A citizen complained about a city employee stopping at a "Big Box" retailer in a City vehicle on a Saturday night. The employee was returning from a job assignment and was counseled. Therefore, we authenticated the complaint.

Complaint #6 – A citizen complained about a water line break. The complaint was reported to Public utilities, which authenticated the complaint and repaired the break.

Complaint #7 – A former City employee complained that another former employee misappropriated City supplies. We investigated the complaint, found it to be invalid, and did not authenticate it.

Complaint #8 – A former City employee complained that another former employee misappropriated City equipment. We investigated the complaint, found it to be invalid, and did not authenticate it.

Complaint #9 – A citizen complained about a City bid process that was handled incorrectly. This complaint was authenticated and referred to Public Procurement and the City Manager's Office.

Complaint # 10 – A citizen complained about a parked City vehicle idling on a City street. The complaint was referred to the noted department and authenticated, and the employee involved was counseled.

Complaint #11 – A citizen complained about a vehicle garaged in Chesapeake that was not being taxed. Unfortunately, because the compliant lacked sufficient information, it could not be authenticated.

Complaint #12 – A citizen complained about a City employee engaging in inappropriate activity. We reviewed the complaint with the affected department and found it to be invalid. Therefore, we did not authenticate it.

Complaint #13 – A citizen complained about a neighbor placing branches in his yard. Since the complaint did not involve the City directly, we did not get involved.

E. SUMMARY

TIME (HOURS) EXPENDED

JULY 1, 2011 TO June 30, 2012

**YEAR TO DATE SUMMARY REPORT
JULY 1, 2011- JUNE 30, 2012**

A. TIME (HRS) EXPENDED DURING FY 12-COMPLETED PROJECTS

1. Audits & Analytical Reviews:

Economic Development – Administrative	63.75
Economic Development – Testing	48.00
Drainage	169.50
Follow-Up Reviews (FY09 &10) – Administrative	18.50

Total Hours Audits & Analytical Reviews **299.75**

2. Technical Assistance:

Drainage Complaint	169.50
Fraud Hotline	119.00
Other/IT Modernization	36.00
Economic Development Follow-up	4.00
Peer Review-Prep	10.00
Central Fleet Users Group	3.00

Total Hours Technical Assistance **172.00**

Total Hours – Completed Projects **471.75**

Times(HRS) Expended During FY 12-Projects in Progress

1. Audits & Analytical Reviews:

Human Services – Administration	17.50
Human Services – Planning	29.00
Parks & Recreation – Administrative	18.00
Parks & Recreation – Planning	62.00
Public Works – Administrative	309.75
Public Works – Planning	1453.25
Public Works – Testwork	1826.75
Public Works – Report	1549.25

Total Audits & Analytical Reviews in Progress **5265.50**

2. Technical Assistance:

Kronos/Payroll/HRIS Systems	34.50
CBH Contract Oversight (Audit Contract Mgmt)	38.00
Public Utilities	13.00

Total Technical Assistance in Progress **85.50**

3. Other:

Administrative	3266.25
Holiday	638.00
Leave – Annual	556.25
Leave – Sick	282.75
Leave – OT	8.00
Meetings	64.25
Miscellaneous	76.00
Professional Organizations	676.75
Training	546.00

Total Other in Progress 6114.25

Total Hours for Projects in Progress **11465.25**

Total Hours (Completed Projects + Projects in Progress) **11937.00**