



Audit Report No. 2006-09
FOLLOW-UP REVIEW
OF
OUTSTANDING AUDIT COMMENTS
As of December 31, 2004

Prepared by
CITY AUDITOR
Richmond, Virginia

Submitted to
The Honorable Members of City Council
November 22, 2005

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The Honorable Members of City Council
Richmond City Audit Committee
City of Richmond, Virginia

City Auditor's Report

To help ensure the financial integrity and operational efficiency of the City, the City Auditor's Office reviews the actions taken by department administration in regard to recommendations made in prior audits. (See Attachment A for the Audit Committee's Policy and Procedure.) We reviewed all the audit reports the City Auditor issued through December 31, 2004, that had open recommendations with an implementation date of December 31, 2004 or prior, and the items still open from our earlier Follow-Up Review report dated August 26, 2004.

During this review we interviewed the management personnel associated with each recommendation and tested the results of the actions they had taken.

Our objective was to determine whether (and to what extent) appropriate and timely corrective actions had been taken to implement the recommendations. Much of the benefit from audit work is neither in the findings reported nor the recommendations made, but in their effective resolution. Management is responsible for corrective action on audit comments. By tracking the status of each finding we help management fulfill its responsibility. We will assist management, as requested, in developing a corrective action plan.

We conducted our audit in accordance with Government Auditing Standards for Performance Audits issued by the Comptroller General of the United States.

City management continues to be responsive to our audit comments, as Department Directors have either implemented most recommendations or have planned corrective action within a reasonable amount of time.

We have included a schedule that summarizes the status of the audit comments.

This report is intended for City Council, the Richmond City Audit Committee and City management, and is a matter of public record.

Respectfully submitted,

Randi L. Ricco-Clifford, CPA, CIA
Interim City Auditor

James P. Pell, CPA
Senior Auditor

October 31, 2005

STATUS OF OUTSTANDING AUDIT COMMENTS

Statistical Summary

<u>REPORT NUMBER</u>	<u>AUDIT REPORT</u>	<u>TOTAL</u>	<u>OPEN</u>	<u>CORRECTED</u>
<u>REPORTS BEFORE</u>				
<u>FY2004</u>				
96-14	Finance – Collections	1	0	1
99-05	Finance – Collections	1	1	0
00-05	City Towing Contract	2	2	0
00-06	Finance - Debt Service	1	0	1
01-03	Finance - Payroll	1	1	0
01-05	Police	1	0	1
02-01	HR - SSN & Birth Dates	1	0	1
02-04	Finance - Disbursements	1	1	0
02-05	HSIS	2	2	0
02-11	Public Utilities	1	1	0
02-13	City-Wide Revenue	7	4	3
03-04	Emergency Communications	2	1	1
03-05	Fleet Management	8	3	5
03-06	DPU – Payment Arrangements	5	2	3
03-08	Community Development-NIB	3	0	3
03-09	Finance/Others-Petty Cash, NEI,TR	3	0	3
03-10	Finance-Collections: Returned Checks	7	3	4
03-11	Richmond Redevelopment Housing Authority (RRHA)	6	3	3
TOTAL		53	24	29
PERCENT OF TOTAL		100%	45%	55%
<u>FY2004 ^a REPORTS</u>				
04-02	Finance/Procurement – Vendor file	6	2	4
04-03	Finance-Tax Audit Unit	5	2	3
04-05	Police – Training & Recertification	1	1	0
04-06	DPU - Disbursements	6	1	5
04-07	Finance – License Assessment Unit	9	9	0
04-08	Parks/Rec–Summer Food Program	3	1	2
04-13	Economic Development	9	2	7
04-14	DPU–Disaster Planning & Recovery	3	0	3
05-01	DPU-Cast Iron Renewal Contract	1	0	1
05-03	DPW – Maintenance	3	0	3
<u>Major Items –</u>				
<u>FY2004/05 Reports</u>				
04-05	Police – Training & Recertification	2	0	2
04-08	Parks/Rec-Summer Food Program	1	0	1
05-01	DPU-Cast Iron Renewal Contract	3	0	3
TOTAL		52	18	34
PERCENT OF TOTAL		100%	35%	65%
TOTAL: ALL REPORTS		105	42	63
PERCENT OF TOTAL		100%	40%	60%

^a Includes all FY 2005 audit recommendations that had an implementation date by December 31, 2004.

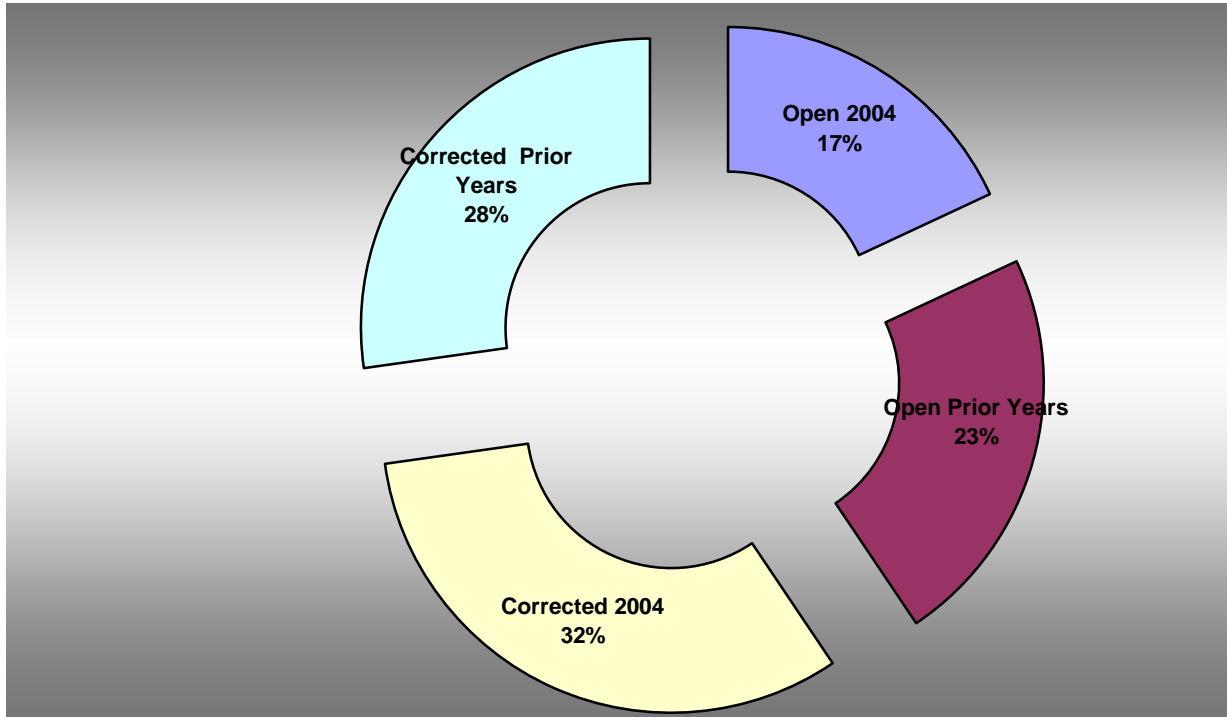
EXECUTIVE SUMMARY

The Follow-Up Review is important because it reports the efforts made by City agencies to implement audit recommendations. In the past, the City Auditor annually reviewed the audit comments that were outstanding (Open) at the end of the prior fiscal year. The bulk of the outstanding recommendations are usually from the latest fiscal year. In an attempt to provide current information, the City Auditor will now extend the period from the prior fiscal year (June 30) through a more recent date (December 31).

This year's Follow-Up Report (see Statistical Summary on page 3) relates and describes the efforts that departments have made to implement our audit recommendations. Our audit includes all audit reports issued through December 31, 2004 that had open items with an implementation date of December 31, 2004 or prior, and the items still open from our earlier Follow-Up Report dated August 26, 2004. The auditors reviewed one hundred five (105) outstanding comments, fifty-two (52) from reports issued in fiscal year 2004 and fifty-three (53) from prior years' reports. The following schedule compares the results noted in the Follow-Up Reports for the last four years:

STATUS OF RECOMMENDATIONS FISCAL YR ENDED	2004	2003	2002	2001
OPEN	42	56	32	23
CORRECTED	63	50	66	46
TOTAL RECOMMENDATIONS OUTSTANDING	105	106	98	69
% Corrected in current year that had been carried forward from prior years	55%	39%	43%	56%
% Corrected in first year after the audit	65%	51%	75%	73%

OVERALL PERCENTAGE OF AUDIT COMMENTS OPEN AND CLOSED, INCLUDING MAJOR RECOMMENDATIONS



The City Administration has made an effort to bring closure to outstanding (not-implemented) audit recommendations. The overall correction rate was 60% of the total outstanding audit recommendations, after including the six Major recommendations that were corrected between January and December 2004.

OPEN COMMENTS

Collections Division (Audit Report No. 99-05)

DEPARTMENT FINANCE
ORIGINAL COMMENT No. 4 (Formally reconcile inventory of decals)
STATUS OPEN

Background When City taxpayers purchased automobile decals, the Customer Service Representative (teller) entered the decal number into the Cash Register System. Since the Register System does not interface with the Decal Inventory System, the tellers are able to enter and process erroneous decal numbers. The Collection Division's procedures require reconciling and correcting decal numbers sold to City taxpayers. In our audit we had noted weaknesses related to the control, issuance and reconciliation of the decals.

Audit Recommendation We recommended that Collections' Management:

- (a) Review the possibilities of interfacing the new Cash Register System with the Decal inventory system. An interface would eliminate teller-keying errors because the system would not accept incorrect decal numbers.
- (b) Perform inventory reconciliations frequently and on a consistent basis. This would correct teller errors on a timely basis.
- (c) Develop written procedures to provide guidelines for administering the inventory process. (Closed)

Implementation Finance is trying to acquire a new system to replace the Cash Register System. The new target implementation date for this process is May 2006. The new system will allow more frequent inventory reconciliations. Finance has implemented written procedures over the inventory process; however, Finance has not performed reconciliations quarterly for the Decal System due to time constraints, according to the Revenue Manager of Assessments. The reconciliation process is expected to be in place by December 31, 2005.

City Towing Contract (Audit Report No. 00-05)

DEPARTMENT FINANCE
ORIGINAL COMMENT No. 1 (Assign responsibility for receipt of auction reports and proceeds)
STATUS OPEN

Background According to contract, a towing vendor tows vehicles and stores them at the City's request. If the owners do not claim the vehicles, the vendor disposes of them by auction through a third party. During our audit, we noted that no particular department within the City had the responsibility for receiving and reviewing reports and proceeds related to towed vehicles that are auctioned. The towing vendor did not have procedures that ensured they remitted all auction proceeds and related reports.

Audit Recommendation We recommended that an appropriate agency within the City should be made responsible for assuring the receipt of the auction reports and proceeds.

Implementation Finance Collections is receiving and reviewing the auction reports but is currently following-up with the City Attorney's Office to determine if the towing vendor will be allowed to net any gains against other losses in the auction. The new target date is November 30, 2005.

DEPARTMENT	FINANCE
ORIGINAL COMMENT No. 3	(Assure that the towing contractor sends to the City auction proceeds due, supported by reports)
STATUS	OPEN

Background The City no longer has a mechanism for ensuring that the towing contractor sends detailed reports and proceeds due when abandoned vehicles are auctioned for the City.

Audit Recommendation We recommended that the towing contractor should immediately begin (or resume) sending to the City proceeds due, supported by reports detailing the disposition of auctioned vehicles.

Implementation Finance Collections is receiving and reviewing the auction reports but is currently following-up with the City Attorney's Office to determine if the towing vendor will be allowed to net any gains against other losses in the auction. The new target date is November 30, 2005.

Finance/Payroll (Audit Report No. 01-03)

DEPARTMENT	FINANCE/PAYROLL
ORIGINAL COMMENT No. 3	(Document TEMS Disaster Recovery Plan)
STATUS	OPEN

Background During our review of TEMS disaster recovery plans, the following exceptions were noted:

- We found no evidence that TEMS disaster recovery plan was ever tested, because documentation to support testing could not be found.
- Written plans and procedures outlining the specific details regarding disaster recovery were not documented within the Payroll Division.
- The written agreement dated July 20, 1989, between the City and Chesterfield County in the event of an emergency computer failure was not updated. In addition, test results were not documented to demonstrate that the TEMS application was sufficiently compatible to function on Chesterfield's mainframe.

Audit Recommendation We recommended Finance Management:

- (a) Develop or finalize plans for TEMS disaster recovery procedures and to ensure that the plans have been sufficiently tested;
- (b) Update their contract agreement with the County of Chesterfield to ensure that their mainframe is compatible to handle our current software applications; (Closed)
- (c) Payroll Supervisors have a background check before they are hired into the position. (Closed)

Implementation The Department of Information Technology has finalized a contract with the vendor for an off-site hot-site. First testing by the vendor is not scheduled until January 2006. Finance and the new Disaster Recovery Coordinator will need to develop the contingency processes for the new disaster recovery plan with implementation targeted for December 31, 2005.

City-wide Disbursements & A/P Function (Audit Report No. 02-04)

DEPARTMENT	FINANCE
ORIGINAL COMMENT No. 4	(Update the Accounts Payable manual)
STATUS	OPEN

Background The Accounts Payable policies and procedures manual (1992) was outdated.

Audit Recommendation We recommended that Accounts Payable update the manual, issue the manual to all appropriate staff and train based upon it.

Implementation The Accounts Payable manual was completed but has not yet been approved. The new implementation date is December 31, 2005.

Human Services Internal Support (Audit Report No. 02-05)

DEPARTMENT	HSIS
ORIGINAL COMMENT No. 6	(Circumvention of system limitation)
STATUS	OPEN

Background HSIS uses the ODE system for processing payments. The system is old and limits the "amount" field of invoices to five figures (e.g. \$999.99). Therefore, an invoice for \$2,500.00 is entered into the ODE system and is split into two invoices for \$999.99 and one invoice for \$500.02. There is an increased risk of both vendor confusion and the ability for HSIS management to detect duplicate payments. HSIS management indicated that a system upgrade was pending.

Audit Recommendation We recommended that HSIS continue with their upgrade plans to eliminate the field-size issue.

Implementation Modification of the current system is not practical because of cost and competing priorities. All payments for Foster Care and Comprehensive Services Act (CSA), the two areas most affected by the field-size limitation, are now made using the City's Advantage Financial System effective September 1, 2005. Other programs will be phased in by June 30, 2006. Audit will test in the next annual follow-up audit as of December 31, 2005, accordingly.

DEPARTMENT	HSIS
ORIGINAL COMMENT No. 7	(Require completed Purchase of Service Order [POS] form)
STATUS	OPEN

Background HSIS was not consistent with its requirement of receiving a completed POS form from City agencies prior to processing payments. The POS form ensures that all services being provided have been agreed upon by all parties involved.

Audit Recommendation We recommended that HSIS:

- (a) Be consistent with its requirement of the use of the POS form as soon as possible and communicate its requirement to all agencies serviced;
- (b) Communicate the policy with vendors to ensure that all invoices reference the order number. (Closed)

Implementation A purchase of service component within the new Harmony System was implemented in June 2005 for Foster Care and CSA but was recently modified. The new system will create Purchase of Service Orders that are consistent with State requirements which can vary depending on the program funds being accessed. Because of the subsequent modification, there was insufficient history for testing; therefore the new implementation date will be December 31, 2005 to allow for sufficient history.

Gas and Water Distribution A/P (Audit Report No. 02-11)

DEPARTMENT	DEPARTMENT OF PUBLIC UTILITIES
ORIGINAL COMMENT No. 4	(Capture purchase discounts)
STATUS	OPEN

Background The Division does not have a policy that addresses purchase discounts nor procedures for ensuring the Division receives them.

Audit Recommendation We recommended that the Division draft procedures that are in line with the City's policies on purchase discounts. In the meantime, management should train clerks to recognize and capture discounts.

Implementation According to the DPU Utility Financial Reporting Manager, effective immediately, DPU Accounts Payable will keep a daily log of DPU invoices offering a discount for prompt payment. DPU will keep the log for the next six months and summarize the findings to share with the City Auditor's Office. The City Auditor's Office will continue to follow progress.

City-Wide Revenue (Audit Report No. 02-13)

DEPARTMENT	PARKS, RECREATION AND COMMUNITY FACILITIES
ORIGINAL COMMENT No. 3	(Make timely deposits)
STATUS	OPEN

Background Several of the off-site facilities collect revenue for the Department for items such as summer camp programs and park rentals. The off-site facilities are required to deposit revenue received in accordance with the Department of Finance Policy #1-89. Testing revealed that deposits were not being made in a timely manner. In addition, amounts over \$1,000 were not being deposited within 24 hours.

Audit Recommendation We recommended that the Department comply with Finance Policy #1-89 and ensure that all personnel involved in handling revenue are aware of the requirements.

Implementation Follow-up tests showed that the Department is still not complying with the City's Cash Policy 1-89. The Acting General Manager responded that over the previous review period, the Department had taken the following corrective steps: retrain staff, issue letters of reprimand, and have Departmental staff perform on-site random audits. The Acting General Manager stated that the above steps had clearly not been successful, and as there is now a new Parks and Recreation Department Administration, a new Department Internal Deposit Policy will be crafted and implemented in the next thirty (30) days that states in part, "failure to make timely deposits of revenue will result in suspension from City Service for a minimum period of one (1) day. Continued failure to make timely deposits will result in a termination from City Service." The Acting General Manager anticipates implementation by November 30, 2005. The City Auditor's Office will continue to follow progress.

DEPARTMENT	PARKS, RECREATION AND COMMUNITY FACILITIES
ORIGINAL COMMENT No. 7	(Receipt usage report)

STATUS**OPEN**

Background Department of Finance Policy #1-89 requires a Receipt Usage Report for each receipt book. The Receipt Usage Report lists the receipt number, date, pay-in number and pay-in date. We found that the Department was not using the Receipt Usage Report to monitor receipts.

Audit Recommendation We recommended that the Department comply with Finance Policy #1-89 and implement the use of the form.

Implementation Subsequent testing performed showed evidence that the Department used the form. However, the Department did not always adhere to the requirement that the preparer's supervisor should approve and sign the form, and some of the forms were incomplete. The Acting General Manager responded that over the previous review period, the Department had taken the following corrective steps: retrain staff, issue letters of reprimand, and have Departmental staff perform on-site random audits. The Acting General Manager stated that the above steps had clearly not been successful, and as there is now a new Parks and Recreation Department Administration, a new Department Internal Deposit Policy will be crafted and implemented in the next thirty (30) days that states in part, "failure to make timely deposits of revenue will result in suspension from City Service for a minimum period of one (1) day. Continued failure to make timely deposits will result in a termination from City Service." The Acting General Manager anticipates implementation by November 30, 2005. The City Auditor's Office will continue to follow progress.

DEPARTMENT**FINANCE (formerly issued to Police)****ORIGINAL COMMENT No. 22****(Develop policies and procedures-False alarm function)****STATUS****OPEN**

Background The Department of Finance took over the responsibilities for collecting false alarm fees after July 1, 2002. Formal policies and procedures did not exist for the process prior to July 1, 2002.

Audit Recommendation We recommended that Finance management establish policies and procedures to encompass the entire false alarm revenue function.

Implementation Policies and procedures are in the process of being finalized. Expected completion of policies specifically related to false alarm policies is September 30, 2005.

DEPARTMENT**FINANCE****ORIGINAL COMMENT No. 27****(Endorse departmental checks)****STATUS****OPEN**

Background During our audit, we found that there are off-site City agencies that collect revenue for the City. Under the current Finance policy, these agencies are not permitted to endorse checks upon their receipt. The Department of Finance uses a validation stamp issued by the cash register, which uses the majority of the designated space on the back of the check. Therefore, an endorsement could interfere with ability to read pertinent information left by the validation stamp. However, the inherent risk of collections is somewhat mitigated by placing a restrictive endorsement on the back of the check upon receipt by the individual City agency.

Audit Recommendation We recommended that the Department of Finance should change their Policy and allow City agencies to utilize a small portion of the check for their restrictive endorsement. The Department could consider either changing the font size of the validation stamp or combining line items to increase the space available for an endorsement.

Implementation New agency endorsement stamps had been ordered but the vendor did not include "For Deposit Only" in the stamps. They have been reordered, and training and use will be implemented upon receipt of the stamps by August 31, 2005.

Dept. of Emergency Communications (Audit Report No. 03-04)

DEPARTMENT	POLICE
ORIGINAL COMMENT No. 3	(Review Staffing Between Shifts)
STATUS	OPEN

Background Approximately the same number of Communications Officers (CO) is used to staff each shift, even though the average number of calls drops dramatically after midnight. The average number of calls handled per shift suggests that the workload for the midnight shift, in terms of number of calls only, is half that of the other two shifts. The possibility exists that the midnight shift is over-staffed, or that the other shifts are under-staffed. A potential savings of around \$180,000 (salaries plus benefits) exists if five (5) extra CO are not needed on the midnight shift. The Officer-in-charge maintained that calls in the "wee hours of the morning" tend to require much closer assistance due to the circumstances of the calls, although the number of calls received drops.

Audit Recommendation We recommended that the DEC determine whether workloads can be more equitably distributed between the shifts to equalize the workload.

Implementation A consultant's workload study was completed and the Department is undergoing a restructuring pending the Chief's final decisions regarding realignment and resources. The new target date for implementation is December 31, 2005.

Fleet Management (Audit Report No. 03-05)

DEPARTMENT	Public Works
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ORIGINAL COMMENT No. 3 (Policies and Procedures)
STATUS OPEN

Background During the year under audit, the Department did not have updated Policies and Procedures.

Audit Recommendation We recommended that management establish written procedures, specific to the Department's operations at both garages. These procedures should be used as a continuing reference source of departmental methods, and to promote consistency.

Implementation The Fleet Services Administrator established an updated Policies and Procedures Manual. It is complete except for one section and final sign-off by the Director. Full implementation is expected by August 31, 2005.

DEPARTMENT Public Works
ORIGINAL COMMENT No. 5 (Safeguard Facilities)
STATUS OPEN

Background The Parker Field and Hopkins Road facilities do not have automatic gates to secure the facilities. Fleet relies upon the due diligence of employees and users to secure the facility upon exiting. At any given time, there are approximately 50-100 vehicles on site, ranging from compact cars to fire trucks, sweepers and construction equipment. The financial impact of theft or vandalism includes the cost of these vehicles, as well as the facility itself. However, we note that Fleet had never had any incident of vehicle theft at either facility at the time of the audit.

Audit Recommendation We recommended that the Department provide for upgraded security gates with automatic locking features to ensure that the facilities are properly safeguarded.

Implementation Fleet is procuring bids for security enhancement of its facilities. This will include automatic gates with camera and speakerphone, and surveillance cameras recording activity throughout the property. The Hopkins Road facility presents more of a challenge since the transfer station is located there, requiring 24-hour access. Professional photography services have been obtained to produce pictures for the bid package. The new implementation date is December 31, 2005.

DEPARTMENT Public Works
ORIGINAL COMMENT No. 14 (Vehicle Utilization Review)
STATUS OPEN

Background There was no formal process established to determine whether City vehicles are utilized to their full potential. We believe in certain circumstances, Fleet's motor pool may be an alternative for many City agencies that do not wish to incur the cost of obtaining a vehicle and providing for maintenance and repairs on the vehicle.

Audit Recommendation We recommended that Fleet management consider a regular (annual or bi-annual) process to review the utilization of City vehicles to ascertain if motor pool may be a less costly option. This evaluation at a minimum would take into consideration mileage, usage in days and availability of motor pool.

Implementation A formal annual utilization review has just been completed but the results have not yet been acted upon. The Fleet Services Administrator will implement the results by December 31, 2005.

DPU Payment Arrangements (Audit Report No. 03-06)

DEPARTMENT	DPU
ORIGINAL COMMENT No. 4	(Require that Only Appropriate Personnel Authorize Payment Arrangements)
STATUS	OPEN

Background We sampled ten payment arrangements that required additional (i.e., higher) levels of approval before being granted. For example, payment arrangements greater than \$3,000 are supposed to be approved by a Utilities Accounts Investigator. Of the ten (10) higher-level payment arrangements selected, none were approved by the correct level of management.

Audit Recommendation We recommended that DPU adopt steps to adhere to its policy, including automated system limits on payment arrangements without proper approval (see Recommendation 5, below).

Implementation Subsequent testing of ten payment arrangements indicated that eight of the ten payment arrangements were still not properly authorized. DPU reviewed the auditor's findings on the payment arrangements sample test and are in agreement with them. As a result, the following has/will be implemented:

- A copy of the approval level table was redistributed on November 18th to all personnel authorized to create payment arrangements
- Beginning December 1, 2005, DPU will sample test, for each employee authorized to create a payment arrangement, up to five payment arrangements from the immediately preceding month to ensure compliance with the policy. Corrective action will be implemented based upon the results of the sample test. The Customer Service Manager will be responsible for this follow-up.

The City Auditor's Office will continue to follow progress.

DEPARTMENT	DPU
ORIGINAL COMMENT No. 5	(Require System Verification of Proper Authorization before Granting a Payment Arrangement))
STATUS	OPEN

Background The CIS/Billing system contains a field that *requests* the initials of the senior representative who authorized a payment arrangement. However, the system itself will accept any level of authorization for payment arrangements – even those that exceed the CSR's authorization level. Any payment arrangement amount can be set up without an authorized signature.

In addition, the person who created the payment arrangement can put *any* initials in the authorization field. Therefore, it will appear as if a payment arrangement was properly authorized, when in fact the approval/authorization was falsified.

Audit Recommendation We recommended that DPU update the system to require authorization of payment arrangements by appropriate personnel. We recommend that the system be set so that payment arrangements will not be accepted without the appropriate personnel. On a periodic basis, the more senior representatives themselves should review the "list of authorizations by senior representatives" for validity.

Management should reinforce the need to obtain adequate approvals by instruction and, if necessary, by imposing consequences on violators.

Implementation DPU identified CIS enhancements to automate the control and monitoring of payment arrangements. These enhancements are prioritized with other CIS enhancements and technology projects currently undertaken by DPU and have a current expected implementation date of December 31, 2006.

Collections: Returned Checks (Audit Report No. 03-10)

DEPARTMENT	FINANCE
ORIGINAL COMMENT No. 5	(Consider the Cost/Benefit of a Check Verifying System)
STATUS	OPEN

Background The City received over 3,800 bad checks, totaling over \$2,000,000 during the audit period. The City incurred over \$12,500 in bank charges, as well as staff time to process these checks. Check-verifying systems (e.g., the Virtual e Verify system) are available that enable the staff to scan the checks and determine account validity and funds availability before accepting the check. At the present time the City does not have a

mechanism in place to do this. The City could save over \$12,000 in bank charges plus much of the time spent by staff.

Audit Recommendation We recommended considering the cost/benefit of a check verifying system to curb the number of returned checks due to lack of funds or account validity.

Implementation As the new revenue system will not have a specific component for a check verifying system, the Finance Revenue Manager has requested the Returned Checks Unit Management to prepare a report to outline the cost/benefit of a check verifying system. The target implementation date is December 31, 2005.

DEPARTMENT	FINANCE
ORIGINAL COMMENT No.10	(Implement Procedures to Notify Departments)
STATUS	OPEN

Background The Collections Unit received checks collected by other departments through “pay-ins.” (This is a document used to deposit checks and cash with the City.) Some checks used to make payments for departmental activities and programs were returned by the bank.

We discovered that departments and agencies were not notified when the bank returned their checks. As a result the customers received the benefits without the cost. Additional NSF checks were accepted from the same person months later because departments were not notified that the first check had been returned. Processing the returned checks more timely, and communicating with the departments, could have speeded subsequent collections. Management indicated that checks received from pay-ins could not be easily traced to a particular department for timely follow-up.

Audit Recommendation We recommended that management:

- (a) require all departments to stamp all pay-in checks, identifying the department that received the check, and
- (b) implement a procedure ensuring that departments are notified timely when they have a check returned from the bank to assist in the collection process. (Closed)

Implementation New agency endorsement stamps had been ordered but the vendor did not include “For Deposit Only” in the stamps. They have been reordered, and training and use will be implemented upon receipt of the stamps by August 31, 2005.

DEPARTMENT	FINANCE
ORIGINAL COMMENT No.11	(Require Departments to Turn-In Checks Received to Collections Timely)

STATUS**OPEN**

Background Testing revealed that several departments did not turn in checks received promptly to Collections. Checks were deposited between 1 and 15 months after the check date. Some accounts had been closed or payment stopped by the time the checks were turned in to Collections. One check dated March 3, 2000 was deposited May 8, 2002. Another check dated May 19, 2000 was deposited August 13, 2001. Besides violating City policy on making timely deposits of receipts, the departments increased the risk of not being able to collect on the checks.

Audit Recommendation We recommended that management:

- (a) Issue a memo to department head reminding them of the City's deposit requirements to deposit weekly, (Closed)
- (b) Direct cashiers to scan the date of checks received from pay-ins, and
- (c) Bring to the attention of the department heads all checks that are two months or older.

Implementation During August 2005, the Finance Department implemented a procedure whereby stale dated checks presented for deposit were returned to the originating department at the point of processing (cashier counter). As the final step, a memo will be prepared and implemented into this current process notifying department heads of our Cash Collections - Daily Deposit Policy and the time requirements to deposit checks. The notification memo will be implemented by December 1, 2005.

RRHA Financial Management and Liquidity Review (Audit Report No. 03-11)

DEPARTMENT Richmond Redevelopment and Housing Authority
(RRHA)
ORIGINAL COMMENT No. 2 (Review the Current Hiring Practices for Effectiveness and Efficiency of Recruitment Methodologies)
STATUS OPEN

Background RRHA's hiring process was longer than the industry standard. Resources obtained from the International Personnel Management Associated report that the average recruitment and selection process should last approximately 45 days. Our review of 14 vacant positions in financial operations revealed that for 8 of those positions, it took the Human Resources division longer than 45 days to fill each position. RRHA could not provide enough data for us to perform this calculation for two of the 14 vacant positions. Recruitment is a hot topic for all organizations within all sectors. RRHA should be proactive, aggressive and timely in their recruitment process. Vacant positions often lead to excessive burden on existing staff members.

Audit Recommendation We recommended that RRHA management review current hiring practices for effectiveness and efficiency of recruitment methodologies, including both the tracking and monitoring of the process to determine where improvements are necessary and ascertaining whether technology usage and time measures could streamline the hiring process.

Implementation Although improvements were noted, subsequent testing revealed delays were still present and RRHA needed to address a better strategy for improving the delays.

RRHA Response The Authority has demonstrated significant improvement in its hiring practices. We've developed a recruitment procedure and trained all of our hiring supervisors in an effort to educate and improve this process. The training included topics such as interview question development, selection recommendation and documentation, and the proper manner in which to conduct interviews. The recruitment and selection process should take no more than 60 days; however, because of factors sometimes beyond our control (i.e. scheduling conflicts, etc.) we are not always able to adhere to those guidelines. The Authority's objective is to do our best to meet established deadlines. We will work to improve enforcement of our recruitment policy.

Auditor's Response This comment will be left open and will be reviewed by the City Auditor's Office during the next annual follow-up audit as of December 31, 2005.

DEPARTMENT Richmond Redevelopment and Housing Authority (RRHA)
ORIGINAL COMMENT No. 3 (Ensure Community Development Block Grant (CDBG) and HOME Grant budgets are properly prepared and monitored, consistent with entitlement under City policy)
STATUS OPEN

Background RRHA did not properly budget for allocated overhead for CDBG and HOME grants during the City's FY2002 and FY2003 program periods. City policy limits reimbursements for administrative costs (personnel, salary, overhead) to 30% of the project total. Once the City had approved the project budgets, revisions for additional overhead costs were not permitted.

The Authority over-spent the approved activity line-item budget for several projects. Depending on the circumstances, the City does allow a budget revision for some activity overruns. However, it appears that the RRHA budget monitoring process was not effective. The risk is that costs will be subsidized by RRHA in these situations because of ineffective budget preparation and an ineffective monitoring process.

Audit Recommendation We recommended that RRHA management:

- (a) Meet with appropriate members of the City's Finance Department and the Department of Community Development to understand the proper budgeting process, to ensure receiving the full entitlement under city policy for CDBG and HOME grant reimbursements. (Closed)
- (b) Establish a proper process to monitor expenses incurred against the budget to ensure appropriate reimbursement under City grants and to limit expenditures to only those costs allowed by the grants.

Implementation Improvements were made at the Authority to combat the overspending issue. It was noted that overspending on an entity-wide basis still occurs, but it is disclosed to management. According to RRHA, budget information is not included in the General Ledger. Therefore, managers do not have the information to make decisions about activity.

RRHA Response The Authority is currently in the process of automating its 2006 budget to improve monitoring and reporting functions. Staff received training in August covering the following topics: 1) importing the budget into the financial accounting system, 2) approving disbursement transactions, 3) managing grant activity, 4) tracking encumbrances, 5) revising and reallocating budget data, 6) reporting, and more. The Authority's goal is to implement this automated process on October 3, 2005. This automation will allow budgets to import at the general ledger account string level. Management will have access to their budgets daily and generate reports as needed. Disbursement above a defined threshold will require budget staff review. In addition, management has agreed to meet quarterly to discuss the status of the overall agency budget.

Auditor's Response This comment will be left open and will be reviewed by the City Auditor's Office during the next annual follow-up audit as of December 31, 2005.

DEPARTMENT Richmond Redevelopment and Housing Authority
(RRHA)
ORIGINAL COMMENT No. 6 (Remit program income timely)
STATUS OPEN

Background RRHA did not remit program income from CDBG and HOME-related grant activities in accordance with City contract requirements. Federal regulations regarding the frequency of remitting such income defer to City policy. City contracts require program income to be remitted on a monthly basis. RRHA did not remit any program income during the City's entire FY2002, or during fiscal year 2003.

Audit Recommendation We recommended that RRHA adhere to contract requirements and remit program income on a monthly basis.

Implementation The City agreed to a quarterly payment schedule. Subsequent testing showed that payments were made to the City throughout the year. However, it was noted the payments were not within 45 days of the end of the quarter; in fact, they ranged from three months to six months late.

RRHA Response The Authority and City have worked diligently to improve this process. We have now agreed to a quarterly remittance of program income. The Authority will continue to work with City personnel to refine this process and its impact on other financial transactions involving the two entities.

Auditor's Response This comment will be left open for a full year of quarterly submissions and will be reviewed by the City Auditor's Office during the annual follow-up audit as of December 31, 2006.

Vendor File (Audit Report No. 04-02)

DEPARTMENT Procurement Services
ORIGINAL COMMENT No. 3 (Adopt a Policy to Provide Guidance Regarding Vendors Who Have Defaulted)
STATUS OPEN

Background No provisions were in place to prevent vendors, who have defaulted on previous contracts, from obtaining additional contracts. According to the Procurement Director, unless the vendor has been legally debarred, contracts can still be awarded to the vendor. However, it seems unwise to award contracts to vendors who have intentionally defaulted on one or more previous contracts. The City should not award additional contracts to those vendors for a specified period of time. If such vendors are awarded

additional contracts, the City not only risks having to cancel and re-bid the contracts but also risks obtaining inferior goods and/or services. The Procurement Office did not have a mechanism/procedure in place to identify such vendors, nor did it maintain a listing of default vendors to prevent their use.

Audit Recommendation We recommended that Procurement Services consider adopting a policy to provide guidance regarding how to deal with vendors who have defaulted.

Implementation Links to the State and Federal websites of defaulted vendors have been incorporated into Procurement's website listed on the City's website. However, a policy outlining how to deal with such vendors has not been implemented. According to the Interim Director, the policy was delayed due to the need for legal interpretation and staff transitions. Also, changes to policy and code will be required. The new anticipated implementation for this recommendation is October 1, 2005.

DEPARTMENT	Procurement Services
ORIGINAL COMMENT No. 6	(Extend Reference Checks to Other Localities/Jurisdictions)
STATUS	OPEN

Background Procurement checked only the references provided by the bidder to inquire about the quality of their services/goods, although firms typically provide only the names of contacts that give them positive appraisals. Procurement risks not getting a true picture of the vendor by simply relying on the opinions of references that the bidder provided. Procurement should also inquire with other localities such as Chesterfield, Henrico, Hanover, etc. regarding the quality of goods/services the bidder provided, and with the Better Business Bureau, which records the volume of comments submitted to them about many vendors.

Audit Recommendation We recommended that Procurement extend reference checks to other localities in addition to the references supplied by the bidder.

Implementation Procurement implemented a process where surveys are submitted to other jurisdictions, and this process was incorporated into the contract file checklist. However, during subsequent testing, it was determined that this process was not completed for all contracts. The City Auditor's Office will continue to test the process during the next annual follow-up audit as of December 31, 2005.

DEPARTMENT Finance
ORIGINAL COMMENT No. 4 (Capturing Businesses Operating without a Business License)
STATUS OPEN

Background The Tax Audit Unit did not have a mechanism to identify businesses that operated without a business license. The Information Technology Department was able to generate a report in 2002 for Business Personal Property Tax that provided the names of businesses operating with a license that did not pay business personal property tax, and those businesses that paid taxes but did not have a license. The report contained approximately 10,000 business license records and approximately 4,300 business personal property records. A similar listing would be a starting point to ensure there was reconciliation between businesses with a license but not paying all taxes.

Audit Recommendation We recommended that the Department of Finance Management provide the proper resources to enable the Tax Audit Unit to capture businesses that are not in compliance with the City of Richmond tax requirements - for example, a comparison of its list of active businesses with those listed with the State of Virginia.

Implementation This recommendation will remain open until the module associated with this activity is implemented through the new Revenue System. In the absence of an automated process to discover unlicensed businesses, Finance has adopted various procedures including reviewing reports and state sales tax activity, and conducting weekly field inspections. In April 2003, the City selected its new software application for its comprehensive Revenue Administration system. The contract was signed in May 2005. Phased implementation will begin in January 2006, with implementation completion anticipated by January 2008. The City Auditor's Office will continue to follow progress, as implementation of this particular area is expected by October 2007.

DEPARTMENT Finance
ORIGINAL COMMENT No. 5 (Monitoring "Beginners" Adjustments)
STATUS OPEN

Background When a business begins operation, it is allowed to estimate its first and second year gross receipts. The third year the business is expected to report actual gross receipts, and adjust the actual for the previous years. The Unit does not audit this process "regularly" and there is no current process in place to identify businesses that should be reporting an adjustment. If an auditor comes upon a business that requires a "beginners" adjustment, it is done at that time. At this point the City is primarily dependent upon the customer to provide the adjustment to the City. As a result, this process of identifying such businesses was not consistently performed.

Audit Recommendation We recommended that the Department of Finance Management provide an automated method for the Tax Audit Unit to track "beginner's adjustments" that are needed.

Implementation This process is manual and will continue to be a manual process until the module associated with this activity is implemented through the new Revenue System. In April 2003, the City selected its new software application for its comprehensive Revenue Administration system. The contract was signed in May 2005. Phased implementation will begin in January 2006, with implementation completion anticipated by January 2008. The City Auditor's Office will continue to follow progress, as implementation of this particular area is expected by October 2007.

Police – Training and Recertification (Audit Report No. 04-05)

DEPARTMENT	Police
ORIGINAL COMMENT No. 4	(Professional Development of Staff)
STATUS	OPEN

Background Although the Academy staff members' performance evaluations incorporated the City's Strategic priorities and RPD goals, we believe their evaluation process can be improved. The Police Department's work plan goals are very broad. The Academy should consider developing work unit goals. Those goals would relate to the Academy's mission and goals. In doing this, the Academy would create standardized unit goals for the entire staff.

Audit Recommendation We recommended that:

- (a) The Officer-in-Charge (OIC) and staff obtain more training in the performance evaluation process, and (Closed)
- (b) The OIC consider developing unit goals for the Training and Development Unit Police Training Academy based upon the City's Strategic Priorities and the Academy's mission and major duties. Once the unit goals are developed, the Academy should develop performance measures that evaluate the unit's performance and compare targets with actual results. These measures and results should be reported to the City Manager at the end of the fiscal year.

Implementation According to the OIC, the Unit did not have any goals in place for the Training Academy during FY 2005. The Unit was instructed to tie employee goals into the Police Department's overall goals. During June 2005, the Police Department command staff (positions of Lieutenant or above) received training on the performance measure process during the Chief's Meeting. As a result, the OIC will develop a set of goals for the Training Academy for FY 2006. The employees will utilize those goals to develop their employee goals. The OIC anticipates finalizing the workplan goals for the Training Academy by October 1, 2005.

DPU Disbursements (Audit Report No. 04-06)

DEPARTMENT	DPU
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ORIGINAL COMMENT No. 2 (Ensure Invoice Processing Policies and Procedures are Followed)
STATUS OPEN

Background At times, DPU did not follow the proper procedures for processing invoices. The divisions within DPU did not have a standard date stamp in order for them to be consistent in stamping invoices when received. The divisions did not use the vendor stamp to ensure compliance with Department of Finance policies. There is increased risk that invoices that are not processed properly result in duplicate and/or unauthorized payments.

Audit Recommendation We recommended that (a) Management provide a date stamp to all the divisions and require usage of the date stamp; and (b) Management should reiterate the Department of Finance's policies and procedures for invoice processing. We suggest a reminder-type memo be sent out to all divisions highlighting the critical components of the policy.

Implementation According to the Utility Financial Reporting Manager, date stamps were supplied to each division in the department. A meeting was held that included all divisions during which correct use of the stamp was discussed. Each document is reviewed in Financial Operations to make certain the stamp has been used and the required information supplied. Invoices will not be accepted for payment if this information is missing. However, subsequent review of invoices indicated that five of twenty invoices were not date-stamped upon receipt. This recommendation will be held open for further testing as of December 31, 2005.

Finance – License Assessment (Audit Report No. 04-07)

Business Personal Property and Machinery and Tolls (BPP/M&T)

DEPARTMENT Finance
ORIGINAL COMMENT No. 1 (Confirm Balances as Accounts are Closed for Monies Due to the City or to the Customer)
STATUS OPEN

Background When a business closes, its tax account could have monies due to the business owner or to the City of Richmond. During the audit, the DIT Finance Team produced a report listing all accounts that were closed in 2002. Many of the accounts that had balances or zero dollars paid had not been researched to determine their true status. Currently the Department does not require any research or analysis of accounts that are closed and still have a balance.

Audit Recommendation We recommended that the License Assessment Audit Unit management:

- (a) Upon closure of an account, have the Representative closing the account provide any account balances to the customer for payment to the City or refund to the owner; and
- (b) Determine the status of all accounts with zero dollars paid for the specified tax year.

If it is not feasible to conduct this process at the time of closure of the account, Management should request at the end of each month from the DIT Finance Team a list of all businesses that were closed and then provide notice to the owner of a refund or monies due to the City. Annually the Unit should request a report of taxpayers with payments of zero dollars.

Implementation Currently, the Unit has begun using a “refund list”. The refund list is generated as a result of account closures. If a BPP/M&T account is closed before the end of the year the account is placed on the “refund list”. This recommendation remains open and the City Auditor’s Office will test during the next annual follow-up audit as of December 31, 2005.

DEPARTMENT	Finance
ORIGINAL COMMENT No. 2	(Follow-up on Accounts When Additional Data is Needed)
STATUS	OPEN

Background When a taxpayer does not provide adequate documentation to support changes made during the tax year, the staff should contact the taxpayer in writing of the documentation needed. Upon our review of BPP/M&T accounts there were instances whereby changes made by the customer did not have adequate supporting documentation.

When documentation is not adequate on material changes made by the customer, the staff should contact the taxpayer for additional data.

Audit Recommendation We recommended that License Assessment Management:

- (a) Establish materiality guidelines to determine which accounts will receive follow-up review when insufficient data is provided by the taxpayer; and
- (b) When documentation is not adequate on material changes made by the customer, the staff should contact the taxpayer for additional data.

Implementation The License Assessment Manager will randomly select 1/3 of the accounts processed each year to compare prior year submittal to current year submittal. When there are changes from one year to another that are not filed by the customer the staff person will investigate the change and bill the customer as necessary. If after billing the customer continues to be non-compliant, the account will be forwarded to the Tax Audit Unit. It is management’s current opinion that this process is more feasible than establishing materiality guidelines. Materiality guidelines could result in an account being reviewed/audited. Since the task is self-reported, a materiality threshold would enable

taxpayers to commit fraud simply by underreporting. The auditee believes this is an alternative to the original recommendation.

Auditor's Response The alternative solution was not in place long enough for sufficient testing. The City Auditor's Office will review and test the process in the next annual follow-up as of December 31, 2005 and consider whether this alternative mitigates the risks and can be considered as closed/corrected.

DEPARTMENT	Finance
ORIGINAL COMMENT No. 3	(Confirm Lease Agreement Data)
STATUS	OPEN

Background Businesses leasing equipment should provide the following data when filing BPP/M&T:

- ✚ Lessor,
- ✚ Lessor Address,
- ✚ Lease Period,
- ✚ Lease Account Number, and
- ✚ Original Cost of Lease.

In return, the staff member reviewing the filed documents should provide this information to the Assessment Supervisor or designee for confirmation. Upon our review, we found that the following did not routinely occur:

- ✚ Lessor accounts that could not be found were not followed-up;
- ✚ Lease schedules were not confirmed (documents not forwarded to Supervisor); and
- ✚ Items not on the lessor asset listing were not followed-up.

Audit Recommendation We recommended that License Assessment Management establish materiality guidelines to determine which accounts will receive follow-up review when insufficient data is provided by the taxpayer.

Implementation The License Assessment Manager will randomly select 1/3 of the accounts processed each year to compare prior year submittal to current year submittal. When there are changes from one year to another that are not filed by the customer the staff person will investigate the change and bill the customer as necessary. If after billing the customer continues to be non-compliant, the account will be forwarded to the Tax Audit Unit. It is management's current opinion that this process is more feasible than establishing materiality guidelines. Materiality guidelines could result in an account being reviewed/audited. Since the task is self-reported, a materiality threshold would enable taxpayers to commit fraud simply by underreporting. The auditee believes this is an alternative to the original recommendation.

Auditor's Response The alternative solution was not in place long enough for sufficient testing. The City Auditor's Office will review and test the process in the next annual follow-

up as of December 31, 2005 and consider whether this alternative mitigates the risks and can be considered as closed/corrected.

Individual Personal Property

DEPARTMENT	Finance
ORIGINAL COMMENT No. 4	(Document and Approve Abated and Prorated Accounts)
STATUS	OPEN

Background Taxpayers sometimes made requests to abate or prorate an account. Justification for this action could arise from many sources. It has been the taxpayer's responsibility to provide adequate documentation in order for abatement or proration to occur.

The process has been for the staff to initiate and approve the transaction. There was no supervisory review/approval of the change unless there was disagreement between the taxpayer and staff. The request was then forwarded to the License Assessment Manager. The Unit relies on data obtained from the Department of Motor Vehicles as documentation to complete the transaction and did not retain other documentation.

Audit Recommendation We recommended that License Assessment Management:

Require supervisory review of abatements and prorations before the transaction is finalized. Due to the large volume of these requests (4,000-5,000 during the "tax season"), we suggest that Management establish a dollar limit for which staff can approve the request. Any requests over that limit would require managerial approval. With the current organizational structure, approval could be given to the License Assessment Manager or the Assessment Supervisor; and a database of abated and prorated accounts (i.e. Excel or Access) can be maintained.

Implementation The License Assessment Manager will generate a memorandum to the staff to address the materiality guidelines that will be associated with determining which accounts will receive supervisory approval.

Auditor's Response The above process was implemented in September 2005. The City Auditor's Office will test during the next annual follow-up audit as of December 31, 2005.

DEPARTMENT	Finance
ORIGINAL COMMENT No. 5	(Document Boats Not Entered into CICS/Revenue System)

STATUS

OPEN

Background Annually the Unit receives from the Department of Game Land and Inland Fisheries a listing of boat owners in the surrounding localities. A member of the staff confirms boats that should be registered within the City of Richmond. During the audit, neither the auditor nor the Assessment Manager could determine why certain boats, which were considered to be owned by City of Richmond residents, had not been entered into the revenue system.

Audit Recommendation We recommended that when a boat is not entered into the Revenue System that staff makes an explanation in the documentation received from Game Land and Inland Fisheries.

Implementation The License Assessment Manager will generate a memorandum to the staff to document in the file from the Department of Game Land and Inland Fisheries if an entry (boat) is not entered into the Department of Finance Revenue System. The updated corrective action date is September 30, 2005.

Motor Vehicle Reassessments "Due to Condition"

DEPARTMENT

Finance

ORIGINAL COMMENT No. 6

(Ensure Staff Follow City and Other Applicable Guidelines)

STATUS

OPEN

Background The Division of License, Assessment and Tax Audit of the City of Richmond Finance Department is responsible for determining assessed values in accordance with statutory requirements. The Code of Virginia allows any taxpayer who has been assessed with a vehicle personal property tax to request the assessing official to take into account the condition of the property. The Unit received about 135 such requests in FY 2002. The Division of License, Assessment and Tax Audit of the City of Richmond Finance Department is responsible for determining assessed values in accordance with this and other statutory requirements.

Our audit found that the Unit did not always follow its procedures when performing this assessment.

Audit Recommendation We recommended that Finance management take the necessary steps to ensure that staff involved in this process understands and adheres to the Unit's policies and procedures.

Implementation The License Assessment Manager will retrain staff regarding the Unit's policies and procedures at a staff meeting within the next 30 days. The updated corrective action date is September 30, 2005.

Business Professional and Occupational License (BPOL)

DEPARTMENT

Finance

Admissions, Lodging and Meals (ALM)

DEPARTMENT Finance
ORIGINAL COMMENT No. 9 (Devise a Method to Capture and Notify Delinquent Taxpayers)
STATUS OPEN

Background The Auditor selected thirty Admissions, Lodging and Meal (ALM) accounts to review for payment. The following exceptions were noted:

- ❑ Four of the thirty taxpayers either did not submit ALM tax payments or skipped several payments.
- ❑ Three taxpayers submitted payments for business licenses but did not submit any ALM payments. The amounts due from these taxpayers were unknown.
- ❑ Finally, a taxpayer (restaurant) did not submit ALM taxes for the months of January and February 2002. The average amount owed for the two months skipped was approximately \$1,800, excluding interest and penalty.

The City neither contacted nor billed these taxpayers.

Audit Recommendation We recommended that management run an ALM report semiannually that captures delinquent accounts. These taxpayers should be notified about their delinquent status.

Implementation The Unit has a process associated with delinquent ALM. The Unit tracks the activity associated with delinquent ALM using an excel spreadsheet. The City Auditor's Office reviewed the spreadsheet tracking data for 2005. The spreadsheets appear to be a reasonable method to track the collection efforts; however, the data associated with what occurs after "disposition" (mailing a bill or coupon) as well as many other sections of the worksheet were incomplete. The updated corrective action date is October 31, 2005. The Revenue Manager indicated that this process was being outsourced as of June 1, 2006.

DEPARTMENT Finance
ORIGINAL COMMENT No. 10 (Develop a Method to Inform Late Taxpayers a Balance is Due)
STATUS OPEN

Background When taxpayers submit late Admissions, Lodging and Meal (ALM) tax payments, the money received is first applied to penalty and interest and then to the amount of taxes owed -- leaving a balance due. Four of the thirty (13%) accounts selected for testing were not paid by the due date, which in turn generated penalty and interest. However, none of the four taxpayers were notified about their remaining balance.

Audit Recommendation We recommended that management develop a method to inform late taxpayers that penalty and interest have been applied to their account and the remaining balance must be paid for the accounts to become current.

Implementation When a taxpayer makes a payment, the payment is applied to penalty and interest first, with any remaining funds applied to the tax owed. In the event a balance is due, a bill will be generated monthly to mail to the customer. The updated corrective action date is December 31, 2005. The Revenue Manager indicated that this process was being outsourced as of June 1, 2006.

Parks, Recreation and Community Facilities – Summer Food Program (Audit Report No. 04-08)

DEPARTMENT	Parks, Recreation and Community Facilities
ORIGINAL COMMENT No. 4	(Ensure Vendor is Paid Promptly)
STATUS	OPEN

Background Requests for payment are submitted to the Finance Department once the Parks and Recreation Department reconciles the daily activity on the invoices. These reconciliations were not done in a timely manner. As a result, the weekly invoices for June and July service were not approved for payment until September 4, 2003.

According to the Prompt Payment Act, Article 2.2 – 4352, Code of Virginia, every agency of local government that acquires goods or services or conducts any other type of contractual business with a nongovernmental, privately owned enterprise, shall promptly pay for the completed delivered goods or services by the required payment date. The required payment date shall be either:

- (1) The date on which payment is due under the terms of the contract for the provision of goods or services, or
- (2) If a date is not established by contract, not more than forty five days after the goods or services are received or not more than forty five days after the invoice is rendered, whichever is later.

Audit Recommendation We recommended that management ensure the reconciliation process is performed timely and monitor that process for compliance with the Prompt Payment Act.

Implementation Subsequent testing of the reconciliations indicated they were performed timely, with no exceptions. However, at the time of testing, a vendor's invoice was just received that showed an unbilled meal discrepancy. The Program Coordinator was analyzing this item, and for this reason this recommendation will remain open with an implementation date of September 30, 2005.

Economic Development (Audit Report No. 04-13)

DEPARTMENT Economic Development
ORIGINAL COMMENT No. 3 (Reiterate City Policies and Procedures)
STATUS OPEN

Background As part of the audit of the Department's fiscal accountability, some of the areas we reviewed included staff travel, and general accounting for disbursements and receipts. Our testing revealed travel settlements not completed in a timely manner, payments not in compliance with the Prompt Payment Act, and deposits not performed timely.

Audit Recommendation We recommended that management reiterate the appropriate City Policies and Procedures to responsible staff.

Implementation Subsequent testing revealed that settlements still were not timely, receipt documentation was still missing, and some disbursements were still not approved timely. The Deputy Director stated that it had been reiterated to staff that travel settlements should be completed within ten days of return, and that arrangements had been made with Finance and Budget to review the 17th Street Farmer's Market procedure regarding deposits over \$500. Any changes were to be instituted by August 31, 2005.

DEPARTMENT Economic Development
ORIGINAL COMMENT No. 8 (Establish Goals and Achievements for all Cooperation Agreements)
STATUS OPEN

Background There were no performance goals established, nor achievements reported for any of the cooperation agreements that had budget amendments during FY2003. Also, there was currently no mechanism in place to review achievements on a yearly basis regardless of whether the recipient was requesting additional funding or not.

Audit Recommendation We recommended that the Department require program goals and related prior year achievements for new cooperation agreements (or with amendments to existing agreements) so that all programs can be measured for success. We further recommended that management establish a procedure to review achievements on a yearly basis, regardless of whether new funding was being sought or not.

Implementation The Deputy Director will request performance measures for all Cooperation Agreements either existing or new and amend all cooperation agreements to request quarterly meetings to review performance measures. The new target date is October 15, 2005.

ATTACHMENT A

FOLLOW-UP POLICY AND PROCEDURE FOR OUTSTANDING AUDIT COMMENTS

The City Auditor shall verify and report annually the status of corrective action taken by management. An audit comment that addresses issues with separate recommendations may be reported as separate audit comments in the annual follow-up report. This allows recognition of management efforts on each issue.

Follow-up Classification

Status of corrective action shall be classified in the annual follow-up report as follows:

Corrected

The City Auditor verified that management has corrected identified deficiencies or produced recommended improvements; management can show to the City Auditor the audit findings and recommendations no longer warrant management action.

Open

Management has assigned responsibility and committed to a timely completion date for the corrective action, but has not yet corrected the identified deficiencies nor produced recommended improvements.

The annual follow-up report shall include a statistical summary of the status of all audit comments. The comments classified Open shall be reported in detail.

Follow-up shall be continued on Open audit comments. The City Auditor may make a written request (with reasons) to the Audit Committee for permission to stop follow-up on audit comments.

Major and Non-Major Audit Comments

Beginning in FY2002 the City Auditor will rank audit comments/recommendations based on the significance of the issue involved. Significance is determined on the dollars involved, the hole caused in the control system, the risk of bad publicity, etc. "Major" comments will be followed up within two weeks of their projected implementation date.

City Auditor Responsibility

Audit comments require prompt resolution and action to correct identified deficiencies or produce recommended improvements in a timely manner. The City Auditor shall verify corrective action taken and issue an annual follow-up report on the status of audit comments.

Chief Administrative Officer's Assistance

The Audit Committee will request the Chief Administrative Officer to identify the most significant issues from the Open audit comments in the annual follow-up report that will be given priority and resources for correction. The City Auditor will be available to assist the Chief Administrative Officer and other City officials in identifying significant issues and developing an action plan. The Audit Committee will request that the Chief Administrative Officer advise the Audit Committee of the significant issues identified and the proposed actions at the next Audit Committee meeting.

Other Follow-up Procedures

The City Auditor shall perform other follow-up procedures as requested by the Audit Committee.

(Approved by Audit Committee, May 18, 1989; amended March 13, 2002; amended November 15, 2005.)

