



Audit Committee Meeting  
August 3, 2017 @ 3:30 pm  
1<sup>st</sup> Floor – LaFayette Room  
433 Hay Street, Fayetteville, NC 28301

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## AGENDA

1. Call to Order
  2. Approval of Agenda
  3. Approval of Meeting Minutes
  4. Engagement Letter and Audit Contract for Required LGERS Testing (*Presented by Cheryl Spivey, Chief Financial Officer for the City of Fayetteville*)
  5. Internal Audit Activities (*Presented by Elizabeth Somerindyke, Internal Audit Director*):
    - a. Procurement Card Audit (A2015-03F)
  6. Other Business
    - a. Annual Audit Plan Proposed Engagements for FY2018
    - b. Internal Audit Annual Report FY2017
    - c. Nominate Presenter for Audit Committee Annual Report to City Council
  7. Quarterly Management Implementation Status Report
  8. Adjournment
- 

### Attachments:

- a) Meeting Minutes – April 27, 2017
- b) LGERS Testing Engagement Letter and Audit Contract Presentation
- c) Procurement Card Audit A2015-03F
- d) Annual Audit Plan FY 2018
- e) Internal Audit Annual Report FY 2017
- f) Quarterly Management Implementation Status Report 4<sup>th</sup> Quarter FYE17
- g) Internal Audit PPT – Audit Committee 8/3/2017

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**AUDIT SUBCOMMITTEE QUARTERLY MEETING MINUTES  
LAFAYETTE CONFERENCE ROOM, 1<sup>ST</sup> FLOOR  
CITY HALL, 433 HAY STREET, FAYETTEVILLE  
THURSDAY, APRIL 27, 2017  
3:30 P.M.**

**Subcommittee Members Present:** Nat Robertson, Chair  
Pamela Jackson, Vice Chair  
Council Member Bill Crisp  
Council Member Bobby Hurst  
Michelle Hall, Fayetteville Technical Community College

**Others Present:** Fayetteville-Cumberland Youth Council Members

**Staff Present:** Kristoff Bauer, Deputy City Clerk  
Elizabeth Somerindyke, Internal Audit Director  
Lisa Harper, Assistant City Attorney  
Michael Petti, Assistant Police Chief  
Christopher Davis, Assistant Police Chief  
Ray Oxendine, City Treasurer  
Traci Carraway, Internal Auditor, Internal Audit  
Jennifer Ayre, Senior Administrative Assistant  
Scott Shuford, Planning and Code Enforcement Services Director

**1. Call to Order**

Mayor Robertson called the meeting to order at 3:33p.m.

**2. Approval of Agenda**

**MOTION: Pamela Jackson moved to approve the agenda**

**SECOND: Council Member Crisp**

**VOTE: UNANIMOUS (5-0)**

**3. Approval of Minutes**

**January 26, 2017 and February 23, 2017**

**MOTION: Council Member Crisp moved to approve the minutes**

**SECOND: Michelle Hall**

**VOTE: UNANIMOUS (5-0)**

**4. Internal Audit Activities**

**4.1 Police Department's Confidential Funds (A2017-02)**

According to the Police department operating procedures the confidential funds must be audited annually.

The scope of audit was July 1, 2015 thru Nov 30, 2016. The audited sample was judgmentally selected which means Internal Audit received a list of all personnel that have used or held funds and reviewed who used or requested funds the most as well as those officers that have money not being used. They choose

whom they audit from that list after cross referencing to ensure they are not auditing someone from the year prior again.

Council Member Crisp asked how the administrative transfer of funds is tracked. Assistant Chief Davis stated that there is paperwork that is approved through the lieutenant. Transfers between officers in the field is not done now, there are plans in place before the officer goes undercover for a buy.

Council Member Hurst asked what the difference between our Internal Audit is and the Commission on Accreditation of Law Enforcement Agencies (CALEA). Assistant Chief Petti stated the City internal audit is much more in depth and CALEA looks more at broad policies and procedures.

#### Audit Results

No significant exceptions noted or findings during this year's audit

#### The Follow-up Audit Results

FINDING 1: A2016-01: Controls implemented

Originally the Narcotics Lieutenant was approving expenditures during monthly reconciliation. This has now changed to the Lieutenant approving in advance, unless he is unavailable and it is approved by a Captain prior to the buy.

FINDING 2: A2016-01: Supervisory review and approval is now always documented.

FINDING 3: A2016-01: Proper segregation of duties was lacking. Updated operating procedure 5.8 for confidential funds and use of informants.

FINDING 4: A2016-01: RMS disposal records did not provide adequate documentation to account for transfers from the Evidence Room to the Narcotics Unit. There were no transfers this year from evidence to narcotics so the finding and implementation of recommendations were unable to be tested.

FINDING 5: A2106-01 and 2015: Cash evidence records were incomplete. Stated there would be 100% audit of any cash evidence. As of the follow up there were still some inconsistencies. Mrs. Somerindyke stated Internal Audit did not notice any misappropriation of funds.

**MOTION: Pamela Jackson to accept the A2017-02 Confidential Funds Audit**

**SECOND: Michelle Hall**

**VOTE: UNANIMOUS (5-0)**

#### **4.2 Unannounced Review of Petty Cash and Change Funds (AF2015-04)**

OBSERVATION 1: No policies and procedures for change funds. Establish policies for change funds and ensure the policies are followed. Recommendations were implemented.

OBSERVATION 2: Petty Cash and change funds were not maintained at authorized amounts. Funds are all now in accordance with the general ledger and controls are in place. Recommendations were implemented.

OBSERVATION 3: Policies and procedures did not require written documents of petty cash or change fund periodic reconciliations. Implemented written reconciliations. Recommendation was implemented.

OBSERVATION 4: Procedures for notification of custodian or transfers of custodian were not clear. Recommended the names of all fund custodians to be included when a petty cash or change fund is requested with an alternate as well. The recommendation was implemented.

OBSERVATION 5: Lack of safeguarding for petty cash and change funds. The change funds and petty cash are now secured. Recommendations were implemented.

OBSERVATION 6: Examination of petty cash and change funds were needed to ensure balances were aligned with need. Finance department did close some of the petty cash and funds after review. Recommendations were implemented.

OBSERVATION 7: Examination of petty cash and change funds was needed to ensure balance were aligned with actual practice. Recommendation implemented.

OBSERVATION 8: Petty cash was not in accordance with NC General Statute. Council adopted an ordinance to bring the City's policies into compliance. Recommendation was implemented.

**MOTION: Council Member Hurst moved to accept the Unannounced Review of Petty Cash and Change Funds Follow-Up AF2015-04**

**SECOND: Pamela Jackson**

**VOTE: UNANIMOUS (5-0)**

#### **4.3 Status Update on Current Projects**

- Looking at contract delegation thresholds to ensure they are in compliance
- Procurement card review field work is being finished up
- Fiscal Year 2018 risk assessment will begin with interviews of staff and budget work sessions.
- Preparing annual report for City Council.
- Parks and Recreation charges a non-residential fee and will soon begin being audited.

#### **5 City Code Amendments Related to Internal Audit Recommendations**

If City Council adopts the Ordinance to Amending Various Sections of Article III, Enforcement, of Chapter 7, Building Code, of the Code of Ordinances of the City of Fayetteville, North Carolina it will assist in fulfilling almost eight recommendations. Policy changes have been drafted and are in affect now. Code enforcement has been using the state statute of 6 months, but need to update city ordinance to be fully in accordance.

Council Member Crisp stated he would like to see the change in costs from the change in statutes.

Mayor Robertson stated that there was ambiguous wording in the demolition policy for bonding and liability. Mr. Shuford explained that "good and proper performance bond and/or liability" was dependent on circumstances. It would typically address large structures. A specific number was not provided as it may under require some properties, but over require most properties.

Mayor Robertson asked who makes the decision if bond and liability insurance is needed. Mr. Shuford stated it is required to have at least a million dollars in liability insurance per code. The code enforcement department determines what is needed after evaluation.

The ordinance will be presented at the May 8, 2017 regular meeting.

**6 Quarterly Management Implementation Status Report**

Status report provided in the agenda packet is an information item only. There was no discussion.

**7 Adjournment**

There being no further business, the meeting adjourned at 4:23 p.m.

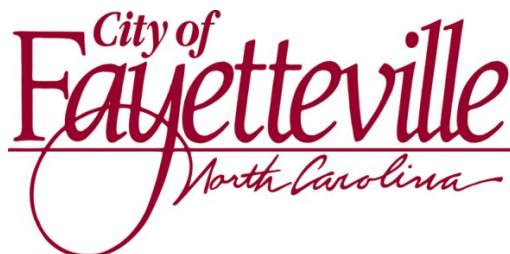
Respectfully submitted,

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JENNIFER L. AYRE  
Senior Administrative Assistant  
042717

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MAYOR NAT ROBERTSON  
Subcommittee Chair



## FINANCE DEPARTMENT

**TO:** City of Fayetteville Audit Committee

**FROM:** Michelle Donegain, CPA, Accounting Manager  
Cheryl J. Spivey, CPA, Chief Financial Officer

**DATE:** August 3, 2017

**RE:** Engagement Letter and Audit Contract for Required Testing for LGERS

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**Relationship To Strategic Plan:**

GOAL V: Sustainable Organizational Capacity, Objective A, To ensure strong financial management with fiduciary accountability and plan for future resource sustainability by aligning resources with City priorities.

**Executive Summary:**

The Office of State Auditor (OSA) has selected the City of Fayetteville as one of 60 local governments to have additional procedures performed on the accuracy of the information reported in ORBIT (the Local Government Employee Retirement Plan Database). The additional work requires a separate engagement document and contract with RSM, the City's independent auditor.

**Background:**

A few years ago, the Governmental Accounting Standards Board (GASB) issued new requirements related to local government pensions. These new statements changed the reporting requirements for most pension plans including the North Carolina Local Government Employees' Retirement System (LGERS). An essential part of the compliance process for these new statements is the testing of the information local governments report to the state retirement system. The Office of State Auditor (OSA), in its role as the auditor for the state's comprehensive annual financial report (CAFR), which includes the LGERS plan, decided to annually require a sample of local governments to contract with their independent auditors to provide assurance to OSA on the accuracy of the information the local government reported in ORBIT. The City of

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Fayetteville was selected this year. Fayetteville is also responsible for paying the independent auditor for this additional work.

The additional testing will focus on the internal controls surrounding the ORBIT data gathering and input process as well as several specific pieces of census data, such as the following:

- **Eligibility** – are all employees that are enrolled in ORBIT eligible to be in the plan and are all eligible workers appropriately enrolled?
- **Compensation** – is qualifying compensation being reported accurately in ORBIT?
- **Gender and Date of Birth** – are these pieces of data correctly reported in ORBIT?
- **Date of Enrollment in the Plan with this Employer** – was the employee enrolled according to the unit’s policy on membership in the plan? (Some units have a waiting period, others enroll eligible employees upon employment.)
- **Termination date** – are employees who have left employment with the unit, during the calendar year being evaluated, reported as such in ORBIT using the correct date of termination?

Specific data elements may include the following:

- **Eligibility:** Work in this area will likely include an evaluation of contract labor to determine if any independent contractors should be classified as employees and therefore potentially eligible to be enrolled in either LGERS or TSERS.
- **Compensation:** In addition to potentially testing a sample of specific employees’ data, the auditor might consider comparing total payroll submitted to ORBIT this year as opposed to the prior year and exploring any material differences between the two figures.
- **Gender and Date of Birth:** In addition to comparing ORBIT data to the personnel file for a sample of employees, the auditor may consider scanning birthdates for obvious errors (too recent for the employee to be of working age, for example) and gender for changes from one year to the next.
- **Enrollment date with this employer:** The auditor may want to consider pulling a sample (or testing 100% for a small entity) and testing for date accuracy.
- **Termination date:** Depending on the number of employees who left employment (not retiring) who were enrolled in the plan, the auditor may want to consider testing a sample for date accuracy.

For more information, please refer to the attached memos from the Office of the State Auditor dated January 30, 2017 and from the Department of State Treasurer dated February 17, 2017.

**Issues:**

The City's independent auditor, RSM, is planning to perform this additional work in September, and the results are due to the Office of State Auditor by October 13, 2017. Therefore, this contract is time sensitive.

**Budget Impact:**

The fee for these additional services is \$5,300 .

**Options:**

Recommend approval of the engagement letter and contract to City Council.  
Do not recommend approval, and provide guidance to staff.

**Recommended Action:**

Recommend approval of the engagement letter and contract to City Council.

**Attachments:**

Office of the State Auditor memo dated January 30, 2017

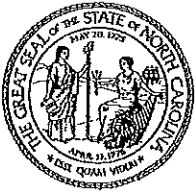
NC Department of State Treasurer memo dated February 17, 2017

Engagement letter with RSM

Audit Contract for the City of Fayetteville - LGERS



STATE OF NORTH CAROLINA  
**Office of the State Auditor**



Beth A. Wood, CPA  
State Auditor

2 S. Salisbury Street  
20601 Mail Service Center  
Raleigh, NC 27699-0600  
Telephone: (919) 807-7500  
Fax: (919) 807-7647  
<http://www.ncauditor.net>

To: Certified Public Accounting Firms

From: State Auditor Beth A. Wood, CPA

Date: January 30, 2017

Re: Testing of Census Data for Cost-Sharing Multiple-Employer Defined Benefit Pension Plans

The Governmental Accounting Standards Board (GASB) issued statements related to pensions (i.e., GASB Statements No. 67, 68, 71, 73, 78, and 82). As you are aware, these standards change the reporting requirements for most pension plans (plan) including the Teachers' and State Employees' Retirement System (TSERS) and the Local Government Employees' Retirement System (LGERS) plans.

The AICPA State and Local Government Expert Panel (SLGEP) has issued a Pension Whitepaper Series that includes non-authoritative guidance related to these new pension standards. In February 2014, the AICPA SLGEP issued the whitepaper titled "Single-Employer and Cost-Sharing Multiple-Employer Plans: Issues Associated with Testing Census Data in an Audit of Financial Statements." The whitepaper discusses the plan auditor's responsibility related to the census data provided by employers to the plan. The Office of the State Auditor (OSA) audits pension plans included in the *State's Comprehensive Annual Financial Report (CAFR)* in order to issue an opinion on the State's financial statements and as such is the plan auditor for the above mentioned plans.

North Carolina's local governments financial statements are audited annually by independent CPAs; therefore, the local auditors are the employer auditors as referred to in the new pension standards. Implementation of these new standards will require coordination between the plan and employer auditors.

Because the local auditors are performing the employer financial statement audit, we believe it would be more efficient to have these auditors provide assistance in performing audit procedures related to census data at the local level for the current fiscal year ending June 30, 2017.

An essential part of the implementation process for GASB Statements No. 67 and 68 is the testing of the pension census data at the employer participant level. We have selected a sample of employer participants in both the TSERS and the LGERS. You are receiving this

notification because your client has been selected. We are requesting that you conduct an examination engagement in accordance with AT section 101. The engagement should be designed to encompass the completeness and accuracy of the census data reported to the State Treasurer for the calendar year ended December 31, 2016 (measurement date). The results should be provided to us in the form of an attestation opinion that we will use as substantive evidence to support our audit opinion on the pension plans. An example opinion is attached (see Attachment A). The results are due to the Office of State Auditor by October 13, 2017.

Assurance about the completeness and accuracy of the census data must be obtained. It not only impacts the State Auditor's opinion on the plans' financial statements, but could impact the State Auditor's opinion on the pension employer allocation schedules. The allocation schedules are necessary to record the pension liability on the employers' statements for the fiscal year ending June 30, 2018. Local government auditors will rely on the State Auditor's opinion for the allocation schedules. Thus, the local government auditors' (local auditors) opinion on participant employers' financial statements could be impacted.

The AICPA's whitepaper "Single-Employer and Cost-Sharing Multiple-Employer Plans: Issues Associated with Testing Census Data in an Audit of Financial Statements" provides guidance on procedures that should be performed at both the plan and the participant employers to assure the underlying census data for certain financial statement elements of the plan are materially correct. To assist local auditors in determining the objectives and procedures, we have also provided some suggested guidance (see Attachment B). The attached is not intended to be all-inclusive or a listing of required procedures. Local auditors will need to exercise professional judgment in determining the most appropriate and cost effective procedures given the environment or circumstance. Therefore, the auditor should not consider the attached guidance to be a "safe harbor" for identifying the audit procedures to be applied.

Attachments (2)

## Attachment A

*The following is a standard examination report modified to make reference to a schedule of findings when any of the matters have been identified. This report pertains to subject matter for which suitable criteria exist and are available to all users through inclusion in a clear manner in the presentation of the subject matter. A written assertion must be obtained from the responsible party.*

All data in blue font should be updated accordingly

### Independent Auditor's Report

We have examined the employee census data and related underlying payroll records of XYZ Government for the year ended December 31, 20XX, to determine the employee census data provided to the {Teachers' and State Employees' Retirement System or Local Governmental Employees' Retirement System} is complete and accurate. XYZ Government's management is responsible for the employee census data submitted to the retirement system. Our responsibility is to express an opinion based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence supporting the employee census data and related underlying payroll records and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

*[Additional paragraph(s) may be added to emphasize certain matters relating to the attest engagement or the assertion.]*

In our opinion, the census data referred to above, presents, in all material respects, complete and accurate employee census data from XYZ Government for the year ended December 31, 20XX, based on the criteria set by the Retirement System's Handbook revised January 2015.

This report is intended solely for the information and use of XYZ Government's management, the North Carolina Department of State Treasurer, and the North Carolina Office of the State Auditor and is not intended to be and should not be used by anyone other than these specified parties.

[Signature]

[Date]

## Attachment B

### I. Introduction

The State Auditor's Office has prepared this document to provide **suggested guidance** on the objectives and procedures **that may be utilized** for this attestation service. **It is not intended to be all-inclusive or a listing of required procedures.** Auditors will **need to exercise judgment** in determining the most appropriate and cost effective procedures given the environment or circumstance. In other words, auditor judgment will be necessary to determine whether the suggested audit procedures are sufficient to achieve the audit objectives or whether alternative audit procedures are needed. Therefore, the auditor should **not consider this guidance to be a "safe harbor"** for identifying the audit procedures to apply in a particular engagement.

An important part of the auditor's planning is to look at the internal control process in place and evaluate its effectiveness in order to assess risks. In examining internal control, auditors will seek to determine whether the employer has established effective procedures to reduce the chance of errors or fraud.

In developing an audit strategy, the auditor should consider whether to rely on the relevant controls in place at the employer. If test results indicate that controls are effective, the auditor may be able to reduce the level of substantive tests to be performed as a basis for the opinion. It may be more efficient for the auditor to take a control based approach to testing census data and the underlying payroll records of the employer when management has effective processes and controls over the census data.

### II. Overall Engagement Objective

To verify the completeness and accuracy of the employee census data (or participant data) reported by employers to the Department of State Treasurer's Retirement Systems Division for the calendar year.

### III. Suggested Control Objectives and Procedures

Each employer has access to the data files they have loaded/provided the State Treasurer. Thus the employer should be able to access the Online Retirement Benefits through Integrated Technology (ORBIT) system and provide the auditor with a copy of the employee data they reported. Guidance for employers regarding ORBIT information and reporting is available on the Department of State Treasurer website at:

<https://www.nctreasurer.com/Retirement-and-Savings/For-Government-Employers/Pages/Payroll-and-Reporting-in-ORBIT.aspx>

In addition, employers have access to view individual participant data that is recorded in the ORBIT system.

*Note: ORBIT is a system maintained by the Department of State Treasurer that grants employers, employees and retirees online access to retirement accounts and transactions. Each employer is responsible for:*

- 1) *Enrolling all new eligible members into the Retirement System by introducing Employee Self Service to all new members.*
- 2) *Submitting the required Employee and Employer contributions monthly along with the monthly ORBIT payroll report.*

- 3) *Certifying employee termination information on the monthly ORBIT payroll report.*
  - 4) *Reporting retirees who return to work as State Retirees Subject to Restrictions (STRS) or Local Retirees Subject to Restrictions (LOCRS) on the monthly ORBIT payroll report.*
- 1) **Audit Objective** – Determine that employers include all eligible employees in the monthly data submitted to the State Treasurer (completeness/no eligible employee is prevented from enrolling in the plan).

**Suggested Audit Procedures – Internal Control**

- Obtain and review plan documents to understand the official rules and regulations of the retirement system (Plan) regarding eligibility.
- Obtain an understanding of the processes and controls used by the employer to support the completeness of eligible employees reported to the State Treasurer.

**Suggested Audit Procedures – Substantive**

The nature, timing, and extent of substantive procedures to be performed on the census data and the underlying payroll records **will depend on the assessed risk** of material misstatement and whether management has effective processes in place.

- Select a sample of employees reported to the retirement system. Verify that those reported in the Online Retirement Benefits through Integrated Technology (ORBIT) are eligible per the system requirements.
- Select a sample of employees who are not reported in ORBIT. Examine selected participants employment records (including personnel files and support for hours worked during the plan year) to determine whether they have been erroneously excluded from the plan.

*Note: Consider the risk that the employer is treating an employee as a contract worker vs. a full-time, eligible employee.*

- Compare employer current year participant data submitted to the State Treasurer to underlying payroll records and the prior year participant data file. Review comparison and/or scan the files for any unexpected differences.

*Note: Auditor may consider significant changes or obvious errors in employees, hours worked, pay, age, gender, etc. as an unexpected difference. For example, the auditor may consider scanning for large variance between the prior and current year and between the payroll records vs ORBIT data file.*

- 2) **Audit Objective** – Determine whether all employees being reported to the State Treasurer are eligible to participate in the pension plan.

**Suggested Audit Procedures – Internal Control**

- Obtain and review plan documents to understand the official rules and regulations of the Plan regarding eligibility.
- Obtain an understanding of the processes and controls used by the employer to determine whether employees are eligible to participate in the pension plan.

*Note: It is the employer's responsibility to determine whether their employees are eligible to participate in the retirement system.*

### **Suggested Audit Procedures – Substantive**

The nature, timing, and extent of substantive procedures to be performed on the census data and the underlying payroll records **will depend on the assessed risk** of material misstatement and whether management has effective processes in place.

- Select a sample of active, disabled, and terminated participants reported in ORBIT. Examine selected participants' employment records (including personnel files and support for hours worked during the plan year) to determine whether employees have been appropriately included in the plan.

*Note:* Auditor may also need to review support of hours worked during the Plan year. For example: The Local Governmental Employees' Retirement System allows employees to participate if they are employed by a participating unit in a regular position that requires 1,000 hours or more of service per year. Similarly, the Teachers' and State Employees' Retirement System requires permanent employees to work at least 30 hours per week for nine months per year.

- Compare employer current year participant data submitted to the State Treasurer to underlying payroll records and/or the prior year participant data file. Review comparison and/or scan the files for any unexpected differences.

*Note:* Auditor may consider significant changes or obvious errors in employees, hours worked, pay, age, gender, etc. as an unexpected difference. For example, an unexpected difference may be significant increase or decrease in the number of eligible or ineligible employees.

- 3) **Audit Objective** – Determine whether the compensation reported to the pension plan is accurate and eligible to be counted as a basis for retirement benefits.

### **Suggested Audit Procedures – Internal Control**

- Obtain and review plan documents to understand the official rules and regulations of the Plan regarding eligible retirement compensation.
- Obtain an understanding of the processes and controls used by the employer to determine whether employee compensation reported to the pension plan is accurate and eligible to be counted as a basis for retirement benefits.

### **Suggested Audit Procedures – Substantive**

The nature, timing, and extent of substantive procedures to be performed on the census data and the underlying payroll records **will depend on the assessed risk** of material misstatement and whether management has effective processes in place.

- For selected pay periods or the entire year, select a sample of employees and agree (or recalculate) the compensation (total gross pay) reported to the State Treasurer as follows:
  - a) If the employee is on salary, agree the pay rate to the appropriate supporting employee/HR records.
  - b) If the employee is paid on an hourly basis, agree wage rates to the appropriate supporting employee/HR records. Also, for a selected time period trace and agree time cards to appropriate supporting documentation.

- Select a sample of terminated employees. Examine payroll records to ensure final payments were eligible to be counted as a basis for retirement benefits.

*Note: Final payment for unused vacation leave and/or prorated longevity may be counted as a basis for retirement benefits. However, final payments for unused sick leave or reimbursements for expenses should not be included as a basis for retirement benefits.*

- Select a sample of employees. Scan his/her monthly salary information reported in ORBIT to determine whether there are significant or unusual pay spikes.
- Compare employer current year participant data submitted to the State Treasurer to underlying payroll records and/or the prior year participant data file. Review comparison and/or scan the files for any unexpected differences.

*Note: Auditor may consider significant changes or obvious errors in employees, hours worked, pay, age, gender, etc. as an unexpected difference. For example, an unexpected difference may be significant increase or decrease in the reported compensation amount from prior to current year or between the underlying payroll records in comparison to what was reported in ORBIT.*

- 4) Audit Objective** – Determine whether employee demographic data (specifically gender and birth date) reported to the pension plan is accurate.

**Suggested Audit Procedures – Internal Control**

- Obtain an understanding of the processes and controls used by the employer to determine whether employee demographic data reported to the pension plan is accurate.

**Suggested Audit Procedures – Substantive**

The nature, timing, and extent of substantive procedures to be performed on the census data and the underlying payroll records will depend on the assessed risk of material misstatement and whether management has effective processes in place.

- Select a sample of employees. Agree demographic data reported in ORBIT to the personnel files.
- Reconcile aggregate data, such as number of employees and covered compensation, per the employer records/payroll reports to amounts shown in ORBIT.
- Compare employer current year participant data submitted to the State Treasurer to underlying payroll records and/or the prior year participant data file. Review comparison and/or scan the files for any unexpected differences.

*Note: Auditor may consider significant changes or obvious errors in employees, hours worked, pay, age, gender, etc. as an unexpected difference. For example, the auditor may consider scanning for blank fields for birth dates, gender, etc., birth dates entered as "99/99/9999"; or birth dates indicating a age that is too old or too young for reasonable employment.*

\*\*\*\*\*

## Source of Governing Requirements

The defined benefit public employee retirement plans administered by the State were established by the following general statutes:

- *Teachers' and State Employees' Retirement System – NC General Statute 135 Article 1*
- *Local Governmental Employees' Retirement System – NC General Statute 128 Article 3*

In addition, the State Treasurer has issued the following guidance documents:

- *Teachers' and State Employees' Retirement System Employer Manual Revised January 2016*
- *Local Governmental Employees' Retirement System Employer Manual Revised January 2016*

*Note: You can view the North Carolina Retirement Systems' Retirement Handbooks at [www.nctreasurer.com](http://www.nctreasurer.com) → Retirement & Savings → Government Employers → Manuals & Newsletters*

<https://www.nctreasurer.com/Retirement-and-Savings/For-Government-Employers/Pages/Employer-Manuals.aspx>

A copy of the AICPA SLGEP Pension Whitepaper Series, Governmental Employer Participation in Cost-Sharing Multiple-Employer Plans: Issues Related to Information for Employer Reporting, issued February 2014, can be found at: [http://www.aicpa.org/interestareas/governmentauditquality/resources/gasbmatters/downloadabledocuments/aicpaslgp\\_cs\\_census\\_data\\_whitepaper.pdf](http://www.aicpa.org/interestareas/governmentauditquality/resources/gasbmatters/downloadabledocuments/aicpaslgp_cs_census_data_whitepaper.pdf)





TO: Independent Auditors Testing TSERS and LGERS Census Data and Their Clients

FROM: Sharon Edmundson, Director, Fiscal Management Section

SUBJECT: Census Data Testing for LGERS and TSERS

DATE: February 17, 2017

An essential part of the compliance process for GASB Statements 67 and 68 is the testing of the pension census data at the employer participant level. The Office of State Auditor (OSA) selected a sample of employer participants in both the Teachers' and State Employees' Retirement System (TSERS) and the Local Government Employees' Retirement System (LGERS) and has asked those units and their independent auditors to provide assurance to OSA on the accuracy of certain elements of the census data. This is the third year of testing and for the employers selected it is likely their first encounter with the process. In previous years there were some questions about the attest process as well as some need for clarification of the initial guidance that was issued. This memo is an attempt to address those questions and concerns at the beginning of the process.

As an attest engagement, this work falls under the AT 101 standards. The objective of this engagement is to provide assurance to OSA and the Department of State Treasurer (DST) that the census data being provided by employers via ORBIT is **materially** correct. In addition, keep I mind that every unit that is a member of either LGERS or TSERS will need some level of comfort that their census data is materially correct because this data will be used, in part, by the State's actuaries to determine the net pension asset/liability that will then be apportioned to the employer participants in these plans. Units that were not selected for testing this year will eventually be selected as we go through the sample cycle (except for very small units). However, keep in mind that in order for an auditor to issue an unmodified financial statement opinion on a participant employer, he or she will have to do work to assure themselves that ORBIT data is materially correct as this data is essential to the net pension asset/liability calculation and related allocation to employers.

The attest should cover the calendar year period ended December 31, 2016. This period is consistent with actuarial report year that will be used to report under Statement 67 as of June 30, 2017. It also is consistent with the actuarial report year that will be used to generate the data for reporting under GASB Statement 68 at June 30, 2018. [The actuarial report will be as of December 31, 2016, with the data rolled forward to June 30, 2017 (the measurement date). GASB requires the measurement date be no more than 12 months prior to the financial statement date.]

As with any auditing and reporting issue, materiality is a consideration. For this engagement, materiality should be determined at the local employer level and not the plan as a whole. For purposes of the attest, eligible payroll (i.e. the total salaries reported in ORBIT) could be considered

when determining materiality levels. Employees' salaries are a big factor in determining the net pension asset/liability and the percentage of asset/liability calculations/allocation to employers will be based on projected covered payroll. Thus, it seems logical to use covered payroll to determine your materiality levels.

The attest engagement focuses on the internal controls surrounding the ORBIT data gathering and input process as well as several specific pieces of census data:

- **Eligibility** – are all employees that are enrolled in ORBIT eligible to be in the plan and are all eligible workers appropriately enrolled?
- **Compensation** – is qualifying compensation being reported accurately in ORBIT?
- **Gender and Date of Birth** – are these pieces of data correctly reported in ORBIT?
- **Date of Enrollment in the Plan with this Employer** – was the employee enrolled according to the unit's policy on membership in the plan? (Some units have a waiting period, others enroll eligible employees upon employment.)
- **Termination date** – are employees who have left employment with the unit, during the calendar year being evaluated, reported as such in ORBIT using the correct date of termination?

Because payroll is such a large expenditure for most units of government, the auditor should already be doing some work with this data and may have some familiarity with ORBIT as part of the financial statement audit. The auditor may need to do additional work to achieve a comfort level appropriate for the attest engagement. However, if the auditor believes the unit's system of internal controls is functioning as it should and believes that any material error in the data would be identified and corrected by the unit, and can document that, only limited testing may be necessary to complete the attest engagement (example, high level analytic and/or analysis vs. a detailed sample). Again, because you are now reporting in accordance with Statement 68, auditors for all participant employers will have to do some work to assure themselves that ORBIT data is materially correct as this data is essential to the net pension asset/liability calculation and related allocation to employers.

Some auditors have indicated concern about peer review with regards to these attest engagements. These engagements would be considered a SSAE engagement, which is a separate category from financial audits. Your peer review team is not automatically required to select a SSAE engagement just because the firm was engaged to do a SSAE engagement. It would be considered if SSAE engagements make up a significant portion of the firm's work but selection is not automatic. We encourage you to contact a member of the NCACPA Peer Review Committee or Mary Kelly on the NCACPA staff (919-469-1040) with specific questions about peer review.

Regarding engagement letters, we believe this is a separate engagement from the financial statement audit. For units that are required to report to the State and Local Government Finance Division (SLGFD), there must be a signed agreement on file with us for this engagement and it must be approved by the unit's board and pre-audited by the finance officer or deputy with that authority. A copy should be submitted to SLGFD staff for approval and invoices submitted similarly to the procedure for submitting an audit. Instructions on how to submit reports, invoices, and other documents are included at the end of this memorandum.

Several auditors have asked about the due date and the deliverables for this engagement. OSA has requested that the attest letter be delivered to them by October 13, 2017. Completion of these engagements is critical to OSA's ability to render its opinion on both the State's CAFR and the allocation tables that will be used by employer participants to comply with GASB 68. If you cannot make this deadline, please let SLGFD staff know and provide a date when you expect the report can be delivered.

Completed attestations should be submitted to the SLGFD by all entities selected, including those that do not fall under the Local Government Budget and Fiscal Control Act or the School Budget and Fiscal Control Act. Reports should be submitted to us in PDF format via our web portal. Instructions for that process are included at the end of this memo.

Once the attest document is submitted we will review for proper format and compliance with OSA requirements and forward on to OSA. We will also notify the auditor via email that we have approved the document or that we need additional information or changes. For those of you that submit your invoices to us for approval we will follow the same process that we do for annual audits.

Below are some practical approaches you may consider taking in your approach to this engagement. **Please remember that these suggestions are not to be considered a "safe harbor" for identifying the proper procedures to be used.**

**Accessing ORBIT data:** A staff member of the employer unit should be responsible for reporting entity information monthly to ORBIT and determining the amount owed. That staff member can access ORBIT reports electronically or may have ORBIT printouts of what has been submitted. Any of the data being evaluated for the attest engagement can be accessed once the staff member is logged in to the unit's ORBIT account. The auditor may want to give the staff a list of unit employees to be examined, or may choose to sit with the staff as the information is accessed electronically. If you need assistance with understanding the ORBIT reports please contact Maggie Rodriguez, Employer Reporting Specialist with the Retirement Division via telephone at (919) 814-4024 or via email at [magally.rodriguez@nctreasurer.com](mailto:magally.rodriguez@nctreasurer.com).

**Origination of the Data:** A great deal of the data substantiation should be found in each employee's personnel file. A document that contains this data and an employee signature attesting to the accuracy of the document should be a sufficient source document for these data elements. Some examples of documents in the employee's file might include, driver's license copy, health insurance enrollment forms, I-9 documents (which the employee specifically signs an attest), employment application forms or other benefit forms.

#### **Specific data elements:**

- **Eligibility:** Work in this area will likely include an evaluation of contract labor to determine if any independent contractors should be classified as employees and therefore potentially eligible to be enrolled in either LGERS or TSERS. Evaluation of employer vs. contractor classifications should be taking place as part of the overall payroll audit.
- **Compensation:** In addition to potentially testing a sample of specific employees' data, the auditor might consider comparing total payroll submitted to ORBIT this year as opposed to the prior year and exploring any material differences between the two figures. The auditor should use his or her judgment based on the risk assessment to determine what procedures need to be completed.
- **Gender and Date of Birth:** In addition to comparing ORBIT data to the personnel file for a sample of employees, the auditor may consider scanning birthdates for obvious errors (too recent for the employee to be of working age, for example) and gender for changes from one year to the next. The auditor should use his or her judgment based on the risk assessment to determine what procedures need to be completed.
- **Enrollment date with this employer:** The auditor may want to consider pulling a sample (or testing 100% for a small entity) and testing for date accuracy.
- **Termination date:** Again, depending on the number of employees who left employment (not retiring) who were enrolled in the Plan, the auditor may want to consider testing a sample for date

Census Data Testing for LGERS and TSERS

February 17, 2017

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accuracy. Please note this is termination date only and does not apply to any employee leaving the employer due to retirement. Data is verified by DST when a plan member retires.

In addition to this memorandum and the memorandum issued by OSA, auditors can consult the AICPA *State and Local Governments Audit & Accounting Guide* for assistance. It is published each spring by the AICPA. The most recent version is dated March 1, 2016.

Another good source for assistance is the AICPA Government Audit Quality Center. Please contact them at [GAQC@aicpa.org](mailto:GAQC@aicpa.org) with specific questions.

PLEASE NOTE: We are sending this to the employer contact and employer auditor of record at the time of this email. EMPLOYERS – If you change auditors this year please let your new auditor know that you are participating in the attest process this year. AUDITORS – If you have new clients that are members of TSERS or LGERS be sure to ask them if they have been selected for the attest work this year.

Finally, you may contact the SLGFD staff or OSA staff with specific questions as well. Sharon Edmundson may be reached at (919) 814-4289 or via email at [sharon.edmundson@nctreasurer.com](mailto:sharon.edmundson@nctreasurer.com). Preeta Nayak may be reached at (919) 814-4291 or via email at [Preeta.nayak@nctreasurer.com](mailto:Preeta.nayak@nctreasurer.com). Amy Senogles with OSA may be reached via email at [amy\\_senogles@ncauditor.net](mailto:amy_senogles@ncauditor.net).



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[www.rsmus.com](http://www.rsmus.com)

May 24, 2017

The Honorable Mayor and City Council  
Doug Hewitt, City Manager  
Cheryl Spivey, Chief Financial Officer  
City of Fayetteville  
433 Hay Street  
Fayetteville, NC 28301

Attention: City Council

This letter is to explain our understanding of the arrangements regarding our engagement to examine the assertion that the census data being provided by the City of Fayetteville (the City) via ORBIT into the Local Government Employees' Retirement System (LGERS) is materially correct for the year ended December 31, 2016, in accordance with attestation standards established by the American Institute of Certified Public Accountants. We ask that you confirm this understanding.

#### **Engagement Services**

We will perform an examination of the census data being provided by the City via ORBIT in relation to established or stated criteria. Accordingly, we will perform such procedures as we consider necessary to evaluate the census data being provided by the City via ORBIT in relation to the established or stated criteria for the purpose of expressing positive assurance that the census data being provided by the City via ORBIT into the LGERS is materially correct.

The services that we will perform are not designed and cannot be relied upon to disclose errors, fraud or illegal acts, should any exist. However, we will inform the appropriate level of management of any material errors that come to our attention and any fraud or illegal acts that come to our attention, unless they are clearly inconsequential.

Furthermore, the services were not designed to provide assurance on internal control or identify significant deficiencies or material weaknesses. However, we will communicate to management and the City Council any significant deficiencies or material weaknesses that become known to us during the course of the engagement.

#### **City of Fayetteville's Responsibilities**

Management is responsible for the census data being provided by the City via ORBIT into the LGERS. Management is responsible for providing us with a written management representation letter confirming certain representations made during the course of the engagement. Management is responsible for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of the census data being provided by the City via ORBIT into LGERS that is free from material misstatement, whether due to fraud or error.

THE POWER OF BEING UNDERSTOOD  
AUDIT | TAX | CONSULTING

Management is responsible for identifying and ensuring that the City complies with the laws and regulations applicable to its activities, and for informing us about all known material violations of such laws or regulations. In addition, management is responsible for the design and implementation of programs and controls to prevent and detect fraud, and for informing us about all known or suspected fraud affecting the City involving management, employees who have significant roles in internal control, and others where the fraud could have a material effect on the financial statements. Management is also responsible for informing us of its knowledge of any allegations of fraud or suspected fraud affecting the entity received in communications from employees, former employees, analysts, regulators, short sellers or others.

The City agrees that it will not include our reports, or otherwise make reference to us, in any public or private securities offering without first obtaining our consent. Any request to consent is also a matter for which separate arrangements will be necessary. After obtaining our consent, the City also agrees to provide us with printer's proofs or masters of such offering documents for our review and approval before printing, and with a copy of the final reproduced material for our approval before it is distributed. In the event our relationship has been terminated when the City seeks such consent, we will be under no obligation to grant such consent or approval.

#### **Records and Assistance**

The attestation standards require that we perform our examination engagement only if we have reason to believe that the census data being provided by the City via ORBIT into LGERS is capable of evaluation against criteria that are suitable and available to users. If circumstances arise relating to the condition of the City's records, the availability of appropriate evidence or indications of a significant risk of material misstatement of the census data being provided by the City via ORBIT into LGERS because of error or fraud that, in our professional judgment, prevent us from completing the engagement, forming an opinion or issuing our report, we retain the unilateral right to take any course of action permitted by professional standards, including declining to express an opinion or issue a report, or withdrawing from the engagement.

During the course of our engagement, we may accumulate records containing data that should be reflected in the City's books and records. The City will determine that all such data, if necessary, will be so reflected. Accordingly, the City will not expect us to maintain copies of such records in our possession.

The assistance to be supplied by City personnel, including the preparation of schedules and analyses of accounts, has been discussed and coordinated with Cheryl Spivey, Chief Financial Officer. The timely and accurate completion of this work is an essential condition to our completion of our services and issuance of our report.

#### **Fees, Costs, and Access to Documentation**

Our fees for the services described above are based upon the value of the services performed and the time required by the individuals assigned to the engagement plus direct expenses. Our fee for the services described above will not exceed \$5,300. We will submit our bill for services promptly upon rendering the special report. Billings are due upon submission. This fee estimate will be subject to adjustments based on unanticipated changes in the scope of our work and/or incomplete or untimely receipt by us of the information requested. All other provisions of this letter will survive any fee adjustment.

In the event we are requested or authorized by the City of Fayetteville or are required by government regulation, subpoena or other legal process to produce our documentation or our personnel as witnesses with respect to our engagements for the City of Fayetteville, the City of Fayetteville will, so long as we are not a party to the proceeding in which the information is sought, reimburse us for our professional time and expenses, as well as the fees and expenses of our counsel, incurred in responding to such requests.

The Honorable Mayor and City Council  
City of Fayetteville  
May 24, 2017  
Page 3

The documentation for this engagement is the property of RSM US LLP and constitutes confidential information. However, as required by the Terms of the Engagement Contract, we are required to make certain documentation available to the Local Government Commission (LGC) upon request for its regulatory oversight purposes. Access to the requested documentation will be provided to the LGC under the supervision of RSM US LLP engagement personnel and at a location designated by our firm.

From time to time and depending upon the circumstances, we may use third-party service providers to assist us in providing professional services to you. In such circumstances, it may be necessary for us to disclose confidential client information to them. We enter into confidentiality agreements with all third-party service providers, and we are satisfied that they have appropriate procedures in place to prevent the unauthorized release of your confidential information to others.

Our professional standards require that we perform certain additional procedures on current and previous years' engagements whenever a partner or professional employee leaves the firm and is subsequently employed by or associated with a client. Accordingly, the City agrees it will compensate RSM US LLP for any additional costs incurred as a result of the City's employment of a partner or professional employee of RSM US LLP.

#### **Reporting**

We will issue a written report upon completion of our examination of the census data being provided by the City via ORBIT into LGERS in relation to established or stated criteria. Our report will be addressed to the City Council of the City of Fayetteville. We cannot guarantee that positive assurance on the census data being provided by the City via ORBIT into LGERS will be expressed. Circumstances may arise in which it is necessary for us to modify our opinion, add an emphasis-of-matter or other-matter paragraphs, or withdraw from the engagement.

This letter and contract constitutes the complete and exclusive statement of agreement between RSM US LLP and the City of Fayetteville, superseding all proposals, oral or written, and all other communications with respect to the terms of the engagement between the parties.

The Honorable Mayor and City Council  
City of Fayetteville  
May 24, 2017  
Page 4

If this letter defines the arrangements as the City understands them, please sign and date a copy and return it to us. We appreciate your business.

RSM US LLP

*W. Louis Cannon*

W. Louis Cannon, CPA  
Partner

Confirmed on behalf of the City of Fayetteville:

\_\_\_\_\_  
Nat Robertson, Mayor

\_\_\_\_\_  
Date

\_\_\_\_\_  
Doug Hewett, City Manager

\_\_\_\_\_  
Date

*Cheryl Spivey*  
\_\_\_\_\_  
Cheryl Spivey, Chief Financial Officer

*7/18/17*  
\_\_\_\_\_  
Date



CONTRACT TO AUDIT ACCOUNTS

Of City of Fayetteville - Local Governmental Employees' Retirement System (LGERS)

Primary Governmental Unit

Discretely Presented Component Unit (DPCU) if applicable

On this 24th day of May, 2017,

Auditor: RSM US LLP Auditor Mailing Address: 3621 John Platt Drive,

Morehead City, NC 28557

Hereinafter referred to as The Auditor

and City Council (Governing Board(s)) of City of Fayetteville - LGERS

(Primary Government)

and \_\_\_\_\_ : hereinafter referred to as the Governmental Unit(s), agree as follows:

(Discretely Presented Component Unit)

1. The Auditor shall audit all statements and disclosures required by generally accepted accounting principles (GAAP) and additional required legal statements and disclosures of all funds and/or divisions of the Governmental Unit (s) for the period beginning January 1, 2016, and ending December 31, 2016. The non-major combining, and individual fund statements and schedules shall be subjected to the auditing procedures applied in the audit of the basic financial statements and an opinion will be rendered in relation to (as applicable) the governmental activities, the business-type activities, the aggregate DPCUs, each major governmental and enterprise fund, and the aggregate remaining fund information (non-major government and enterprise funds, the internal service fund type, and the fiduciary fund types).
2. At a minimum, the Auditor shall conduct his/her audit and render his/her report in accordance with generally accepted auditing standards. The Auditor shall perform the audit in accordance with *Government Auditing Standards* if required by the State Single Audit Implementation Act, as codified in G.S. 159-34. If required by OMB *Uniform Administration Requirements, Cost Principles, and Audit Requirements for Federal Awards*, (Uniform Guidance) and the State Single Audit Implementation Act, the Auditor shall perform a Single Audit. This audit and all associated audit documentation may be subject to review by Federal and State agencies in accordance with Federal and State laws, including the staffs of the Office of State Auditor (OSA) and the Local Government Commission (LGC). If the audit and auditor communication are found in this review to be substandard, the results of the review may be forwarded to the North Carolina State Board of CPA Examiners (NC CPA Board).

County and Multi-County Health Departments: The Office of State Auditor will designate certain programs that have eligibility requirements to be considered major programs in accordance with OMB Uniform Guidance for the State of North Carolina. The LGC will notify the auditor and the County and Multi-Health Department of these programs. A County or a Multi-County Health Department may be selected to audit any of these programs as major.

3. If an entity is determined to be a component of another government as defined by the group audit standards - the entity's auditor will make a good faith effort to comply in a timely manner with the requests of the group auditor in accordance with AU-6 §600.41 - §600.42.
4. This contract contemplates an unqualified opinion being rendered. The audit shall include such tests of the accounting records and such other auditing procedures as are considered by the Auditor to be necessary in the circumstances. Any limitations or restrictions in scope which would lead to a qualification should be fully explained in an attachment to this contract.
5. If this audit engagement is subject to the standards for audit as defined in *Government Auditing Standards*, 2011 revisions, issued by the Comptroller General of the United States, then by accepting this engagement, the Auditor warrants that he has met the requirements for a peer review and continuing education as specified in *Government*

Discretely Presented Component Units (DPCU) if applicable

*Auditing Standards.* The Auditor agrees to provide a copy of their most recent peer review report regardless of the date of the prior peer review report to the Governmental Unit and the Secretary of the LGC prior to the execution of the audit contract (See Item 22). **If the audit firm received a peer review rating other than pass**, the Auditor shall not contract with the Governmental Unit without first contacting the Secretary of the LGC for a peer review analysis that may result in additional contractual requirements.

If the audit engagement is not subject to Government Accounting Standards or if financial statements are not prepared in accordance with GAAP and fail to include all disclosures required by GAAP, the Auditor shall provide an explanation as to why in an attachment.

6. It is agreed that time is of the essence in this contract. All audits are to be performed and the report of audit submitted to the State and Local Government Finance Division (SLGFD) within four months of fiscal year end. Audit report is due on: October 14, 2017. If it becomes necessary to amend this due date or the audit fee, an amended contract along with a written explanation of the delay must be submitted to the secretary of the LGC for approval.
7. It is agreed that generally accepted auditing standards include a review of the Governmental Unit's systems of internal control and accounting as same relate to accountability of funds and adherence to budget and law requirements applicable thereto; that the Auditor will make a written report, which may or may not be a part of the written report of audit, to the Governing Board setting forth his findings, together with his recommendations for improvement. That written report must include all matters defined as "significant deficiencies and material weaknesses" in AU-C 265 of the *AICPA Professional Standards (Clarified)*. The Auditor shall file a copy of that report with the Secretary of the LGC.
8. All local government and public authority contracts for audit or audit-related work require the approval of the Secretary of the LGC. This includes annual or special audits, agreed upon procedures related to internal controls, bookkeeping or other assistance necessary to prepare the Governmental Unit's records for audit, financial statement preparation, any finance-related investigations, or any other audit-related work in the State of North Carolina. **Invoices for services rendered under these contracts shall not be paid by the Governmental Unit until the invoice has been approved by the Secretary of the LGC.** (This also includes any progress billings.) [G.S. 159-34 and 115C-447] All invoices for Audit work must be submitted by email in PDF format to the Secretary of the LGC for approval. The invoices must be sent via upload through the current portal address: <http://nctreasurer.slgfd.leapfile.net> Subject line should read "Invoice – [Unit Name]. The PDF invoice marked 'approved' with approval date will be returned by email to the Auditor to present to the Governmental Unit for payment. Approval is not required on contracts and invoices for system improvements and similar services of a non-auditing nature.
9. In consideration of the satisfactory performance of the provisions of this contract, the Primary Governmental Unit shall pay to the Auditor, upon approval by the Secretary of the LGC, the fee, which includes any cost the Auditor may incur from work paper or peer reviews or any other quality assurance program required by third parties (Federal and State grantor and oversight agencies or other organizations) as required under the Federal and State Single Audit Acts. (Note: **Fees listed on signature pages.**)
10. If the Governmental Unit has outstanding revenue bonds, the Auditor shall include documentation either in the notes to the audited financial statements or as a separate report submitted to the SLGFD along with the audit report, a calculation demonstrating compliance with the revenue bond rate covenant. Additionally, the Auditor should be aware that any other bond compliance statements or additional reports required in the authorizing bond documents need to be submitted to the SLGFD simultaneously with the Governmental Unit's audited financial statements unless otherwise specified in the bond documents.

**Contract to Audit Accounts (cont.)** City of Fayetteville - Local Governmental Employees' Retirement System (LGERs)  
Primary Governmental Unit

Discretely Presented Component Units (DPCU) if applicable

11. After completing the audit, the Auditor shall submit to the Governing Board a written report of audit. This report shall include, but not be limited to, the following information: (a) Management's Discussion and Analysis, (b) the financial statements and notes of the Governmental Unit and all of its component units prepared in accordance with GAAP, (c) supplementary information requested by the client or required for full disclosure under the law, and (d) the Auditor's opinion on the material presented. The Auditor shall furnish the required number of copies of the report of audit to the Governing Board as soon as practical after the close of the accounting period.
12. If the audit firm is required by the NC CPA Board or the Secretary of the LGC to have a pre-issuance review of their audit work, there must be a statement added to the engagement letter specifying the pre-issuance review including a statement that the Governmental Unit will not be billed for the pre-issuance review. The pre-issuance review must be performed **prior** to the completed audit being submitted to the LGC. The pre-issuance report must accompany the audit report upon submission to the LGC.
13. The Auditor shall electronically submit the report of audit to the LGC as a text-based PDF file when (or prior to) submitting the invoice for services rendered. The report of audit, as filed with the Secretary of the LGC, becomes a matter of public record for inspection, review and copy in the offices of the SLGFD by any interested parties. Any subsequent revisions to these reports must be sent to the Secretary of the LGC. These audited financial statements, excluding the Auditors' opinion, may be used in the preparation of official statements for debt offerings, by municipal bond rating services to fulfill secondary market disclosure requirements of the Securities and Exchange Commission and other lawful purposes of the Governmental Unit without subsequent consent of the Auditor. If it is determined by the LGC that corrections need to be made to the Governmental Unit's financial statements, they should be provided within three days of notification unless another time frame is agreed to by the LGC.

If the OSA designates certain programs to be audited as major programs, as discussed in item #2, a turnaround document and a representation letter addressed to the OSA shall be submitted to the LGC.

The LGC's process for submitting contracts, audit reports and invoices is subject to change. Auditors should use the submission process in effect at the time of submission. The most current instructions will be found on our website: <https://www.nctreasurer.com/sgl/Pages/Audit-Forms-and-Resources.aspx>

14. Should circumstances disclosed by the audit call for a more detailed investigation by the Auditor than necessary under ordinary circumstances, the Auditor shall inform the Governing Board in writing of the need for such additional investigation and the additional compensation required therefore. Upon approval by the Secretary of the LGC, this contract may be varied or changed to include the increased time and/or compensation as may be agreed upon by the Governing Board and the Auditor
15. If an approved contract needs to be varied or changed for any reason, the change must be made in writing, on the Amended LGC-205 contract form and pre-audited if the change includes a change in audit fee. This amended contract needs to be completed in full, including a written explanation of the change, signed and dated by all original parties to the contract, and then must be submitted through the audit contract portal to the Secretary of the LGC for approval. The portal address to upload your amended contract is <http://nctreasurer.slgfd.leapfile.net> No change shall be effective unless approved by the Secretary of the LGC, the Governing Board, and the Auditor.
16. A copy of the engagement letter, issued by the Auditor and signed by both the Auditor and the Governmental Unit should be attached to the contract, and by reference here becomes part of the contract. In case of conflict between the terms of the engagement letter and the terms of this contract, the terms of this contract will control. Engagement letter terms that conflict with the contract are deemed to be void unless the conflicting terms of this contract are specifically deleted in Item #25 of this contract. Engagement letters containing indemnification clauses will not be approved by the LGC.

**Contract to Audit Accounts (cont.)** City of Fayetteville - Local Governmental Employees' Retirement System (LGERS)  
Primary Governmental Unit

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Discretely presented component units if applicable

17. Special provisions should be limited. Please list any special provisions in an attachment.
18. A separate contract should not be made for each division to be audited or report to be submitted. If a DPCU is subject to the audit requirements detailed in the Local Government Budget and Fiscal Control Act and a separate audit report is issued, a separate audit contract is required. If a separate report is not to be issued and the DPCU is included in the primary government audit, the DPCU must be named along with the parent government on this audit contract. Signatures from the DPCU Board chairman and finance officer also must be included on this contract.
19. The contract must be executed, pre-audited, physically signed by all parties including Governmental Unit and Auditor signatures and submitted in PDF format to the Secretary of the LGC. The current portal address to upload your contractual documents is <http://nctreasurer.slgfd.leapfile.net> Electronic signatures are not accepted at this time. Included with this contract are instructions to submit contracts and invoices for approval as of November 2016. These instructions are subject to change. Please check the NC Treasurer's web site at <https://www.nctreasurer.com/slg/Pages/Audit-Forms-and-Resources.aspx> for the most recent instructions.
20. The contract is not valid until it is approved by the LGC Secretary. The staff of the LGC shall notify the Governmental Unit and Auditor of contract approval by email. **The audit should not be started before the contract is approved.**
21. There are no other agreements between the parties hereto and no other agreements relative hereto that shall be enforceable unless entered into in accordance with the procedure set out herein and approved by the Secretary of the LGC.
22. **E-Verify.** Auditor **shall comply** with the requirements of NCGS Chapter 64 Article 2. Further, if Auditor utilizes any subcontractor(s), Auditor **shall require** such subcontractor(s) to comply with the requirements of NCGS Chapter 64, Article 2.
23. Contractor hereby certifies that Contractor, and all subcontractors, are not on the Iran Final Divestment List ("List") created by the North Carolina State Treasurer pursuant to N.C.G.S. 147-86.58. Contractor shall not utilize any subcontractor that is identified on the List.
25. All of the above paragraphs are understood and shall apply to this contract, except the following numbered paragraphs shall be deleted: (See Item 16 for clarification).

***SIGNATURE PAGES FOLLOW***

Contract to Audit Accounts (cont.) City of Fayetteville - Local Governmental Employees' Retirement System (LGERs)  
Primary Governmental Unit

Discretely Presented Component Units (DPCU) if applicable

City of Fayetteville - Local Governmental Employees' Retirement System (LGERs) - **FEES**

Year-end bookkeeping assistance - [For audits subject to Government Auditing Standards, this is limited to bookkeeping services permitted by revised Independence Standards] N/A

Audit ATTEST - Examination \$5,300; the accompanying arrangement letter is incorporated herein by

Preparation of the annual financial Statements N/A

Prior to submission of the completed audited financial report, applicable compliance reports and amended contract (if required) the Auditor may submit invoices for approval for services rendered, not to exceed 75% of the total of the stated fees above. If the current contracted fee is not fixed in total, invoices for services rendered may be approved for up to 75% of the prior year audit fee.

The 75% cap for interim invoice approval for this audit contract is \$ N/A

**\*\* NA if there is to be no interim billing**

Communication regarding audit contract requests for modification or official approvals will be sent to the email addresses provided in the spaces below.

Audit Firm Signature:

RSM US LLP

Name of Audit Firm

By W. Louis Cannon

Authorized Audit firm representative name: Type or print

W. Louis Cannon

Signature of authorized audit firm representative

Date 5/26/17

lou.cannon@rsmus.com

Email Address of Audit Firm

Governmental Unit Signatures:

City of Fayetteville

Name of Primary Government

By \_\_\_\_\_

Mayor / Chairperson: Type or print name and title

Signature of Mayor/Chairperson of governing board

Date \_\_\_\_\_

By \_\_\_\_\_

Chair of Audit Committee - Type or print name

\*\*

Signature of Audit Committee Chairperson

Date \_\_\_\_\_

\*\* If Governmental Unit has no audit committee, mark this section "N/A"

City of Fayetteville

**PRE-AUDIT CERTIFICATE: Required by G.S. 159-28 (a)**

This instrument has been pre-audited in the manner required by The Local Government Budget and Fiscal Control Act or by the School Budget and Fiscal Control Act. Additionally, the following date is the date this audit contract was approved by the governing body.

By Cheryl J Spivey

**Primary Governmental Unit Finance Officer:**

Type or print name

Cheryl J Spivey

Primary Government Finance Officer Signature

Date \_\_\_\_\_

(Pre-audit Certificate must be dated.)

Email Address of Finance Officer \_\_\_\_\_

Date Primary Government Governing Body Approved Audit Contract - G.S. 159-34(a) \_\_\_\_\_

**STATE OF NORTH CAROLINA  
COUNTY OF CUMBERLAND**

**SERVICES CONTRACT**

THIS SERVICES CONTRACT (the "Contract"), made and entered into the 24th day of May, 2017 by and between the City OF FAYETTEVILLE ("the City"), and RSM US LLP ("RSM"). (The City and RSM being sometimes collectively referred to herein as the "Parties").

**I. AGREEMENT AND SCOPE OF SERVICE**

This Contract is for professional services related to auditing services and procedures. The Scope of Services to be provided by RSM in connection with this Contract is attached as Exhibit A.

**II. COMPENSATION**

The City shall compensate RSM for providing the services set forth herein in accordance with the terms set forth in Exhibit A (a total of \$5,300.00). Payment shall be made in accordance with the terms set forth in Exhibit A.

**III. MISCELLANEOUS**

In Consideration of the terms of this Contract, the Parties agree as follows:

1. **Governing Law:** The validity, interpretation and execution of this Contract and the performance of and all rights accruing under this Contract are to be governed by the laws of North Carolina.
2. **Compliance with Laws:** RSM agrees to comply with all applicable statutes, ordinances and regulations of the United States, the State of North Carolina, the City of Fayetteville, and units of local government.
3. **Severability:** The Parties agree that if any provision of this Contract shall be held invalid for any reason, the remaining provisions shall not be affected if they may continue to conform to the purposes of this Contract and the requirements of applicable law.
4. **Default:** In the event of substantial failure by RSM to perform in accordance with the terms of this Contract, the City shall have the right to terminate the Contract upon ten (10) days written notice in which event RSM shall have neither the obligation nor the right to perform further services under this Contract nor shall the City be obligated to make any further payment for work that has not been performed.
5. **E-Verify:** RSM acknowledges that "E-Verify" is the federal E-Verify program operated by the U.S. Department of Homeland Security and other federal agencies which is used to verify the work authorization of newly hired employees pursuant

to federal law and in accordance with Article 2, Chapter 64 of the North Carolina General Statutes. RSM further acknowledges that all employers, as defined by Article 2, Chapter 64 of the North Carolina General Statutes, must use E-Verify and after hiring an employee to work in the United States, shall verify the work authorization of the employee through E-Verify in accordance with N.C. GEN. STAT. §64-26(a). RSM pledges, attests and warrants through execution of this contract that RSM complies with the requirements of Article 2 of Chapter 64 of the North Carolina General Statutes and further pledges, attests and warrants that any subcontractors currently employed by or subsequently hired by RSM shall comply with any and all E-Verify requirements. Failure to comply with the above requirements shall be considered a breach of this contract.

6. N.C. Iran Divestment Act Certification: As mandated by N.C. GEN. STAT. § 147-86.59(a), RSM certifies that it is not listed on the Final Divestment List created by the North Carolina State Treasurer pursuant to N.C. GEN. STAT. § 147-86.58. RSM further certifies that in accordance with N.C. GEN. STAT. § 147-86.59(b) it shall not utilize any subcontractor found on the State Treasurer's Final Divestment List. RSM certifies that the signatory to this Contract is authorized by RSM to make the foregoing statement.

**[SIGNATURE PAGE TO FOLLOW.]**

Attest:

City OF FAYETTEVILLE:

\_\_\_\_\_  
PAMELA MEGILL, City Clerk

\_\_\_\_\_  
DOUGLAS J. HEWETT, ICMA-CM  
City Manager

\_\_\_\_\_  
By: \_\_\_\_\_

Address: \_\_\_\_\_

Phone: \_\_\_\_\_

This instrument has been pre-audited in the manner  
Required by the Local Government Budget and Fiscal  
Control Act.

*Cheryl J Spivey*

\_\_\_\_\_  
CHERYL J. SPIVEY, Chief Financial Officer

RSM US LLP

BY: *Ron Cannon*

TITLE: *Partner*

DATE: *7/11/17*





**Office of Internal Audit**

**Procurement Card  
Audit A2015-03F**

**August 2017**

**Director of Internal Audit**  
Elizabeth Somerindyke

**Senior Internal Auditor**  
Rose Rasmussen

**Internal Auditor**  
Traci Carraway



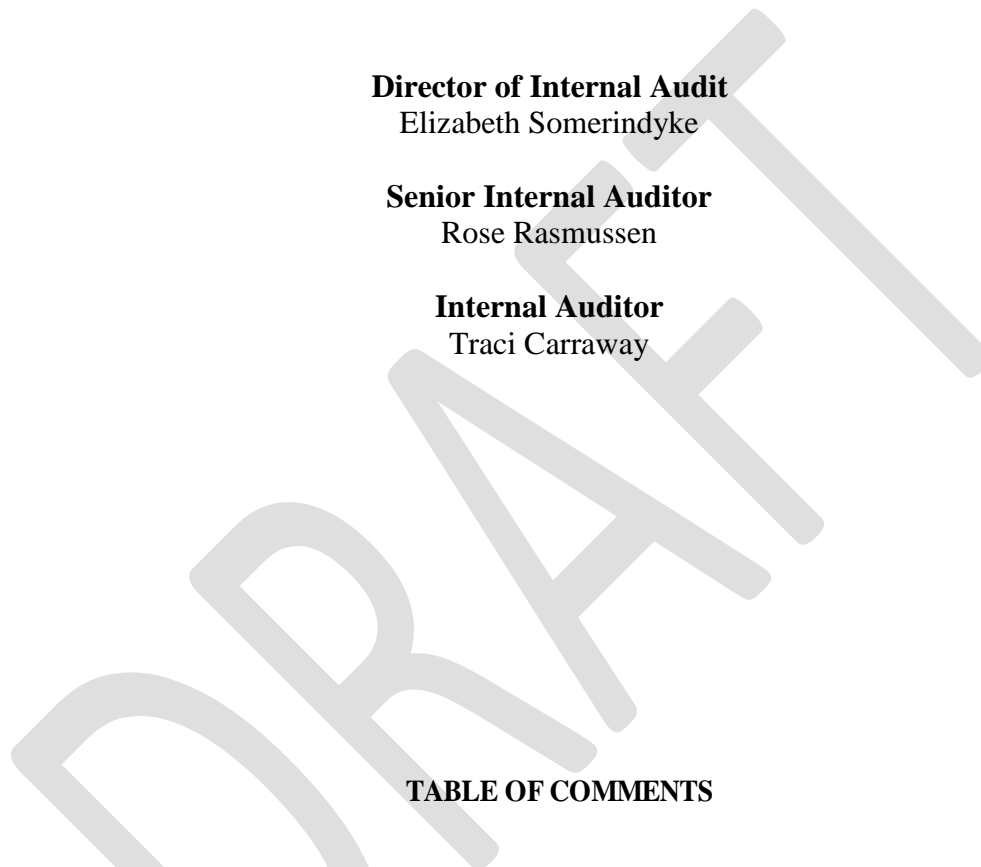
**OUR MISSION**

Provide independent, objective assurance and consulting services designed to add value and improve the City of Fayetteville’s operations.

**Director of Internal Audit**  
Elizabeth Somerindyke

**Senior Internal Auditor**  
Rose Rasmussen

**Internal Auditor**  
Traci Carraway



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## ***EXECUTIVE SUMMARY***

The audit of the City of Fayetteville's (City) Procurement Card (P-card) Program was performed to assess the adequacy of internal controls over procurement cards, and compliance with policy and internal controls over procurement card usage. In order to meet the objectives, Internal Audit examined accounting documents and p-card authorization files; tested records; and interviewed personnel. Internal Audit also performed a follow-up to Procurement Card Audit A2015-03 to report on the progress in addressing prior audit findings and recommendations.

This report addresses a number of areas where management actions could further reduce the risks associated with use of p-cards. Issues identified were the result of mitigating factors not being implemented to address prior audit findings. Issues identified can generally be categorized as follows:

1. Non-compliance with City policy;
2. Inadequate evidence of proper approvals;
3. Lack of evidence of training, and
4. Insufficient documentation.

Internal Audit concluded internal controls existed but did not appear to be operating as intended to ensure p-card expenditures were accurate. The audit did not find evidence of intentional fraud but documented exceptions where procedures and policies were not followed. As evidenced by the reoccurrence of prior observations, Internal Audit concluded management did not ensure audit recommendations specified in the previous audit report had been fully implemented.

## ***BACKGROUND***

The procurement card program is designed to enable the City of Fayetteville to make small purchases quickly and efficiently, thereby reducing the volume of invoices and checks processed. According to procedure, the use of procurement cards has been proven to be a cost effective method of obtaining supplies and services for the City. Travel and training costs may also be handled through the procurement card process. Procurement cards can be processed by vendors like personal charge cards. Rather than making multiple small payments to many vendors, the City makes one payment to the procurement card provider. Vendors receive payment from the procurement card processor within a few days of purchase without extra paperwork.

The City of Fayetteville entered into a contract with Bank of America to administer its p-card program. Under this contract, there is no charge for issuance or maintenance of the cards. The City of Fayetteville has general guidelines for p-card usage but has left control of the procurement card program with the Chief Financial Officer. The Procurement Card Administrator assigns per transaction limits of \$1,000 and a monthly purchase limit for each card. By exception and with proper approvals, these limits can be increased by the Procurement Card Administrator only. As part of the contract, Bank of America provides an electronic payment application, Works. This application enhances the City's ability to manage procurement card transactions.

During July 1, 2016 through February 28, 2017, 6,130 procurement card transactions totaling \$951,106.55 were processed. This is an average of \$155.16 per transaction. As of February 17, 2017, there were 253 active procurement cards for the City of Fayetteville.

## **AUDIT OBJECTIVES**

The objectives of this audit were to:

1. Assess the adequacy of internal controls, and policy and procedure compliance of the City's procurement card program;
2. Assess the adequacy of segregation of duties, physical security and proper use of the procurement cards;
3. Determine if card users are properly trained, designated and provided policy guidance;
4. Assess if procurement card transactions and approvals are made in accordance with procurement card policies and procedures; and
5. Follow up of the previously identified audit findings to ensure they have been remediated by management as stated in management's responses.

## **AUDIT SCOPE**

The audit covered procurement card transactions from July 1, 2016 through February 28, 2017 and included a sample of card users from the following departments and office: Parks, Recreation and Maintenance (PRM); Engineering & Infrastructure; Environmental Services; Airport; and the City Manager's Office/Internal Audit. A total of 93 statements containing 385 transactions and totaling \$76,613.36 were included in the sample as shown below.

<b>Department/Division</b>	<b># of P-cards</b>	<b># of Statements</b>	<b># of Transactions</b>	<b>Total Spent</b>
Parks, Recreation, and Maintenance	8	52	211	\$ 51,967.47
Engineering & Infrastructure	3	11	22	4,292.73
Environmental Services	4	10	21	2,608.14
CMO/Internal Audit	1	4	16	3,401.17
Airport	2	16	115	14,343.85
	<u>18</u>	<u>93</u>	<u>385</u>	<u>\$ 76,613.36</u>

## **AUDIT METHODOLOGY**

In order to meet the objectives, Internal Audit examined accounting documents and p-card authorization files; tested records; and interviewed personnel. Internal Audit also evaluated controls related to the administration of the Procurement Card Program and reviewed policies and procedures for compliance and completeness. Personnel from five City departments were interviewed and audit tests and procedures were conducted as considered necessary.

In particular, Internal Audit performed the following procedures to accomplish the objectives of the audit:

- Obtained and reviewed the *City of Fayetteville Policy # 312 Procurement Card Program: Revision 2* as revised May 18, 2016;
- Interviewed the Procurement Card Administrator;
- Verified the employment status of each cardholder;
- Interviewed personnel in charge of training cardholders;
- Verified account coding for the procurement card transactions; and
- Analyzed sample transactions processed through February 2017.

When appropriate, judgmental sampling was used to improve the overall efficiency of the audit. Internal Audit examined transaction reports from the Bank of America Works application; and reviewed electronic files for active and inactive cards. The departments selected for p-card sampling were Parks, Recreation and Maintenance; Engineering & Infrastructure; Environmental Services; and Airport,

whereas, when analyzed, these departments were consistent whether categorized by total amount spent; number of transactions; or number of cards held by the department. The Office of Internal Audit within the City Manager’s Office was judgmentally chosen to increase transparency.

**AUDIT RESULTS (A2015-03F)**

Internal Audit concluded internal controls existed but did not appear to be operating as intended to ensure p-card expenditures were accurate. The audit did not find evidence of intentional fraud but documented exceptions where procedures and policies were not followed. As evidenced by the reoccurrence of prior observations, Internal Audit also concluded management did not ensure audit recommendations specified in the previous audit report had been fully implemented. As a result, no new recommendations were made. Areas for which issues were found to be reoccurring are detailed in the Follow-up section below.

**FOLLOW-UP AUDIT RESULTS (A2015-03)**

Based on the results of follow-up test work, each original finding recommendation will be designated with one of the following four status categories:

<i>Implemented</i>	The finding has been addressed by implementing the original corrective action or an alternative corrective action.
<i>In Progress</i>	The corrective action has been initiated but is not complete.
<i>Not Applicable</i>	The recommendation is no longer applicable due to changes in procedures or changes in technology.
<i>Not Implemented</i>	The recommendation was ignored, there were changes in personnel levels, or management has decided to assume the risk.

**Finding 1**

***Appropriate review and/or approval of procurement card charges were lacking.***

During the audit, the following observations were made:

1. Procurement card transactions should be reviewed for appropriate City business and violation of City policies. During the review, Internal Audit was unable to determine if supervisory review and approval of procurement card charges was performed on 57 (63%) statements to ensure legitimacy of the purchases. Further review identified the City of Fayetteville Procedure for Procurement Card Expenditures dated April 4, 2008 did not assert this requirement. However, on April 21, 2015, management updated the procurement card policy and addressed this review, but was not specific in identifying an appropriate level of supervisor who would be in the best position to determine the legitimacy of the purchases and identify potential misuse of the p-card. Instead, the policy was updated designating the Department Director or designee for this approval. Therefore, Internal Audit identified all statements had been approved by the Department Director or designee consistent with policy, but because the designated area on the statements titled “managers signature” was not signed and only the accounts payable approval was reflected it was unclear if the 57 statements had been reviewed by the appropriate level of supervisor. Internal Audit recommends control improvements in the area of supervisory review to mitigate procurement card program risks. As a result, Internal Audit relied on the accounts payable approval by the Department Director or designee to validate the expenditures.

# of Statements w/o eligibility signature	
Corporate Communications	1
Police	21
Parks & Recreation	1
Airport	7
Transit	3
Traffic Services	2
Street Maintenance	7
HRD	3
Construction Mgmt	3
OD&T	5
Stormwater	4
	57

- Strong data control is essential to accurate reporting. During the review, Internal Audit identified expenditures lacking proper coding to the appropriate general ledger object account. Personnel responsible for coding and approving payment of p-card transactions should be familiar with the departmental chart of accounts. Of the sampled transactions, 16 entries (5%) were not coded to the correct object account. Recording expenditures to the appropriate object account(s) helps ensure the City of Fayetteville’s financial statements have properly classified expenditure amounts. As a result of misclassified expenditures, the City runs the risk of improper reporting and may also affect accurate departmental budgeting.

# of transactions w/ incorrect acct Coding	
Police	4
Parks & Recreation	6
Transit	2
Traffic Services	3
Stormwater	1
	16

- City of Fayetteville Procedure for Procurement Card Expenditures prohibited charges for prepaid services. Six transactions for prepaid services were noted. These prepaid services were for fingerprinting at the Airport through the Transportation Security Clearinghouse. Based on an Internal Audit inquiry, Airport personnel indicated this is the normal business procedure and the most expeditious way to handle the process. Notation should be made if this purchase has been approved by the Procurement Program Administrator.

**Recommendation**

- Strengthen the approval and monitoring process for p-card activity. An approving official (if other than the department head) should be assigned to each cardholder and should be in a managerial or supervisory position with respect to the cardholder. Personnel performing the review function should also have a good understanding of departmental account coding. A satisfactory review should include a manual review of p-card receipts and other supporting documentation, with emphasis placed on compliance with all applicable procedures and guidelines. In addition, Finance Department review should ensure the appropriate approving official signature is present on each statement.

- B. Mandate initial and refresher training for both cardholders and approving officials. Training of cardholders, approving officials and the Procurement Program Administrator must be ongoing and mandatory. Individual cardholders and approving officials should be required to attend initial training prior to issuance of p-cards and refresher training at prescribed intervals. Participation in training should be documented.

**Management's Response**

We concur. Management is in full agreement with the recommendation A and B. Management will revise current procurement card policy to address specific identification as to who approves expenditures for legitimacy, in addition to, the regular departmental accounts payable approver and their respective review processes. Historically initial training has been required. The policy changes will also address continuing education and training requirements for: card holders, legitimacy approvers, departmental accounts payable approvers, as well as Finance's accounts payable staff.

**Responsible Party:** Treasurer and Purchasing Manager

**Implementation Date:** 04/29/2016

**Current Observation**

- A. City of Fayetteville Policy #312 updated as of May 18, 2016 stated: "The Department Director or his/her designee must review and sign off on all departmental procurement cards transactions to validate that the transactions are for approved City business and that no transactions are in violation of any City policy. The approver must be in a managerial or supervisory position with respect to the cardholder. A second approver designated by the department director (typically the department's accounts payable approver) must review for appropriate documentation and proper expenditure account code. Both approvers must sign the procurement card log and then submit all information to the department's accounts payable representative for processing. A procurement card log (Attachment D) must be submitted with each procurement card's monthly approval packet. This log is a repository for all required approvals and serves as a summary of all the information needed by the Finance Department for processing."

Internal Audit noted statement(s) for which a procurement log was attached to the statement, but the department director or designee signature was not present on the log. Either the proper supervisory approval was present on the credit card statement but not on the log, or no one in a supervisory capacity with respect to the cardholder approved the purchases. Internal Audit also noted statement(s) for which no log was attached, and no approval(s) were present on the statement.

- B. City of Fayetteville Policy #312 updated as of May 18, 2016 remained unchanged relating to initial training, which stated: "Proposed cardholders must attend an orientation training prior to receiving the procurement card. A copy of this procedure shall be issued to the proposed cardholder during the training. Upon completion of the orientation training, the proposed cardholder will be required to sign a City of Fayetteville Procurement Card Employee Agreement indicating that the cardholder understands the procedures and the responsibilities of a procurement cardholder. See attachment A." However, the May 18, 2016 policy revision included the following update regarding continuing education: "Continuing education training is required for: each cardholder, each program card caretaker, all approvers, and accounts payable staff. The recommended refresher course will consist of viewing the training video and signing an attestation form. The individual attestation forms will be maintained by each department, and must be completed by December 31st of each year. The Program administrator will send out a summary form to each Department Director in September to identify those in need of training. The department is responsible for submitting the completed form signed by the Department Director or his/her designee indicating all that have completed the training, as well as, those that

are still in need. If the annual training requirements are not met the associated accounts will be suspended."

Based on Internal Audit inquiry, Finance Department personnel could not provide documentation for initial training nor was documentation presented for refresher training. Finance Department personnel indicated the notification to departments as outlined in the policy was not made. Departments were asked to provide copies of attestation forms. Only one department (Environmental Services) provided the forms which were dated May 2017 and were not signed by the Procurement Card Administrator as identified on the *Training Video Attestation Form*. Finance Department personnel also stated there had been no procurement card suspensions.

**Status of Recommendation**

Not Implemented

**Finding 2**

***Documentation was insufficient.***

City of Fayetteville Procedure for Procurement Card Expenditures states: "The cardholder is responsible for ensuring that each, customer copy and/or cash register receipt contains enough information to properly identify the purchase. Information shall include the date, dollar amount and brief description. If the above information is not included, the cardholder shall write the information on the paperwork. If the customer copy or cash register receipt is lost or unavailable, a memorandum containing the appropriate information shall be substituted along with an explanation of the reason." Part of the review and approval process should include comparing the receipts to the statements for proper documentation and adherence to policy. During this audit, the following observations were made:

1. Internal Audit found 19 instances which personnel taped the original receipt to copy paper before attaching the receipt to the statement and sometimes the receipts were cut to make it fit on the paper. The tape on the original receipt causes the ink to deteriorate making the receipt illegible; and the place where the receipt was cut made it hard to determine the date and time of the purchase. Making a photocopy of the receipt and including along with the original receipt would eliminate both issues.
2. Original itemized receipts provide information such as the date and time a purchase was made and a description of the item/service purchased. Included in the sampled transactions were six occurrences which proper documentation was not provided:
  - One instance where a packing slip was provided instead of an itemized receipt;
  - One instance in which an online confirmation page was provided instead of an itemized receipt;
  - Two instances in which a signed credit card receipt was included, but contained no detail;
  - Two instances in which no itemized receipt was provided.

It cannot be determined what was purchased if personnel do not submit the original itemized receipt. This creates a potential risk of unauthorized transactions being undetected. Per policy, cardholders are responsible for turning in all original itemized receipts, or a memorandum containing the appropriate information and an explanation for the missing receipt. Personnel were not taking the time to properly review and verify all attachments to the statements.

**Recommendation**

Consistently record transactions using a method that captures relevant transaction data and documents the intended business purpose. The business related purpose of each purchase should be documented to provide accountability. Adequate documentation should be prepared and retained which supports the nature and business related purpose of transactions. The business need as well as a case for best business



practice should be communicated with the Procurement Program Administrator so that concessions can be made to accommodate the business needs of each department.

**Management’s Response**

We concur. Management is in full agreement with the recommendation. Management will be working with departments to ensure that all required support documentation is included when procurement card invoices are submitted. This will include keeping original receipts intact and making copies of originals if fading or smudging is a concern. Management will implement a procurement card log that will aid the users and approvers with the requirements of the amended policy. The log will contain a description line, a check off box for receipts, and signature lines for approvals.

**Responsible Party:** Treasurer and Accounts Payable Supervisor

**Implementation Date:** Immediately

**Current Observation**

Finance Department management responded to the original recommendation for Procurement Card Audit A2015-03 dated February 2016 stating management would work with departments to ensure all required support documentation is included when procurement card invoices are submitted, including keeping original receipts intact and making copies of originals if fading or smudging is a concern. In addition, management would implement a procurement card log to aid the users and approvers with the requirements of the amended policy. However, as noted previously, there were statement(s) for which a procurement log was not attached or the log lacked the department director or designee signature. In addition, Internal Audit noted statement(s) for which a procurement card log was attached but no departmental AP approver signature was present; and statement(s) for which a procurement card log was attached but the departmental accounts payable approver signature provided was also the cardholder.

In addition, it does not appear personnel who maintain/process p-card transactions have a clear understanding of how the procurement card log should be used; therefore, the procurement card log does not appear to be used as intended.

Internal Audit reviewed 93 statements and supporting documentation to ensure original detailed receipts were intact and the expenditures were for official City business. Internal Audit noted the following transactions for which only:

- Summarized customer copy of receipt(s) were present;
- Hotel reservation confirmation(s) were provided;
- Part of the itemized receipt(s) were copied and attached;
- Printout of "shipping details" dated before the purchase was provided;
- Original receipt(s) with the potential for fading and deterioration were provided without copies for better retention;
- Memorandum was provided by the cardholder, for a purchase exceeding the policy’s “acceptable” threshold of \$5 or less, which contained a description of the item(s) purchased, date of purchase and the vendor's name, but no reason for the lack of supporting documentation or management approval.

In addition, the business purpose of the purchases was not clear and was not documented on any of the supporting documentation. Based on Internal Audit inquiry, department representatives provided explanations for the purchases which appeared to be for official City business.

**Status of Recommendation**

Not Implemented

### **Finding 3**

***City of Fayetteville Procedure for Procurement Card Expenditures was often lacking in detail and did not provide sufficient guidance.***

Instances were noted in which the existing City p-card policy could provide better guidance.

1. City of Fayetteville Procedure for Procurement Card Expenditures states: "Should a cardholder terminate employment with the City, the user's department head has the specific responsibility to reclaim the procurement card and return it to the procurement program administrator prior to the employee's termination date. The card will then be destroyed." Of the 254 active p-cards provided, Internal Audit found 14 cards for which the cardholder had separated from the City. There were six cards which the cardholder's employment status could not easily be determined based on the spelling of their name, or the fact that there were multiple personnel with the same or similar name. Historically, the credit limit of the procurement cards would be reduced for former personnel to \$1.00 leaving the p-card account in an active status. Based on an Internal Audit inquiry, the current Procurement Program Administrator indicated the process for former employees was to close the p-card account. During this audit, all active p-card accounts of former personnel were closed. To prevent fraudulent activity, it is important to have proper channels of communication between City departments, the Finance Department, and Human Resources. Former personnel should not have active p-cards to prevent misuse.
2. There were six instances of computer hardware or software purchases with no evidence of IT approval and two instances of furniture purchases with no evidence of department head approval. The current policy indicates furniture purchases are prohibited without specific approval of the department head or designee and computer hardware/software purchases are prohibited unless prior approval is obtained from the Director of Information Technology, but the policy does not identify what type of documentation. In addition, Internal Audit was unable to determine a specified designee for furniture purchases. Without proper documentation, the authorization of such purchases cannot be determined and leaves the potential for unauthorized purchases.

### **Recommendation**

The Chief Financial Officer along with the Procurement Program Administrator and Department Heads should coordinate to update and clarify the City of Fayetteville Procedure for Procurement Card Expenditures. City of Fayetteville Procurement Card Program Policy #312 was drafted effective April 21, 2015. The City should continue to work with departments to refine the policy, and monitor and review p-card activity should also be continued. The policy should be updated to include a requirement for all cardholders to attach documentation of IT approval for all relevant technology purchases. Similarly, documentation should be required showing Department Head approval for any furniture purchases. Any violations would be referred to the Chief Finance Officer, the Chief Information Officer and/or the Department Head.

### **Management's Response**

We concur. Management is in full agreement with recommendation. The policy recommendation will be in conjunction with Management Response #1

**Responsible Party:** Treasurer and Finance staff

**Implementation Date:** 04/29/2016

### **Current Observation**

1. Procurement Card Audit A2015-03 dated February 2016 noted in Finding 3 that the procurement card policy could provide better guidance as it relates to controlling, issuing and retiring procurement cards. Internal Audit noted active procurement cards for three former City employees which had not been inactivated upon the employee's separation from the City.

According to the City's p-card administrator, these accounts were closed effective May 12, 2017. In addition, Internal Audit noted three cardholders whose names were spelled differently in the Bank of America Works application than in JD Edwards, the City's financial system. There was also one cardholder noted whose name had been changed in JD Edwards and on the procurement card, but was still listed in the Bank of America Works system with the cardholder's prior name. The City's p-card administrator indicated a request was made to the Bank of America Works administrator to update the name within the system. There did not appear to be a formal process in place for terminated employees, or for changes of cardholder information. Based on Internal Audit inquiry, Finance Department personnel indicated these procedures were under development.

2. Management responded that the policy recommendation would be in conjunction with Management Response #1. However, the policy was not updated to include a requirement for all cardholders to attach documentation of Information Technology (IT) approval for all relevant technology purchases nor does the policy require documentation showing department head approval for any furniture purchases. Internal Audit noted furniture purchase transaction(s) without the Department Head's approval, and purchase(s) of televisions without IT approval. Based on Internal Audit inquiry, IT Department personnel indicated anything that can be connected to the City's network, such as a television, is considered a computer hardware purchase and requires IT approval.

**Status of Recommendation**

Not Implemented

***CONCLUSION***

This report addresses a number of areas where management actions could enhance the procurement card program and existing controls could be strengthened. Although many areas noted during this audit were violations of the existing p-card policy, there were some instances in which the p-card policy could provide better guidance. For these cases, Internal Audit recommends updating the *City of Fayetteville Policy #312 Procurement Card Program: Revision 2*.

In many cases, it could not be determined if cardholder purchases were for legitimate City business, generally in compliance with the procurement card policy and meeting the City's current requirements. Internal Audit recommends improving oversight; increasing communication between the Finance Department and other City departments; and providing clearer guidance over purchases. Efforts to refine the *City of Fayetteville Policy #312 Procurement Card Program: Revision 2* effective May 18, 2016 should be an ongoing collaboration between the Finance Department and other City departments to ensure an effective and efficient procurement card program and should include:

1. Strengthening internal controls to mitigate the potential for misuse of procurement cards;
2. Reinforcing the approval process such that all required approvals are obtained and approvers are certifying transactions are in compliance with City policy;
3. Verifying complete and adequate documentation is provided, including the business related purpose of all transactions;
4. Ensuring all participants complete initial and refresher training which should include all aspects of the procurement card program; and
5. Providing guidance to p-card participants to increase understanding of policy requirements and strengthen documentation compliance issues. Clarification should be made in the policy to include, but not limited to:

- a. What requires IT approval and what the approval should look like;
- b. When is pre-approval from the Department Head for a furniture purchase needed and what the approval should look like;
- c. Use of PayPal accounts with the City p-card; and
- d. Use of the procurement card log.

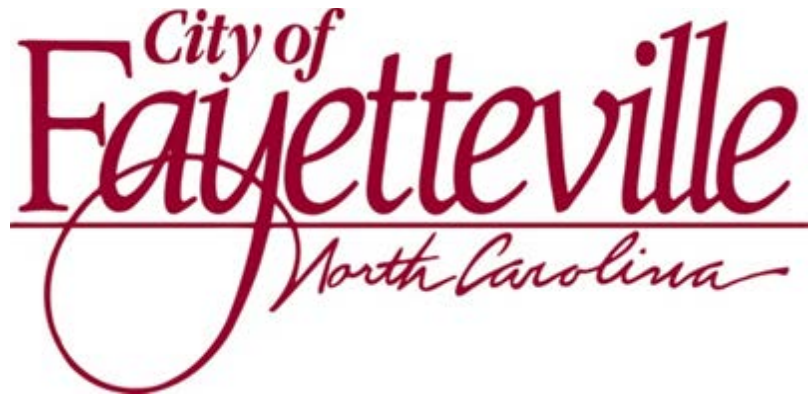
Internal Audit wishes to thank the Finance Department and other City departments that participated in this audit for their assistance and numerous courtesies extended during the completion of this audit.

Signature on File  
Elizabeth H. Somerindyke  
Director of Internal Audit

Signature on File  
Traci Carraway  
Internal Auditor

Distribution:  
Audit Committee  
Douglas J. Hewett, City Manager  
Cheryl Spivey, Chief Financial Officer

DRAFT



**Office of Internal Audit**

**Annual Audit Plan**

**Fiscal Year 2018**

**Director of Internal Audit**

Elizabeth Somerindyke

**Senior Internal Auditor**

Rose Rasmussen

**Internal Auditor**

Traci Carraway

**City of Fayetteville  
Office of Internal Audit  
Audit Work Plan 2018**

A. Audit Projects Carried Forward from 2017 Work Plan		Estimated Hours	Total
<b>A.1. In Progress</b>	Contracting Practices and Procedures	40	
<b>A.2. For Completion</b>	Parks and Recreation Nonresidential Fees Implementation*	182	
<b>Total Hours for Audit Projects Carried Forward from 2017 Work Plan</b>			<b>222</b>
<i>* Project will be started but not completed during this fiscal year</i>			
B. New Audit Projects for 2017-2018			
	Police Department Evidence and Property Management	960	
	Citywide Payroll Processes	960	
	Police Department Confidential Funds	320	
	Performance Measures	480	
<b>Total Hours for New Audit Projects for 2017-2018</b>			<b>2720</b>
C. Follow-up Projects for 2017-2018			
	Employee Development Travel and Training Expenditures	240	
<b>Total Hours for Follow-up Projects for 2017-2018</b>			<b>240</b>
D. Audit Management and Administration			
	Other City Auditor Duties	400	
	Office Management/Support	1742	
	Staff Development	240	
	Approved Holidays	264	
	Approved Employee Leave	412	
<b>Total Audit Management and Administration</b>			<b><u>3058</u></b>
<b>Total Hours</b>			<b><u><u>6240</u></u></b>
E. For Future Audit Projects 2018-2020			
	<i>Tags and Titles (CoF only)**</i>	40	
	<i>Community Development Housing Rehabilitation Program**</i>	960	
	<i>Republic Parking Contract**</i>	240	
	<i>Solid Waste Fees for Multi Family**</i>	640	
	<i>Small Asset Management**</i>	240	
	<i>Downtown Parking Collection**</i>	960	
	Code Enforcement Abatement	960	
	City's New Purchasing Process	960	
	Firehouse Billing and Receipting	640	
	Kronos Time Reporting Implementation Phases 3 & 4 <sup>a</sup>	640	
	Retiree Healthcare Billing and Receipting	640	
	WEX Fuel Cards	480	
	PCI Compliance	640	
	Citywide Records Management and Retention	960	
	Sales and Use Tax Refund Administration	480	
	Citywide Succession Planning	960	
	Fleet Part Inventory	640	
<b>Total Hours for Future Audit Projects</b>			<b><u><u>11080</u></u></b>

\*\* Reflects project from prior year audit plan. Due to limited resources, project will be considered in future audit plans.

<sup>a</sup> The Finance Department contracted with Cherry Bekaert during FY 2017 to provide consulting regarding the Kronos Time Reporting Implementation Phases 1 & 2 and the internal controls over payroll.

**Audit Work Plan 2018**

**A. Audit Projects Carried Forward from 2017 Work Plan**

<b>A.1.</b>	<b>In Progress</b>
<b>Contracting Practices and Procedures</b>	The audit will assess the adequacy of internal controls; and policy, procedure, laws, rules and regulations compliance of the City's contracting practices. Audit objectives may include a review to determine if contracts were prepared and executed in accordance with relevant policies and procedures; a fully executed copy of contracts were maintained based on retention requirements, and determining whether the departments were adhering to the signature authority and delegation thresholds adopted by City Council on September 28, 2015.

<b>A.2.</b>	<b>For Completion</b>
<b>Parks and Recreation Nonresidential Fees Implementation*</b>	The audit will assess the adequacy of internal controls; and policy, procedure, laws, rules and regulations compliance of the implementation of Parks and Recreation Department's nonresidential fees. Audit objectives may include reviewing and documenting the processes related to nonresidential fees; testing a sample to ensure necessary documents were being received supporting the charge of nonresidential vs residential fees; determining if fees were charged correctly; and determining if deposits, fees, and revenues assessed and collected were accounted for and all associated general ledger accounts were properly reconciled to existing subsidiary ledgers where appropriate.

\* Project will be started but not completed during this fiscal year

**B. New Audit Projects for 2017-2018**

<b>Police Department Evidence and Property Management</b>	The audit will be conducted as a recommendation to the Police Department's Confidential Funds Audit A2017-02. Audit objectives may include a review to determine if evidence and property were received, maintained, transferred and disposed of in accordance with relevant policies, procedures, laws, rules and regulations; assess the accuracy of evidence records; and adequate internal controls are in place to safeguard evidence and property.
<b>Citywide Payroll Processes</b>	The audit will assess the adequacy of internal controls governing the City's payroll process. Audit objectives may include a review to determine if the City's payroll processes employ effective controls to reasonably assure employees are paid accurately and timely, and payment is made to legitimate City employees. The audit will include a review of JD Edward controls and the KRONOS timekeeping system.
<b>Police Department Confidential Funds</b>	The audit will be performed due to the sensitive and volatile nature of maintaining large amounts of cash on hand and in accordance with police department policy due to accreditation requirements. Audit objectives may include determining if confidential funds were sufficiently administered in accordance with established laws, regulations, guidelines, policies and procedures; proper internal controls existed and were working as intended to safeguard confidential funds from loss, theft, or fraud; expenditures and withdrawals from the funds were properly authorized, approved, and recorded; complete and accurate manual records were maintained for all deposits, withdrawals, and other transactions affecting the confidential fund accounts; to the extent possible, that security provisions for automated records were operating to provide for separation of duties, data integrity and an audit trail.
<b>Performance Measures</b>	The audit will be performed as required by City of Fayetteville Policy # 600 Data Governance. Audit objectives may include a review to determine if performance measures published in the budget document are in compliance with relevant policies, procedures, laws, rules, regulations and City goals; and to validate the underlying data reported for the performance measures.

**C. Follow-up Projects for 2017-2018**

<b>Employee Development Travel and Training Expenditures</b>	The audit will determine that previously identified audit findings have been remediated by management as stated in management's responses.
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**Audit Work Plan 2018**

<b>D. Audit Management and Administration</b>	
<b>Other City Auditor Duties</b>	This category describes the time that the Office of Internal Audit maintains the Fraud, Waste, and Abuse Hotline and other miscellaneous fraud reports.
<b>Office Management/Support</b>	This category describes the time that the Office of Internal Audit spends attending meetings involving the activities and responsibilities of the Audit Committee.
<b>Staff Development</b>	Professional staff of the City Auditor's Office is required to obtain professional education each year.
<b>Approved Holidays</b>	This category of leave is for approved holidays for all staff.
<b>Approved Employee Leave</b>	This category describes leave earned and taken each year as personal leave and leave taken for medical purposes.

<b>E. Future Audit Projects 2018 - 2020</b>	
<b>Tags and Titles (CoF only)**</b>	A follow-up audit will be performed to determine that previously identified audit findings have been remediated by management as stated in management's responses.
<b>Community Development Housing Rehabilitation Program**</b>	The audit will evaluate whether the City had adequate controls for monitoring its Housing Rehabilitation Program sub-recipients and whether HUD rules and regulations were properly followed. Audit objectives may include a review to determine if loans were originated within defined program criteria, properly set up in the ABS loan-servicing software, and serviced in accordance with the terms of the promissory notes and/or deeds of trust; an appropriate accounting of loan origination and loan servicing activities had occurred; and all associated general ledger accounts were properly reconciled to the subsidiary ledger system.
<b>Republic Parking Contract**</b>	The audit will evaluate whether Republic Parking abided by the terms of the contract with the Fayetteville Regional Airport. Audit objectives may include reviewing the effectiveness of the City's contract administration responsibilities; determine whether parking revenue was accurately accounted for; determine if revenues were remitted properly and expenses were reimbursed properly in accordance with the contract; and determine if contract administrative provisions were being followed.
<b>Solid Waste Fees for Multi Family**</b>	The audit will evaluate the internal control environment related to assessing solid waste fees for multi-family parcels.
<b>Small Asset Management**</b>	The audit will evaluate the adequacy of internal controls, effectiveness, and policy and procedure compliance of the City's small asset management system. Audit objectives may include a review to determine if processes adequately safeguard assets; selecting a sample to assure accuracy and agreement of inventory records and inventory on hand, and compliance with policies and procedures for multiple electronic devices and air cards.
<b>Downtown Parking Collection**</b>	The audit will evaluate the efficiency and effectiveness of the City's parking management contract with McLaurin Parking. Audit objectives may include an assessment of the collection program related to leased parking and parking citations, internal controls for cashier activities, and bad debt write-off policies.
<b>Code Enforcement Abatement</b>	The audit will evaluate whether the City's lot cleaning abatement process complies with applicable policies, rules and regulations. Audit objectives may include determining if code enforcement activities for lot cleaning abatement were performed consistently in accordance with relevant laws, regulations and established policies; applicable code enforcement costs and fees were properly and completely invoiced following established City fee schedules and ordinances; contracts complied with applicable policies, rules and regulations; internal controls were sufficient to identify risks; and the process for retaining independent contractors.
<b>City's New Purchasing Process</b>	The audit will assess the adequacy of internal controls and effectiveness of the City's new purchasing processes. Audit objectives may include a review to determine if processes are in compliance with relevant policies, procedures, laws, rules and regulations; and adequate internal controls are in place to prevent or detect material errors and irregularities.



**Audit Work Plan 2018**

**E. Future Audit Projects 2018 - 2020 (continued)**

<b>Firehouse Billing and Receipting</b>	The audit will evaluate if fire department billing, receipting and aged receivables were managed fairly, efficiently and effectively to recover such receivables and minimize the risk of loss. Audit objectives may include evaluating procedures to determine compliance with applicable policies and standards; and verify the accuracy and proper tracking of aged receivables and amounts due.
<b>Kronos Time Reporting Implementation Phases 3 &amp; 4</b>	The audit will focus on the identification and effectiveness of automated and manual controls over the Public Safety Telestaff, FayPay (KRONOS) and JD Edwards Payroll interfaces.
<b>Retiree Healthcare Billing and Receipting</b>	The audit will evaluate operations related to the process for billing retirees for health insurance premiums. Audit objectives may include an assessment of procedures to determine compliance with applicable policies and standards; retiree payments collected were accurate and complied with contractual rates; and proper collection activities were in practice to ensure all monies owed have been collected.
<b>WEX Fuel Cards</b>	The audit will evaluate the appropriateness of WEX fuel card expenditures. Audit objectives may include assessing the adequacy of segregation of duties, physical security and proper use of the WEX fuel cards; determining if card users are properly trained, designated and provided policy guidance; and WEX fuel card transactions and approvals are made in accordance with policies and procedures.
<b>PCI Compliance</b>	The audit will evaluate compliance with Payment Card Industry (PCI) standards. Audit objectives may include reviewing to determine if physical access to cardholder data is restricted; policies are in place that address information security for employees; tests of the security system are performed regularly; adequate controls exist for user access; vendor supplied defaults are not used; anti-virus software or programs are used and updated regularly; cardholder and sensitive information is encrypted across public networks; adequate controls exist to protect stored data; security patches are up-to-date; and a working firewall is installed and maintained to protect data. Contracting for Information Technology knowledge to assist with the audit will be considered.
<b>Citywide Records Management and Retention</b>	The audit will evaluate the compliance with relevant policies, procedures, laws, rules and regulations; and adequate internal controls are in place to determine if records are adequately maintained and safeguarded.
<b>Sales and Use Tax Refund Administration</b>	The audit will evaluate the adequacy of internal controls related to recording and reporting sales and use tax to North Carolina Department of Revenue.
<b>Citywide Succession Planning</b>	The audit will gather information regarding the status of succession planning within the City of Fayetteville. Audit objectives may include providing management with information on efforts to address succession planning.
<b>Fleet Part Inventory</b>	The audit will assess the adequacy of internal controls to safeguard inventory and to determine if inventory was accounted for accurately. Audit objectives may include determining if adequate internal controls exist for fleet part inventory; adequate processes exist to control obsolete inventory; and whether inventory quantities were accurately reflected.

*\*\* Reflects project from prior year audit plan. Due to limited resources, project will be considered in future audit plans.*



**Office of Internal Audit**

**Internal Audit Annual Report**

**Fiscal Year 2017**

**Director of Internal Audit**

Elizabeth Somerindyke

**Senior Internal Auditor**

Rose Rasmussen

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Traci Carraway



**OUR MISSION**

Provide independent, objective assurance and consulting services designed to add value and improve the City of Fayetteville’s operations.

**Director of Internal Audit**

Elizabeth Somerindyke

**Senior Internal Auditor**

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**Internal Auditor**

Traci Carraway

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<http://fayettevillenc.gov/government/city-departments/internal-audit>

**Mailing Address: 433 Hay Street, Fayetteville, NC 28301**

## ***INTRODUCTION***

According to *City of Fayetteville, NC Internal Audit Charter*, the Internal Audit Director will annually report to the Audit Committee and the City Manager on the internal audit activity's purpose, authority, responsibility and performance relative to its annual audit plan. The Internal Audit Director is also responsible for reporting significant risk exposures, control issues, fraud risks, governance issues, and other matters needed or requested by the Audit Committee and the City Manager.

## ***PURPOSE/MISSION***

The mission of the Office of Internal Audit is to provide independent, objective assurance and consulting services designed to add value and improve the City of Fayetteville's operations. The Office of Internal Audit helps the City of Fayetteville's management team accomplish its objectives by bring a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

<b><u>Key Performance Measures</u></b>	<b><u>FY 2016 Actual</u></b>	<b><u>FY 2017 Actual</u></b>	<b><u>FY 2018 Target</u></b>
% of Internal Audit recommendations accepted by management	100%	100%	100%

Acceptance of audit recommendations is an indicator of service quality. In fiscal year 2017, management accepted and provided estimated implementation dates for 39 of 39 recommendations included in four audit reports issued during the fiscal year. These results exceed the 92% industry benchmark published by the Association of Local Government Auditors.

## ***AUTHORITY***

The Office of Internal Audit shall have full, free, and unrestricted access to any and all of the City of Fayetteville's records, physical properties and personnel pertinent to carrying out any engagement. All employees are expected to assist the Office of Internal Audit in fulfilling its roles and responsibilities. The internal auditors will also have free and unrestricted access to the City Council and the Audit Committee.

## ***RESPONSIBILITY***

Audit coverage will encompass, as deemed appropriate by the Internal Audit Director, independent reviews and evaluations of any and all management operations and activities to appraise:

- Measures taken to safeguard assets, including tests of existence and ownership as appropriate.
- Reliability, consistency, and integrity of financial and operating information.
- Compliance with policies, plans, standards, laws, and regulations that could have significant impact on operations.
- Economy and efficiency in the use of resources.
- Effectiveness in the accomplishment of the mission, objectives, and goals established for the City's operations and projects.
- Managing and responding to the Fraud hotline.

**AUDIT SERVICES**

<b>AUDITS</b>	<b>STATUS</b>
<p><b>Permitting and Inspections (A2016-02)</b>            Generally, there was a need for improvement in internal controls, lack of compliance with the North Carolina General Statutes, North Carolina State Building Code, Fayetteville City Code and other regulations, insufficient management oversight, management practices, lack of training and documentation of policies and procedures in the Permitting and Inspections Department. In addition, the software program, Cityworks, also known as FayWorx, was not meeting the needs of the department with respect to reliable data for managing workload, supporting decision-making and tracking permit status.</p>	<p><b>Report Issued October 2016</b></p>
<p><b>City-wide Travel and Training (A2017-01)</b>            The travel and training expenditures reviewed appeared to be for legitimate City business. However, controls for travel and training expenditures need improvement to ensure compliance. In addition, to the violations of the existing City policy, there were instances noted in which existing City policy on travel and training could provide better guidance not only to ensure a better understanding but to assist in preventing fraud, waste and abuse.</p>	<p><b>Report Issued January 2017</b></p>
<p><b>Police Department Confidential Funds (A2017-02)</b>            The Police Department's Special Investigation Division updated policies and procedures related to the utilization and maintenance of confidential funds. These updates contributed to stronger controls and a general adherence to policies and procedures over confidential funds. However, an audit of the Police Department's evidence and property will be included on the Fiscal Year 2018 Annual Audit Plan.</p>	<p><b>Report Issued April 2017</b></p>
<p><b>Unannounced Review of Petty Cash and Change Funds Follow-up (A2015-04F)</b>            Based on the audit work performed, the Office of Internal Audit concluded the Finance Department updated policies and/or implemented procedures to effectively remediate issues as noted in the original audit report.</p>	<p><b>Report Issued April 2017</b></p>
<p><b>Procurement Card Follow-up (A2015-03F)</b>            The audit report will be presented to the Audit Committee on August 3, 2017. Based on the audit work performed, the Office of Internal Audit concluded the Finance Department did not adequately address the issues noted in the original audit report.</p>	<p><b>Report Completed</b></p>
<p><b>Contract Practices and Procedures (A2016-06)</b>            The audit work and report are currently in review and should be presented to the Audit Committee in October 2017.</p>	<p><b>Report in Review</b></p>

<b>SPECIAL PROJECTS &amp; CONSULTING SERVICES</b>	<b>STATUS</b>
<p><b>Finance Department Select Balance Sheet Accounts and Grant Funding Review (R2016-02)</b>            Based on a request from the Finance Department, Internal Audit was asked to perform a review of select financial balance sheet accounts and grant funding in the capital project funds as of March 31, 2016. Due to insufficient information provided by the Finance Department, Internal Audit was unable to complete the review as requested. However, Internal Audit did assist the Finance Department by performing a review and providing observations regarding balance sheet accounts and multi-year expenditure and revenue accounts as of June 30, 2016. Internal Audit also provided guidance on the preparation of the government-wide and fund financial statements along with the combining and individual fund financial statements and schedules for the FY16 Comprehensive Annual Financial Report. In addition, Internal Audit continued to provide support for the Finance Department during the FY16 closing of funds and annual audit.</p>	<p><b>Complete November 2016</b></p>

## ***FRAUD, WASTE AND ABUSE INVESTIGATIONS***

The Office of Internal Audit also manages suspected cases of fraud, waste and abuse reported by employees, vendors and citizens. Such cases may be reported in various ways to include: in-person, telephone, e-mail or the City's Fraud Hotline. The City's Fraud Hotline is operated by a third party and reports can be made anonymously either over the telephone or online.

For fiscal year 2017, there were 15 incidents reported of which 47% were reported through the Fraud Hotline. Table 1 summarizes the various types of allegations received.

<b>TABLE 1</b>	<b>47%</b>	<b>53%</b>	<b>100%</b>
<b>ALLEGATION TYPE</b>	<b>HOTLINE</b>	<b>NON-HOTLINE</b>	<b>TOTAL</b>
Accounting/Audit Irregularities	0	1	1
Conflicts of Interest	3	0	3
Employee Relations	1	0	1
Falsification of Company Records	0	1	1
Policy Issues	1	6	7
Theft of Time	2	0	2
<b>TOTAL</b>	<b>7</b>	<b>8</b>	<b>15</b>

Allegations may be investigated by the Office of Internal Audit, referred to a City department (generally for lower risk issues), referred to a non-City agency (if relating to matters outside City jurisdiction or requiring external law enforcement), and/or deemed non-actionable. Non-actionable allegations result from insufficient or dated information, prior corrective action, immateriality or inappropriate use of the Hotline. If referred to a City department, the Office of Internal Audit generally requests the department to investigate, take appropriate action and communicate the results to the Office of Internal Audit within 30 days.

Resolved allegations are categorized as: Substantiated (allegation was validated); Substantiated – No Violation (conditions cited were accurate but did not constitute a violation); Unsubstantiated; Department Resolution; or Inconclusive (available evidence is not sufficient to determine the validity of the allegation).

Table 2 summarized assignments and dispositions for allegations reported and/or resolved during fiscal year 2017.

<b>TABLE 2</b>	<b>ASSIGNMENT</b>		
<b>DISPOSITION</b>	<b>REFER</b>	<b>INVESTIGATE</b>	<b>TOTAL</b>
Department Resolution	3	0	3
Non-Actionable	N/A	N/A	0
Unsubstantiated	0	0	0
Open/Ongoing Allegations	0	3	3
Substantiated	0	4	4
Substantiated – No Violation	0	1	1
Inconclusive	0	4	4
<b>TOTAL</b>	<b>3</b>	<b>12</b>	<b>15</b>

The City's Fraud, Waste and Abuse Policy is intended to enhance employee awareness and reporting of suspected fraud, waste and abuse. Allegations resolved during fiscal year 2017 resulted in the following:

- Improved procedures and/or management controls;
- Enhanced awareness of and/or compliance with existing regulations and/or policies governing use of time and equipment and conflict of interest; and
- Situation appropriate personnel-related actions.

### ***LEADERSHIP AND OTHER ACCOMPLISHMENTS***

The City's "Doing What's Right" campaign was the feature story of a Fayetteville Focus episode in September 2016. The Office of Internal Audit marketed the Fraud Waste and Abuse Hotline to residents to assist in reducing the incidents of fraud, waste and abuse that could affect the City of Fayetteville. Additionally, in October 2016 Internal Audit personnel began providing training regarding fraud, waste and abuse to approximately 125 new employees during new employee orientation (NEO). This training is on an ongoing basis, whereas, Internal Audit personnel participates in the fraud, waste and abuse training bi-weekly.

On a quarterly basis a Management Implementation Status Report was prepared and distributed to the Audit Committee members to help Committee members fulfill their responsibilities of oversight. Additionally, the Audit Committee members were presented a summary presentation from the City's external auditors regarding the annual financial report.

Internal Audit's training and career development for fiscal year 2017 included completing the COBIT 5 Foundation Course and passing the examination, and completing the COBIT 5 Implementation and Risk Course. This will assist the City in implementing a framework for the governance and management of enterprise information technology. Additionally, personnel began studying for the Certified Internal Auditor certification exams. Internal Audit personnel are members of ALGA (Association of Local Government Auditors), the AICPA (American Institute of Certified Public Accountants), the NCACPA (North Carolina Association of Certified Public Accountants), the IIA (Institute of Internal Auditors) and the ACFE (Association of Certified Fraud Examiners).

Each staff member contributed at least three hours towards the United Way's Days of Caring by volunteering for the Fayetteville Urban Ministry. Internal Audit assisted in the food pantry and clothing closet by shelving food and putting away clothing, etc.

### ***SUMMARY***

In summary, Internal Audit staff took on new endeavors and made a strong effort to complete as many audits and projects as possible during the past fiscal year. Internal Audits success this past fiscal year was made possible as a result of the support of the City Manager's office, and the hard work of each of the department's personnel. Over the past year the strengths and skills of Internal Audit personnel developed in a way that contributed to the success of the Office. Internal Audit strived to ensure the scope of each audit engagement added value to the organization and good customer service was provided.



## **MEMORANDUM**

August 3, 2017

TO: Audit Committee Members

FROM: Elizabeth Somerindyke, Internal Audit Director

RE: Quarterly Management Implementation Status Report

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### **PURPOSE OF REPORT**

The attached report provides members of the Audit Committee with an update on the progress of management's implementation of recommendations made by the Office of Internal Audit. Departmental management updates will be provided quarterly at each regularly scheduled Audit Committee Meeting.

The short summary of the progress updates is provided to allow a quick assessment for all recommendations. The attached report represents updates given by management on the progress made to implement Internal Audit's recommendations. Except as otherwise noted, no assessment on the progress of the recommendations has been performed by the Office of Internal Audit.

We welcome any questions, suggestions or recommendations for improving this report to enhance your ability to monitor the effective implementation of recommendations.

### **RECOMMENDATIONS**

This information will not be presented. However, we encourage Committee Members to prepare questions and comments on this report prior to the Audit Committee Meeting for discussion with departmental staff at the meeting. Staff from the Permitting and Inspections, Information Technology and Finance Departments have been requested to attend.

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**Office of Internal Audit**  
**Quarterly Management Implementation Status Report**  
**Fiscal Year 2016 - 2017 (4th Quarter)**

<u>Audit Title</u>	<u>Date Released</u>	<u>Recommendations</u>				
		<u>Accepted</u>	<u>Implemented</u>	<u>Partially Implemented</u>	<u>Not Implemented</u>	
Title and Registration A2016-04	March 2016	1	1	1	0	0
Permitting and Inspections A2016-02	October 2016	35	35	31	4	0
City-wide Travel and Training A2017-01	January 2017	3	3	2	1	0

**Office of Internal Audit**  
**Quarterly Management Implementation Status Report**  
**Fiscal Year 2016-2017 (4th Quarter)**

<b>KEY</b>	<b>Not Implemented</b>	<b>Partially Implemented</b>	<b>Implemented</b>	<b>Past Implementation Date</b>
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<b>Recommendation</b>	<b>Management Response</b>	<b>Management Follow-up Response - August 3, 2017</b>	<b>Management Follow-up Response - April 10, 2017</b>
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<b>A2016-04 - Title and Registration</b>			
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<p>1 The Office of Internal Audit recommends the Finance Department develop and document policies and procedures to provide proper guidance on title and registration processes, and make these policies and procedures available to all personnel involved in the process to ensure compliance.</p>	<p>We concur. Management is in full agreement with the recommendation. Management will revise the existing procedural documentation to provide clarity and to include the annual renewal process. In conjunction with the revised procedures management will develop a policy to be reviewed and approved by SMT and City Manager.  <b>Implementation Date:</b> 5/31/2016  <b>Responsible Party:</b> Christine Pressley/Ray Oxendine</p>	<p>Accounts Payable created a 12-step procedure for Processing Vehicles and a 6-step procedure for Yearly Registration Update. The Processing Vehicles procedure details the procedure from paperwork receipt from PWC, MVRI creation for each vehicle, MVR619 creation for permanent plates, MVR 615 forms, notarization, copies, DMV interaction, to final filing. The Yearly Registration Update explains the procedure from registration renewal receipt in the mail, to spreadsheet updates, email transmission to PWC fleet personnel and police, and completion of renewal by expiration date. This policy is available in the SOP folder under Finance, Accounts Payable. Attachments Policy Vehicle and Yearly Registration Update.</p>	<p>Accounts Payable created a 12-step procedure for Processing Vehicles and a 6-step procedure for Yearly Registration Update. The Processing Vehicles procedure details the procedure from paperwork receipt from PWC, MVRI creation for each vehicle, MVR619 creation for permanent plates, MVR 615 forms, notarization, copies, DMV interaction, to final filing. The Yearly Registration Update explains the procedure from registration renewal receipt in the mail, to spreadsheet updates, email transmission to PWC fleet personnel and police, and completion of renewal by expiration date. This policy is available in the SOP folder under Finance, Accounts Payable. Attachments Policy Vehicle and Yearly Registration Update.</p>
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<b>A2017-01 City-wide Travel and Training</b>			
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<p>1 The Office of Internal Audit recommends management update the City of Fayetteville Policy # 307 Employee Development, Training, and Travel Expenditures to include, but not limited to, providing clear and concise guidance on required documentation for registration fees and per diem payments; actual versus per diem for meals and lodging; payment of travel expenditures for one day travel; and payment of mileage on rental cars. The review process should also be improved to ensure employees are only reimbursed for eligible meals, and ensure the most economical and efficient method of travel was utilized, or documented appropriately. In addition, management should ensure all City personnel who travel for City business have a complete, clear understanding and knowledge of not only the travel and training policy, but all polices applicable to travel and training expenditures. Management should develop a process to monitor travel expenditures to include prior approvals, advances, after travel reporting and ensure travel expense reconciliations are completed and reviewed.</p>	<p>The Travel and Training Policy will be updated to address audit recommendations. To ensure that travel expenditures are in compliance with policies Accounts Payable staff will work with Departmental staff as needed. Training on processes and procedures will be offered. Accounts Payable staff will increase efforts to monitor travel documents for compliance.   <b>Implementation Date:</b> 4/1/2017  <b>Responsible Party:</b> Ray Oxendine, Treasurer</p>	<p>Implemented: The Travel and Training Policy has been updated and approved on April 4, 2017. Accounts Payable staff will continue to work with Departmental Staff to ensure that expenditures are in compliance with new policies. Accounts Payable staff will train new employees and offer updated training for other Administrative Assistants as requested.   Implemented: New travel forms have been developed and will help in identifying non-compliance and ensure accuracy in reporting. Both the Accounts Payable Supervisor and Treasurer are now reviewing and approving pre-travel and after travel documents for compliance with updated policies.</p>	<p>Implemented: The Travel and Training Policy has been updated and approved on April 4, 2017. Accounts Payable staff will continue to work with Departmental Staff to ensure that expenditures are in compliance with new policies. Accounts Payable staff will train new employees and offer updated training for other Administrative Assistants as requested.   Implemented: New travel forms have been developed and will help in identifying non-compliance and ensure accuracy in reporting. Both the Accounts Payable Supervisor and Treasurer are now reviewing and approving pre-travel and after travel documents for compliance with updated policies.</p>
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**Office of Internal Audit**  
**Quarterly Management Implementation Status Report**  
**Fiscal Year 2016-2017 (4th Quarter)**

KEY	Not Implemented	Partially Implemented	Implemented	Past Implementation Date
	<b>Recommendation</b>	<b>Management Response</b>	<b>Management Follow-up Response - August 3, 2017</b>	<b>Management Follow-up Response - April 10, 2017</b>
2	<p>The Office of Internal Audit recommends management review and update the City of Fayetteville Policy # 307 Employee Development, Training, and Travel Expenditures to include, but not limited to, ensuring the policy provides clear, concise guidance on acceptable lodging rates; customary tips; baggage fees; preferred seating; carpooling; late registration fees and travel agent fees. In addition, training specific to travel and training expenditures should be required, and management should dedicate the appropriate resources and time to ensure proper training for department personnel.</p>	<p>The Travel and Training Policy will be updated to address audit recommendations. Resources will be reviewed to ensure they are used in the most cost- effective manner. Training on processes and procedures will be offered. Accounts Payable staff will increase efforts to monitor travel documents.</p> <p><b>Implementation Date:</b> 4/1/2017  <b>Responsible Party:</b> Ray Oxendine, Treasurer</p>	<p>Implemented: The Travel and Training Policy has been updated to address audit recommendations. Updated Travel Policy ensures that resources are used in a more cost effective manner. We now have at least 2 employees reviewing pre-travel and after travel documents to ensure accuracy and compliance with updated policies.</p>	<p>Implemented: The Travel and Training Policy has been updated to address audit recommendations. Updated Travel Policy ensures that resources are used in a more cost effective manner. We now have at least 2 employees reviewing pre-travel and after travel documents to ensure accuracy and compliance with updated policies.</p>
3	<p>The Office of Internal Audit recommends the Finance Department update the procedures to clearly explain what amounts should and should not be included as taxes in JD Edwards and provide an explanation on why out of state sales tax and other ineligible taxes and fees should be treated differently than North Carolina sales tax. Management should ensure personnel are trained on the updated procedures. The Finance Department should review all sales and use tax related transactions for the fiscal year 2017 to determine if the correct amount has been properly coded as an expenditure or sales tax.</p> <p>In addition, proper adjustments should be made to the annual North Carolina sales and use tax refund request to ensure any out of state sales tax and other ineligible amounts are not included in the refund request.</p>	<p>When notified of new hires the Finance Accounts Payable staff will provide training and copies of an Accounts Payable manual updated to include issues identified in Finding #3. Training will include voucher entry procedures on coding invoice sales and use tax in JD Edwards. Our goal is to clearly identify proper coding for in-state and out-of-state taxes and amounts that are not eligible for recording in JD Edwards.</p> <p>Refresher training sessions will be scheduled and conducted as necessary with departmental Office and Administrative Assistants. The sessions will include a discussion on why out of state sales tax and other ineligible taxes and fees should be treated differently than North Carolina sales tax.</p> <p>The Treasurer and Accounts Payable staff will keep abreast of changes related to sales tax reporting and reimbursement with the State Department of Revenue. Accounts Payable staff will review all sales and use tax transactions for fiscal year 2017 to determine if coding errors have occurred and to post adjusting entries if applicable.</p> <p><b>Implementation Date:</b> 4/1/2017  <b>Responsible Party:</b> Ray Oxendine, Treasurer</p>	<p>Partially implemented: The Treasurer and Accounts Payable staff will attend seminars on sales tax reporting and access Department of Revenue website for updated sales tax information or changes to sales tax legislation. Accounts Payable staff is reviewing FY 2017 transacitons for coding errors and are making adjustments if needed.</p> <p>When notified of new hires, Accounts Payable staff will offer training and provide a copy of the Accounts Payable updated procedures. An appointment should be made by Departmental personnel to schedule training at the Accounts Payable Department. Training will continue until the employee is comfortable with travel procedures and processes. For Administrative Assistants training is available on an as needed basis. Accounts Payable staff is always available by email or telephone for questions, information or other requests.</p>	<p>Partially implemented: The Treasurer and Accounts Payable staff will attend seminars on sales tax reporting and access Department of Revenue website for updated sales tax information or changes to sales tax legislation. Accounts Payable staff is reviewing FY 2017 transacitons for coding errors and are making adjustments if needed.</p> <p>When notified of new hires, Accounts Payable staff will offer training and provide a copy of the Accounts Payable updated procedures. An appointment should be made by Departmental personnel to schedule training at the Accounts Payable Department. Training will continue until the employee is comfortable with travel procedures and processes. For Administrative Assistants training is available on an as needed basis. Accounts Payable staff is always available by email or telephone for questions, information or other requests.</p>

**Office of Internal Audit**  
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<b>KEY</b>	<b>Not Implemented</b>	<b>Partially Implemented</b>	<b>Implemented</b>	<b>Past Implementation Date</b>
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Recommendation	Management Response	Management Follow-up Response - August 3, 2017	Management Follow-up Response - April 10, 2017
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**2016-02A Permitting and Inspections**

1	<p>Permitting and Inspections management should perform a self-assessment of internal controls. Once risk areas are identified, steps should be taken to correct control deficiencies so departmental objectives are achieved and departmental responsibilities are met. Identifying risks and implementing control procedures will not protect assets and produce reliable information if personnel are not following established procedures. To ensure that controls are effective, Permitting and Inspections management should regularly review available documentation to confirm controls are being executed as designed. All documentation should be reviewed and signed off on by a supervisor to ensure completeness and accuracy. In addition, the self-assessment of internal controls should be performed periodically to address additional control deficiencies as they arise.</p>	<p>Workflow processes will be mapped and application-specific permitting procedures will be identified and placed in a checklist format that will be included in a manual of standard operating procedures. Weekly testing by the Building Official, Inspection Supervisors, and the Senior Administrative Assistant will be conducted and documented to identify any risk areas and to correct control deficiencies. Follow-up training will be provided in areas where control problems are identified.</p> <p><i>As it relates to the deficiencies that address the Cityworks PLL software, the City Manager has authorized a project assessment to evaluate the current state of Cityworks and make recommendations on whether to continue implementation and refinement efforts or seek another PLL solution. Until the assessment is completed, only issues already identified as a part of Permitting and Inspections and Information Technology's project priority list will be completed. All other efforts to refine Cityworks will be discontinued.</i></p> <p><b>Implementation Date:</b> 6/30/2017  <b>Responsible Party:</b> Building Official; Senior Administrative Assistant</p>	<p style="color: red;">Much of the work on this item has been completed. A quality review process has been developed and implemented as part of internal control improvement. The final piece of this recommendation that is underway is identifying risks and outcomes. Any deficiencies found as part of the workflow process will be addressed and corrected.</p> <p style="color: red;"><b>Revised Implementation Date: 6/30/2018</b></p>	<p>This recommendation has not been implemented as of April 10, 2017 but work continues to progress toward its implementation by the established deadline.</p> <p>In an effort to ensure success, P&amp;I reduced and simplified the permit types. Secondly, an agile testing methodology will be used to receive immediate and accurate feedback from the customer. Lastly, enhanced user training is being conducted, which will allow the customer to make system corrections.</p>
2	<p>Written policies for the Permitting and Inspections Department should be developed to set forth requirements; to ensure consistency and reliability of information; provide adherence to laws and regulations, and include provisions for performance measure collection, calculation, review and reporting. The procedures should be updated and include sufficient information to allow an individual who is unfamiliar with the operations to perform the necessary activities. Policies and procedures should be revised to account for any changes in business processes. This is particularly important when new systems are developed and implemented or other organizational changes occur.</p>	<p>A comprehensive review of the existing Standard Operating Procedures for both the Permitting and Inspections divisions is currently underway because of major adjustments to procedures and work flows resulting from a substantial effort to simplify procedures and to more fully implement Cityworks, including the scheduling and online permit application functions. Upon completion of the review and revisions, each division's procedural manuals will include step-by-step instructions and resources in order for existing and new staff to effectively perform their daily functions. This effort will take some time as it will require coordination with two vendors, in addition to multiple departments. Similarly, departmental policies will be developed in conjunction with this effort to govern issues identified in this Compliance Audit in Recommendations 1, 3 7, 9, 16, 20, 22, 26, 29, 31 and 32.</p> <p>The ultimate plan will be to expand this initiative to the inter-departmental level, with policies and procedures in place in order to provide consistent and positive customer service that is seamless across departmental lines. This will be pursued after the development of department policies and procedures and is not considered a direct response to this Audit.</p> <p><i>As it relates to the deficiencies that address the Cityworks PLL software, the City Manager has authorized a project assessment to evaluate the current state of Cityworks and make recommendations on whether to continue implementation and refinement efforts or seek another PLL solution. Until the assessment is completed, only issues already identified as a part of Permitting and Inspections and Information Technology's project priority list will be completed. All other efforts to refine Cityworks will be discontinued.</i></p> <p><b>Implementation Date:</b> 6/30/2017  <b>Responsible Party:</b> Senior Administrative Assistant (for Permitting); Building Official (for Inspections)</p>	<p style="color: red;">The practices and procedures of the Permitting and Inspections Department have been reviewed. As a result, several written policies have recently been implemented. This effort is ongoing as work proceeds to incorporate the policies and procedures with the intergration of the CityWorks permit process.</p> <p style="color: red;"><b>Revised Implementation Date: 3/31/2018</b></p>	<p>This recommendation has not been implemented as of April 10, 2017 but work continues to progress toward its implementation by the established deadline.</p> <p>In an effort to ensure success, P&amp;I reduced and simplified the permit types. Secondly, an agile testing methodology will be used to receive immediate and accurate feedback from the customer. Lastly, enhanced user training is being conducted, which will allow the customer to make system corrections.</p>

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KEY	Not Implemented	Partially Implemented	Implemented	Past Implementation Date
	<b>Recommendation</b>	<b>Management Response</b>	<b>Management Follow-up Response - August 3, 2017</b>	<b>Management Follow-up Response - April 10, 2017</b>
3	<p>Permitting and Inspections management should take specific measures to comply with records retention rules as governed by North Carolina General Statutes, North Carolina State Building Code; North Carolina Department of Cultural Resources Records Retention and Disposition Schedule, Fayetteville City Code, and City of Fayetteville Policies. Procedures should be outlined for retaining all supporting documentation and where the documentation will be kept taking into account records retention rules. Cityworks electronic files should be updated to include all available documentation not yet attached to a permit file within the system.</p>	<p>A departmental policy has been drafted to provide clear guidance to all staff members with regard to relevant records retention matters. Documentation of records retention will be consistent with State law and City policy and will be managed by the Senior Administrative Assistant. Permission to utilize digital records as the primary method of retaining documents for building permit applications, building permits, construction plans, and associated correspondence will be sought from the NC Division of Cultural Affairs. Assuming permission is granted, hardcopy applications, plans, and correspondence will be retained in Permitting and Inspections Department files until testing confirms the security and accessibility of digital records in the Cityworks system and/or the records retention dates are exceeded.</p> <p>If permission is not granted by the NC Division of Cultural Affairs for digital records retention, hardcopy files will be retained in Permitting and Inspections Department files or in remote file storage in accordance with departmental policy.</p> <p><i>As it relates to the deficiencies that address the Cityworks PLL software, the City Manager has authorized a project assessment to evaluate the current state of Cityworks and make recommendations on whether to continue implementation and refinement efforts or seek another PLL solution. Until the assessment is completed, only issues already identified as a part of Permitting and Inspections and Information Technology's project priority list will be completed. All other efforts to refine Cityworks will be discontinued.</i></p> <p><b>Implementation Date:</b> 6/30/2017  <b>Responsible Party:</b> Senior Administrative Assistant</p>	<p>This recommendation has been implemented. A total of 29 standard building inspection categories have been identified. Each category list the disposal instructions and guidelines. A copy has been provided to Inspections Department staff with a review of the information.</p>	<p>This recommendation has been partially implemented as of April 10, 2017 and work continues to progress towards its implementation by the established deadlines. Development Services Department will create a records retention policy to be submitted to the Department of Cultural Resources for approval. This will allow P&amp;I to use the same policy.</p>
4	<p>To ensure compliance with the Fayetteville City Code, senior management should consider reorganizing the structure of the Permitting and Inspection and the Planning Services and Code Enforcement Departments so the Permitting and Inspections Director oversees all matters related to interpretation and enforcement of North Carolina State Building Code, to include (if applicable) zoning, building plan review, permits, inspections and code enforcement, as provided in the Fayetteville City Code.</p>	<p>The NC Building Code must be interpreted by someone certified to perform such interpretations, but this training may not qualify the individual to manage the enforcement of City codes regarding code enforcement and zoning. We believe it is imperative that the management of these related functions should be centralized to enhance customer service but such centralization may not be best handled through the structure proposed by Internal Audit due to the complex nature of the various laws and codes. Once a determination is made regarding reorganization, the PCE Director will take responsibility for amending the City Code as needed to reflect the organizational structure as necessary.</p> <p>As of November 15, 2016, departmental personnel will coordinate all NC Building Codes through the City's Building Official. A review of the City's entire development review process will be conducted on the organizational structure and an implementation of the recommendation is anticipated to be completed in early 2017 with the FY18 budget.</p> <p><b>Implementation Date:</b> 6/30/2017  <b>Responsible Party:</b> City Manager</p>	<p>This recommendation has been implemented with the exception of of the departmental name change. The budget adopted on June 26th realigned the Inspections Department. Since the adoption of the budget was in June, this update could not be completed with the other changes in Chapter 7 adopted by City Council in May. All other changes were adopted. In particular, the action ensuring the Permitting and Inspections Director oversees all matters related to interpretation and enforcement of North Carolina State Building Code.</p> <p><b>Revised Implementation Date:</b> 8/31/2017</p>	<p>This recommendation has not been implemented as of April 10, 2017 but work continues to progress towards its implementation by the established deadlines. The City Manager will propose a new department combining P&amp;I and Code Enforcement. This management structure will maintain City objectives consistent with the State Building Code. Staff is working jointly with the City Attorney's Office to develop a comprehensive revision to Chapter 7 (Building Code) to address these issues. In the interim, staff is using the State Administrative Code to carry out its statutory duties where conflicts exist between the City Code and the State Building Code.</p>

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5	<p>Permitting and Inspections personnel should ensure compliance with the Fayetteville City Code Chapter 7, Building Code, Part II, Article III Enforcement, Section 7-62(a)(1) Permits Required, by requiring a bond be posted at the time of demolition permit application. Additionally, the City Code should be updated to define the amount of the bond, whereas; currently the amount is defined as “good and sufficient”.</p> <p>However, if Permitting and Inspections management determine bonding requirements for demolition permits are not required as provided in the Fayetteville City Code Chapter 7, Building Code, Part II, Article III Enforcement, Section 7-62(a)(1) Permits Required, then the Fayetteville City Code should be updated to reflect current requirements.</p>	<p>The City Code provides for a requirement that is no longer generally needed. Small-scale demolitions are currently managed through contracts that require the contractor to carry liability insurance sufficient to cover any claims that result. We will propose revising the City Code to delete the bonding requirements except in unusual circumstances, such as where the structure to be demolished shares a common wall with another structure or for larger projects that go through the formal bid process.</p> <p><b>Implementation Date:</b> 4/30/2017  <b>Responsible Party:</b> Planning and Code Enforcement Director</p>	<p>This recommendation has been implemented with the amendment to Chapter 7 by City Council on May 8th. The amendment added the provision "and/or liability insurance may be required to be posted by the property owner or the contractor" Typically, contractors who do demolition work have sufficient liability insurance to cover any claim. However, Permitting &amp; Inspections may require a bond where they deem a bond is needed. A policy has been developed to incorporate the ordinance change outlining when liability insurance is adequate and when a bond may be needed. Training on the ordinance change and the new policy will begin immediately.</p>	<p>This recommendation has not been implemented as of April 10, 2017 but work continues to progress towards its implementation by the established deadlines. Staff has developed a comprehensive update for Chapter 7 (Building Code) to address these issues. It has been presented to City Council and has been referred to the Audit Committee for review. In the interim, staff is using the State Administrative Code to carry out its statutory duties where conflicts exist between the City Code and the State Building Code.</p>
6	<p>Internal Audit recommends the Permitting and Inspections Department work with the Information Technology Department to develop and implement a process to ensure certificates of occupancy/compliance are not issued prior to all inspections being documented as finalized. Permitting and Inspections management should also streamline and automate documentation for certificate of occupancy and certificate of compliance and encourage appropriate utilization of automated resources to promote efficiency and accountability in the inspection approval process for temporary and final certificates of occupancy and certificates of compliance.</p>	<p>While report creation is part of the Information Technology Department's top priorities for Cityworks "fixes," locking out the report is a customization that will require additional funding to complete. Information Technology has completed the process of watermarking the reports in question with a watermark that says INVALID if the report is printed before all the required inspections, payments, or documents are completed.</p> <p><i>As it relates to the deficiencies that address the Cityworks PLL software, the City Manager has authorized a project assessment to evaluate the current state of Cityworks and make recommendations on whether to continue implementation and refinement efforts or seek another PLL solution. Until the assessment is completed, only issues already identified as a part of Permitting and Inspections and Information Technology's project priority list will be completed. All other efforts to refine Cityworks will be discontinued.</i></p> <p><b>Implementation Date:</b> 11/30/2016 (workaround) TBD ultimate resolution  <b>Responsible Party:</b> Information Technology Information Manager</p>	<p>This recommendation has been implemented. The IT Department has programmed CityWorks to mark "INVALID" on all certificate of occupancy/compliance if the report is printed before all required inspections, payments, or documents are completed.</p>	<p>This recommendation has been partially implemented as of April 10, 2017 and work continues to progress towards its implementation by the established deadlines. As of 11/30/2016 all certificates of occupancy and certificate of compliance that are printed prior to final inspections being completed are watermarked with the word INVALID across them.</p> <p>In the case of temporary certificate of occupancy's (TCO), IT will determine the capability of flagging the TCO and notifying the owner that it is expiring and the final CO must be issued. The revised comprehensive Building Code will reflect that a designated P&amp;I staff member will sign a TCO or CO.</p> <p>Staff has developed a comprehensive update for Chapter 7 (Building Code) to address these issues. It has been presented to City Council and has been referred to the Audit Committee for review. In the interim, staff is using the State Administrative Code to carry out its statutory duties where conflicts exist between the City Code and the State Building Code.</p>
7	<p>The Permitting and Inspections Department should ensure compliance with North Carolina General Statutes and the North Carolina State Building Code and create formal procedures for the certificate of compliance and certificate of occupancy process.</p>	<p>Management has reached out to the Supervisor of the Code Inspections Section of the Department of Insurance for clarification on this finding. Section 204.8 Certificate of Compliance of the Administration Code gives a guideline for issuing Certificates of Compliance and Certificates of Occupancy. The Inspections Department is meeting all requirements for the issuance of Certificate of Compliance for Electrical, Mechanical, and Plumbing by issuing a final sticker notice that is placed at the jobsite. We also meet the requirements for the issuance of the Certificate of Occupancy for the Building trade. The referenced General Statute was written in 1993 whereas the referenced code sections are updated every three years.</p> <p><b>Implementation Date:</b> 10/5/2016  <b>Responsible Party:</b> Building Official</p>	<p>This recommendation was implemented on October 5, 2016 by confirming with the Supervisor of the Code Inspections Section of the Department of Insurance that Permitting &amp; Inspections was meeting all the requirements in regard to the issuance of Certificate of Compliance and Certificate of Occupancy. This action includes departmental policies and procedures pertaining to Certificate of Compliance and Certificate of Occupancy.</p>	<p>This recommendation has been implemented effective October 5, 2016.</p>



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8	Update enforcement actions within Fayetteville City Code to ensure contractors comply with the North Carolina State Building Code.	<p>Management will recommend to the City Council that the City Code be revised to eliminate this section since privilege licenses are no longer required. The Inspections Department uses Section 204.10 Stop Work Orders of the Administration Code to ensure the contractors comply with the Building Code.</p> <p><b>Implementation Date:</b> 4/30/2017  <b>Responsible Party:</b> Planning and Code Enforcement Director</p>	This recommendation has been implemented with the amendment of Chapter 7 by City Council on May 8, 2017.	This recommendation has not been implemented as of April 10, 2017 but work continues to progress towards its implementation by the established deadlines. Staff has developed a comprehensive update for Chapter 7 (Building Code) to address these issues. It has been presented to City Council and has been referred to the Audit Committee for review. In the interim, staff is using the State Administrative Code to carry out its statutory duties where conflicts exist between the City Code and the State Building Code. In the interim, staff is using the State Administrative Code to carry out its statutory duties where conflicts exist between the City Code and the State Building Code.
9	<p>Testing performed by Internal Audit in Cityworks revealed deficiencies, whereas, there were areas where Internal Audit was not able to determine compliance with laws and regulations. Therefore, Permitting and Inspections management should consider having a specialized audit of the Cityworks software to ensure the deficiencies revealed in Cityworks are remedied and will provide an adequate level of control, ensure processes are put in place to address controls in which Cityworks is unable to perform, and the software is utilized to its maximum efficiency.</p> <p>The Office of Internal Audit recommends Permitting and Inspections management review the permitting and inspections process to determine key personnel who will have the ability to override the Cityworks system setup by adding, modifying and deleting fees, inspections and permits within Cityworks. Prior to developing and implementing a process related to access controls, Permitting and Inspections management should assess Cityworks setup related to Permitting and Inspection fees and inspection workflows to ensure consistency with current practice while taking compliance to North Carolina General Statutes, the North Carolina Building Code and the Fayetteville City Code into consideration. Alignment of the required processes with the setup in Cityworks should mean that overriding Cityworks setup by adding, modifying and deleting is an exception and not the rule.</p> <p>Permitting and Inspections management should ensure Permitting and Inspections personnel read and understand the <i>City of Fayetteville Policy # 114 Information Technology Appropriate Usage</i>, and stress the importance of not allowing others to use their access, and protecting all passwords. In addition, written policies and procedures should be documented on how accesses will be requested, who will approve the access and how access will be removed when it's no longer needed.</p>	<p>While a number of the aspects of this finding have been addressed, the Permitting and Inspections Department will seek assistance from the Information Technology department in order to fulfill this recommendation in its totality. In particular, Information Technology will work with all PLL user areas and Internal Audit Staff to ensure that the necessary controls and permissions are in place.</p> <p><i>As it relates to the deficiencies that address the Cityworks PLL software, the City Manager has authorized a project assessment to evaluate the current state of Cityworks and make recommendations on whether to continue implementation and refinement efforts or seek another PLL solution. Until the assessment is completed, only issues already identified as a part of Permitting and Inspections and Information Technology's project priority list will be completed. All other efforts to refine Cityworks will be discontinued.</i></p> <p><b>Implementation Date:</b> 6/30/2017  <b>Responsible Party:</b> Senior Administrative Assistant (for Permitting); Building Official (for Inspections); PCE Director (for code changes); Information Technology Director; Assistant and Deputy City Manager</p>	<p><b>This recommendation is still ongoing. In all, the Audit Team listed 12 items associated with CityWorks where they found deficiencies. A majority of the 12 items have been remedied while work is continuing on producing a daily schedule for the inspectors. This is currently being addressed by IT.</b></p> <p><b>Revised Implementation Date: 6/30/2018</b></p>	<p>This recommendation has been partially implemented as of April 10, 2017 and work continues to progress towards its implementation by the established deadlines. Controls have been put in place to not allow users to delete tasks from the workflow.</p> <p>IT has worked with P&amp;I to reconstruct permits and remove unnecessary steps in the workflow.</p> <p>Group level control configuration based on permit type will be applied to the new permit types.</p>

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10	<p>Internal Audit recommends a work quality review program be developed and an adequate number of appropriate quality reviews of all permits and inspections be conducted in a timely manner. Documented results should be maintained and utilized as measures of effectiveness during performance evaluations.</p>	<p>The Senior Administrative Assistant will collect samples of work of a variety of permits issued by the Permitting Technicians on a quarterly basis. The reviews will be to ensure that the Permit Technicians are applying the requested work via the permit application within the generated permit issued by the technicians. The review of fees will also be observed ensuring that fee calculations are correct and applied to the proper revenue account. The Senior Administrative Assistant will also conduct monthly reviews of the cash drawers by randomly choosing dates, and times, to count down cash drawers of Permit Technicians that carry out an open cash drawer. A report of such reviews will be created to serve as backup for future auditing purposes.</p> <p>The Building Official has adjusted Inspections Supervisors workloads to allow for field-checking for work performed by subordinate inspectors. Until Cityworks can be configured to track and report on these field-checks, the Building Official will instruct the Inspections Supervisors to document the inspections which have been checked in a spreadsheet format. Additionally, Inspections Supervisors are providing one-hour weekly training sessions for subordinate personnel (non-inspector personnel also attend these sessions; see management response to Recommendation 13.)</p> <p><i>As it relates to the deficiencies that address the Cityworks PLL software, the City Manager has authorized a project assessment to evaluate the current state of Cityworks and make recommendations on whether to continue implementation and refinement efforts or seek another PLL solution. Until the assessment is completed, only issues already identified as a part of Permitting and Inspections and Information Technology's project priority list will be completed. All other efforts to refine Cityworks will be discontinued.</i></p> <p><b>Implementation Date:</b> 11/30/2017  <b>Responsible Party:</b> Senior Administrative Assistant (Permitting); Building Official (Inspections)</p>	<p>This recommendation has been implemented with the recently completed work quality review policy. All inspectors will be evaluated monthly on their work product. The policy provides the guidelines for this review.</p> <p>The work review process will help to catch errors before they becomes larger problems. Training and review of the policy is ongoing.</p>	<p>This recommendation has been partially implemented as of April 10, 2017 and work continues to progress towards its implementation by the established deadlines. P&amp;I has implemented quality reviews for all four trades, to be done by supervisors in a timely manner. The application will now allow a manager to conduct a quality review of an inspection. The staff is working with IT to develop and refine existing reports to enhance the reviews. Policies and procedures will be put in place for accountability measures.</p>
11	<p>The Permitting and Inspections Department should establish measurable and achievable performance goals and service standards. Permitting and Inspections management should establish formal processes to collect performance information and provide adequate training to ensure accurate input of the data used to quantify each performance measure. Once appropriate performance information is available it should be used to better inform management for decision-making and should also enable the Permitting and Inspections Department to better manage its operations and determine the appropriate balance between service level and resources.</p>	<p>The Building Official is working with Information Technology's project manager and our Cityworks vendors to develop an accurate and efficient system for gathering reporting information. This information may require adjustment to ensure that accurate, obtainable, and reliable information is measured and that this information represents appropriate performance measurement and service standards. Once these reports are installed in Cityworks, we will be able to analyze workload efficiency and effectiveness performance measures to utilize in management and reporting. The Strategy and Performance Analytics Office will be utilized as a resource moving forward. This initiative is part of Information Technology's priority project list.</p> <p><i>As it relates to the deficiencies that address the Cityworks PLL software, the City Manager has authorized a project assessment to evaluate the current state of Cityworks and make recommendations on whether to continue implementation and refinement efforts or seek another PLL solution. Until the assessment is completed, only issues already identified as a part of Permitting and Inspections and Information Technology's project priority list will be completed. All other efforts to refine Cityworks will be discontinued.</i></p> <p><b>Implementation Date:</b> 6/30/2017  <b>Responsible Party:</b> Senior Administrative Assistant (for Permitting); Building Official (for Inspections)</p>	<p>This recommendation has been implemented. Permitting &amp; Inspections has collaborated with the Strategy and Performance Analytics Office regarding performance measures. Permitting &amp; Inspections now inputs eight performance items each month into TRACStat. These inputs establish performance goals and service standards.</p>	<p>This recommendation has been partially implemented as of April 10, 2017 and work continues to progress towards its implementation by the established deadlines. P&amp;I is revising performance measures for better definition and clarity and will train staff to capture information to be used in decision making. Staff will meet with homebuilders to gain feedback from them on the measures tracked. A quality inspection task has been added (10/19/2016) to Cityworks and can be added to the workflow at anytime by the supervisors. Once performance measures are established by P&amp;I, IT will work with management to develop the necessary operational performance management reports.</p>



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12	The Office of Internal Audit recommends Permitting and Inspections management consult with Information Technology personnel to review the impact on Cityworks regarding this instance and any other changes made by the 2015 update. Any data integrity issues should be reviewed to determine if any data needs 'cleaned' and fix any 'clean up' considered necessary.	<p>This will require a great deal of input and assistance from Information Technology.</p> <p><i>As it relates to the deficiencies that address the Cityworks PLL software, the City Manager has authorized a project assessment to evaluate the current state of Cityworks and make recommendations on whether to continue implementation and refinement efforts or seek another PLL solution. Until the assessment is completed, only issues already identified as a part of Permitting and Inspections and Information Technology's project priority list will be completed. All other efforts to refine Cityworks will be discontinued.</i></p> <p><b>Implementation Date:</b> 6/30/2017  <b>Responsible Party:</b> IT Project Manager</p>	This recommendation was completed in April 2017, but ongoing work continues to ensure data integrity. A recent example is verifying proper fee calculations regarding any fee changes with the adoption on the FY18 budget.	<p>This recommendation has been implemented. Timmons and IT designed a comprehensive regression test framework that P&amp;I will populate in order to determine data integrity issues that may be the result of software upgrades. Software enhancements will be corrected through new upgrade testing standards, and the permit modification that are currently underway. All permits and reports will be thoroughly tested in the test environment before moving to production.</p> <p>In an effort to ensure success, P&amp;I reduced and simplified the permit types. Secondly, an agile testing methodology will be used to receive immediate and accurate feedback from the customer. Lastly, enhanced user training is being conducted, which will allow the customer to make system corrections.</p>

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**Office of Internal Audit**  
**Quarterly Management Implementation Status Report**  
**Fiscal Year 2016-2017 (4th Quarter)**

<b>KEY</b>	<b>Not Implemented</b>	<b>Partially Implemented</b>	<b>Implemented</b>	<b>Past Implementation Date</b>
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	<b>Recommendation</b>	<b>Management Response</b>	<b>Management Follow-up Response - August 3, 2017</b>	<b>Management Follow-up Response - April 10, 2017</b>
13	<p>While inspector training may be driven by certification requirements, non-inspector personnel training needs are not. Conduct a personnel training assessment and develop or provide training opportunities to meet the needs identified. Permitting and Inspections management should dedicate the appropriate resources and time to ensure proper training for department personnel. An important part of any training program includes basic product knowledge. Each member of the department should be familiar with the services offered in order to competently satisfy customer needs by providing accurate information and good customer service. Training should also include an understanding of the entire permitting and inspections process and how activities in each area of the Permitting and Inspections Department affect actions taken in other areas both within the department and across other departments. In addition, formal training on the Cityworks software program should be instituted to provide familiarity with the system.</p>	<p>Training for non-inspector personnel will consist of the following training types, to be implemented as funding and operational considerations allow:</p> <ul style="list-style-type: none"> <li>· Annual training conducted by the Building Official regarding the administrative requirements and standards of the North Carolina Building Code.</li> <li>· Non-inspector personnel currently participate in the weekly one-hour training of inspectors by the Inspections Supervisors.</li> <li>· Periodic non-inspector personnel “ride-alongs” with inspectors to establish familiarity with the practical challenges of construction inspection from the perspective of certified inspectors.</li> <li>· Formal training in the administration of construction permitting through the Certified Permit Technician coursework developed by the NC Department of Insurance.</li> <li>· Continuation of prior training in customer service “soft skills” provided by an outside consultant chosen by the Interim Department Director. In the prior training, each staff member was provided an “Inspector Skills” training guide booklet and a study guide questionnaire. Upon completion of the questionnaire, the consultant held employee training of both inspectors and permitting staff on the related materials.</li> <li>· Cityworks-specific training in the form of online courses, on-site training, and webinars offered by the software integrator and the software developer.</li> <li>· Annual review of relevant City and departmental policies conducted by the Senior Administrative Assistant.</li> <li>· Personnel from the State Licensing Board can be requested to provide periodic training on licensing issues.</li> <li>· The Building Official is compiling a portfolio of photographs illustrating various inspection types that will be used to help familiarize non-inspector personnel with different inspection types.</li> </ul> <p><i>As it relates to the deficiencies that address the Cityworks PLL software, the City Manager has authorized a project assessment to evaluate the current state of Cityworks and make recommendations on whether to continue implementation and refinement efforts or seek another PLL solution. Until the assessment is completed, only issues already identified as a part of Permitting and Inspections and Information Technology’s project priority list will be completed. All other efforts to refine Cityworks will be discontinued.</i></p> <p><b>Implementation Date:</b> 6/30/2017  <b>Responsible Party:</b> Interim Permitting and Inspections Director</p>	<p>This recommendation has been implemented. Training on CityWorks is continues as improvements are made to the system. The selection of the Permitting Technician Supervisor and the filling of the vacant Permitting Technician has provided the opportunity to fully train the full Permit section. Other efforts include the review of city and departmental policies, ride-alongs for non inspectors with inspectors in order to understand the work of the inspectors in the field and overall customer service training.</p>	<p>This recommendation has not been implemented as of April 10, 2017 but work continues to progress toward its implementation by the established deadline.</p> <p>Department management is recommending that zoning technicians should receive cross training to assist permit technicians as needed.</p> <p>CityWorks training will be ongoing and consistent to increase familiarity with the program, thereby improving understanding and efficiency.</p> <p>This will include a vendor representative to conduct on-site training for staff, taking place after permit reconstruction is completed.</p>

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14	Permitting and Inspections management should identify the kinds of reporting information needed in order to adequately track and assess the efficiency of the permitting process. Internal Audit recommends Permitting and Inspections management work with the Information Technology Department and/or the software developer to improve standard reports that can be used on an ongoing basis to ensure the information needed to manage the permitting and inspections processes will be available to those charged with the responsibility.	<p>We will perform a comprehensive review of existing policies and procedures and make the necessary adjustments to comply with the purpose and intent of this audit. Reporting will be a component of this initiative. Reporting is part of the Information Technology Department's priority "fix" list. As modifications to the case types, workflows, and data groups are complete, we will be able to develop the necessary reports for daily and management use.</p> <p><i>As it relates to the deficiencies that address the Cityworks PLL software, the City Manager has authorized a project assessment to evaluate the current state of Cityworks and make recommendations on whether to continue implementation and refinement efforts or seek another PLL solution. Until the assessment is completed, only issues already identified as a part of Permitting and Inspections and Information Technology's project priority list will be completed. All other efforts to refine Cityworks will be discontinued.</i></p> <p><b>Implementation Date:</b> 6/30/2017  <b>Responsible Party:</b> Information Technology Project Manager</p>	This recommendation has been implemented. New standard reporting forms have been developed as well as existing reports have been improved. Permitting & Inspections has begun regular meetings with customers to review any issues and to provide customer training. A new plan review software is in the process of being implemented that will include other departments.	This recommendation has been partially implemented as of April 10, 2017 and work continues to progress towards its implementation by the established deadlines. IT is working with P&I to create new standard reports as well as modify existing reports to reflect the need of the department. Through the Administrator Report Writing training, the department can now create ad hoc reports to address new efficiency related reports.
15	The Office of Internal Audit recommends Permitting and Inspections management collaborate with all departments involved in the City's permitting and inspections process to develop routine customer training sessions to be held at least annually. These sessions should, at a minimum, cover information within the entire permitting and inspections process which cause the most customer confusion, such as re-inspections and frequently asked questions. In addition, any new laws, regulations, and requirements should be included in the training sessions.	<p>We will coordinate with other departments to establish a program of customer training sessions. There are a variety of existing models to choose from in implementing customer training, including webinars, presentations before trade or homebuilders organizations, and online tutorials to help train our customers. Some of the timing for this initiative will depend upon when the Public Portal and plan review software is implemented by Information Technology.</p> <p><i>As it relates to the deficiencies that address the Cityworks PLL software, the City Manager has authorized a project assessment to evaluate the current state of Cityworks and make recommendations on whether to continue implementation and refinement efforts or seek another PLL solution. Until the assessment is completed, only issues already identified as a part of Permitting and Inspections and Information Technology's project priority list will be completed. All other efforts to refine Cityworks will be discontinued.</i></p> <p><b>Implementation Date:</b> 6/30/2017  <b>Responsible Party:</b> Interim Permitting and Inspections Director</p>	This recommendation has been implemented. Permitting and Inspections has undertaken work to inform and collaborate with departments and outside customers regarding permitting and inspection issues. A recent example of this collaboration is the development and adoption of the amendments to Chapter 7 of the City Code and the new Fee Schedule adopted by City Council.	This recommendation has been partially implemented as of April 10, 2017 and work continues to progress towards its implementation by the established deadlines.  IT has conducted several user training sessions as well as assisted P&I with process improvement efforts in the creation of new reconstructed permits. IT will continue to assist with future enhanced report writing training.
16	The written policies and procedures recommended in Finding 2 should include practices for closing or otherwise terminating permits that have been abandoned past a certain time threshold as such jobs may require the project to comply with newer, safer building codes and would help protect the public safety. Permitting and Inspections management should continue working with the Information Technology Department and the software developer to implement changes that would update a permit status as it is moved through permitting and inspections processes. Once these changes have been completed and thoroughly tested, the impact on historical information that may occur should be assessed before implementing such changes.	<p>The Information Technology Department is currently working on implementing an automated expiration process for permits that have not received an inspection within six months or that exceed the expiration date after issuance of the permit. Until the automation of expiring permits is implemented, the Permit Technicians are able to query a report to manually expire permits, as well as, export an excel report capturing the number of cases that were manually expired per Permit Technician. The Senior Administrative Assistant will draft a written procedure and policies as set forth in the recommendation and for compiling data for performance measuring purposes.</p> <p><i>As it relates to the deficiencies that address the Cityworks PLL software, the City Manager has authorized a project assessment to evaluate the current state of Cityworks and make recommendations on whether to continue implementation and refinement efforts or seek another PLL solution. Until the assessment is completed, only issues already identified as a part of Permitting and Inspections and Information Technology's project priority list will be completed. All other efforts to refine Cityworks will be discontinued.</i></p> <p><b>Implementation Date:</b> 11/30/2017  <b>Responsible Party:</b> Senior Administrative Assistant</p>	This recommendation has been implemented. A report can be run on CityWorks that identifies unresolved permits. The contractor responsible for each unresolved permit will be contacted regarding the status of the permit. Should a contractor complete the job without an approved permit steps will be taken to resolve the permit to include notifying the proper licensing board regarding the contractor's failure of obtaining an approved permit. This practice has been developed into a written policy outlining the steps required.	This recommendation has been partially implemented as of April 10, 2017 and work continues to progress towards its implementation by the established deadlines. Automatic expiration has been implemented after six months with no inspections performed. Any permit that is 6 months old with no scheduled inspection expires and a notice is sent to the customer 1 month prior to the expiration date and again on the expiration date. If a permit has a scheduled inspection, the expiration date is extended to 1 year from the date of the inspection.

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	Recommendation	Management Response	Management Follow-up Response - August 3, 2017	Management Follow-up Response - April 10, 2017
17	<p>Allowing permits to expire should not be an easy method to avoid inspection and circumvent established controls. Permitting and Inspections management should establish controls to ensure failed inspections are followed to conclusion so the permit holder and/or contractor seek and receive final approval of the project.</p> <p>The Cityworks software should be configured to automatically expire permits based on specific criteria. A risk assessment should be prepared before permits within Cityworks are automatically expired, whereas, implementing this program could have a significant impact on permits.</p> <p>A report should be created and run at some stated interval to resolve expired permits and impose a terminal status of EXPIRED. Some consideration should also be given to sending a notice to the permit holder advising of the expiration of the permit due to lack of activity and giving the permit holder an opportunity to respond.</p> <p>Permitting and Inspections personnel should ensure compliance with the Fayetteville City Code Chapter 7, Building Code, Part II, Article III Enforcement, Section 7-68, Time Limitations on Validity of Permits, by expiring permits 60 days from issuance if the work authorized by the permit has not been commenced or update the Fayetteville City Code to be consistent with the North Carolina State Building Code requiring the time limitation for a permit to expire as six months after the date of issuance if the work authorized by the permit has not been commenced.</p>	<p>Cityworks procedure changes are necessary to effectuate compliance with this finding. Permits that have not had an inspection within 6 months will be automatically expired and the status changed to Closed - Expired. An email will be sent to the applicant 30 days prior to the expiration and then again up on expiration. If a permit has had at least one inspection, the permit expiration will be extended for 12 months in keeping with the NC Building Code. This feature is currently in test and will be moved into production shortly.</p> <p>Staff will propose revisions to the City Code to ensure compliance with the NC Building Code.</p> <p><i>As it relates to the deficiencies that address the Cityworks PLL software, the City Manager has authorized a project assessment to evaluate the current state of Cityworks and make recommendations on whether to continue implementation and refinement efforts or seek another PLL solution. Until the assessment is completed, only issues already identified as a part of Permitting and Inspections and Information Technology's project priority list will be completed. All other efforts to refine Cityworks will be discontinued.</i></p> <p><b>Implementation Date:</b> 4/30/2017  <b>Responsible Party:</b> IT Project Manager for permit expiration notices; Planning and Code Enforcement Director for changes to City Code.</p>	<p>This recommendation has been implemented. Section 7-68 of the City Code was amended by changing the expiration of permits from 60 days to 6 months from the date of issuance if the work authorized by the permit has not commenced. This change aligns the code with North Carolina General Statutes. CityWorks identifies permits that have not received an inspection prior to the six month timeline and permits that had an inspection but no follow-up inspections in twelve months. This information is used to notify permit holders that their permit is nearing termination.</p>	<p>This recommendation has been partially implemented as of April 10, 2017 and work continues to progress towards its implementation by the established deadlines. As of 11/1/2016, Permits follow the city code and expire accordingly; in addition, 30 days prior to the expiration an email notice is sent to the contractor/owner notifying them that their permit will expire in 30 days and to call the city. On the day the permit is expired an email notice is sent to the contractor/owner notifying them that their permit has expired and to contact the city.</p> <p>Staff has developed a comprehensive revision for Chapter 7 (Building Code) to address these issues. It has been presented to City Council and has been referred to the Audit Committee for review. In the interim, staff is using the State Administrative Code to carry out its statutory duties where conflicts exist between the City Code and the State Building Code.</p>

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18	<p>Permitting and Inspection management should coordinate with the Information Technology Department and/or the software developer to develop controls within Cityworks to verify the correct PIN is present on permit records. Should Cityworks not have this capability, Permitting and Inspections management should develop mitigating controls to ensure the validity of PIN's during the review and approval process for permit applications. In addition, Permitting and Inspections management should develop a process for consistent and accurate input of address information and work with the Information Technology Department and/or the software developer to fully integrate the GIS mapping function within Cityworks. In the interim it may be beneficial to enter information in the "Notes" section of a permit to indicate that the address will not match the County records and why. Thorough testing of all upgrades should be performed to ensure the product is performing at an acceptable level to achieve departmental goals.</p>	<p>Cityworks procedure changes are necessary to effectuate compliance with this finding. Permitting and Inspections will require considerable assistance from Information Technology in the testing of Cityworks upgrades.</p> <p>This was an issue that was discussed during a December meeting and there was no clear resolution because the GIS Data that contains the PIN information is provided by Cumberland County GIS because the Register of Deed and the County GIS use different systems. The update from the Register of Deed to the County GIS is not always as timely as the city would like it. City and County GIS have been working together to resolve this, the city receives a nightly update from the county, and as long as the Register of Deed has updated County GIS then the City GIS and Cityworks will be correct. City GIS also has a GIS Road Map project to develop a collaborative GIS Environment with the county to help with this.</p> <p style="color: red;"><i>As it relates to the deficiencies that address the Cityworks PLL software, the City Manager has authorized a project assessment to evaluate the current state of Cityworks and make recommendations on whether to continue implementation and refinement efforts or seek another PLL solution. Until the assessment is completed, only issues already identified as a part of Permitting and Inspections and Information Technology's project priority list will be completed. All other efforts to refine Cityworks will be discontinued.</i></p> <p><b>Implementation Date:</b> 6/30/2017  <b>Responsible Party:</b> Chief Information Officer</p>	<p>This recommendation was implemented in February 2017. There have no issues regarding addresses in the intervening five months since this issue was resolved.</p>	<p>This recommendation has been implemented (02/09/2017). This has been addressed and tested. We are receiving the most current data from the County. There is also a larger project that is part of the GIS Roadmap project to develop a shared GIS environment with County and PWC that would ensure that the data is always current.</p>
19	<p>The Office of Internal Audit recommends Permitting and Inspections management review the existing Fee Schedule to determine whether enhancements would provide additional transparency and clarity for citizens and contractors. In addition, Permitting and Inspections management should ensure consistency among the permit application, Fayetteville City Code and the Fee Schedule.</p>	<p>Management is currently reviewing the permit fees and the permit applications for all four trades. Once we have corrected our fee schedule and permit applications, we will write the policy and procedures to make sure all permits are accurately issued and valued.</p> <p><b>Implementation Date:</b> 6/30/2017  <b>Responsible Party:</b> Building Official</p>	<p>This recommendation has been implemented. The City Council adopted the Permitting &amp; Inspections Fee Schedule when they adopted the budget on June 26, 2017.</p>	<p>This recommendation has been partially implemented by April 10, 2017 but work continues to progress toward its implementation by the established deadline. P&amp;I department has restructured the fee schedule as it relates to permitting. This will correct several findings in the audit and will be presented to Council for their approval prior to the budget requirements. P&amp;I management have contacted the stakeholders to provide information on the revised fee schedule and incorporated the feedback received, much of which was positive. A compromise was reached concerning unheated space in single family residences.</p>

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20	<p>Permitting and Inspections management should determine if Cityworks has the capability to provide reports by subsidiary ledger for fees charged to customers, which could be used to reconcile to the City's general ledger.</p> <p>Permitting and Inspections management should develop written procedures which should be followed to ensure a documented reconciliation between the amounts billed/refunded in Cityworks and actual revenue posted in the general ledger is performed at regular intervals. The reconciliation should be completed with verification of the balances by a second authorized individual including initialing and dating reports to document a review and reconciliation was performed.</p> <p>In addition, Permitting and Inspections management should develop written policies and procedures to document the process and the importance of closing the POS register nightly.</p> <p>Once these processes are established, Permitting and Inspections management should ensure personnel are adequately trained on them.</p>	<p>There is a lack of integration between the accounting software programs that the City uses that requires manual procedures to reconcile revenues across Cityworks, JDE, and the Point of Sale program. The reconciliation process of this report is completed by the Senior Administrative Assistant and, upon completion of the reconciliation, the Senior Administrative Assistant records her signature and has an employee unassociated with cash handling, approve the reconciliation report. The Senior Administrative Assistant will develop written procedures on the processes of this reconciliation procedure.</p> <p>The Permit Technicians have previously trained on the reset procedures of the Point of Sale cash drawers. A draft procedure on "Reconciliation Cash Drawers" has been prepared for review and approval by the Interim Permitting and Inspections Director. Compliance with these procedures will be included as a performance measure.</p> <p><b>Implementation Date:</b> 6/30/2017  <b>Responsible Party:</b> Senior Administrative Assistant</p>	<p>This recommendation has been implemented. The reconciliation process with CityWorks is ongoing as system improvements are made. Permitting and Inspections has developed written procedures that address payment procedures and Point of Sale issues. Training on the policy and procedures will occur on a regular basis and will be documented to ensure compliance.</p>	<p>This recommendation has been partially implemented by April 10, 2017 but work continues to progress toward its implementation by the established deadline. Sr. Admin. Staff has begun the reconciliation reports with completion of the months of Oct./Nov. and up to date on Dec. 2016. IT has enhanced reports to show refunds. Policies and procedures will be written and implemented by June 30, 2017. Pending for July, Aug, Sept reconciliations.</p>
21	<p>Permitting and Inspections personnel should ensure, when submitting payment to the North Carolina Licensing Board on a quarterly basis, that correct amounts are submitted based on a reconciliation of information in Cityworks and the general ledger. Any Homeowner Recovery Fund fee refunds should be taken into consideration when completing the reconciliation.</p>	<p>The Information Technology Department created a new Account Payables subsidiary code to capture the \$9 fee that is paid to the NC Licensing Board. The existing revenue account captures the remaining \$1 recognized as revenue. The recent segregation of the Homeowner Recovery Fee was implemented October 3, 2016.</p> <p>The Senior Administrative Assistant will continue to submit quarterly payments to the N.C. Licensing Board but, beforehand, the Senior Administrative Assistant will ensure that the payment is accurately reconciled amongst the Cityworks Revenue Report and General Ledger within JDE.</p> <p>The same will apply to refunds. The Senior Administrator will ensure refunds of the Homeowner Recovery Fee are properly processed and applied to the appropriate fund accounts within JDE and revenue accounts with Cityworks.</p> <p><b>Implementation Date:</b> 10/3/2016  <b>Responsible Party:</b> Senior Administrative Assistant</p>	<p>A review of this item was done to ensure the implementation was occurring as outlined in the April report. The findings show the Home Owner Recovery Fee is being captured and allotted as intended.</p>	<p>This recommendation has been implemented. The Home Owner Recovery fee for the first quarter of FY17 (Jul-Sept) was reconciled back to the General Ledger successfully. However, the report designated for the Homeowner Recovery Fee has been reviewed by IT. The reconciliation process occurred by using a "work-around" report in order to reconcile back to the general ledger. The Information Technology Department created a new Account Payables subsidiary code to capture the \$9 fee that is paid to the NC Licensing Board. The existing revenue account captures the remaining \$1 recognized as revenue. The recent segregation of the Homeowner Recovery Fee was implemented October 3, 2016.</p>



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22	<p>Permitting and Inspections management should require, annually, all personnel who handle cash receipts to read the Cash Handling General Procedures and sign acknowledging receipt and understanding of the procedures.</p> <p>A formal written refund policy to provide guidance and direction on how to process refunds should be developed. In addition, Permitting and Inspections personnel should be trained on these policies.</p> <p>Permitting and Inspections management should ensure quality reviews are done for all cash receipt processes.</p>	<p>The Senior Administrative Assistant provided Permit Technicians copies of the city's Cash Handling General Procedures. Each of the technicians received, reviewed, and signed the Cash Handling General Procedures Acknowledgement form. A copy of the Cash Handling General Procedures is readily accessible to the Permit Technicians and such policy will be reviewed and signed on an annual basis as recommended by the Finance Department.</p> <p>The Senior Administrative Assistant prepared a department Refund Procedures &amp; Policy. Upon review and approval by the Permitting and Inspections Director, the Senior Administrative Assistant will conduct mandatory training for all Permit Technicians in two weeks following the policy adoption.</p> <p>The Senior Administrative Assistant will conduct quarterly quality reviews of the issuance process which will include cash handling procedures. This process will begin the third quarter of FY17.</p> <p><b>Implementation Date:</b> 6/30/2017  <b>Responsible Party:</b> Senior Administrative Assistant</p>	<p>Permitting and Inspection personnel who handle cash receipts have read the Cash Handling General Procedures and signed acknowledging receipt and understanding of the procedures. The Permit Technician Supervisor position has been filled and a formal policy has been developed regarding refunds and cash receipt procedures. As mentioned in Finding 20, regular training will occur on this new policy as well.</p>	<p>This recommendation has not been implemented as of April 10, 2017 but work continues to progress toward its implementation by the established deadline. Policies and procedures are in process to ensure that all cash handlers are reviewing Cash Handling General Procedures annually. A formal written policy and reviews will be implemented upon hiring of the newly established Permit Technician Supervisor.</p> <p>The written refund policy will be addressed upon the training of the newly created Permit Technician Supervisor position, as well as quality reviews on a consistent basis.</p>
23	<p>Internal Audit recommends Permitting and Inspections personnel responsibilities be reassigned in order to achieve an effective separation between opening the mail and recording transactions. In addition, Permitting and Inspections management should consider checks being opened in dual custody to further strengthen controls.</p> <p>Additionally, Permitting and Inspections management should assess the Administrative Assistant's job description and determine if additional education, experience or knowledge related to internal controls is needed due to the supervision of cash handling functions and update the job description or position as deemed appropriate.</p>	<p>Personnel duties will be defined to require the front line permit technicians assigned to permit issuance to record transactions, and daily dispatch permit technicians will have mail duties to address this issue. The Senior Administrative Assistant will supervise and ensure compliance.</p> <p>Management is reviewing a vacant Permitting and Inspections position against the recommendation and will request a study from the Human Resource Department. Once the study is complete, management will recruit for this position in November 2016.</p> <p><b>Implementation Date:</b> 9/30/2017  <b>Responsible Party:</b> Interim Permitting and Inspections Director</p>	<p>This recommendation has been implemented with the hiring of the Permit Technician Supervisor. In addition, the separation of assignments of the permit technicians has occurred.</p>	<p>This recommendation has been partially implemented by April 10, 2017 but work continues to progress toward its implementation by the established deadline. Management recently created the Permit Technician Supervisor position for better oversight of the Permit Technicians. Upon hiring, the Permit Technician Supervisor will establish policy and procedures for opening mail, recording transactions and checks being opened with dual review.</p>

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24	<p>The Office of Internal Audit recommends Permitting and Inspections management work with the Information Technology Department to establish a process for security of faxed information. Such a process could include faxes being printed only when the appropriate security code is entered or having a dedicated fax machine for the Permitting and Inspections Department in a secure location with limited access. Permitting and Inspections management should ensure the faxes are destroyed in accordance with City's Administrative Policy # 311 - <i>Security of Sensitive and Confidential Information and Breach Response Plan</i>.</p>	<p>The fax machine vendor programmed the Permitting Multi-Functional Device (fax machine) so permit applications received can only be printed by means of entering a security code. Faxes are secured within the device until the security code is applied. Permit Technicians and the Senior Administrative Assistant are only privy to such code, and if at any time the code may be breached, a new security code can be reassigned.</p> <p>The Finance Department provided the Senior Administrative Assistant a copy of the city's policy #311, Security of Sensitive and Confidential Information and Breach Response Plan. Each technician received, reviewed, and signed the Acknowledge form. The Senior Administrative Assistant also prepared a draft policy of a Security and Confidential Information for review by the Permitting and Inspection Director. Upon review and approval of the policy, the Senior Administrative Assistant will conduct mandatory training to all Permit Technicians within two weeks following adoption. The Senior Administrative Assistant will also conduct quarterly quality reviews of the Security and Confidential Information. Additionally, and in accordance to the Security of Sensitive and Confidential Information and Breach Response Plan, the Permit Technicians destroy (shred) faxes that contain confidential financial information following the completion of the issuance process of every permit.</p> <p><b>Implementation Date:</b> 9/30/2016  <b>Responsible Party:</b> Senior Administrative Assistant</p>	<p>This recommendation has been implemented.</p>	<p>This recommendation has been implemented effective September 30, 2016.</p>
25	<p>Permitting and Inspections management should coordinate with the Information Technology Department and/or the software developer to develop controls within Cityworks to ensure permits are not printed before all pre-permitting requirements are met and the hardcoded status on the permit should read the status within Cityworks.</p> <p>Additionally, Internal Audit recommends the appropriate inspector review all written applications as defined by NCGS and Fayetteville City Code, Chapter 7, Article III before a permit is issued.</p>	<p>While report creation is part of the Information Technology Department's top priorities for Cityworks "fixes," locking out the report is a customization that will require additional funding to complete. IT has completed the process of watermarking the reports in question with a watermark that says INVALID if the report is printed before all the required inspections, payments, or documents are completed.</p> <p>We will coordinate with the Department of Insurance to determine the need for building inspectors to issue trade permits.</p> <p><i>As it relates to the deficiencies that address the Cityworks PLL software, the City Manager has authorized a project assessment to evaluate the current state of Cityworks and make recommendations on whether to continue implementation and refinement efforts or seek another PLL solution. Until the assessment is completed, only issues already identified as a part of Permitting and Inspections and Information Technology's project priority list will be completed. All other efforts to refine Cityworks will be discontinued.</i></p> <p><b>Implementation Date:</b> 11/30/2016 for the workaround. TBD for the ultimate resolution.  <b>Responsible Party:</b> IT Project Manager</p>	<p>This recommendation has been implemented with the adoption of the amendment of Chapter 7 by City Council on May 8, 2017.</p> <p>This finding also involved developing controls in CityWorks that prevented permits from being issued prior to all pre-permitting requirements being met. This was accomplished by IT by placing "INVALID" on the permit if the report is printed before all the required inspections, payments, or documents are completed.</p>	<p>This recommendation has been partially implemented as of April 10, 2017 but work continues to progress toward its implementation by the established deadline. Cityworks was not designed to print based on the status of a permit or task.</p> <p>As of 11/30/2016 all permits that are printed prior to being issued show in the permit a status of NOT ISSUED and a date of 01/01/0001. We added a watermark to indicate that the permit is not to be used to start work. Users can use the Cityworks search and inbox to generate reports on expired permits.</p> <p>Furthermore management recommends that Zoning opens the case in the Cityworks application</p> <p>Staff has developed a comprehensive revision for Chapter 7 (Building Code) to address these issues. It has been presented to City Council and has been referred to the Audit Committee for review. In the interim, staff is using the State Administrative Code to carry out its statutory duties where conflicts exist between the City Code and the State Building Code.</p>



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	Recommendation	Management Response	Management Follow-up Response - August 3, 2017	Management Follow-up Response - April 10, 2017
26	<p>Internal Audit recommends Permitting and Inspections management review applications, the Fee Schedule and Cityworks, and ensure they are consistent with one another. In addition, Permitting and Inspections management should review all permit applications to ensure all necessary information is required on the applications, applications are clear, and assess whether any unnecessary information should be removed from the applications. Once the applications are updated and made available to the contractors/homeowners, their use should be enforced.</p> <p>In order to be in compliance with North Carolina General Statutes, Inspectors should issue permits. However, prior to permit issuance, Permitting and Inspections personnel should ensure permit applications are completed with all information necessary to calculate fees. If information on the application is unclear, Permitting and Inspections personnel should ask the applicant for clarification. Any updated information should be clearly documented for future reference.</p> <p>Permitting and Inspections management should establish a quality review process for the Permitting and Inspections Department. Due to the high volume of applications, the likelihood of finding an exception by spot checking is statistically low. Therefore, when establishing a quality review process, Permitting and Inspections management could consider exception-based reporting from Cityworks which could identify unusual transactions, such as a residential building permit without a homeowner recover fee charged.</p> <p>Policies and procedures should be written to provide clear guidance on accurate and consistent application of fees. Training should be given to Permitting and Inspections personnel to ensure understanding and adherence to policies and procedures.</p>	<p>We will coordinate with the Department of Insurance to determine the need for building inspectors to issue trade permits. Staffing and workload issues may preclude quality control by inspection supervisors without additional resources as has been noted in responses to prior findings. Staff will work with Information Technology to see if exceptions can be identified for quality control purposes. Once these issues are resolved, policies and procedures will be developed and training conducted to ensure subordinate staff adherence to the policies and procedures.</p> <p style="color: red;"><i>As it relates to the deficiencies that address the Cityworks PLL software, the City Manager has authorized a project assessment to evaluate the current state of Cityworks and make recommendations on whether to continue implementation and refinement efforts or seek another PLL solution. Until the assessment is completed, only issues already identified as a part of Permitting and Inspections and Information Technology's project priority list will be completed. All other efforts to refine Cityworks will be discontinued.</i></p> <p><b>Implementation Date:</b> 6/30/2017  <b>Responsible Party:</b> Building Official; Senior Administrative Assistant</p>	<p>This recommendation has been completed. City Council amended Chapter 7 of the Building Code on May 8th that clarified the issuance of trade permits by Permitting staff. The Permitting &amp; Inspections Department has worked with IT to review processes to ensure that CityWorks is providing accurate date in regards to application information and calculation of fees.</p> <p>The permit applications have been reviewed and updated.</p> <p>The last action completed was the establishment of a quality review process. Permitting &amp; Inspections instituted quality reviews for all four trades in April 2017. A quality review policy was recently developed to formalize the process. This is an internal control to ensure objectives are achieved, and is a tool for performance evaluation of the inspectors. Ongoing training and review will occur as part of this implementation.</p>	<p>This recommendation has been partially implemented as of April 10, 2017. IT continues to work the Permitting &amp; Inspection Staff to develop the necessary exception based reports.</p> <p>Staff has developed a comprehensive revision for Chapter 7 (Building Code) to address these issues. It has been presented to City Council and has been referred to the Audit Committee for review. In the interim, staff is using the State Administrative Code to carry out its statutory duties where conflicts exist between the City Code and the State Building Code.</p> <p>Under current staffing it is permissible for the issuance of the trade permits by the Permitting Staff. We will be rewriting Chapter 7 to reflect that policy. When Permitting is at full staff, we will have procedures in place for the overview of all trade permits.</p> <p>P&amp;I has implemented quality reviews for all four trades, to be done by supervisors in a timely manner. The staff is working with IT to develop and refine existing reports to enhance the reviews. Policies and procedures will be put in place for accountability measures.</p>

**Office of Internal Audit**  
**Quarterly Management Implementation Status Report**  
**Fiscal Year 2016-2017 (4th Quarter)**

<b>KEY</b>	<b>Not Implemented</b>	<b>Partially Implemented</b>	<b>Implemented</b>	<b>Past Implementation Date</b>
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	<b>Recommendation</b>	<b>Management Response</b>	<b>Management Follow-up Response - August 3, 2017</b>	<b>Management Follow-up Response - April 10, 2017</b>
27	<p>Internal Audit recommends the appropriate inspector review all written applications as defined by NCGS and Fayetteville City Code, Chapter 7, Article III before a permit is issued. This review should include the status of the contractor's license.</p> <p>Additionally, Internal Audit recommends Permitting and Inspections personnel establish and follow written procedures to ensure each contractor's license is valid when issuing a permit. Since permits expire December 31 each year and become invalid 60 days from that date unless renewed, Permitting and Inspections should establish and follow written procedures to ensure all general contractors with active permits still have valid licenses in March of each year. For any active permits determined to be issued to general contractors with invalid licenses, Permitting and Inspections personnel should establish written procedures to comply with NCGS 160-422 relating to the revocation of permits.</p>	<p>The Planning and Code Enforcement Director will review the City Code and propose any modifications that are necessary to modernize and ensure consistency between the City Code, the NC Building Code, and departmental procedures and policies.</p> <p>Management has reached out to the Supervisor of the Code Inspections Section of the Department of Insurance for clarification on inspector issuance of permits. The Permitting and Inspections Department is meeting all requirements for the issuance of trade and building permits in our current practice.</p> <p>Management is currently reviewing the permit fees and the permit applications for all four trades. Once we have corrected our fee schedule and permit applications, we will write the policy and procedures to make sure the permit is accurately issued and valued.</p> <p>The Permit Technicians are currently following procedures of verifying contractors licenses prior to the issuance of permits. The Senior Administrative Assistant will draft a policy and procedures to ensure that this process is being validated. The Senior Administrative Assistant will complete monthly random quality control checks to ensure that this recommendation is followed through.</p> <p>In speaking with the North Carolina Licensing Board for General Contractors, they are looking into developing a WebService with which we would be able to programmatically interface with in order to validate the contractor in real time. At this time there is no ETA for the availability of this WebService. Such an arrangement with other trades is being explored. Currently Information Technology has investigated other methods of automatically validating the Contractor License, however, there would be additional funding needed to do this</p> <p><i>As it relates to the deficiencies that address the Cityworks PLL software, the City Manager has authorized a project assessment to evaluate the current state of Cityworks and make recommendations on whether to continue implementation and refinement efforts or seek another PLL solution. Until the assessment is completed, only issues already identified as a part of Permitting and Inspections and Information Technology's project priority list will be completed. All other efforts to refine Cityworks will be discontinued.</i></p> <p><b>Implementation Date:</b> 9/30/2017  <b>Responsible Party:</b> Planning and Code Enforcement Director (code changes); Senior Administrative Assistant (procedures)</p>	<p>This recommendation has been implemented with the adoption of the Chapter 7 amendment by City Council on May 8th. One part of the amendment allows the permitting staff to issue trade permits that is consistent with the State Building Code.</p> <p>Another item is verification of a contractor's license. This was previously done through the issuance of a privildge license. Since privildge licenses are no longer allowed, another method is required to ensure contractors have the proper license. Permitting Technicians now review all contractor's licenses prior to issuancing a permit. A written procedure documenting these steps has been developed to ensure the proper steps are taken.</p>	<p>This recommendation has been partially implemented as of April 10, 2017. IT continues to work with the Permitting &amp; Inspection Staff to develop the necessary exception based reports.</p> <p>Staff has developed a comprehensive revision for Chapter 7 (Building Code) to address these issues. It has been presented to City Council and has been referred to the Audit Committee for review. In the interim, staff is using the State Administrative Code to carry out its statutory duties where conflicts exist between the City Code and the State Building Code.</p> <p>Under current staffing it is permissible for the issuance of the trade permits by the Permitting Technicians. When Permitting is at full staff, we will have procedures in place for the overview of all trade permits. Additionally, the Permit Technicians review all contractors' licenses prior to permit issuance to ensure validity.</p>

**Office of Internal Audit**  
**Quarterly Management Implementation Status Report**  
**Fiscal Year 2016-2017 (4th Quarter)**

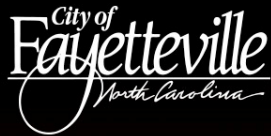
KEY	Not Implemented	Partially Implemented	Implemented	Past Implementation Date
	<b>Recommendation</b>	<b>Management Response</b>	<b>Management Follow-up Response - August 3, 2017</b>	<b>Management Follow-up Response - April 10, 2017</b>
28	<p>Permitting and Inspections management should coordinate with the Information Technology Department and/or the software developer to develop controls within Cityworks to prevent creating duplicate permits. Should Cityworks not have this capability; Permitting and Inspections management should work with personnel within the department on mitigating controls to ensure duplicate permits are not being created. All permit applications should be reviewed by an appropriate level inspector before a permit is issued at which time, the inspector can verify that a duplicate permit is not being created.</p>	<p>Cityworks cannot currently prevent the creation of duplicate permits, however, it will allow you to see all the existing permits, cases, service requests and work orders at a given address.</p> <p>Resolution of this issue is dependent on a vendor's schedule. Additionally, consideration should be given to distinguishing between a trade permit and a building permit with regard to the qualifications of the issuing authority. If inspectors have to sign off on all permits prior to their issuance, a significant resource issue will be created due to permit volume. If this is the direction of the Interim City Manager, we will produce a plan for implementation for consideration during the FY18 budget cycle.</p> <p>Information Technology is working with software developer to bring a Cityworks PLL trainer on site to provide specialized PLL training.</p> <p><i>As it relates to the deficiencies that address the Cityworks PLL software, the City Manager has authorized a project assessment to evaluate the current state of Cityworks and make recommendations on whether to continue implementation and refinement efforts or seek another PLL solution. Until the assessment is completed, only issues already identified as a part of Permitting and Inspections and Information Technology's project priority list will be completed. All other efforts to refine Cityworks will be discontinued.</i></p> <p><b>Implementation Date:</b> 11/15/2016  <b>Responsible Party:</b> Interim Permitting and Inspections Director and Information Technology Director</p>	<p>This recommendation was implemented several months earlier. Ongoing training with the Permit Technician is occurring on a regular basis now that Permit Division is fully staffed.</p>	<p>This recommendation has been implemented. Cityworks is designed to create multiple permits at a single address or location. Proposed mitigation strategy is for permit techs to check all permits at a given address/location before creating a new permit to ensure that duplicate permits are not created.</p> <p>IT provided PLL Training to Permit Tech to show them how to search and make general corrections to permits.</p>
29	<p>Procedures should be established requiring inspectors to document within Cityworks when the inspector reaches the location and the results of the inspection before going to the next assignment. Cityworks should be configured, if necessary, to facilitate this type of documentation. Training should be provided to improve inspectors' documentation, to establish parameters and guidelines and the use of laptops in the field to result the inspections.</p>	<p>Permitting and Inspections has purchased laptop computers for all the field inspectors to eliminate the problem of limited or no connectivity in some areas of the City. Since that time, the inspectors have been trained and directed by management to log into Cityworks and do all of their inspection postings at the jobsite. Management is working with Cityworks to be able to have this measurable data extracted in several types of reports. This will give management valuable information that we will be able to use in determining if the department is adequately staffed.</p> <p><i>As it relates to the deficiencies that address the Cityworks PLL software, the City Manager has authorized a project assessment to evaluate the current state of Cityworks and make recommendations on whether to continue implementation and refinement efforts or seek another PLL solution. Until the assessment is completed, only issues already identified as a part of Permitting and Inspections and Information Technology's project priority list will be completed. All other efforts to refine Cityworks will be discontinued.</i></p> <p><b>Implementation Date:</b> 6/30/2017  <b>Responsible Party:</b> Building Official</p>	<p>This recommendation has been implemented. The results of the inspection are entered into CityWorks before the inspector moves to his next assignment. The verification that inspectors are at the proper location at the proper time is through the vehicle AVL system.</p> <p>A policy has been developed that outlines the process and ensures is uniformly administered throughout the department. As with many of these new policies, training will occur to inform all department staff of the requirements and expectations.</p>	<p>This recommendation has been partially implemented as of April 10, 2017 but work continues to progress toward its implementation by the established deadline. Inspectors are inputting their inspection results at the job site. This was accomplished when the inspectors were issued revolves which have better connectivity in the field.</p> <p>Policies and procedures are being written and enhanced user training is being conducted to assist inspectors in logging in inspection upon arrival at assignment and the results of the inspection before moving on.</p>

**Office of Internal Audit**  
**Quarterly Management Implementation Status Report**  
**Fiscal Year 2016-2017 (4th Quarter)**

KEY	Not Implemented	Partially Implemented	Implemented	Past Implementation Date
	<b>Recommendation</b>	<b>Management Response</b>	<b>Management Follow-up Response - August 3, 2017</b>	<b>Management Follow-up Response - April 10, 2017</b>
30	<p>Internal Audit recommends the Permitting and Inspections Department prohibit the practice of bypassing system controls by deleting and/or resulting inspections on the workflow as "NA". Quality reviews should be conducted by management to ensure all inspections are completed and resulted for each type of permit on the workflow. Cityworks workflows should be updated for each permit type to include only required inspections for that permit type.</p>	<p>The inspections workflows are currently under modification. It is the intent to modify and simplify each of the workflows per permit type. Until this occurs, an "N/A" will be placed on inspections tasks not related to the inspection. The Permitting and Inspections department is working closely with the IT department as well as with Cityworks in order to address this issue.</p> <p>As we modify the case types and workflows additional security will be added which will prohibit the addition or deletions of task in the workflow.</p> <p><i>As it relates to the deficiencies that address the Cityworks PLL software, the City Manager has authorized a project assessment to evaluate the current state of Cityworks and make recommendations on whether to continue implementation and refinement efforts or seek another PLL solution. Until the assessment is completed, only issues already identified as a part of Permitting and Inspections and Information Technology's project priority list will be completed. All other efforts to refine Cityworks will be discontinued.</i></p> <p><b>Implementation Date:</b> 6/30/2017  <b>Responsible Party:</b> Building Official</p>	<p>Permitting &amp; Inspections working with IT has implemented this recommendation preventing the bypassing of system controls.</p>	<p>This recommendation has been partially implemented as of April 10, 2017 but work continues to progress toward its implementation by the established deadline. As an interim fix, controls have been put in place to not allow users to delete tasks from the workflow.</p> <p>IT has worked with P&amp;I to reconstruct permits and remove unnecessary steps in the workflow.</p> <p>Group level control configuration based on permit type will be applied to the new permit types.</p>
31	<p>Permitting and Inspections management should develop procedures to clarify expectations, including established start times and locations to begin inspections for the workday. The procedures should also give general guidance on how to conduct inspections. Once these procedures are established, Permitting and Inspections management should ensure personnel are adequately trained on them.</p> <p>The AVL technology should be fitted and fully operational on all Permitting and Inspections Department vehicles. This data should be used by management in conjunction with monitoring inspector output as a measure of overall productivity.</p>	<p>The Permitting and Inspections Department will implement policies and procedures to ensure that inspections staff have clear and concise instruction regarding daily expectations, standards for training new staff, and policies as it relates to enforcement of the NC Building Code. The AVL systems are currently installed in all inspectors' assigned vehicles. The existing AVL system could not be permanently installed without voiding the manufacturer's warranty. Reporting is currently being addressed by the Information Technology Project Manager. The inspections staff will receive training on how to review and monitor the AVL system. Additionally, the real-time resulting of inspections will help confirm inspector location.</p> <p><b>Implementation Date:</b> 6/30/2017  <b>Responsible Party:</b> Building Official</p>	<p>The AVL system has been fitted and is fully operational on all Inspections vehicles. Permitting &amp; Inspections has developed a written policy in regards to start times and beginning location as well as information on conducting inspections. This policy incorporates several procedures used by the Fire Department regarding their policy for Fire Inspectors. Training will occur as this policy is introduced within the department.</p>	<p>This recommendation has been partially implemented as of April 10, 2017 but work continues to progress toward its implementation by the established deadline AVL Technology has been fitted and operational on Permitting and Inspections Vehicles.</p> <p>Policies and procedures will be written to clarify management's expectations and guidance and training will be provided upon approval.</p>
32	<p>Permitting and Inspections management should develop procedures to ensure all permitted projects are inspected or permits are properly cancelled if the permitted work is not commenced.</p>	<p>All full demolition permits are inspected by the Code Enforcement Division of the Planning and Code Enforcement Department. Cityworks has been modified to notify the contractor when a permit is about to expire. This modification reflects the standards of the NC Building Code with regard to permit expiration. A procedure will be developed in order to provide clear and concise instruction on how to post inspections once the permit is completed, voided, or expired. An amendment to the City Code will be proposed to reflect the standards of the NC Building Code with regard to permit expiration.</p> <p><i>As it relates to the deficiencies that address the Cityworks PLL software, the City Manager has authorized a project assessment to evaluate the current state of Cityworks and make recommendations on whether to continue implementation and refinement efforts or seek another PLL solution. Until the assessment is completed, only issues already identified as a part of Permitting and Inspections and Information Technology's project priority list will be completed. All other efforts to refine Cityworks will be discontinued.</i></p> <p><b>Implementation Date:</b> 11/15/2016, with the City Code Changes to occur in January 2017  <b>Responsible Party:</b> Senior Administrative Assistant (for Permitting); Building Official (for Inspections); PCE Director (for code changes and PCE policies and procedures)</p>	<p>This recommendation is implemented with the adoption of the amendments to Chapter 7. In particular, the change from 60 days permit expiration to 6 months permit expiration for those permits that do not receive an inspection within the specific timeframe. CityWorks has been updated to track this timeline. Notification is provided to the permit holder a few weeks prior to the expiration of the permit alerting them of a need for an inspection. A written policy and procedures has been developed to establish responsibilities for this oversight.</p>	<p><b>This recommendation has been partially implemented as of November 15, 2016 with the code change still left to do. Demolition permits have consistently been inspected by Code Enforcement. A new permit type has been created to facilitate this practice. To complete this recommendation, a code change will be needed.</b></p> <p>Staff has developed a comprehensive revision for Chapter 7 (Building Code) to address these issues. It has been presented to City Council and has been referred to the Audit Committee for review. In the interim, staff is using the State Administrative Code to carry out its statutory duties where conflicts exist between the City Code and the State Building Code.</p>

**Office of Internal Audit**  
**Quarterly Management Implementation Status Report**  
**Fiscal Year 2016-2017 (4th Quarter)**

KEY	Not Implemented	Partially Implemented	Implemented	Past Implementation Date
	<b>Recommendation</b>	<b>Management Response</b>	<b>Management Follow-up Response - August 3, 2017</b>	<b>Management Follow-up Response - April 10, 2017</b>
33	Internal Audit recommends Permitting and Inspections management develop processes to ensure square footage and construction costs are validated prior to permit issuance and again prior to issuance of the certificate of occupancy/compliance. The process should include recording adjustments in Cityworks and collecting or refunding any fees based on these adjustments. These processes should be documented in written policies and procedures and personnel should be trained on them.	<p>We agree that enhancements can be made to better confirm fee calculations from various measures, however, the proposed redundancy is unnecessary as any deviations will be caught during the inspection process. We agree that adjustments to the Fee Schedule need to be made to simplify calculation procedures; this will require coordination with Information Technology, and such changes will be made at midyear, if possible, or proposed as part of the FY18 budget.</p> <p><i>As it relates to the deficiencies that address the Cityworks PLL software, the City Manager has authorized a project assessment to evaluate the current state of Cityworks and make recommendations on whether to continue implementation and refinement efforts or seek another PLL solution. Until the assessment is completed, only issues already identified as a part of Permitting and Inspections and Information Technology's project priority list will be completed. All other efforts to refine Cityworks will be discontinued.</i></p> <p><b>Implementation Date:</b> 6/30/2017  <b>Responsible Party:</b> Building Official</p>	<p>This recommendation was implemented with the Fee Schedule adopted on June 26th.</p> <p>In regards to validating the square footage of a building, there are several points that occur in the process. The first action is taken by the Plans Review Section. They review the plans for many items with one being the square footage of the building. Once they approve the plans, then the trades are provided with the plans for their review. The Building Inspector reviews the footings and compares that with the approved plans. Lastly, the County Tax Office reviews the development in order to assess the value of the building. The square footage of the building is on the tax listing. This process has been documented and presented with written procedures. Training will be developed to follow these procedures.</p>	<p>This recommendation has not yet been implemented by April 10, 2017 but work continues to progress toward its implementation by the established deadline. The square footage is verified by personnel in plan review and then by the building inspectors during their inspections at the jobsite.</p> <p>Cityworks is capable of handling a variety of fee calculations out the box and custom fee calculations can be added as necessary. When the new fee schedule is approved IT will work with permitting and inspection staff to update the existing fee schedule with the new fees and calculations. IT will also train the departmental SME how to manage and update fees and fee calculations.</p>
34	A formal written callback policy to provide guidance and direction on how to impose callback fees should be developed and communicated to contractors/home owners. In addition, Permitting and Inspections personnel should be trained on this new policy.	<p>Management is writing a formal callback policy. Once this policy is completed, we will modify Cityworks so that a callback fee will be automatically issued in accordance to the policy. Once this callback policy is completed, then management will notify the contractors and train the inspectors.</p> <p><i>As it relates to the deficiencies that address the Cityworks PLL software, the City Manager has authorized a project assessment to evaluate the current state of Cityworks and make recommendations on whether to continue implementation and refinement efforts or seek another PLL solution. Until the assessment is completed, only issues already identified as a part of Permitting and Inspections and Information Technology's project priority list will be completed. All other efforts to refine Cityworks will be discontinued.</i></p> <p><b>Implementation Date:</b> 6/30/2017  <b>Responsible Party:</b> Building Official</p>	<p>The Fee Schedule that included a revised callback fee was adopted by City Council on June 26th.</p> <p>A written policy has been established that addresses when a callback fee is required. This policy ensures a standard practice is administered throughout the department. Adequate training and review is critically important for the the Callback Policy since it imposes a few with a failed inspection occurs. Failure to administer this policy uniformly causes trust and fairness issues from our customer. Training and constant review will be conducted on this particular item.</p>	<p>This recommendation has not been implemented as of April 10, 2017 but work continues to progress toward its implementation by the established deadline. There is a proposed change in the Fee Schedule that addresses the Callback fees. Once the new fee schedule is approved, then IT will work with the vendor to program City Works with the new fees. A policy will be written to reflect the new call back requirements.</p> <p>In an effort to ensure success, P&amp;I reduced and simplified the permit types. Secondly, an agile testing methodology will be used to receive immediate and accurate feedback from the customer. Lastly, enhanced user training is being conducted, which will allow the customer to make system corrections.</p>
35	Consider implementing multi-trade inspections, specifically HVAC permits, to enhance scheduling flexibility, reduce drive times and improve response times.	<p>The Permitting and Inspections Department is now performing multi-trade inspections for two permit types. One is the mechanical change out permit when the mechanical inspector inspects both the mechanical and electrical installations. The other is the gas water heater permit when the plumbing inspector inspects the water heater, vent piping and the gas piping. A policy and procedure will be written to ensure both permits are ready before the inspector goes on the inspection. Management also utilizes this cross training when a trade section is shorthanded. Out of a department of 18 inspectors, we have 7 inspectors who have more than one standard certification. Management hopes to expand this concept to more permit types as we get more inspectors certified.</p> <p><b>Implementation Date:</b> 10/1/2016  <b>Responsible Party:</b> Building Official</p>	<p>This recommendation has been implemented.</p>	<p>This recommendation has been implemented effective October 1, 2016.</p>



## Office of Internal Audit

# Audit Committee

August 3, 2017

3:30 pm

Presented by: Elizabeth Somerindyke, Internal  
Audit Director



## Agenda

August 3, 2017 Audit Committee Meeting

Internal Audit Activities:

- a. Procurement Card Audit (A2015-03F)

Other Business:

- a. Annual Audit Plan Proposed Engagements for FY2018
- b. Internal Audit Annual Report FY2017
- c. Nominate Presenter for Audit Committee  
Internal Audit Annual Report to City Council





## Procurement Card Audit

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### Procurement Card Audit

Dated: August 2017



## Procurement Card Audit

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### Background

- Audit plan for FY17 approved the follow-up audit for procurement cards;
- Small purchases to reduce volume of checks processed;
- Processed by vendors like personal charge cards;
- Finance Dept responsible for City p-card program;
- Active p-cards – 253 as of February 2017; and
- Internal Audit issued the Procurement Card Audit in February 2016 with recommendations to improve oversight.



## Procurement Card Audit

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### Objectives

- Assess adequacy of internal controls;
- Compliance with policy and procedure;
- Segregation of duties, physical security and proper use;
- Determine if original audit recommendations had been implemented by management.



## Procurement Card Audit

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### Scope

- P-card activity from July 1, 2017 through February 28, 2017; and
- Limited to actions taken to remediate original observations.





## Procurement Card Audit

### Methodology

In order to accomplish the objectives of this audit, the following steps and procedures were performed:

- Obtained and reviewed the City of Fayetteville Policy for Procurement card expenditures;
- Interviewed the Procurement Program Administrator;
- Verified the employment status of each cardholder;
- Interviewed personnel in charge of training cardholders;
- Verified account coding for the procurement card transactions; and



## Procurement Card Audit

### Methodology

- Analyzed the sample transactions processed in fiscal year 2017.

The audit staff were also aware of the potential existence of fraud during the engagement.



## Procurement Card Audit

### Follow-up Audit Results

#### Original Recommendation #1

- Strengthen the approval and monitoring process with appropriate review and approvals.
- Mandate initial and refresher training for both cardholders and approving officials.

#### Current Observation #1

- Appropriate approvals were not always present.
- Documentation was not provided showing cardholders received either initial or refresher training.

#### Status of Recommendation:

- Not Implemented



## Procurement Card Audit

### Follow-up Audit Results

#### Original Recommendation #2

- Prepare and retain adequate documentation.
- Document the business purpose.

#### Current Observation #2

- The procurement card log is not be used as intended.
- Itemized receipts were not always present.
- The business purpose of purchases was not documented.

#### Status of Recommendation:

- Not Implemented



## Procurement Card Audit

### Follow-up Audit Results

Original Recommendation #3

- Update and clarify the procurement card policy.

Current Observation #3

- Appropriate guidance still does not exist for controlling, issuing and retiring procurement cards.
- The policy requires approvals by IT for computer hardware and software, and department director for furniture but does not require documentation of the approval.

Status of Recommendation:

- Not Implemented



## Procurement Card Audit

We ask the Audit Committee consider  
and accept the Procurement Card  
Audit A2015-03F



## FY18 Audit Plan

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Fiscal Year 2018

Annual Audit Plan Proposed Engagements



## FY18 Audit Plan

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### Methodology for Developing Audit Plan

Many factors are considered when selecting City departments, programs, and activities to be included on the audit plan:

- The risks associated with the City's various activities
- Input and concerns from City Council and city management

There are seven projects listed on the FY18 Audit Plan.



## FY18 Audit Plan

A. Audit Projects Carried Forward from 2017 Work Plan			
Work Plan No.	Audit Title	Description/Preliminary Objective	Audit Hours
	<b>A.1.</b>	<b>In Progress</b>	
A2016-06	<b>Contracting Practices and Procedures</b>	The audit will assess the adequacy of internal controls; and policy, procedure, laws, rules and regulations compliance of the City's contracting practices. Audit objectives may include a review to determine if contracts were prepared and executed in accordance with relevant policies and procedures; a fully executed copy of contracts were maintained based on retention requirements, and determining whether the departments were adhering to the signature authority and delegation thresholds adopted by City Council on September 28, 2015.	40



## FY18 Audit Plan

A. Audit Projects Carried Forward from 2017 Work Plan			
Work Plan No.	Audit Title	Description/Preliminary Objective	Audit Hours
	<b>A.2.</b>	<b>For Completion</b>	
A2016-05	<b>Parks and Recreation Nonresidential Fees Implementation*</b>	The audit will assess the adequacy of internal controls; and policy, procedure, laws, rules and regulations compliance of the implementation of Parks and Recreation Department's nonresidential fees. Audit objectives may include reviewing and documenting the processes related to nonresidential fees; testing a sample to ensure necessary documents were being received supporting the charge of nonresidential vs residential fees; determining if fees were charged correctly; and determining if deposits, fees, and revenues assessed and collected were accounted for and all associated general ledger accounts were properly reconciled to existing subsidiary ledgers where appropriate.	182

\* Project will be started but not completed during this fiscal year



## FY18 Audit Plan

<b>B. New Audit Projects for 2017-2018</b>			
Work Plan No.	Audit Title	Description/Preliminary Objective	Audit Hours
A2018-01	<b>Police Department Evidence and Property Management</b>	The audit will be conducted as a recommendation to the Police Department's Confidential Funds Audit A2017-02. Audit objectives may include a review to determine if evidence and property were received, maintained, transferred and disposed of in accordance with relevant policies, procedures, laws, rules and regulations; assess the accuracy of evidence records; and adequate internal controls are in place to safeguard evidence and property.	960
A2018-02	<b>Citywide Payroll Processes</b>	The audit will assess the adequacy of internal controls governing the City's payroll process. Audit objectives may include a review to determine if the City's payroll processes employ effective controls to reasonably assure employees are paid accurately and timely, and payment is made to legitimate City employees. The audit will include a review of JD Edward controls and the KRONOS timekeeping system.	960



## FY18 Audit Plan

<b>B. New Audit Projects for 2017-2018</b>			
Work Plan No.	Audit Title	Description/Preliminary Objective	Audit Hours
A2018-03	<b>Police Department Confidential Funds</b>	The audit will be performed due to the sensitive and volatile nature of maintaining large amounts of cash on hand and in accordance with police department policy due to accreditation requirements. Audit objectives may include determining if confidential funds were sufficiently administered in accordance with established laws, regulations, guidelines, policies and procedures; proper internal controls existed and were working as intended to safeguard confidential funds from loss, theft, or fraud; expenditures and withdrawals from the funds were properly authorized, approved, and recorded; complete and accurate manual records were maintained for all deposits, withdrawals, and other transactions affecting the confidential fund accounts; to the extent possible, that security provisions for automated records were operating to provide for separation of duties, data integrity and an audit trail.	320



## FY18 Audit Plan

<b>B. New Audit Projects for 2017-2018</b>			
Work Plan No.	Audit Title	Description/Preliminary Objective	Audit Hours
A2018-04	<b>Performance Measures</b>	The audit will be performed as required by City of Fayetteville Policy # 600 Data Governance. Audit objectives may include a review to determine if performance measures published in the budget document are in compliance with relevant policies, procedures, laws, rules, regulations and City goals; and to validate the underlying data reported for the performance measures.	480



## FY18 Audit Plan

<b>C. Follow-up Projects for 2017-2018</b>			
Work Plan No.	Audit Title	Description/Preliminary Objective	Audit Hours
A2017-01F	<b>Employee Development Travel and Training Expenditures</b>	The audit will determine that previously identified audit findings have been remediated by management as stated in management's responses.	240



## **FY18 Audit Plan**

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We ask the Audit Committee consider  
and accept the Office of Internal  
Audit's FY 2018 Audit Plan



## **FY2017 Internal Audit Annual Report**

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Fiscal Year 2017

Internal Audit Annual Report





## **FY2017 Internal Audit Annual Report**

### **Office of Internal Audit Key Accomplishments FY 2017**

- Completed 4 engagements on the approved annual audit plan; made 39 value-added recommendations;
- Provided quarterly Management Implementation Status Reports;
- Provided fraud, waste and abuse training to approximately 125 new employees;



## **FY2017 Internal Audit Annual Report**

### **Office of Internal Audit Key Accomplishments FY 2017**

- Doing What's Right" campaign was feature story for Fayetteville Focus episode in September 2016;
- Attended the Association of Local Government Auditors Conference;
- COBIT 5 Foundation Course examination; and
- Professional certifications.



## FY2017 Internal Audit Annual Report

### Fraud, Waste and Abuse Investigations

Received 15 fraud, waste and abuse allegations which resulted in 12 investigations.

These can be reported:

- Employees, vendors and residents;
- In-person, telephone, email, City's Fraud Hotline via telephone or online;
- 15 incidents reported with 47% through Hotline.



## FY2017 Internal Audit Annual Report

### Fraud, Waste and Abuse Investigations

<b>TABLE 1</b>	<b>47%</b>	<b>53%</b>	<b>100%</b>
<b>ALLEGATION TYPE</b>	<b>HOTLINE</b>	<b>NON-HOTLINE</b>	<b>TOTAL</b>
Accounting/Audit Irregularities	0	1	1
Conflicts of Interest	3	0	3
Employee Relations	1	0	1
Falsification of Company Records	0	1	1
Policy Issues	1	6	7
Theft of Time	2	0	2
<b>TOTAL</b>	<b>7</b>	<b>8</b>	<b>15</b>



## FY2017 Internal Audit Annual Report

### Fraud, Waste and Abuse Investigations

Allegations may be investigated by Internal Audit deemed non-actionable or referred to:

- Another City department
- A non-City agency

If referred to another City department, Internal Audit requests the department to communicate results within 30 days.



## FY2017 Internal Audit Annual Report

### Fraud, Waste and Abuse Investigations

TABLE 2 DISPOSITION	ASSIGNMENT		
	REFER	INVESTIGATE	TOTAL
Department Resolution	3	0	3
Non-Actionable	N/A	N/A	0
Unsubstantiated	0	0	0
Open/Ongoing Allegations	0	3	3
Substantiated	0	4	4
Substantiated – No Violation	0	1	1
Inconclusive	0	4	4
<b>TOTAL</b>	<b>3</b>	<b>12</b>	<b>15</b>



## FY2017 Internal Audit Annual Report

### Fraud, Waste and Abuse Investigations

Allegations reported resulted in:

- Improved procedures and/or management controls;
- Enhanced awareness of and/or compliance with existing policies; and
- Personnel-related actions.



## Questions?

Thank You!



City of  
**Fayetteville**  
*North Carolina*

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