

City of Winston-Salem Internal Audit Division

Summary of Annual Work Plan Items for the Year FY 2019-2020

The City's Internal Audit Division is an autonomous assurance and consulting service designed to add value and improve the City of Winston Salem's operations by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes. The organizational goals of the Internal Audit Division include assisting the management team by furnishing objective appraisals and recommendations concerning activities under their responsibility, helping safeguard public assets and promote cost effective operations, and promoting higher levels of control consciousness among employees.

To promote the quality of services provided, all activities are performed in accordance with the applicable standards of the Institute of Internal Auditors' (IIA) International Standards for the Professional Practice of Internal Auditing and Code of Ethics. Common Internal Audit services include consulting projects, contractor and grantee monitoring, financial and compliance audits, internal control evaluations, and special projects and investigations.

At the present time, the Internal Audit Division's an annual work plan usually includes the following items:

- Reviews of purchasing practices for at least two City Departments
- Review of personal identifying information controls for at least one City data group
- Inventory observations for five locations
- Compliance audit(s) based on direction from the City Management
- Other projects as identified through an internal risk assessment

Audit reports and other activities completed by the City's Internal Audit Division from FY 2019-2020, including any significant findings and observations, are detailed below. Copies of all Internal Audit reports can be found on the City's website (<https://www.cityofws.org/208/Internal-Audit>).

Larger Scope Projects:

- Vendor Selection Compliance Audit – Discretionary spending under \$20,000 was reviewed for compliance with City administrative policies concerning local vendors and local Minority/Woman Business Enterprise businesses.
 - No significant findings or observations were noted for this audit.
- Employee Data Entry Project – The objective of the Employee Data Entry Project was to ensure manual data entries (excluding: market and merit pay increases and corrections; segment deletions and corresponding entries; lateral entries; and position administration

entries) were keyed into Cyborg correctly based on the documentation available. Additionally, the Internal Audit Division reviewed a sample of manual data entries involving promotions, temporary promotions, demotions, and reclassifications to verify the personnel resolution governing specific changes was correctly applied. Moreover, the accuracy of both payment frequency and separation allowance entries for all retirees during the project period was verified. Significant findings and observations noted during this project follow:

- Multiple inconsistencies between the personnel resolution and pay table data were found.
- Two instances were observed where an individual was promoted and received a greater than 5% pay adjustment approved by an Assistant City Manager; however, evidence of City Manager approval was not found as required per the Personnel Resolution (Section 30(b)(3)) which states, "...Under special circumstances, the city manager has the authority to approve increases in excess of five (5) per cent for purposes other than to reach the minimum of the newly assigned pay grade."
- An instance was observed where retroactive pay owed for a temporary promotion had not been paid.
- Twenty-one instances were observed where City employees' payment frequency was not adjusted to reflect retirement status.

This engagement was scoped as a consulting project for management and the department. As such, an official audit report was not produced (a memo with findings and observations was issued). Because no official audit report was issued, management responses were not recorded. The issuance of this memo took place as the former Human Resources Director was retiring. The Internal Audit Division will review the scope, methods, and findings with the new Human Resources Director.

- Thunderbirds Food and Beverage Contract Audit – Thunderbirds Concessions LLC (Thunderbirds) provides concessions sales at Winston-Salem Fairgrounds, Bolton Pool, Winston Lake Golf Course, and Jerry Jones Clubhouse per a contract agreement with the City. Thunderbirds' operations and transactions related to City events were reviewed for accuracy and adherence to agreement terms. Significant findings and observations noted during this audit follow:

- Due to miscalculations of third party percentage of net profits and sales tax, net profits payable to the City were underreported by approximately \$24,600 and the City is potentially entitled to approximately \$24,700 in unpaid revenue.

Thunderbirds Management Response: As of 12-9-19 meeting with Fairgrounds Robert and Cary we have come to the agreement until the contract is updated that the following will take place. We will collect a % from a 3rd party vendor and in turn give the city 30% of what we receive from the vendor.

City Management Response: Fairgrounds (City) and Thunderbirds Management have agreed for the remainder of the contract that the Thunderbirds will pay 30% of net profits received from third party entities. Any new contract or addendum will be corrected so that the definition of payment is clearly defined.

- Point of sale equipment was not properly utilized. Per the agreement, each point of sale shall have equipment to record each sale. However, Thunderbirds only used the equipment for credit/debit card sales.

Thunderbirds Management Response: All stands are fully equipped with systems that are being used for all events in all locations needed to properly record all sales for all events.

- Thunderbirds did not provide the City with daily report of sales as required per the agreement.

Thunderbirds Management Response: We the Thunderbird's will write on the inventory sheet how many people and the number of hours per stand per event. We the Thunderbird's and the City are on the same page that Inventory sales, case by sales and sales by location are all on the inventory sheet that is created for each stand/each event. We also agree that we will turn in our reports on Mondays for the following week from Sunday thru Saturday. Example: 11-24-19 thru 11-30-19 will be turned in on 12-2-19.

- City staff accepted payment without proper supporting documentation. Without reviewing proper supporting documentation, City staff cannot verify accuracy of payments received.

City Management Response: Fairgrounds Staff (City) will receive and review supporting documentation before accepting payment from Carolina Thunderbirds, LLC.

Other Projects:

- Department of Transportation Purchasing Practices Audit – The Department of Transportation’s purchasing transactions were examined to verify adherence to the City Administrative Policy – Purchasing Policy (dated 4/10/2018). Purchase order transactions were limited to those with amounts less than \$20,000. Purchase requests over \$20,000 are conducted by the City’s Purchasing Division, not at the departmental level. Therefore, purchase order transactions greater than \$20,000 are not included in the Internal Audit Division’s recurring annual reviews of purchasing practices.
 - No significant findings or observations were noted for this audit.
- Field Operations Department Purchasing Practices Audit – The Field Operations Department’s purchasing transactions were examined to verify adherence to the City Administrative Policy – Purchasing Policy (dated 4/10/2018). Purchase order transactions were limited to those with amounts less than \$20,000.

- No significant findings or observations were noted for this audit.
- Powell Bill Expenditure Review – Powell Bill expenditures to be reported to the NCDOT for FY 2018-19 were reviewed for accuracy and compliance.
 - Initial review found expenditures totaling approximately \$1.2 million could not be verified as Powell Bill eligible. After a collaborative effort between the City’s Internal Audit Division, Information Systems Department, Operations Department, and MapForysth, a revised Powell Bill Expenditure Report recovering approximately \$1.1 million of these expenditures was submitted.
- Public Assembly Facilities Cash Receipts Compliance Audit – The Public Assembly Facilities Department’s cash deposits and reporting transactions and internal controls were examined to verify adherence to the City Administrative Policy – Cash Deposit and Reporting Procedures (dated 10/1/2009). Significant findings and observations noted during this audit follow:
 - A substantial percentage of deposited revenue sampled were found to be reported late. Per policy, cash receipts must be reported in the Financial Management System within three business days following the related deposit. Internal Audit found sixty-two percent of deposited revenue sampled to be reported outside of the three-day requirement.

Management Response: Box Office report of deposits (ROD’s) are to be turned into Fairgrounds Finance office within one (1) day of actual deposit. Once ROD’s are brought to Fairgrounds Finance they will be entered into FMS by office staff within one day. Currently, the Fairgrounds Senior Accounting Clerk enters into FMS weekly. The Fairgrounds will now expand its current procedure of its part time Sr. Accounting Clerk entering into FMS to also include its Logistics Coordinator and Senior Office Assistant. ROD’s will be entered on a daily basis. Twenty percentage of deposit slips sampled indicated the preparer and supervisor reviews were conducted by the same employee.

- Parking and Traffic Safety Cash Receipts Compliance Audit – The Department of Transportation’s parking and traffic safety operations cash deposits and reporting transactions and internal controls were examined to verify adherence to the City Administrative Policy – Cash Deposit and Reporting Procedures (dated 10/1/2009). Significant findings and observations noted during this audit follow:
 - Deposit slips were not signed by supervisors. Per city policy, after the deposit slip is prepared, the document should be reviewed and signed by the preparer’s supervisor.

Management Response: The Attendant and Parking Security Attendant Procedure has been revised and will be updated once we move to address the addition of staff to assist with item once we relocate. Additionally, staff will receive a copy of the City’s Cash Deposit and Reporting Procedures.

- A substantial percentage of deposited revenue sampled was found to be reported late. Per policy, cash receipts must be reported in the Financial Management System within three business days following the related deposit. Internal Audit found twenty-one percent of deposited revenue sampled to be reported outside of the three-day requirement.

Management Response: There were some instances of revenue being reported late due to staff being out for personal time. Once DOT staff is combined in one location, a backup to this staff member will be assigned to assist with ensuring this does not continue.

- Inventory Observations (5 locations) – A physical inventory observation of the year-end supplies inventory at the Fleet Services, Manson Meads Wastewater Treatment Complex, R.A. Thomas Water Treatment Plant, Winston-Salem Transit Authority, and Central Warehouse locations.
 - Physical counts of a sample of the quantities on hand and verification of unit dollar values produced no material variances.