

**City of Winston-Salem Internal Audit Division**

**Summary of Annual Work Plan Items for the Year FY 2020-2021 - Appendix A**

<b>Project Name:</b>	<b>Physical Inventory Observation - WSTA</b>	<b>Physical Inventory Observation - R. A. Thomas Water Plant</b>	<b>Physical Inventory Observation - Fleet Services</b>
<b>Project Scope:</b>	To determine the accuracy of detailed records for supply inventories. Work performed included a count of items on hand. Unit prices were agreed to invoices. Sampling techniques were used.	To determine the accuracy of detailed records for supply inventories. Work performed included a count of items on hand. All items were entered into the inventory system with a \$1.00 value; however, pricing information will be recorded and tracked as items are replaced or researched. No unit price testing was conducted during this second year of review. Sampling techniques were used.	To determine the accuracy of detailed records for supply inventories. Work performed included a count of items on hand. Unit prices were agreed to invoices. Sampling techniques were used.
<b>Observations /Conclusions:</b>	No material weaknesses in the internal control environment were noted. Physical counts of a sample of the quantities on hand and verification of unit dollar values produced no material variances.	No material weaknesses in the internal control environment were noted. Physical counts of a sample of the quantities on hand produced no material variances.	Twenty-seven test count exceptions, or 36% of the sample selected, were noted. However, the test count exceptions represented only \$11,115.81 (4.0% of total account sample value). Inventory records were adjusted to reflect accurate quantities on hand. Physical counts of a sample of the quantities on hand and verification of unit dollar values produced no material variances.

<b>Project Name:</b>	<b>Physical Inventory Observation - Manson Meads</b>	<b>Physical Inventory Observation - Central Warehouse</b>	<b>Review on Powell Bill Expenditures Report for Fiscal Year Ending June 30, 2020</b>
<b>Project Scope:</b>	To determine the accuracy of detailed records for supply inventories. Work performed included a count of items on hand. Unit prices were agreed to invoices. Sampling techniques were used.	To determine the accuracy of detailed records for supply inventories. Work performed included a count of items on hand. Unit prices were agreed to invoices. Sampling techniques were used.	To determine the accuracy of Powell Bill expenditures to be reported to the NCDOT. Work performed included agreeing expenditure line item totals to supporting documentation. A sample of individual expenditures were examined to verify the following: <ul style="list-style-type: none"> <li>• The activity was allowable.</li> <li>• The cost was allowable and the basis of allocating the cost was reasonable.</li> <li>• The cost was accurately recorded and adequately documented.</li> <li>• The rate for labor, equipment, or materials was appropriate.</li> <li>• The purchase had appropriate supporting documentation and approvals.</li> <li>• The purchase adhered to the City's competitive bid process.</li> <li>• Parties awarded were not suspended or debarred.</li> </ul>
<b>Observations /Conclusions:</b>	No material weaknesses in the internal control environment were noted. Physical counts of a sample of the quantities on hand and verification of unit dollar values produced no material variances.	No material weaknesses in the internal control environment were noted. Physical counts of a sample of the quantities on hand and verification of unit dollar values produced no material variances. However, it was discovered that an invoice unit cost was incorrectly entered into FMS. Total resulting error is estimated to be approximately \$1,800.	The following item was determined to be Powell Bill ineligible and was removed from the Expenditure Report: <ul style="list-style-type: none"> <li>• One Traffic Control work order totaling \$187.43.</li> </ul> No material weaknesses were noted on the Expenditure Report to be submitted to NCDOT.

**Cash Receipts Compliance Audit - WSTA**

**Project Scope:**

The audit concentrated on transactions and internal controls related to the collection and reporting of cash for the period of December 1, 2019 through February 29, 2020. Sampling methods were used. Collections totaling 25 cash receipts (CR) including 249 separate report of cash collection (ROCC) transactions were examined. Testing focused on verifying adherence to the City Administrative Policy (Cash Deposit and Reporting Procedures - dated 10-1-2009); this policy guides deposit and financial reporting for the City. Specifically, the audit procedures focused on validating the following objectives:

- Were monies deposited within one business day of collection?
- Were CRs posted in FMS within three business days following related deposit?
- Did CRs agree to deposits?
- Was a supervisory review performed of ROCCs?
- Was a preparer review performed of ROCCs?
- Was a supervisory review performed of deposit slips?
- Was a preparer review performed of deposit slips?
- Was the supervisory review performed by someone other than the preparer of deposit slips?

<b>Findings:</b>	<b>Management Responses:</b>
<p>1. Two hundred forty-eight (100%) ROCCs tested indicated no physical evidence (e.g. initials or signature) that a supervisor review was made verifying the dollar amount documented on the reports. Per city policy, after the ROCC is prepared, the document should be reviewed and signed by the preparer's supervisor.</p>	<p>WSTA Staff plans to establish clear administrative rules and regulations to adhere to the City Administrative Policy-Cash Deposit and Reporting Procedures received by WSTA Staff in October 2020. Acquisition of financial approval will be initiated on all cash receipts and reports that validate the amounts received and collected. Upon completion of the ROCC, the document will be reviewed for accuracy, signed and dated by the preparer's supervisor.</p>
<p>2. One hundred ninety-one (77%) ROCCs tested indicated no physical evidence (e.g. initials or signature) that a preparer review was made verifying the dollar amount documented on the reports. Per city policy, after the ROCC is prepared, the document should be reviewed and signed by the preparer.</p>	<p>WSTA Staff will follow the guidelines as indicated in the City policy. To eliminate inconsistencies with the ROCC in regards to the physical evidence of the preparers review, all preparers will sign and date the paperwork.</p>
<p>3. Ninety-eight (39%) instances of cash collections being deposited after one full business day were found. Occurrences were noted of collected monies being deposited twenty-one, eighteen, and fifteen days late (after taking into account both holidays and weekends). Furthermore, twenty-four separate cash transactions were not deposited by the last business day of the month. Per city policy, deposits must be made within one business day of cash collection and must be deposited by the last business day of the month.</p>	<p>WSTA staff will adhere to the City policy and the collected funds will be delivered to the City Revenue Department within the 24-hour time span to finalize the deposit process or the next business day. WSTA plans to include an internal process to log or stamp when payments are received at the WSTA Admin office. This vital part of the procedure will eliminate the need to utilize actual check dates as proof of receipt as we had done in this year's audit. Deposits received at month end, will be hand delivered to City Revenue to complete the deposit process. Upon delivery, WSTA staff will request a copy of the receipt of deposit slip from City of WS staff.</p>
<p>4. Six (3%) deposit slips tested indicated no physical evidence (e.g. initials or signature) that a supervisor review was made verifying the dollar amount documented on the slips. Per city policy, after the deposit slip is prepared, the document should be reviewed and signed by the preparer's supervisor.</p>	<p>Management Response: WSTA Staff will follow the guidelines as indicated in the City policy. The deposits are reviewed, however, physical evidence of an initial or signature was missing. After the deposit slip is prepared, the document will be given to the supervisor for further review, accuracy, date and signature of supervisor.</p>

**Residency Requirement Compliance Audit**

**Project Scope:**

The audit concentrated on examining the residency policy affidavits and supporting documentation for compliance with the Residency Requirement Policy and Residency Compliance Memo. Additionally, public safety position requirements were examined for maintaining their principal residence in the county [Forsyth] or any county contiguous to the county [Forsyth] or establish their principal residence within one of such areas within 180 days of the effective date of the personnel action.

**Findings:**

1. Proof of principal residence was not included with the affidavit. Per the Residency Requirement Memo, all employees who are subject to the provisions of the Residency Requirement Policy are to submit the appropriate documents that verify their principal residence. Evidence of principal residence is demonstrated by the address listed on the following documents:

- Employee's driver's license
- North Carolina income tax statement
- Employee's vehicle title and/or registration
- Employee's vehicle insurance policy
- Employee's voter registration card
- Utility bills for the principal residence
- Property tax bill for the principal residence

Internal Audit noted evidence of principal residence could not be found for one employee.

**Management Responses:**

We shared this report with our new Sr. HR Analyst over recruitment, and she will work with her staff to ensure that all information requested is in accordance with the policy.

2. Public safety personnel do not maintain proper principal residence in accordance to the policy. Per the Residency Requirement Policy, "all persons hired, promoted, transferred or reclassified to a public safety position (sworn police personnel or fire suppression personnel below the level of department, division or office head) shall be required to maintain their principal residence in the county [Forsyth] or any county contiguous to the county [Forsyth] or establish their principal residence within one of such areas within 180 days of the effective date of the personnel action." Four public safety personnel do not maintain their principal residence in Forsyth County or any county contiguous to Forsyth County.

We will get with Public Safety staff and recruitment staff to ensure the policy is followed in recruitment and recertification.

**Residency Requirement Compliance Audit**

<b>Observations/Conclusions:</b>	<b>Management Responses:</b>
<p>1. Proof of residency submitted did not match the accepted documents list within the policy. The Residency Requirement Policy states that evidence of principal residence is demonstrated by the address listed on the following documents:</p> <ul style="list-style-type: none"><li>• Employee’s driver’s license</li><li>• North Carolina income tax statement</li><li>• Employee’s vehicle title and/or registration</li><li>• Employee’s vehicle insurance policy</li><li>• Employer’s voter registration card</li><li>• Utility bills for the principal residence</li><li>• Property tax bill for the principal residence</li></ul> <p>One employee provided their home loan as proof of residency.</p>	<p>Staff has been advised of this failure and the new Sr. HR Recruitment Analyst is reminding staff of their responsibilities under the policy and permitted and accepted documentation.</p>
<p>2. Policy does not include all theoretical scenarios that could occur with the Residency Requirement. The Residency Requirement Policy provides guidelines for residency requirement procedures. Internal Audit discovered other scenarios that could take place that were not addressed within the policy. Situations that were not addressed in the policy include:</p> <ul style="list-style-type: none"><li>• Policy states, any grandfathered employee that subsequently moves into the city limits will be required to remain in the city limits as long as said employee holds a position that requires city residency. The same applies if a grandfathered employee moves into the county and the position requires county residency, then the employee will be required to remain in the county limits as long as the employee holds a position that requires county residency. However, the policy does not address whether a grandfathered employee is free to relocate outside of city/county limits and maintain their grandfathered status or whether they must move within city/county limits upon relocation.</li><li>• Policy does not state when an employee is promoted, transferred, or reclassified whether an updated affidavit form and proof of residency (if applicable) should be submitted.</li><li>• Policy does not state if an employee holds a residency requirement position and moves, whether it is required for the employee to update the proof of residency attached to the affidavit.</li></ul>	<p>We will include this in the next round of policy revisions.</p>

**Vendor Selection Compliance Audit**

**Project Scope:**

The audit concentrated on transactions occurring between January 1, 2020 and June 30, 2020. Discretionary spending over \$20,000 was reviewed for compliance with City policies concerning vendor selection with a focus toward M/WBE businesses. Emphasis was placed on internal controls and operating procedures relating to all City Departments' purchasing practices using POs. Statistical sampling methods were used (90% confidence level with a 10% margin of error).

The audit approach included testing the following attributes:

- Verifying the lowest responsible, responsive bidder was selected.
- Verifying informal or formal bids were obtained and M/WBE were solicited.
- Verifying an explanation was provided when less than three bids were obtained from vendors including minority and women vendors.
- Verifying 10% for participation by minority businesses on city building projects of \$100,000.
- Verifying 10% M/WBE participation goal has been met on all submittals for professional and other services (if applicable).
- Verifying bid attributes listed in the "Policy Guide Grid" based on the type and dollar amount of the contract were met.

**Observations/Conclusions:**

The Purchasing Division appears to be in compliance with the City's Purchasing Policies. Internal Audit found no exceptions during fieldwork testing.

**Management Responses:**

N/A - No Findings or Observations.

**Controls over Personal Identifying Information - Crime and Victim Data Review**

**Project Scope:**

Off-site interviews of Police Department staff were performed during October-December 2020. The information obtained from interviews was used to create a comprehensive inventory of sensitive Personal Identifying Information by repository and to identify existing physical, electronic, and procedural controls for the effective prevention of unauthorized access to sensitive PII. Representations obtained from the Police Department bureaus and divisions were then evaluated for significant vulnerabilities.

**Observations/Conclusions:**

Controls over Personal Identifying Information maintained by the Winston-Salem Police Department appear to be effective.

**Management Responses:**

N/A - No Findings or Observations.

**Marketing and Communications Department Purchasing Practices Audit**

**Project Scope:**

The audit concentrated on operations and transactions occurring between July 1, 2019 and June 30, 2020. Emphasis was placed on the testing of P-Card, PO, and RC transactions in accordance with City policies and procedures. Expenditure testing focused on reviewing and verifying purchasing practices in adherence to the Purchasing Policy. Statistical sampling methods were used (90% confidence level with a 10% margin of error). A summary of all purchasing activity for the audit period was examined and included a review of P-Card issuance and usage volume. For population and testing purposes, only purchases less than \$20,000 were included as all purchases over \$20,000 are to be handled by the Purchasing Division per policy.

<b>Findings:</b>	<b>Management Responses:</b>
<p>1. Four P-Card (7%) charges appear to be two single split transactions. Per the Purchasing Policy, splitting a single transaction into several smaller pieces less than \$1,000 to avoid bid requirements, obtaining authorizations, or using a purchase requisition is in violation of City policy. Two instances where P-Card transactions made on a single day with the same vendor totaled over \$1,000 were noted.</p>	<p>The two payments to Freedman Associates were because there were two different invoices for two different services. Payment was processed for both on the same day. The Telly Awards was purchased using Sue Spainhour's P-Card. There should have been one charge for both entries using a PO instead of a P-Card.</p>
<p>2. Four P-Card (7%) and one RC transactions' (2%) FROP codes were not appropriate. Per the Purchasing Policy, P-Card and RC transactions are required to have an accurate FROP code associated with the expenditure. The cardholder (for P-Cards) or originator (RCs), supervisor, and department head are responsible for all transactions including the appropriateness of the purchase.</p>	<p>Will do better at using FROP codes.</p>
<p>3. Four P-Card (7%) transaction receipts or invoices were not itemized. Per the Purchasing Policy, supporting receipts or invoices are required to be itemized.</p>	<p>Will make sure all receipts are itemized.</p>
<p>4. One non-local P-Card (3%) and two RC transactions (5%) were noted in instances where local vendors were available. Per the Purchasing Policy, local vendors must be used if available for all discretionary spending under \$20,000. Quotes for purchases under \$20,000 should only be obtained from non-local vendors if no qualified local vendor exists.</p>	<p>In the future, local proposals as well as proposals from M/WBE vendors will be solicited first. (Departure from the policy because of timing or quality will require prior approval from the City Manager.)</p>



**Marketing and Communications Department Purchasing Practices Audit**

<b>Findings:</b>	<b>Management Responses:</b>
<p>5. Twenty-nine RC transactions (60%) should have been procured on a P-Card or PO. Per the Purchasing Policy, only services or items that cannot be procured on a P-Card or PO should be paid for on a RC.</p>	<p>Payments will be more closely evaluated to consider creating POs. Since POs tend to be for services that need to go through a bid process, RCs have been used instead since media buying isn't the usual competitive type of service. Media isn't an industry that allows for "lowest bidding" opportunities. We have 2 local newspapers with large subscribers, so those are the newspapers we advertise in. The digital media service we use is the only company in the region that offers the complex service we utilize. And in the instance of advertising costs with Facebook, there isn't a competitor.</p> <ul style="list-style-type: none"> <li>• RCs are used for the Chronicle because they don't give you an option to use a credit card.</li> <li>• Herc Rental should have been a P-Card.</li> <li>• Salem One- a PO should have been open at the beginning of the year and use provisional PO for quarterly payments.</li> <li>• Media Placement Services doesn't accept credit card payments. Purchasing has verbally told us that ad payments do not need to go through the PO process, therefore POs have not been used.</li> <li>• Freedom Mailing doesn't accept credit card payments. That business is our preferred vendor for mailings since they can turn jobs quickly unlike the other mail service vendors.</li> <li>• A Daisy A day should have been a P-Card</li> <li>• Express Graphics doesn't accept credit cards.</li> <li>• Cloverdale Kitchen doesn't accept credit cards.</li> <li>• Item 18 for Freedom Mailing was ordered by the City Manager and had to be done quickly as we were in a state of emergency.</li> <li>• Image 360 should have been a PO.</li> <li>• The vendor Paschal Promotions, at the time of the purchases, didn't accept credit cards. She does now.</li> <li>• Segmented Marketing was for advertising and the cost was being split between departments.</li> <li>• Credit card purchase wasn't an option for WS/FC Schools payment of \$5,000.</li> <li>• Metal Designs should have been a PO.</li> </ul>
<p>6. RC purchasing requirements were not met for ten transactions (25%). Per the Purchasing Policy, the best price available should be sought with consideration to spending funds within the local economy. There was no evidence of obtaining the best price available for ten transactions.</p>	<p>In the future, local proposals as well as proposals from M/WBE vendors will be solicited first. (Departure from the policy because of timing or quality will require prior approval from the City Manager.)</p>

**Marketing and Communications Department Purchasing Practices Audit**

<b>Findings:</b>	<b>Management Responses:</b>
7. RC purchasing requirements were not met for eight transactions (22%). Per the Purchasing Policy, the best price available should be sought with consideration to local Minority/Woman Business Enterprise (M/WBE) businesses. There was no evidence of soliciting M/WBE businesses for eight items purchased via RC.	In the future, local proposals as well as proposals from M/WBE vendors will be solicited first. (Departure from the policy because of timing or quality will require prior approval from the City Manager.)
8. Seven RC transactions (15%) were not properly approved by the City Manager. Per the Purchasing Policy, RC transactions above \$5,000 require the approval of the requester, the department head, and the assistant city manager or city manager.	They were all approved by the City Manager, however it was through conversations between Director Ed McNeal and City Manager Lee Garrity. There was no documentation attached to those purchases. One way to help with this issue is eWorks should be set up to catch this type of purchase request and not allow them without an ACM or manager's eWorks approval. The department will do better at including backup information, including providing documentation of approval from the manager's office.
9. One vendor was not paid with the appropriate purchasing method for two transactions (4%). Per the Former City Treasurer, "[Employees]... are not supposed to use the P-Card for meals during travel. If the Accounts Payable (AP) staff catches it, then the employee is given a warning and depending on the circumstances may require reimbursement." Internal Audit found that two employees were provided cash advances to be used for meals; however, four meal costs were charged to two hotel rooms and ultimately charged to the P-Card.	The department will make sure employees traveling understand and follow the purchasing policy.
10. RC transaction requirements (6%) for supporting documentation were not met. Per the Purchasing Policy, RC transactions with incomplete documentation may be returned to the originator; moreover, Accounts Payable may not process an RC unless supporting documentation is attached. One RC transaction did not provide an invoice and two RC transactions' supporting invoices did not match the amount of the expenditure.	AP has contacted the department in these instances and requested the documentation or corrected invoices. Information was emailed per AP's request. Therefore, the information didn't appear in eWorks.
11. One P-Card (3%) transaction receipt's sales tax was not shown as a separate line item. Per the Purchasing Policy, supporting receipts or invoices are required to itemize sale tax.	Will make sure merchants' receipts show sales tax.
<b>Observations/Conclusions:</b>	<b>Management Responses:</b>
1. Insufficient supporting documentation within e-Works. The Purchasing Policy requires supporting documentation such as informal quotes and an explanation of efforts to obtain local vendors and M/WBE business. A lack of supporting documentation within e-Works was noted for Marketing.	Will make sure all supporting documentation is attached in e-Works.

**Marketing and Communications Department Purchasing Practices Audit**

<b>Observations/Conclusions:</b>	<b>Management Responses:</b>
2. Reimbursement of purchasing activity should not be approved by original purchaser. Although the Purchasing Policy does not require that department heads have their purchases and reimbursements reviewed and signed by their supervisor, approving one's own purchases and reimbursements does not ensure an independent and separate review.	Purchasing agrees that per proper internal controls the Purchasing Administrative Policy should be revised to prohibit an individual from approving one's own reimbursements and to require approval of such reimbursements by one's own supervisor. Purchasing will prepare and propose an addition to the Purchasing Administrative Policy to address this situation. Purchasing will also seek to have electronic payment approval routing configured to prevent self-approval of reimbursements.

**Mowing Contracts Audit Follow-up**

**Project Scope:**

The contract audit concentrated on operations and transactions occurring between October 1, 2020 and October 31, 2020. Emphasis was placed on assessing corrective action taken toward issues identified in the fiscal year 2019 Mowing Contracts Audit.

Objectives included and were limited to answering the following questions:

- Has Vegetation Management began utilizing checklists in monitoring all routes?
- Have the contractors' mowing schedules been submitted to Vegetation Management?
- Have the Re-Inspection Reports been completed within five days of the expiration or has supporting documentation been maintained if they were completed outside of the five-day timeframe?
- Are the inspectors maintaining proper documentation with Re-Inspection Reports?
- Are the inspectors consistently using paint cans in "before" pictures?
- Has Code Enforcement began including "after" pictures within Re-Inspection Reports to ensure violations have been corrected?
- Has Code Enforcement began including "after" pictures at the same angle as "before" pictures within the Re-Inspection Reports to ensure violations have been corrected?

The COVID-19 pandemic was taken into consideration when conducting fieldwork. Per the Community Development Department, violators were given an extension to comply with the requirements, therefore, inspectors were given more time to complete the re-inspection report.

**Findings:**

Vegetation Management 1. Submission evidence of two mowing contract schedules could not be located; in the prior audit no schedules were submitted by the contractors or maintained by Vegetation Management.

Per the contract, the mowing contractor shall develop and provide to the City a schedule outlining the times when the various routes within the contract shall be mowed. In the event weather conditions prevent the mowing contractor from performing scheduled areas, the City shall be given a twenty-four-hour notice of the date when areas previously missed will be mowed. This information shall be provided to the Vegetation Management Supervisor. Vegetation Management could not locate two submitted schedules.

For completeness and compliance purposes, it is recommended for Vegetation Management to maintain supporting documentation of the submitted schedules.

**Management Responses:**

Action:

- Ensure all contractor mowing route schedules are provided in writing – preferably through email.
- For 2021, all the schedules have been provided, in writing.

### Mowing Contracts Audit Follow-up

Observations/Conclusions:	Management Responses:
<p>Code Enforcement 1. Fifteen re-inspection reports (50%) did not include paint cans in the “before” pictures; the prior audit noted thirteen re-inspection reports (20%) not containing paint cans in the “before” pictures.</p> <p>Per environmental control practices, Inspectors shall use eight-inch paint cans in the “before” pictures of the scope of work. The paint cans were implemented to counter any appeals that might occur.</p> <p>It is recommended for inspectors to consistently use the paint cans in the “before” pictures to substantially document the violation.</p>	<p>Management accepts the findings, and the following have occurred and will occur in response:</p> <ol style="list-style-type: none"> <li>1. Findings have been shared with the inspector supervisor and with the crew coordinator.</li> <li>2. In turn, the supervisors have shared the findings with the work teams.</li> <li>3. Periodic spot quality control checks are being implemented on closed cases. This allows supervision to review the entire case for errors whether by inspectors, office staff and/or the crew/contractor.</li> <li>4. Additionally, any case under review for any reason is being reviewed from beginning to end/present time and date.</li> <li>5. First line supervision will ensure compliance for cases in process.</li> <li>6. Should the case be closed without compliance with established policies and procedures, appropriate action will be taken in accordance with Human Resource policy.</li> <li>7. Should errors occur with contractors, appropriate follow-up action will occur up to and including removal from the contractor list.</li> <li>8. Reviews will include any aspect of processes and procedures, as well as an emphasis on processes and procedures that received specific attention in the audit report.</li> </ol>
<p>Code Enforcement 2. Four city-owned property violations did not include “after” pictures and three violations did not include any pictures.</p> <p>Due to the violations being city-owned, the re-inspection reports did not require a notice of violation. In the prior audit the inspectors did not include any “after” pictures; however, the department is now including after pictures for city-owned properties. Internal Audit noted “after” pictures were not included within four of the five re-inspection reports for city-owned properties. Furthermore, there were no pictures included for three of the five re-inspection reports for city-owned properties.</p> <p>It is recommended for the inspectors to include and maintain “after” pictures within the re-inspection report to ensure the violation has been corrected.</p>	
<p>Code Enforcement 3. Ten re-inspection reports (33%) did not include adequate “after” pictures of the corrected code violations; the prior audit noted six re-inspection reports (1%).</p> <p>Per the mowing procedures document, the Contractor and Inspector shall take “after” pictures from the same angle as the inspector’s “before” pictures.</p> <p>For completeness purposes, it is recommended for the Contractor and Inspector to take “after” pictures at the same angle as before pictures to ensure the code violation has been corrected.</p>	