Governance & Accountability Committee

Monday, August 18, 2014 – 12:00 noon
Room 280

Committee Members:	David Howard, Chair LaWana Mayfield, Vice Chair John Autry Patsy Kinsey Greg Phipps
Staff Resource:	Hyong Yi, Assistant City Manager

AGENDA

I. <u>Internal Audit Workplan and Hotline</u>
Staff Resource: Gregory McDowell, City Auditor

Action: The City Auditor will review the planned implementation of the Charlotte Employee Hotline, and the FY 2015-16 Audit Plan.

II. <u>Closed Session to Discuss City Attorney's Evaluation Survey Results</u>
Staff Resource: Cheryl Brown / Bob Hagemann, City Attorney

Action: Adopt a motion to go into closed session pursuant to G.S. 143.318.11(a)(6) to consider the competence, performance, character, fitness, compensation, and other conditions of employment of the City Attorney.

IV. <u>Next Meeting</u>
****Monday, September 22, 2014 at 12:00 noon in Room 280**

<u>Distribution:</u>

Mayor and City Council	City Manager's Executive Team	Corporate Communications
Council Team	Bob Hagemann	Stephanie Kelly
Greg McDowell	Cheryl Brown	
Sheila Simpson	Robert Campbell	

CHARLOTTE

Charlotte City Council

Governance & Accountability Committee

Meeting Summary for August 18, 2014

COMMITTEE AGENDA TOPICS

I. **Subject:** **Internal Audit Workplan and Hotline**

II. **Subject:** **Closed Session to Discuss City Attorney's Evaluation Survey Results**

III. **Subject:** **Next Meeting**
Action: Monday, September 22, 2014 at noon in Conference Room 280

COMMITTEE INFORMATION

Present:	Council Members David Howard, Lawana Mayfield, John Autry, Patsy Kinsey, Greg Phipps and Vi Lyles
Other:	-
Time:	12:00 p.m. to 12:51 p.m.

ATTACHMENTS

1. Agenda Package

DISCUSSION HIGHLIGHTS

Committee Chair Councilman David Howard called the meeting to order and asked those in attendance to introduce themselves. Upon completion of all introductions Councilman Howard advised that the discussion begin with conversation regarding the Internal Audit Workplan and Hotline discussion led by staff resource and City Auditor Gregory McDowell.

Internal Audit Workplan and Hotline

McDowell: Thought I would start discussion with the Hotline with seven slides (attached) that are sufficient to cover the two topics. I've been with the City for nearly seventeen years and proposed the Hotline a couple of times and before I could propose the Hotline to the third City Manager he asked me to do some research on this topic and we have done so starting since last summer. In February we proposed the Charlotte Employee Hotline at a City Manager's Executive Meeting to move forward.

Howard: And by March we had to.

McDowell: Yes. In April this committee said it would recommend it, endorse it and by May 5th Mr. Howard presented it at a Dinner Meeting, I believe. The purpose of the hotline is to promote high ethical standards and provide employees reporting options. Why would we do this? What are the benefits? To reduce fraud. Research has found the earlier you find fraud the less it is. Also, to deter fraud. We also can identify control weaknesses through hotline data analysis. We are going to operate a 24/7/365 toll free line, contracted through competition and selected "The Network". This line will be anonymous and confidential. The contractor won't be able or have the ability to identify by phone numbers, and callers will be unable to leave a name. There is no identifying information through the phone.

Howard: How do you make sure you don't just get any and everybody and get sent on a bunch of trails that are a dead end?

McDowell: I think that is what concerns people the most. That is why using a trained firm to weed through things and ask for information and request enough detail that frankly some people will weed themselves out.

Autry: How do you justify that claim? What does the success rate look like? How many calls do you anticipate that are false leads?

McDowell: They collect data, they report data and of course we will know what works the same for us. It will be different in the sixth month than it will look a year later. I would expect we would get calls initially that will lead nowhere. However, they actually report that about 70% or so of the calls that they take from the person that makes it through the screening are worth following up and at least half of those lead to some action taken by the company hired to do this.

Most organizations that we have talked to: Raleigh, Mecklenburg County and a number of other folks don't receive a lot of calls. Our contract is actually written by the number of calls. The number is not high and the cost is less than $5,000.00 in the first year if the calls are beneath the number of calls agreed upon per month. We are very concerned about not wasting resources. We will use best judgments to not chase rat holes.

Mayfield: How is the company going to differentiate calls that are related to ongoing issues? There is some concerns that staff out in the field has seen years of particular types of abuse. What I don't want is the calls to be categorized as "we couldn't connect the dots" and then a year or so later we realize had we captured those calls and reported them properly then they would know those calls were small pieces to a larger picture.

McDowell: That's a good point because some people only have a small picture. We will track all the information that is provided and all calls that come in. Follow up questions will be handled by The Network and then we will gather information and report it to the City Manager and Council.

Howard: Who has the investigative role in all this?

McDowell: Internal Audit will determine the course of the investigation that is as agreed upon by the City Manager's Office. Bob Hagemann will handle all calls relating to our department.

Autry: Are you comfortable with the capacity of the Internal Audit dealing with this matter?

Howard: We should ask that of Mr. Carlee as well.

Carlee: I think we are comfortable at this point. We don't expect the volume to be huge.
If it gets larger than anticipated we may need to contract in terms of some of the other things we have scheduled. The critical period will be first month or two when it becomes new. Research has shown over time calls have seemed to decline. Part of the value of having the Hotline is the deterrent itself and knowing it's out there. We will have to watch the workload and make assessment on year to year basis.

McDowell: As it stands Internal Audit will determine the course of investigation. There will be periodic summaries to the City Manager's Office and the Governance and Accountability Committee.

McDowell: As far as Rollout we are planning to Rollout in September as early as September 1st but didn't want to commit today since there are a couple things to sign off on. I have asked Sandy (D'Elosua) from Corporate Communications and Marketing to come and discuss coordinating effort for this rollout.

D'Elosua: We talked about a memo, basically an email coming from Ron Carlee to all employees about holding employees at high ethical standards and what that means. Also informing

employees about what ethics is about so that they are familiar with and really understand the topic that is being rolled out. We will distribute posters, brochures, business cards and update CNet information to all employees and departments about ethics, defining fraud and defining waste. There will also be a QR code to scan and save contact information for that hotline because it is not an easy number to remember.

Howard: Can we pick our own line or is it a general number?

McDowell: It is a number that will be answered as a City of Charlotte's Hotline.

Howard: Since we didn't pick our own number can we pick something that was easier to remember?

McDowell: No we didn't. They didn't offer that but in my way of thinking people should not have a hard time finding the number. We are going to advertise and solicit these types of calls. They shouldn't have a hard time finding the number. I'm not sure I want a number that's so easy to find and can be dialed at the drop of a dime.

Howard: It would look better for optics if it was an acronym or something.

D'Elosua: It (the number) is on everything but an acronym is possible and we can look into that.

Howard: Please do. Another thing is when it comes to posting we want it posted in the breakroom as a requirement. At least at the initial roll out Ron.

Carlee: There will be certain expectations by each department but as to the other kinds of things you proposed, how they do it is non-discretionary.

Howard: What if they call you and say they want to say something about David Howard, Patsy Kinsey, John or LaWana, how would you handle that?

McDowell: There is a City Council policy passed in 2010 or 2011 that covers that already. There is an established protocol set in place. We are not breaking new ground here. Hotlines have been around for a while.

Mayfield: The fact that we are not doing anything new, with this being an anonymous hotline is there a way to ensure we are hearing from actual employees?

McDowell: It's called an employee hotline and we are only advertising to employees but because it is anonymous it can be anybody who sees it posted and gets the number from the cards being handed out.

Mayfield: So is there going to be a way to make sure during the questioning process it is an actual employee calling in and not a family member or citizen who is calling in and making

random calls? I just want to make sure they are asking the right questions to make sure the community at large isn't calling to make random calls.

Howard: Just think about it if someone random is calling in about a truck crew drinking it could be that hotline. We call it an employee hotline but it's very much a City hotline too.

McDowell: While it would be helpful for us to know where they got their information, they would be able to fool us if they were non-employees to a certain point.

Autry: This goes back to the initial question of data and how they justify their metrics of their success rate. I still see some problems of where they would be chasing things a couple of times a year that never really pans out to be a legitimate claim.

McDowell: I don't have unlimited resources so by endorsing this you and the City Manager will be relying on my judgment to a great extent. I will also be coming back to you with results and we will all have a reason to sit down and say Greg how did you decide to do this and in doing it this way, does this make sense.

Autry: Absolutely. I would want to rely on that.

Kinsey: I don't think we want everyone to have this number because then it becomes a complaint line. I just think it needs to be controlled.

D'Elosua: I think publically we will be prepared to respond to the media and media inquiries about it but we won't be publishing the phone number.

**COUNCILWOMAN VI LYLES ENTERED THE MEETING*

Carlee: That's part of the reason why we are calling it the employee hotline because we think that is the right place to start. Let's get our experience here and see what it looks like first.

Kinsey: Isn't that sort of what 311 is for? And also the Council Members?

Howard: So, if I call 311 will they refer me to this number?

McDowell: Pretty sure.

**COUNCILMAN GREG PHIPPS ENTERED THE MEETING*

D'Elosua: Greg do you want to tell them how the County is handling their number?

McDowell: The County has had a line for several years limited to the employee hotline and I haven't heard that they had many problems. They have not been inundated.

Howard: Let's wrap this one up. Anyone have any more questions? Based on the occurrences from a couple of months ago, we had to do this. I just wanted to make sure we asked all the questions we had on our hearts and hopefully we got them all out. Greg (Phipps), do you have any questions regarding the hotline?

Phipps: My experience with a hotline is in the banking industry it has proven very effective, a best practice in terms of rooting out fraud and corruption. It is pretty much an industry standard.

Howard: Vi, do you have anything to add regarding the Hotline?

Lyles: I think it is a great idea.

Howard: We look forward to getting the report and hearing the results in the future of how things are going.

McDowell: We will now discuss part two of my presentation, Audits in Progress, the Audit Plan and I will only touch on the fact that we have some audits in progress. You have the full document but we will be sending it out as part of the CM memo in addition. This will give you a quick summary of audits in progress. (Attached) The Airport Parking Valet was not on the audit plan last year but the airport interim director requested an audit and I agreed.

Howard: And that is for a date forward or a date back?

McDowell: This is for the contractor who ceased operation out there on June 1st.

Howard: That point back?

McDowell: We will be looking back a year initially.

Howard: Initially? Nice little add.

McDowell: Well we will decide whether we should look farther or if that's far enough. Noted are some other audit initiatives. P-Card, Cash Collections and coordinating with external auditors, Airport Concessions, ERP Implementation, Construction, CATS Construction. We have done a lot of work on CATS over the years.

Autry: As for construction contracts, is part of your process to look at how many of those contracts actually had to call upon contingency to be successful?

McDowell: Change orders and Contingencies usage, absolutely.

Howard: As with CATS construction and Gold Line I would love to hear ongoing updates as to how things are going. It would be nice to hear construction updates on a quarterly basis. Even if I need to make a motion I would like to have something in place to know that if there are problems

about what is going on we are hearing about them and at least getting updates so that we will know if there are problems, especially regarding the big ones.

McDowell: We will work with you on that. Lastly some audits under consideration if we have time or will be on the top of the list next year are Police Secondary Employment, SWS Operations and Payments.

Mayfield: Regarding the Police Secondary Employment I had a conversation with the chief regarding this and now I want to get an idea of what that looks like moving forward in your department.

McDowell: We met with the Chief back in April and he asked us to look at secondary employment and we are learning more about it and how we can fit in. We are getting more educated as to what our (audit) role will be and lend some assistance.

Howard: Any questions?

Phipps: Any unexplained audits that prevented you from scheduled audits.

McDowell: We always leave a little bit of time in the audit plans. We call it the 80/20. We had to postpone audits and reprioritize. This is a good organization that wants to get better and all my recommendations get good attention. We are at the right level right now and will continue to make those adjustments. Now I have a committee that I can come to and tell you exactly that we need to move this down to get to something else.

Howard: All I ask is if and when you have to add please let us know so that it is in the record.

McDowell: The monthly reports that I provide will tell you about the audits that weren't planned that we put in there and so we will continue to report like that.

Howard: We look forward to hearing more. Now we will move on to the closed session to discuss the City Attorney's Evaluation Survey Results.

Mayfield: Action: Adopt a motion to go into closed session pursuant to G.S. 143.318.11(a)(6) to consider the competence, performance, character, fitness, compensation, and other conditions of employment of the City Attorney.

Howard: Any one like to second that motion?

Autry: Second

Everyone else in agreement said "Aye".

Meeting was closed to the public. Meeting (officially) adjourned at 1:20 p.m. ~jcs

CHARLOTTE
INTERNAL AUDIT

Employee Hotline and Audit Plan FY 2015-2016

Governance & Accountability Committee

August 18, 2014

Charlotte Employee Hotline

A. Background

- June 2013 – began researching business case
- February 2014 – proposed to City Manager's Executive Team
- April 2014 – Governance & Accountability Committee (G&AC) recommended Council endorsement

B. Purpose

- Promote high ethical standards
- Provide employees reporting option

Charlotte Employee Hotline

C. Benefits

- Fraud loss reduction – earlier reporting reduces loss
- Deterrence – less likely to act improperly when actions may be reported
- Identification of control weaknesses – through hotline data analysis

D. Operations

- A 24/7/365 toll-free line, contracted to “The Network”
- Anonymous and confidential
- Internal Audit will determine course of investigation
- Periodic summaries to the City Manager’s Office and the Governance & Accountability Committee

E. Rollout

- September 2014
- Corporate Communications & Marketing coordinating effort
  - E-mail announcement by City Manager
  - City intra-net information
  - Posters, brochures, business card and CNet information

Questions?

Audit Plan FY 2015-16

Audits in Progress at 6/30/14

1. Payroll Data Accuracy (Issued 7/31)
2. Citywide Cash Collections
3. Employee Expenses
4. City-wide Overtime
5. Airport Parking Valet

Annual Commitments

1. Follow-up Recommendations
2. CMPD Vice Imprest
3. Bus Operations
4. Managed Competition

Audit Initiatives

1. P-card
2. Cash Collections (in coordination with external auditors)
3. Airport Concessions
4. ERP Implementation
5. Construction (Citywide approach to be determined)
6. CATS Construction
7. Grant Accounting
8. Under Consideration: Police Secondary Employment; SWS Operations; Payments (contracts, approvals)

Audits Completed since May 2014

Reports Issued Since prior Committee Meeting	CM Memo Date
• Final ARRA (Stimulus)	6/4/14
• CATS Blue Line Extension	6/11/14
• CATS Fare Evasion Fines	6/27/14
• Contracts and Payments FY13	6/27/14
• Payroll Data Accuracy	8/1/14

CHARLOTTE.

CITY MANAGER'S OFFICE
M E M O R A N D U M

July 31, 2014

TO: Ron Carlee, City Manager

FROM: Greg McDowell, City Auditor

SUBJECT: Fiscal Year 2014 Audit Summary

The Internal Audit Division completed twelve performance audits, resulting in 23 recommendations for improvement, during fiscal year 2014:

Accounting and Procurement (p. 2)
- Citywide Authorized Contracts and Payments

American Recovery and Reinvestment Act (ARRA) (p. 3)
- Stimulus Reporting in FY13
- Final Stimulus Reporting through December 2013
- Energy Efficiency and Conservation Block Grants

CATS (p. 5)
- Bus Imprest Fund
- Blue Line Extension: Consultant's Labor/Overhead/Fees - 2012
- Blue Line Extension: Consultant's Labor/Overhead/Fees - 2013
- Fare Evasion Fines

Police (p. 7)
- Vice Imprest

Managed Competition (p. 7)
- Solid Waste Services

Follow-Ups (p. 8)
- Citywide Accounts Payable
- Business Taxes

SUMMARY OF RECOMMENDATIONS

	Total	Satisfactory-cleared	Satisfactory Progress-requiring follow up	Unsatisfactory Resolution
2013 or prior	14	9	5	0
FY 2014	23	8	14	1
Totals	37	17	19	1

The following sections provide a brief summary of each audit issued in FY2014.

ACCOUNTING AND PROCUREMENT CONTROLS

Citywide Authorized Contracts and Payments (June 2014) – Staff conducted a lengthy audit of FY2013 payments, which concluded with quite positive results. There were two issues to be resolved, but the overall conclusion of this audit includes the finding that over 99.9% of testing was positive.

The intent of this audit was to evaluate the City's spending with the entities paid the most in FY13, whether related to a new or existing contract, a Council-approved disbursement, electronic transfers, purchase order, procurement card, or direct payment. We examined supporting documentation to determine that payments to these entities were valid and that a proper procurement process was followed. In addition, applicable Council or City Manager approved renewals, change orders and amendments were tested. Tests were designed to determine whether:

- The solicitation process was in accordance with the City's procurement policies;
- Payments were in accordance with the original bid estimation or amendment amounts;
- Grant funding agreements were approved and payments were in accordance with grant requirements;
- Contract terms appropriately reflect contractor and subcontractor details, as approved by Council; and
- Land purchases exceeding $10,000 were Council-approved.

Conclusion and Summary Results: For entities paid the highest amounts by the City in FY13, payments were properly authorized, and based upon solicitation processes and contracts which complied with City Council approvals and existing City policies. For these entities, a high level of accuracy, supporting documentation and compliance with grant funding agreements were verified, as follows:

- Payments on behalf of fourteen departments were included in the testing. Only the Planning Department did not have vendors who met the threshold.
- About $479 million (68% of $706 million) paid by the City in FY 2013 was verified as accurate, supported, and in compliance with Council's approval and the City's accounts payable policy.
- Over 99.9% of payments tested were determined to be sufficiently supported by the entities' invoices and documentation.
- 56 entities (vendors/contractors/service providers) were tested, and each was paid over $1.4 million in aggregate, from one to nine City departments, in FY 2013. The thirty-nine highest paid entities received over $4 million each, and 17 entities judgmentally selected were paid at least $1 million.

Payments made on behalf of two departments did not follow City policy and/or best practices for managing contract expenses. Those issues were being appropriately addressed by the

Departments. Audit staff will follow up with the applicable departments to ensure that planned actions are progressing.

> ***Status:*** Issued in June 2014; follow-up of two departmental issues planned by September 2014.

AMERICAN RECOVERY AND REINVESTMENT ACT

Stimulus (ARRA) Reporting FY13 (October 2013) – During fiscal year 2013, the City finalized four grant projects totaling $12.2 million with Federal (Direct) award amounts and five grant projects totaling $5.3 million in subrecipient (Indirect) grants. Nine grants still in process total $94.2 million-Direct, and $3.4 million-Indirect as of June 30, 2013.

Although minor adjustments in total expenses and amounts paid to specific vendors or subrecipients were required, effective controls continue to help ensure accurate reporting of total expenses. The audit found errors in grants that Project Managers (PMs) subsequently corrected. One additional correction was in process when this report was issued in October 2013.

Following audit reviews, quarterly adjustments are still required to report Full Time Equivalent employees (FTEs) accurately in the section 1512 federal report. (§1512 refers to the section of the ARRA that requires certain reporting. Each grant must file a §1512 quarterly report that summarizes cumulative total costs, calculates quarterly FTEs, and details payments to vendors and subrecipients.) Prior to submitting the final §1512, PMs need to ensure that quarterly FTEs are calculated accurately and prior corrections have been included. Payroll monitoring continues to be a concern. In particular, CATS had not reported FTEs related to $766,788 in expenses for its Facility Grant. CATS could not determine whether these costs included payroll expenses, which would indicate non-compliance with Davis-Bacon regulations. CATS staff indicated that they need additional time to research the issue at the time of report issuance in October 2013.

> ***Status:*** The City's Economic Stimulus Team (EST) coordinator accepted the Audit recommendations. The EST coordinator notified PMs of the documentation requirement for the current reporting period. CATS staff made significant progress in addressing the FTE calculations. Internal auditors followed up outstanding recommendations during the subsequent (and final) ARRA review, reported below.
>
> ***Note:*** Congress has repealed further reporting requirements for ARRA. With this change, corrections to FTEs are no longer allowed. Davis-Bacon compliance remains a concern and also will be applicable for future (non-ARRA) federal grants.

Quarterly Stimulus (ARRA) FY14 (Final) (May 2014) – Internal Audit completed a review of the Stimulus (ARRA) §1512 reporting for the period ended December 31, 2013. All ARRA grants require quarterly reporting of costs, FTEs (full-time equivalent jobs) and other project information. This review represents two quarters of intensive efforts by the Economic Stimulus Team and Project Managers (PM). These efforts have been led by the City Manager's EST Coordinator. On February 1, 2014, Congress repealed the recipient reporting for Recovery Act

awards, effective for the quarter-ended December 31, 2013. Therefore, this is the final report of the City's Stimulus program.

Conclusion and Summary Results: Effective controls continue to help ensure accurate reporting of total expenses. While the risk of penalties due to non-compliance have been low so far, City staff needs to improve attention to detail and completeness related to grant requirements.

Minor adjustments in total expenses and amounts paid to specific vendors or subrecipients were required. Auditors found errors in grants that PMs subsequently corrected. Some compliance issues were not finalized by December 31, 2013. Student Energy Internship and Fellowship Program, Wilora Lake Rehabilitation and Muddy Creek Watershed Restoration grants have corrections that were in process when the report was issued in May 2014. While CATS made progress in resolving outstanding compliance issues, its staff continued to work with three vendors to obtain certified payrolls. In addition, three payrolls for the Community Development Block Grant have not been certified.

> ***Status:*** The Economic Stimulus Team administrator committed to resolving the remaining issues in a timely manner. Auditors will verify resolution of the actions planned by September 2014.

Energy Efficiency and Conservation Block Grants (EECBG) Stimulus (February 2014) – The City of Charlotte was awarded this $6.78 million stimulus grant by the Department of Energy (DOE) on August 4, 2009, to implement an Energy Efficiency and Conservation Strategy. Specifically, the grant was to be used to reduce fossil fuel emissions, reduce total energy use of eligible entities, and improve energy efficiency in the building sector, the transportation sector and other appropriate sectors, while also creating jobs.

Overall, project costs were found to be allowable and properly approved. However, costs totaling $30,712 were paid in error although the majority of erroneous payments were subsequently corrected. The Neighborhood & Business Services Department (NBS) has initiated appropriate actions to improve controls over such payments in the future.

Payroll monitoring has not been sufficient to comply with Davis-Bacon regulations. Adjustments are required to report full-time equivalents (FTEs) accurately. Errors were noted in previous §1512 reports (1512 is the referenced section of the ARRA federal bill). Also, monitoring of other ARRA grant requirements and Department policies needs improvement. NBS has updated policies and procedures to address these findings.

Conclusion: NBS staff did not give adequate attention to certain requirements of the ARRA grant. NBS processes were not sufficient to ensure compliance with grant requirements. Near the conclusion of the audit, NBS management initiated several substantive corrective measures which satisfactorily address our recommendations.

Status: Issued in February 2014; brief follow-up planned by August 2014 to confirm that NBS' planned actions have been implemented.

CATS-RELATED

CATS Bus Operations Division (BOD) Imprest FY13 (September 2013) – The purpose of this audit was to determine whether the City has reimbursed the bus operations management company accurately and the funds have been disbursed properly. The City's outside auditor, Cherry Bekaert, L.L.P. (CB), performs agreed-upon procedures related to the Bus Operations Division (BOD) that cover the inventory of buses, bus parts and payroll. The work performed by Internal Audit is provided to CB auditors for their review.

While the system of controls used by Transit Management of Charlotte, Inc. (TMC) is satisfactory, compliance with control processes requires improvement. The wire transfers are accurately recorded and most of the reimbursement requests are adequately supported. Some minor errors were brought to management's attention during the current audit. While individually, the errors are not material, the repetitive nature of the findings suggests that TMC should give closer attention to requirements to monitor wire transfers to avoid occasional negative balances. Finally, a distribution of cash incentives to employees ($20 each, totaling $5,000) was not adequately controlled. CATS has agreed to monitor TMC more closely in the future. In addition, CATS agreed with the remaining recommendations and has developed plans to address each issue.

Status: Internal Audit is satisfied with the actions taken and planned. We will review CATS' implementation of its plans during the annual review, which is conducted in the August/September timeframe.

Blue Line Extension-Consultant's Direct Labor, Overhead and Fees (January 1, 2012 through September 30, 2012) (July 2013) – We have completed an audit of STV/RWA's Direct Labor, Overhead and Fees for the Northeast Corridor Light Rail Transit Project (BLE), for the fiscal year ended September 30, 2012. For the period audited, STV/RWA submitted 15 project-related invoices to CATS totaling $9,741,045. Auditors reviewed direct labor charges of $2,703,321 and overhead and fees of $4,648,178. The audit did not include a review of other direct costs which totaled $2,389,546.

Conclusion: Other than the need to reconcile overhead rates, there were no additional audit findings. These results indicate a high level of compliance with Federal contracting guidelines by the contractor, along with effective administrative efforts by CATS staff.

Summary Results: A number of issues related to the company's direct labor charges were raised and resolved during the audit, as STV/RWA supplied timely responses and documentation. As a result, there are no findings related to direct labor for the audit period. As is typical in contracts involving federal funding, the contractor used a provisional overhead billing rate, which is adjusted to the actual rate following completion of a financial audit. Our

review of overhead rates found that a reconciliation payment totaling $83,668 was due to STV/RWA, to reflect audited results from the fiscal year ended September 30, 2012.

Status: Resolved. CATS disbursed the reconciling payment in October 2013.

CATS Blue Line Extension – Consultant's Direct Labor, Overhead and Fees (October 1, 2012 through September 30, 2013) (June 2014) – We have completed an audit of STV/RWA's Direct Labor, Overhead and Fees for its Northeast Corridor Light Rail Transit Project (BLE), for the fiscal year ended September 30, 2013. For the period audited, STV/RWA submitted 12 project-related invoices to CATS totaling $17,208,490. Auditors reviewed direct labor charges of $4,192,786, and overhead and fees of $7,344,597. The audit did not include a review of other direct costs which totaled $5,671,107.

Conclusion: Other than the need to reconcile overhead rates, there were no additional audit findings. These results indicate a high level of compliance with Federal contracting guidelines by the contractor, along with effective administrative efforts by CATS staff.

Summary Results: STV/RWA supplied timely responses to auditors and documentation, as requested. As a result, there are no findings related to direct labor for the audit period. As is typical in contracts involving federal funding, the contractor used a provisional overhead billing rate, which is adjusted to the actual rate following completion of a financial audit. Our review of overhead rates found that a reconciliation payment totaling $54,878 was due to STV/RWA, to reflect audited results from the fiscal year ended September 30, 2013.

Status: Issued in June 2014. CATS subsequently issued payment, closing out the audit.

Fare Evasion Fine Collections (June 2014) – We have completed an audit to determine the reasonableness of the reported loss related to the Fare Evasion Fines Collection Process, as well as to review the new policies and procedures put into place following the embezzlement. CATS requested Internal Audit's assistance after learning that an employee of an outside contractor embezzled approximately $50,000 of the City's Fare Evasion Fines collected. Auditors reviewed the work performed by Central Parking Systems (CPS) staff to establish the amount of loss from its employee's theft of funds. In addition, we reviewed CATS new policies and observed new procedures which had been implemented.

Summary of Findings:

- The City accepted a reimbursement of $50,750, which Internal Audit supported.
- Effective controls over fare evasion fine collections are in place.
- CATS can improve upon its implementation of new processes.
- Following the discovery of the loss, CATS did not implement sufficient controls timely.

Conclusion: The incident has been satisfactorily resolved as follows:

- Known losses from the contract employee's embezzlement have been recovered,
- CATS and Internal Audit staff have briefed CMPD, and

- Fine collections are now in house, and new procedures are in place to reduce the risk of similar losses in the future.

However, CATS personnel did not coordinate its own staff's efforts, or sufficiently involve other departments which could have assisted with the implementation of effective controls when initiating a new service. In addition, CATS did not take timely action to implement the controls.

Status: CATS has been responsive to our recommendations. No immediate follow-up is required, but CATS' responses will be considered during future audits.

POLICE

Vice Imprest Fund 2013 (April 2014) – It has been the CMPD's practice for many years to request an audit of its Vice Imprest Fund prior to obtaining replenishment. During calendar year 2013, Internal Audit conducted six such reviews. The overall accounting controls in place related to the Vice Imprest Fund are adequate and operating satisfactorily. The accounting for the Imprest Fund and the related case documentation are detailed and complete. However, CMPD supervisory staff have been unable to obtain compliance with important administrative controls (timely completion of documentation), with about 19% of vice transactions classified by CMPD as non-compliant. While auditors noted that adequate procedures exist to resolve these issues, we recommended that CMPD should take additional steps to achieve a higher initial compliance level.

Status: Report issued in April 2014. We are satisfied with CMPD's response, including plans to implement a procedural change which will be strictly enforced. Implementation and compliance with the planned changes will be reviewed during the periodic reviews throughout the year.

MANAGED COMPETITION

SWS City-Wide Services 6/30/13 (January 2014) – Internal Audit found that SWS has accurately compiled its costs of operations for City-wide services. For the year-ended June 30, 2013, operations were under budget by $647,867. These savings represent more than 3% of the approximately $21.3 million in revenue.

During the year, approximately 210,781 households were served, and a total of 226,306 tons of solid waste was removed. The adjusted cost of service per household year-to-date was $8.17 as compared to the budget projected service cost of $8.46. The cost per ton removed was $91.28 for the year.

The SWS residential model has transitioned from a managed competition and optimization in FY10 to city-wide service in FY11. Prior to FY11, the North, South and East Districts of the City were serviced by SWS staff and the West District was contracted out. Since July 2010,

refuse, yard waste and bulky collection services have been performed by SWS City-wide; while recycling is being performed by an outside contractor.

Internal Audit completes an annual review of Solid Waste Services' budget and financial results. A report is submitted to the PCAC to address whether SWS's budget and operations have been completed in accordance with its plan developed during the transition noted above.

FOLLOW-UP AUDITS

Business Tax Audit Follow-Up (March 2014) – Internal Audit has completed a follow-up to a previous audit of business taxes. We addressed the findings and recommendations of our February 24, 2012, report entitled "Business Taxes Received Via County." The 2012 audit reviewed the completeness of the City's business tax revenues. Those revenues are collected for the City by Mecklenburg County's Office of the Tax Collector (OTC), pursuant to an inter-local agreement.

Conclusion: The County OTC continues to collect significant business tax revenues for the City, with collections of this type growing to $87.7 million in FY 2013, from $76.2 million in FY 2011, an aggregate increase of 15%.

Despite the inability of this audit to connect specific actions taken with increased revenues, we have concluded that the County has addressed the concerns we raised in 2012. As the specific audit findings address, the County has improved upon an already effective identification and collection process for business taxes.

Summary Results: The 2012 audit report concluded that some revenues may go uncollected due to non-compliance by companies that are required to self-report their taxable incomes. The report also stated that tests indicated additional revenues in the range of 5-15% may go uncollected in some categories of Business Taxes. This follow-up report points to several actions taken by the County which may have contributed to increased collections. However, it is also possible that a changing business environment and improved economy had an equal or greater impact related to the rising revenue collections for the City.

Based upon our samples, Business Privilege License Tax (BPLT) compliance appears to have improved. From a total of 400 City vendors reviewed by City Internal Audit and the County's Office of the Tax Collector, 67% were found to be registered and current. Thirty-one percent were determined to be exempt, leaving six businesses requiring further review.

A review of County operations found that the OTC has taken additional steps since our previous audit to improve the effective collection of business taxes for the City. The OTC is regularly comparing its business tax system data to other databases and has contracted with a new compliance auditor whose emphasis is on both compliance and discovery. The discovery efforts have resulted in the addition of 381 new accounts. The new accounts have resulted in minimum payments totaling $19,050. Estimated annual revenues could exceed $150,000, if the new accounts are consistent with recent average payments of other entities.

Status: Resolved. City Finance acknowledged that the City and County will work together to periodically reassess the cost-effectiveness of all efforts used to enforce BPLT compliance.

Citywide Accounts Payable Payment Policy (FIN6) Follow-up (January 2014) – The audit was designed to follow up the results and recommendations of our FIN6 report issued in June 2013. (FIN6 quarterly reports are prepared by the Finance Department for the City Manager and City Auditor, to identify violations of the City Accounts Payable Policy.) For the period April 1, 2013 through September 30, 2013, Internal Audit obtained the two quarterly reports prepared by the Finance Department which list direct payments of $10,000 or more. Internal Audit inquired with Departments about their responses to Finance to determine the reason each payment was made via direct pay, what prevented the department from complying with FIN6 and the impact on compliance with other City procurement policies.

Conclusion: The current reporting mechanism provides adequate information to allow Finance, Department Managers and the City Manager's Office to monitor compliance with the Accounts Payable Payment Policy. During the review period, some departments continued to process payments via direct pay when a purchase order should have been processed. However, most departments have reduced or eliminated the number of direct payments processed. Overall, the audit found that 12 items (about 1.1% of direct pays over $10,000) did not comply with the policy. With the implementation of the new ERP system, the expectation continues to be that the number of direct payments processed will be further reduced.

Status: Internal Audit will review subsequent FIN6 reports to determine whether one department has taken the agreed upon steps to comply with City policy. The department head and the City Manager's Office will be informed of our results; however, no formal audit report is anticipated. Audits related to the implementation of a new ERP system in early FY15 will address the impact of controls related to accounts payable policy compliance.

CHARLOTTE

INTERNAL AUDIT

AUDIT PLAN
Fiscal Years 2015-2016

INTERNAL AUDIT PLAN
Fiscal Years 2015-2016

Overview

The majority of the Audit Division activities are classified as Performance Audits, as defined by the Government Accountability Office (GAO). Other occasional efforts include Agreed-Upon Procedures (a type of attestation engagement subject to specific standards established by the GAO) and investigations. The Audit Plan includes audits in progress, regularly scheduled audits, and additional efforts being planned, or under consideration for later years.

We expect that the City Manager's Office and Department Heads may make special requests for audits or other support. Internal Audit reserves a limited amount of staff time for unplanned projects. On some occasions it may be necessary to delay a scheduled audit to address a newly identified need.

Brief Review of FY 2014

The Internal Audit Division completed twelve performance audits during fiscal year 2014, and several were in progress at fiscal year-end:

- Accounting and Procurement – Citywide Authorized Contracts and Payments
- ARRA (American Recovery and Reinvestment Act) – Stimulus Reporting in FY13; Final Stimulus Reporting through December 2013; Energy Efficiency and Conservation Block Grants
- CATS – Bus Imprest Fund; Blue Line Extension: Consultant's Labor/Overhead/Fees – 2012 and 2013 (separately); Fare Evasion Fines
- Police – Vice Imprest (CY 2013)
- Managed Competition – Solid Waste Services
- Follow-Ups – Citywide Accounts Payable; Business Taxes

Audits in Progress at Fiscal Year-End – Continuous Auditing Pilot (Human Resources Data); Citywide Cash Collections; Employee Travel and Expense Reimbursements; Citywide Overtime; and Airport Valet Parking.

Performance Audits Planned for Fiscal Year 2015

In Progress – We will complete the following audits which were in progress at year-end:

- Continuous Auditing Pilot – Once implemented fully, the Continuous Auditing approach can provide frequent reviews of City data. The tests may identify errors which occur infrequently, but would become more difficult to correct over time. Our initial report will focus on missing or invalid Human Resources data.

- Citywide Cash Collections – In January 2014, the City's external auditor Cherry Bekaert reported to City Council that "Cash collection sites throughout the City are not monitored to ensure internal controls are designed and operating effectively." Internal Audit announced an audit in February to address this issue.

- Employee Travel and Expense Reimbursements – Our initial review included FY13 reimbursements for compliance with City policies and procedures, including travel expenses charged to P-cards. The audit scope was extended to review selected corporate card transactions and FY14 reimbursements.

- City-wide Overtime (July 1, 2009 through June 30, 2013) – After completing our initial testing, auditors met with direct supervisors within several divisions to discuss overtime processes. The audit report will address overtime policy issues and will be reviewed with Human Resources and other managers in August.

- Airport Valet Parking – Our intent to audit the Valet Parking Management contract of Everything Parking, Inc., d/b/a Park Inc. was announced in mid-June. The contractor's agreement with the airport has expired and audit staff has begun reviewing records in order to establish an audit scope and overall objectives.

Planned / Repetitive Annual Commitments – The following lists efforts which have historically been completed on an annual basis, and which are expected to continue.

- Recommendations from each audit are tracked and followed up through completion, as determined by Internal Audit. On occasion, a detailed review and report will be issued; otherwise, the status of recommendations will be summarized quarterly.

- Vice Imprest Reimbursements – Upon request from Police about every two months, auditors conduct detailed reviews of imprest documentation before the fund is replenished. An annual report summarizes these efforts.

- Bus Operations Division Imprest – We will audit the CATS Imprest Fund and include steps required to meet the needs of the external auditors for the annual financial report, as has been done for several years.

- Managed Competition – The remaining active competition-related audit addresses Solid Waste Services' benchmarked activities, following a transition in 2010. The annual review addresses City-Wide services for residential garbage, yard waste and bulky item pick-up.

Planned / 2015 Initiatives – While unplanned needs can arise and impact the priority of audits, the following audits are being planned and should be substantially completed in FY15.

- Cash Collections – The external auditors (Cherry Bekaert) have recommended that regular audits be conducted of Citywide cash collections. The current audit is still in progress, and a new plan for periodic testing will be developed.

- Airport Concessions – Internal Audit will work with Airport management to identify the priority for addressing the various concessions at Charlotte-Douglas. The airport has requested that concessions and revenue contracts (including parking, restaurants and retail) be reviewed on a rotational basis.

- ERP Implementation Review(s) – While the specific focus and scope of this audit has not been developed, there are certain areas that should be addressed. Internal Audit will work with the I&T Division, Finance and others to identify potential audit areas. In addition, Cherry Bekaert (the City's external auditor) has also been engaged by the City to identify control risks, which will be considered when developing our audit approach.

- Construction – Various City departments manage multiple construction projects annually. While we have limited our audits of construction projects to those managed by CATS, we are considering other departments, or a citywide review which could focus on change orders, for example.

- Grant Accounting – This audit will review accounting controls within the Finance Department, along with administrative controls within selected Departments.

- CATS Construction – We will complete another annual review of Labor, Overhead and Fees for the final design contractor (STV/Ralph Whitehead Associates). In this and subsequent years, we will also review expenditures for major contracts for example, sitework (Balfour Beatty/Blythe JV) and construction management (HNTB). CATS has requested that we be responsive to its requests for audits of specific contractors.

- P-card – A citywide review of the P-card was completed in 2011. The policy and monitoring procedures were subsequently strengthened. A follow-up audit will assess current compliance levels, along with the effectiveness of new processes.

Other / Hotline – An Employee Hotline, to be administered by the Internal Audit Division, is being introduced in FY2015. Investigations will be conducted as necessary, based upon information supplied by anonymous phone calls to a third-party call center.

Under Consideration – Audit priorities are regularly updated throughout the year. Depending upon staff availability and the level of requests received, the following audits may be initiated during fiscal year 2015:

- Police Secondary Employment – CMPD has requested that we consider a review of procedures and controls related to its administration of outside work for its officers.

- Solid Waste Services – Operational issues impacting recycling service deliveries via contractor have become a concern. We will discuss with SWS what support from Internal Audit may be of assistance to them.

- Citywide Authorized Contracts and Payments – A detailed review of payments made in FY13 was completed in FY14, with favorable results. That audit focused on entities receiving City payments totaling over $2 million. A future audit may be structured to review payments in a different dollar range.

Audits Planned/Considered for Fiscal Year 2016

- Police Property – Although it has been several years since we conducted a complete review of Police property controls, our Vice Imprest audit regularly tests a random sample of evidence. In addition, we have observed inventory counts conducted in compliance with CALEA (Commission on Accreditation for Law Enforcement) standards. Working with CMPD, we plan to conduct a performance audit that will build on these standards as well as review other property controls.

- Information Technology – Following the implementation of a new financial and procurement system, we will continue to evaluate risks which should be addressed via internal audit.

- Procurement – After completing a number of procurement-related efforts over the past several years, our audit approach for 2016 and beyond will be based upon any identified risks, or the need to revisit previously identified weaknesses. Procurement is of such primary importance that audit efforts in this area are expected to continue annually or bi-annually for the foreseeable future. A number of process changes are expected to be put in place with the implementation of a new ERP in FY15 and audits will be designed to review their impact.

- CATS Construction – We will continue to conduct audits of CATS and its contractors, who are designing and constructing the Blue Line Extension.

- Finance Operations – Numerous important activities occur within the Finance Department. For example, Finance receives revenues, pays bills, makes investments and keeps an accounting of the City's financial transactions. While the City can rely upon its outside auditor to assess overall controls and determine that financial statements are fairly presented, internal audits can more closely examine operations and performance. Such an audit can choose to focus on efficiency, effectiveness and/or compliance. We plan to work with the Finance Department and the outside auditors to determine areas in which Internal Audit can best provide additional assurance of effective internal controls.

Audit Division Internal Efforts

- Further development of a Continuous Auditing program
- Increase IT auditing capabilities of all staff
- Expand risk analysis documentation
- Maintain CPE for all staff
- Promote CIA attainment for non-certified staff
- Utilize contract auditors to supplement existing staff capabilities

City of Charlotte
Internal Audit Charter

This Charter identifies the purpose, authority and responsibilities of the Internal Audit Division.

Purpose

Internal Auditing is an independent appraisal activity established to conduct reviews of the City's system of internal controls. Findings, recommendations and corrective actions are reported to Department Heads, the City Manager, and the City Council, as appropriate. Each audit report is submitted to the City Manager's Office.

The primary objective of Internal Audit is to provide reasonable assurance that the City has an operating and effective system of internal controls. Such a system encompasses the City's accounting and financial, administrative, operational and computer controls throughout the various departments.

A secondary objective of Internal Audit is to assist members of management in evaluating the efficiency and effectiveness of operations. To this end, Internal Audit furnishes analyses, counsel and recommendations concerning those functions reviewed, promoting effective controls and efficient operations at a reasonable cost.

Authority

The Internal Audit function was established by the City Manager and the City Council, and operates administratively as a part of the City Manager's Office.

Audit recommendations that are not resolved at the department level will be raised to the City Manager's Office. Audit reports may require a timely response from the Department Head directly to the City Manager.

The Internal Auditors shall perform their work in compliance with the City's objectives and policies, as well as the Code of Ethics as promulgated by the Institute of Internal Auditors. The Audit Division also adheres to Generally Accepted Government Auditing Standards (GAGAS) as established by the U.S. Government Accountability Office.

Audit personnel are granted full access to all of the City's activities, records, property and employees, as necessary to the performance of their audit activities. Any lack of access impacts the ability of the audit function to comply with GAGAS and must be reflected in the related audit report. Auditors are strictly accountable for the safekeeping of records and property examined, and for maintaining the confidentiality of information obtained and reviewed during audits.

Internal Audit has no direct authority over activities that its personnel review. Internal Audit has no line responsibilities and its activities do not relieve managers or staff of any assignments.

Responsibilities

Internal Audit is responsible for conducting independent and objective appraisals of the City's system of internal controls, the efficiency of operations and the effectiveness with which these functions are managed. Auditing priorities are determined by the City Auditor in consultation with the City Manager's Office and with consideration of input from Department Heads, the City Council and the independent outside auditors. Specific responsibilities include:

- Develop and adopt a multi-year Strategic Audit Plan aligned with City-wide priorities and department needs. Develop and adopt an Annual Audit Plan to implement the Strategic Audit Plan.
- Effectively communicate audit processes and results, including formal reports, to Departments, the City Manager and City Council.
- Advise key business staff of opportunities where current operations, accounting processes or procedures can be improved upon prior to entering into competition for a particular service.
- Work as a member of the City team (Procurement Services, Contract Administration and Key Business staff) to develop specific internal guidelines/models for Requests for Proposals (RFPs), bid specifications and contract documents. Provide comments on draft RFPs and proposed contract monitoring procedures. Assist in pre-qualification of vendors.
- Review bids prepared by the City for verification of costs and proper cost allocation. On a sample basis, monitor major private sector and City contracts for compliance, including cost and gainsharing audits.
- Help departments ensure that appropriate controls are in place to guard against fraud, misappropriation of funds or other misuse of City assets. Audit specific controls and systems in departments periodically to ensure that procedures to guard against fraud or misappropriation are being followed. Investigate and report suspected or alleged improprieties. Provide evidence of any crimes to the proper law enforcement authorities.
- Assist in the acquisition and review of new information systems (hardware and software).
- Provide auditing assistance in areas determined by the City Manager to be a high priority.

Gregory L. McDowell, City Auditor

Date: 6/11/13

Ron Carlee, City Manager

Date: 6/11/13

Governance & Accountability
2014 Meeting Schedule

4th Monday from 12:00 p.m. to 1:30 p.m. in Room 280
Unless otherwise noted

February 24

March 24

April 28

Tues., May 27*

June 23 @ 2:00 p.m. ** - *CANCELED*

July 21

August 18

September 22

October 27

November 24

December 22

Notes:
* May 26 is Memorial Day, moving meeting to Tuesday
** June 23 at noon is City Manager's Quarterly Briefing – adjusting time