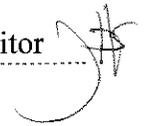




City of
Norfolk

TO: Honorable Council Members FROM: John H. Sanderlin, Jr., City Auditor 

DATE: June 17, 2014 SUBJECT: Commissioner of the Revenue audit report

Please find attached our final audit report on Commissioner of the Revenue – Audit of Expenditures. Should you have any questions please feel free to contact me at 664-4045.

cc: Marcus Jones, City Manager



City of Norfolk

June 17, 2014

Mr. C. Evans Poston, Jr.
Commissioner of the Revenue
810 Union St.
First Floor West Wing
Norfolk, VA 23510

Mr. Poston,

As requested by you, we have completed our audit of expenditures pertaining to your office. Enclosed you will find our audit report "Commissioner of the Revenue-Audit of Expenditures" dated June 17, 2014. This report represents the final report and incorporates your responses to our findings and recommendations that were presented in our draft report to you on May 28, 2014. We appreciate the cooperation from you and your staff during the course of the audit.

Sincerely,


John H. Sanderlin Jr., CPA, CIA, CGFM, CFE
City Auditor

Enclosure

Commissioner of the Revenue

Audit of Expenditures

June 17, 2014



Office of the City Auditor
Norfolk, VA



Table of Contents

	<u>Page No</u>
Executive Summary	1
Background	2
Objective, Scope and Methodology	2
Audit Results	3
Expenditure Review Results	Appendix A
Letter from the Commissioner of the Revenue	Appendix B



Executive Summary

At the request of the Commissioner of the Revenue, who assumed the office effective January 1, 2014, we conducted an audit of expenditures for the eighteen-month period July 1, 2012 through December 31, 2013 for compliance with prescribed policies and procedures as set forth in the Code of Virginia, Norfolk City Code and guidelines established by the Office of the Commissioner of the Revenue of the City of Norfolk. Our review did not include personnel related expenditures.

The Commissioner of the Revenue is a constitutional office of the Commonwealth of Virginia as set forth in the Code of Virginia and the Norfolk City Code. Duties of the Commissioner pertain to the administration of personal property and income taxes and certain licenses and fees as well as other duties, not inconsistent with those of the office, as the governing body may request. The Office of the Commissioner of the Revenue has a budgeted staff of 42 positions (FY14) which are funded by a combination of state and city appropriations. The expenditure budget for the Office was as follows:

	FY13	FY14
Personnel Costs	\$2,775,747	\$2,737,539
Non-personnel Costs	<u>382,020</u>	<u>382,379</u>
Total Costs	<u>\$3,157,767</u>	<u>\$3,119,918</u>

While we understand that certain discretion is granted to the Office of the Commissioner of the Revenue in the operations of the Office, as a city governmental unit it is required to adhere to city procurement policies and procedures. During our audit we found the expenditures to be in general compliance with policies and procedures, finding them, except in a few cases, to be properly authorized, procured and recorded; timely paid; reasonably priced; consistent with office function and mission; and sufficiently supported. However, certain practices and spending patterns came to our attention involving food and meals, travel, training and promotional activities that, without guidelines could become potential areas for abuse and the source of public embarrassment. We express our concerns regarding these items in this report and, additionally, provide comments on other matters such as the management of cigarette tax stamps, technology equipment and the disparities of certain policies arising from the combination of state and city funding.

During the audit, we met with the Commissioner and we understood that he is reviewing and making improvements in various areas of Office operations. These include business practices such as improved adherence to city purchasing policies and procedures, the use of standardized forms to support travel expenditures and the adoption of the new E-ZPass sales business service. Improvement efforts in the area of personnel management include the preparation and issuance of a department personnel handbook, establishment and implementation of processes for employee evaluation, training of personnel and review of policies and procedures to promote a consistency and uniformity of treatment between state- and city-funded positions. We commend the Commissioner and his staff for such efforts which promote efficiency and effectiveness and adherence to the Office's function and mission and to city policies and procedures while acknowledging the need and importance of coordination in these efforts with other city departments as may be appropriate. As a part of its efforts to enhance the expenditure control environment, we encourage management to continue its review of its documentation and process standards for improved implementation, accountability and transparency.



We met with the Commissioner on June 9, 2014 and presented the results of our audit. As indicated in Appendix B, the Commissioner concurred with our conclusions and recommendations of which his specific responses are incorporated in the report following each recommendation.

The audit was conducted by members of the staff of the Office of the City Auditor under the direction of City Auditor John Sanderlin with Assistant City Auditors Timothy Haycox and Brad Smith as the lead auditors. We appreciate the cooperation of the Commissioner's office and the courtesies and assistance extended to us during the audit and the opportunity presented to us to provide this report. We look forward to the success of the Commissioner and his office.

Background

The Commissioner of the Revenue is a constitutional office of the Commonwealth of Virginia as provided for in the Code of Virginia (Section 15.2-1636) and in the Norfolk City Code (Section 75) and a department of the City. Duties of the office include administration of city tax revenues (with the exception of real estate taxes) which are carried out by a staff of (for FY14) 42 approved positions organized into six sections. These sections include Personal Property Revenue, Business Tax Revenue, Tax Compliance, Taxpayer Assistance, Audit Services and Technology Systems. Personnel of the Office engage in considerable interaction with the public in their roles administering these taxation and taxation-related areas.

Services provided by the Office require expenditures of different types and in different areas and, as a city governmental unit, the Office is required to comply with city procurement policies. These policies provide for internal control measures such as separation of function through stepped approval levels, management involvement in purchasing decisions and application of budgetary controls. The policy is designed to ensure the adequacy and sufficiency of financial accounting and reporting, compliance with the purpose and mission of the Office and the safeguarding of assets under its control. For the Office, expenditures such as minor supplies under \$100 were pre-approved by the Business Manager. Those in excess of \$100 were pre-approved by the Chief Deputy. Training, travel and food and meals expenses were authorized by the Commissioner. Subsequent to authorization, expenditures are processed through the city financial system.

Personnel and personnel-support funding for the Office, due to its nature as a constitutional (elected position) office, is provided by both state and city appropriations. Such a funding source combination results in a certain lack of direct accountability to the City. Additionally, there is no provision for direct oversight for the Commissioner position at the state level. While the duties of the Commissioner of the Revenue are set forth in State and City Codes, considerable flexibility is provided to the Commissioner in the operation of the Office. Consequently the Office of Commissioner of the Revenue is largely dependent on the personal judgment and discretion of the Commissioner and attendant self-regulation.

Objective, Scope, and Methodology

Our audit objective was to evaluate expenditures (excluding personnel) of the Office against the requirements and guidelines of state, city and department policy and, specifically, to ensure expenditures were properly authorized, procured, and recorded; timely paid; reasonably priced; consistent with Office function and mission; and sufficiently supported. As a governmental unit of the City of Norfolk, the Office is required to comply with city procurement rules and processes (such as City Code Chapter 33.1 –



Procurement Manual and guidance of the Department of Finance), state code and guidance provided by the State Compensation Board in its Policy and Procedure Manual.

Our review considered the technical aspect (operational and functional) and the purposes of Office expenditures, as well as their reasonableness considering the mission of the Office as set forth in the annual city Budget Book and requirements of the Virginia and Norfolk Codes, conducting such tests of the records and other audit procedures we deemed necessary. To accomplish our audit objective we:

- Obtained an understanding of the nature of the operations of the Office.
- Performed inquiries of Office personnel to determine their level of understanding of Office processes. Certain persons with supervisory purchasing approval authority under the previous Commissioner left the Office prior to the new Commissioner taking office and thus were not available for inquiry.
- Reviewed policies and procedures as they pertain to expenditures of the Office.
- Conducted an overview analysis of expenditures of the audit period as a preliminary to sample selection.
- Judgmentally selected a sample of expenditures for review using the city financial accounting (AMS Advantage) records for the eighteen-month period July 1, 2012 through December 31, 2013. Our sample consisted of 185 transactions totaling \$140,238 and covered all of FY13 and the 1st and 2nd quarters of FY14. Details of our sample in comparison to the total population are as follows:

<u>Fiscal Year</u>	<u>Total Amount of Transactions</u>	<u>Amount Tested</u>	<u>% of Amount Tested</u>	<u>Total Number of Transactions</u>	<u>Transactions Tested</u>	<u>% of Transactions Tested</u>
FY13	\$212,657	\$111,309	52%	385	128	33%
FY14	66,338	28,929	44%	155	57	37%
Total	<u>\$278,995</u>	<u>\$140,238</u>	50%	<u>540</u>	<u>185</u>	34%

Certain items of non-personnel costs are fixed monthly chargeout costs assigned by the city Budget Department and thus are not directly controlled by the Office. These costs were not included in our review.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

Audit Results

Our testing of expenditures did not disclose any materially significant internal control deficiencies or noncompliance with city policies. From our review of 185 transactions, we found minor exceptions chiefly in the areas of proper accounting classification, sufficiency of documentary support, and



consistency with Office function and mission. The results of our expenditure testing are presented in the table in the Appendix A of this report and described in more detail in the table notes.

As stated previously in this report, discretion is provided to the Commissioner in the operation of the Office and the determination of the propriety of expenditures. This discretion must be applied within the context of the mission of the Office, the environment in which it operates, and the sound business principles, processes and transparency required of a governmental entity.

Certain accounts, by their nature, are more prone to discretionary expenditures. Care must be taken to follow existing guidelines and, where such guidelines do not exist, to create them. As such, we encourage the Commissioner to consider performing a risk assessment of the Office, an outgrowth of which would be the establishment of expenditure guidelines.

With any organization, there are certain types of inherent business risks that must be considered and effectively managed. Management must develop a strategy to best manage key risks. Internal control activities can and should play an integral role by providing the process structure necessary to carry out the organization's risk management strategy. The establishment of guidelines, in the form of policies and procedures, and the associated monitoring of them by management, can be effective tools for managing business risks and facilitate operation of the Office within existing budgetary constraints and controls. Pertaining to this audit of expenditures, related risks are in the areas of internal control over expenditures and reputational risks (the potential for public embarrassment or adverse publicity) which could be detrimental to the image of the Office.

Acknowledging the stewardship responsibility of all city departments for every expenditure that is made and considering the dollar amount of the Office's budget for non-personnel costs, the dollar impact of the exceptions we found was not considered to be excessive. They do, however, present opportunities for improvements in processes and better adherence to existing expenditure policies or, in the absence of such policies, the creation of Office guidelines. Accordingly, we bring attention to these items which cover the following areas:

- Food and meals
- Travel
- Training
- Promotional activities
- Employee reimbursement for expenditures
- Telephone
- Employee engagement

Also, as a part of the work of the audit, the following other matters pertaining to the operation of the Office came to our attention which we believe merit mention in our report and further attention by management:

- Cigarette tax stamps
- Technology equipment
- Personnel-related matters due to dual (state and local) funding and control guidance

Detailed comments for each of the above items are presented in paragraphs that follow.



Food and meals

Expenditures were made for food and meals for employees and others. Some of these costs were associated with training and travel while others pertained to office work events (\$719) such as meetings of staff during lunchtime, tax deadline days and working on Saturday to conduct permit inspections and what appeared to be promotional activities such as meetings with the media (Virginian-Pilot, Daily Press, WVEC, WTKR and ODU Public Relations – totaling \$370) and with business groups (Ghent Business Association - \$591). Additionally, we noted some expenditures for food and meals (8 instances - \$770) that did not have adequate support such as names of persons present, business purpose and details of the items purchased.

- 1. Recommendation:** As city policy addresses meals only through its travel policy, we recommend that, until citywide guidance is provided on the subject of local meals and food, the Office develop internal guidance.

Management's Response:

Policy has been implemented that requires that all expenditures have documentation regarding the business purpose of the expenditure, details of the items purchased and who was present for the meals or food. Due to the heavy deadline nature of the Commissioner of Revenue's work, there are times when employees must work outside of conventional business hours or must work extended hours in order to meet deadlines that are imposed by law. In some instances, at the discretion of the Commissioner, a meal may be provided to staff members so as to minimize the interruption of the extended work. These occasional expenses are more cost effective than hiring additional personnel that would only be fully utilized during the busiest of times.

Travel

Many of the travel expenditures made by the Office were related to training events. Our concern in this area is the lack of consistency and uniformity in documentation of these costs. Travel expenses were incurred by the Commissioner and office staff chiefly for the purposes of training and professional development and include costs for transportation (by auto and air). The Department of Finance requires that a Travel Authorization Number be obtained for each instance of travel whether or not the employee is requesting cash advance for travel expenses. Additionally, subsequent to a travel expense event, a travel expense reimbursement form is to be prepared which provides both a summary and the specifics of the event expenses.

We found nine instances (\$4,763) where this form was not prepared. Additionally, mileage for which reimbursement is requested is to be reported on the city-approved mileage reporting form. We found that a Commissioner of the Revenue mileage reimbursement form was often used and that there were several instances where neither form was submitted nor did the documentation show supervisory approval (though it is to be noted that all expenditures must, and did, have approval in the financial management system – a payment process requirement). Description of the business purpose and the names of the persons attending the event were not always present in the documentation saved to laser fiche. In most instances such supporting information was subsequently provided to us by the Business Manager by other means (i.e. event agendas found online, printed copies retained by participants, e-mails supporting attendance at events, etc.).

- 2. Recommendation:** We encourage management's efforts in aligning Office travel processes with those required by city policy.

**Management's Response:**

The Commissioner recognizes that the Commissioner of the Revenue's Office is unique to the Commonwealth of Virginia and as such, travel outside the geographic boundaries of the Commonwealth should be extremely rare. Air travel, especially, should be extremely limited and will only be authorized by the express written approval of the Commissioner. Further, policy has been implemented that requires that the Office adhere to City of Norfolk travel policies; at a minimum, the Office requires that: 1) the reason for travel must be listed, 2) persons from the Office attending the event must be documented, 3) standard City of Norfolk travel reimbursement form must be used and 4) standard City of Norfolk mileage form must be completed.

Training

Employees were provided city-funded training opportunities. Some of these costs had association with travel and meal costs. We believe that job-related training is an appropriate expenditure, promoting a competent and effective employee staff which is better able to serve the public. While in our audit we found training expenditures and associated memberships for which the business purpose was not clear, such as attendance at the Virginia Business Incubation Association (\$180), the bulk of the training appeared to be directly associated with the mission of the Office. In addition to training provided by regional and national business organizations, programs are provided by the State for constitutional officers and deputies (Career Development Programs) which result in state pay supplements for employees who have met certain training criteria. The Office has used such programs as a part of maintaining the proficiency of its employees.

- 3. Recommendation:** We suggest that management develop a comprehensive, structured and well-monitored approach to this expenditure area for its employees.

Management's Response:

Training is an important part of maintaining capable and engaged employees. At the same time, not every member of the Office can belong to every association that offers training to Commissioners' offices. The Norfolk Commissioner's Office has placed an emphasis on career development programs that are authorized by the Virginia Compensation Board as part of the Master Deputy Program.

A complete review of all career development training has been done by the new Commissioner. Records for every employee that is participating in the Career Development Plan have been updated. Other relevant training such as computer skills and training required to maintain or obtain professional designations may be authorized as appropriate to allow these employees to continue to perform and improve in their respective roles in the Office. Training should be related to the functions of the Commissioner's office.

Promotional activities

We understand the need for public awareness of the services provided by the Office of the Commissioner of the Revenue, particularly the need for informing the public of additional service capability such as DMV Select. The method and extent of the promotion of department services is subjective. In our audit we observed expenditures which we understand to have been for the promotion of the Office to the public. Some such measures included promotion through the use of magnets (\$7,549) and introduction letters (\$360 in State Board of Elections new voter list subscription charges – not considering letter printing and postage costs), described in further detail below. Other items include



pencils (\$416), water bottles (\$565), departmental and civic organization newsletters, and mermaid repair (\$1,500 – see further detail below). Such costs were paid from the advertising and office supplies accounts. Additionally, promotional efforts included the television video program of the previous Commissioner and children’s Christmas programs to support the needy (For Kids - \$144). Another item included the purchase and subsequent donation of a gift basket as a door prize at a regional COR meeting (\$53).

Introduction letter and promotional magnets

As stated above, in our audit we found a payment to the State Board of Elections for a subscription to a monthly listing of newly registered voters. Inquiry of Office personnel indicated that the listing was used to send out letters from the Office introducing new voters to services provided by the Office. We understand that this subscription service was first acquired for February 2011 and was ended in June 2013. Office personnel informed us that an informational magnet was included with each introduction letter and we were given what was believed to be an example of one of these magnets and of the introduction letter. In addition to Office phone numbers provided at the bottom of the magnet, it encourages voting in the upcoming Democratic primary, the date and hours of voting, provides a phone number for further information or requesting a ride to the polls and indicates the entity that paid for and authorized the magnet. Further inquiry of Office personnel resulted in our receipt of a printed copy of what was said to be artwork for the magnets. This artwork differed from the actual magnet we received by making no reference to an upcoming election nor stating who or what organization paid for or authorized it.

During the audit period we found payments for ten vendor invoices for 16,000 maxi-magnets (\$7,549) for the period (vendor invoice date) May 1, 2012 – November 14, 2012. The bulk of these payments (\$6,010) were charged to the Office Supplies account and the remainder was charged to the Advertising account. These invoices referenced four different purchase orders and copies of artwork supporting them were not in the Office records. At our request, Office personnel requested copies of the artwork supporting the invoices from the vendor and this was not provided by the vendor. Because of this, and the lack of referencing information in the Office records, we could not determine to which invoices or purchase orders the actual magnet (with voting information) or the sample artwork (without voting information) belonged. We specifically noted the following regarding the purchase of maxi-magnets:

- The purchases of the magnets during the audit period appeared to occur significantly in advance of the primary date which further led to our questioning of the actual form of the magnets used in the mailings (whether or not they included voting information) and our subsequent inconclusive results.
- The decision to hold the primary was not made until after the last of the magnets purchased with city funds were bought.
- After the primary was held in June 2013 the subscription to the newly registered voters listing service and the process of mailing of the introduction letters were terminated. It was not clear to us as to why this process in promotion of the Office and not the Commissioner would have ceased as it would have been logical for it to have continued. However, we understand from management that a reason for stopping this process was that the letter and the accompanying promotional magnet included the then current Commissioner’s name and that after the primary it was known that after December 31, 2013 she would no longer be the Commissioner.
- Financial records indicate magnets have been purchased by the Office from this same vendor from as far back as 2011 and the majority of these purchases have been charged to the Office Supplies account.



- It appears that the method used to purchase the magnet items during the audit period was contrary to city procurement rules: purchases over \$1,000 should have three quotes. We could find no evidence of quote requests in the purchase of the magnets. Additionally, it appears two bulk purchases were broken down into separate invoices of less than \$1,000 to circumvent this rule.
- In the interest of establishing operations under the current Commissioner, upon the current Commissioner taking office, printed items bearing the former Commissioner's name, including any magnets on hand, were disposed of and thus, with the exception of the one magnet which was found, were not available for the review of the auditors.

Mermaid refurbishment

We found two charges totaling \$1,500 posted to the advertising account for mermaid repair in December 2013 for which we can find no departmental business purpose. These charges were noted by the incoming Commissioner and checks paying these charges were retained by the City prior to issuance.

4. **Recommendation:** While we understand the need to advise the public of the availability of services provided by the Office, care must be used to insure that it is Office services that are being promoted and not the person of the Commissioner. A clear and structured approach in the form of stated policy should be used to minimize concerns that expenditures in support of promotion of the Office are misconstrued.

Management's Response:

Promotional activities shall be restricted to making taxpayers aware of services of the Commissioner of Revenue's office such as Community Day held on May 10, 2014 at Harbor Park to allow citizens to bring in vehicles for possible reassessment, state income tax preparation, yard sale enforcement, DMV Select services and E-ZPass availability. Advertisements may appear in local publications such as the Virginian-Pilot and civic league newsletters as well as social media.

All such promotional activities must be for matters relating to the business of the Commissioner of Revenue's office and are intended to convey useful information to taxpayers so that essential services may be delivered in a more efficient manner. The use of new voter information has been discontinued. As not all taxpayers are registered voters, other means must be used to inform all taxpayers of deadlines for taxes and services available in the Commissioner's Office. It is the belief of the Commissioner that there are more economical ways to inform citizens of the services that are available. As a result of this more focused approach to promotional activities, the budget line item for advertising was cut from \$12,000 to \$5,200.

Employee reimbursement for expenditures

City processes provide for the approval of goods and services prior to the expenditures for them. This is to ensure that expenditures of city funds are authorized. In our audit we found a number of instances wherein items, chiefly supplies and materials (12 instances totaling \$1,224), were purchased by employees and subsequently reimbursed and it could not be determined if these purchases were pre-approved. While these items were of a minor dollar amount, excessive use of this purchase method reduces the effectiveness of inherent systematic procurement controls. We do note that some of these items may have been within the purchasing authority granted under the city procurement card program and that a card was available to the Commissioner but we did not see any evidence of its use.



- 5. Recommendation:** We suggest that the Office review its procedures for expenditure authorization and approval and consider requesting the establishment of a petty cash fund for minor purchases.

Management's Response:

Employees may be reimbursed for certain expenditures made on behalf of the Office. In order to be eligible for reimbursement, the items must be preapproved by the Commissioner or the Chief Deputy Commissioner.

Telephone

While our audit found no instances of improper use in this expenditure area, we did find active telephone lines assigned to terminated employees and lines without any usage. We understand that certain lines were being retained pending assignment to another employee.

- 6. Recommendation:** We suggest periodic review of this account so that appropriate changes can be timely made to the account for adding and deleting service lines and minimizing costs.

Management's Response:

When an employee who is assigned a phone leaves employment, a decision regarding whether that phone will remain in service for another employee shall be made immediately. Notwithstanding this directive, a monthly review of all phone lines shall be done by the Office information technology supervisor and the Business Manager to ensure that service is terminated for phones not being actively used by staff.

Employee engagement

In our audit we found costs, of a minor amount, related to promotion of an office recycling program (\$93). While we recognize the need for supportive efforts of citywide programs, we question the propriety of Office expenditures in such areas not directly covered by the mission or budget appropriation of the Office. Additionally, payments for the purchase of employee recognition items (\$149 – plaques) were found as well as ongoing payments for coffee and tea for employees (\$532). These were of relatively minor dollar amounts and, while we recognize the need for an engaged and motivated staff, the methods used to promote and encourage employees are subjective and the costs in time and financial resources must be considered.

- 7. Recommendation:** We recommend development of a plan including guidelines to systematically implement employee morale efforts. Such a plan could include specific activities or methods to be used, total dollar amounts to be expended and/or establishment of a set dollar limit per employee.

Management's Response:

Employee engagement has been addressed by increasing the participation in the Career Development Plan. A well-trained workforce is a better-motivated workforce. In addition, the Commissioner has emphasized that, when possible, promotion from within is preferable. Several employees have already been promoted to supervisory roles. The Office is currently assessing options to increase employee engagement while being conscientious stewards of tax dollars.



Cigarette tax stamps

The purchase of cigarette tax stamps (\$34,214) was one of the expenditure items of our test sample. City code (Section 24-312) requires the commissioner of the revenue to prescribe, prepare and furnish cigarette stamps to the city treasurer which the city treasurer then sells to local dealers. Periodically such stamps are ordered by the Office and are retained in locked storage by the Commissioner until requested by the City Treasurer. We observed the conditions of such storage and suggest improvements in the process of managing these tax stamps. While they are kept in a locked cage in an area which we understand to be rarely accessed and where there is a video camera presence, the key for the cage is kept in an unlocked key box and a log of the stamps is not used to maintain inventory activity including the transference of stamps to the City Treasurer.

- 8. Recommendation:** We recommend there be more limited access to the key, with a log of key usage, that a log be maintained to manage and control stamp access and distribution and inventory counts be taken periodically and reconciled to the log.

Management's Response:

Cigarette tax stamps are now secured in a locked closet in the main Commissioner of Revenue work area. This area is covered by the alarm system and motion detection sensors that protect the main work space. The key to this area is kept with the Office's Administrative Manager. Two log books are now utilized. One book records new tax stamps being purchased, stored and ultimately provided to the City Treasurer's Office; the other tracks the times when the key to the secured closet is accessed. Periodic spot checks of the inventory will also occur. Cigarette tax stamps recently came up for reorder, and the purchase was placed out for competitive bids. This process resulted in a \$21,114 savings when compared to last year's cost.

Technology equipment

Expenditures for a pair of iPads were brought to our attention by management, the business purpose for which was not known. While these purchases occurred prior to our audit period and were not of a material amount considering the overall budget of the Office, purchases of two iPad covers did occur during the audit period and we were able to verify the existence of only one of the covers and the associated iPad which it covered.

- 9. Recommendation:** We recommend that management monitor equipment and related asset purchases for suitability as to business purpose.

Management's Response:

Efforts were made to track down the missing iPad and iPad cover but were not successful. The iPad was not registered by the previous Commissioner, and this hampered efforts to use GPS technology to track the location of the device. The lack of registration of the iPads and lack of care of the disposition of the items has been addressed. By policy, all technology purchased by the Office is to be appropriately registered and to be inventoried according to the City's policy.

Combination of City and State Funding

The combination of state and city funding sources for the Office with the mix of state and city employee positions results in challenges as to the uniform and consistent treatment of employees. Differences exist in personnel policies and program availability for state and city employees and the previous



Commissioner attempted to reconcile several of them. Two examples of such differences are given below.

- **Accrued Leave at Termination**

We understand that there was inconsistency in the treatment of payment for accrued annual leave for terminated employees between the state and the city. We were told that the state limited payments to state employees to a maximum of 30 days whereas city policy permits payment for up to a maximum accrual of 48 days. State policy has since changed and there is no provision for payment of accrued leave at termination for state employees of constitutional offices and furthermore, we were told that, in the absence of such state payments, the Office has been making such payments using city funds. We also understand that the management of the accounting for such leave accrual and usage was performed using a subsidiary database system and that there has been considerable turnover in the personnel assigned to this task. Consequently the data has not been consistently maintained and is not considered reliable. The current Commissioner desires that leave management for state employees be maintained on the same PeopleSoft system as city employees and efforts are in process, working with the Human Resources Department, to review and update available data and bring this about. The challenges of maintaining the leave records on the separate system and the associated potential lack of accuracy are a subject of concern. We did not perform work in this area and consequently cannot assign a potential dollar impact to this matter.

- **Tuition Reimbursement**

The City has a tuition reimbursement program for employees desiring to further their post-high school education. This program was not available to state employees working in the Department. The previous Commissioner instituted such a program, managed by the Department, for these employees. We understand that the forms and processes used to administer this were patterned after the city program which was administered by the Human Resources Department. While we understand and appreciate the interest in and concern for the Office's state employees, we are concerned as to the adequacy of capability of the Office to administer such a program and its ability to be impartial in its offering to employees. These expenses (7 transactions totaling \$2,100 during the audit period) were posted to the Office's training account; funds which we understand were to be used for continuing professional education and not for the attainment of new higher education degrees.

- 10. Recommendation:** We recommend management review of the technical aspects and requirements presented by the combination of different funding sources, for both personnel and non-personnel expenditure areas, and, obtaining legal guidance as appropriate, develop policies and procedures to address these matters.

Management's Response:

The Commissioner has made an effort to maximize reimbursement from the State by shifting, when possible, positions from solely city-funded positions to state positions which are partially reimbursed by the State Compensation Board. The hybrid nature of the Commissioner of the Revenue's workforce (i.e., some employees are state of Virginia employees and some employees are City of Norfolk employees) means that the benefits for employees are not always identical. To the extent possible, the Office attempts to minimize these disparities.



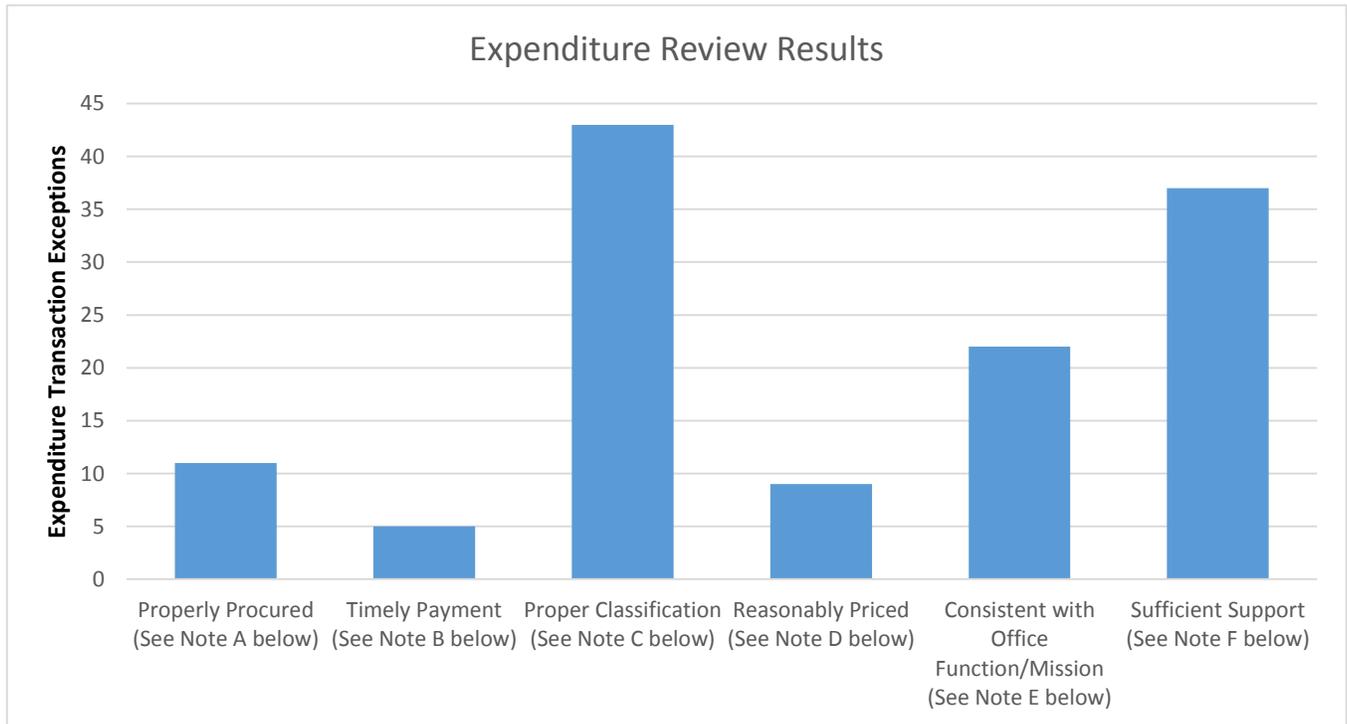
1. Accrued Leave at Termination

The new Commissioner performed a complete review of the leave system. Because the Office employs both City and State employees, the rules governing leave vary. All employees have been informed of the correct maximum leave accrual for both city and state employees. All leave balances have been verified, and written documentation was provided to all employees.

The Commissioner is bringing policies in line with City policies. As a first step, the Commissioner's Office is now working with the city of Norfolk's Human Resources Department and is using the city's PeopleSoft leave tracking system.

2. Tuition Reimbursement

The City of Norfolk offers a tuition reimbursement plan. A comparable plan is not offered by the Commonwealth of Virginia. The Office is studying the best way to address this imbalance in benefits.



Notes

(A) Expenditure properly procured

The majority of exceptions in this area chiefly dealt with expenditures posted to office supplies (5 transactions - \$4,181) and advertising (2 transactions - \$1,955) that did not follow the city-prescribed purchasing procedure of obtaining three quotes for items costing in excess of \$1,000. It appears that two bulk purchases were broken down into separate invoices of less than \$1,000 to circumvent this rule. These items were the promotional magnets referred to in more detail in the Audit Results section of this report.

(B) Timely Payment

There were a few exceptions to this attribute (5 transactions - \$5,793) and they were chiefly due to untimely submission of invoices to the Business Manager. Examples of such charges include printing, food and office supplies.

(C) Proper Classification

We found this to be the most frequently occurring attribute exception with 43 occurrences (\$22,981). Proper classification of expenditures provides the necessary basis for effective financial reporting and management. During the budgeting process funds are allocated to the appropriately designated accounts necessary to support the mission and function of the Office. Charges should be posted accordingly, however, certain circumstances may arise in which expenditures are made which, while in appropriate support of the mission of the office, cannot be properly matched to account descriptions. Such circumstances require the use of judgment in determining the account to which the charge is posted.

The majority of exceptions (19 - \$2,561) were postings to office supplies for food and meals, the bulk of which (18 - \$2,443) were local purchases in conjunction with office work-related meetings and events such as tax re-assessment day, permit compliance verification in the field and tax deadline days. The Office does not have a food/meals budget line item. There is no citywide policy regarding food and meals except as it pertains to out-of-town travel and this is addressed in the City Travel Policy.

Additionally, as to postings to accounts for which the description did not match the purchase, there was a total of five charges in excess of \$1,000 to the Books under \$1,000 (totaling \$1,358) and the Computer software under \$1,000 accounts (totaling \$9,540).

(D) Expenditure Reasonably Priced

While we could generally make a determination as to the reasonableness of the cost of a given expenditure, for a number of expenditures detail invoices or receipts were not available. Without such details a review and determination could not be made. Such items (9 transactions - \$4,391) included food/meals, printing services and hotel charges.

(E) Expenditure Consistent with Office Function/Mission

The exceptions to this attribute exhibited a lack of clarity and certainty in their relation to Office business purpose and chiefly included food and meals and the purchase of promotional magnets, both of which were charged to the advertising and office supplies accounts.

(F) Sufficient Support for Expenditure*

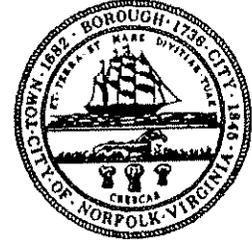
Of the 37 (\$11,822) exceptions to this attribute, the majority of them (20 - \$8,749) occurred in the Traveling and Employee Training Expense accounts and included the following:

1. Reason for travel often not included with documentation
2. Persons attending the event are not always named in documentation
3. Travel reimbursement form not consistently used
4. Mileage form not consistently used (city form usually not used)
5. Travel advance form not prepared

*During the eighteen-month audit period there were a total of 114 transactions (\$31,674) posted to the Traveling Expense account (21% of total transactions for the period). Our testing, in part supported by additional information provided by the Business Manager, generally indicated a reasonable business purpose. Our concerns chiefly centered on the uniformity and adequacy of the supporting documentation.



Commissioner of the Revenue
Norfolk, Virginia



C. Evans Poston, Jr.
Commissioner of the Revenue

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Fax (757) 441-1286

June 16, 2014

Mr. John Sanderlin
City Auditor
810 Union Street
Norfolk, VA 23510

Dear Mr. Sanderlin,

Thank you for your audit team's diligent and professional review of expenditures covering an 18 month period prior to my assumption of office on January 1, 2014.

For my part, I felt an audit should be conducted to evaluate the propriety of expenditures and develop guidelines moving forward, and I appreciate the prompt and thorough review performed by your staff. Though an interim audit may not have been required by law, your report confirms my belief that one was necessary, and I am encouraged that we have already taken steps to address many of situations uncovered by the review.

As per our responses included in your final report, we concur with your recommendations and have already implemented many of them in order to ensure transparency in all that we do. Being good stewards of taxpayer dollars is not an abstract concept, but a requirement that should motivate anyone elected to public office.

In that regard, we will comply with City of Norfolk's longstanding policies, and I will use your audit report as a tool moving forward to guide the office's operations. It was a pleasure to work with the City Auditor's office, and we will continue to help in any way we can.

Best regards,

A handwritten signature in black ink, appearing to read "C. Evans Poston, Jr.", written in a cursive style.

C. Evans Poston, Jr.
Commissioner of the Revenue