



Richmond Office of the  
**CITY AUDITOR**

**OFFICIAL GOVERNMENT REPORT**

# Annual Follow-Up Progress Report 2015

**Report Issued: March 10, 2015**

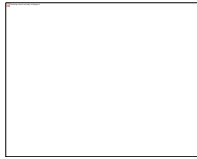
**Report Number: 2015-07**

Richmond City Council Office of the City Auditor | Richmond City Hall | 900 E. Broad Street, Suite 806 | Richmond, Virginia 23219 U.S.A. | 804.646.5616 (tel)

*Committed to increasing government efficiency, effectiveness  
and accountability on behalf of the Citizens of Richmond.*

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City of Richmond  
City Auditor

March 10, 2015

The Honorable Members of City Council  
City of Richmond, Virginia

**Subject: Annual Follow-Up Progress Report**

The City Auditor's Office has completed the Annual Follow-up Review. The Follow-up Review recognizes the efforts made by City agencies and gaps where additional efforts are needed to implement audit recommendations. This project was conducted in accordance with Generally Accepted Government Auditing Standards. This is an annual review during which the City Auditor's Office evaluates implementation efforts made by the City agencies.

***Objectives, Scope, and Methodology:***

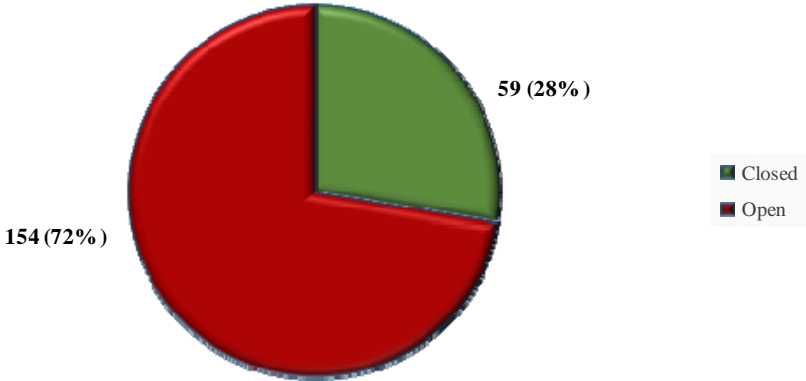
In accordance with the Annual Audit Plan for 2015, the City Auditor's Office has completed a review of the status of outstanding audit recommendations. The primary objective of this review was to evaluate the timeliness and adequacy of implementation of the recommendations made in the previous audits with an implementation date through December 31, 2014. During this review, auditors interviewed the management personnel associated with each recommendation and tested the results of the actions taken.

***Implementation Status of Open Recommendations:***

The auditors reviewed 290 outstanding recommendations (213 for the City and 77 for Richmond Public Schools). The results of our review indicated City management adequately implemented 59 recommendations. Richmond Public Schools adequately implemented 10 recommendations.

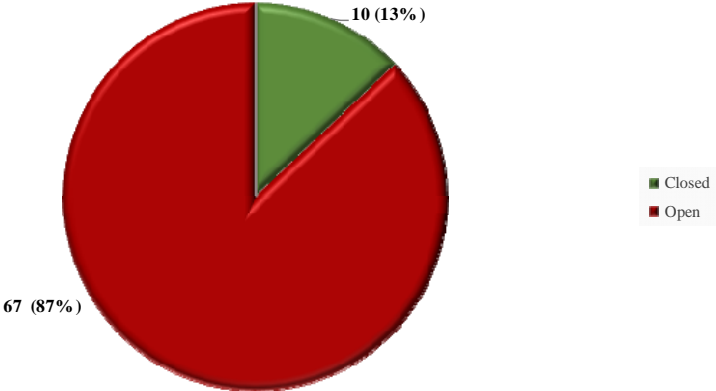
The City's rate of implementation is as follows:

### City Implementation Rate



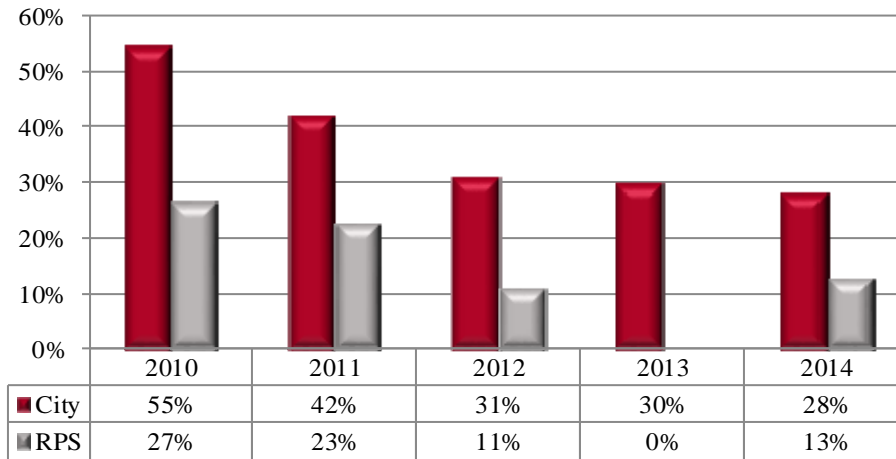
RPS' rate of implementation is as follows:

### RPS Implementation Rate



Over the past five years, the rate of implementation of audit recommendations by the City Administration and RPS have reduced:

## % of Recommendations Implemented



\*RPS did not provide any responses to the auditors' inquiries made to the Superintendent for 2013. Therefore follow-up work was not conducted.

Audits identify operational and controls deficiencies. These deficiencies once identified need to be addressed appropriately. If the recommendations are not implemented, the known deficiencies will continue to cause operational challenges. In addition, control deficiencies if not addressed could be exploited and may compromise accountability over City resources. Please contact the City Auditor's Office if you have any questions related to this report.

*Umesh Dalal*

Umesh Dalal, CPA, CIA, CIG  
City Auditor

Attachment 1: Summary of Results

Attachment 2: List of High Priority Recommendations

## Attachment 1: Summary of Results

<b>Department/Agency</b>	<b>Report Number</b>	<b>Total</b>	<b>Open</b>	<b>Closed</b>
<b>Animal Care &amp; Control</b>				
Richmond Animal Care & Control	2013-04	4	2	2
<b>Finance</b>				
Accounts Payable & Procurement	2008-04	5	2	3
BPOL	2006-13	3	3	0
Fixed Assets	2012-07	2	2	0
ICVerify System	2011-13	2	0	2
MUNIS - Project Management Review	2010-09	5	5	0
Payroll - Finance & Human Resources	2010-04	10	10	0
Revenue Administration	2012-08	11	11	0
Risk Management	2014-01	5	4	1
Towing	2011-14	1	1	0
<b>Fire</b>				
Records Management System	2011-05	1	1	0
<b>Information Technology</b>				
Payroll and Actuary Systems	2012-03	1	0	1
RAPIDS	2014-04	3	3	0
<b>Justice Services</b>				
Justice Services	2013-08	21	9	12
Truancy and Diversion	2012-05	1	0	1
<b>Office of Minority Business</b>				
Minority Business Development	2013-01	10	6	4
<b>Parks, Recreation, &amp; Community Development</b>				
Capital Improvements Projects	2011-12	2	2	0
Parks Maintenance	2011-07	8	5	3
Recreation	2012-13	13	9	4
<b>Procurement</b>				
Accounts Payable & Procurement	2008-04	6	6	0
Procurement Services	2013-02	3	3	0
Vendor File	2004-02	1	1	0

<b>Department/Agency</b>	<b>Report Number</b>	<b>Total</b>	<b>Open</b>	<b>Closed</b>
<b>Public Works</b>				
Facilities Management	2011-08	9	5	4
Fleet Services	2007-10	6	3	3
Grounds Maintenance	2009-06	2	2	0
Risk Management	2014-01	1	1	0
Roadway Maintenance	2012-04	11	9	2
Sidewalks	2013-11	21	17	4
Solid Waste Management	2012-11	4	3	1
Urban Forestry	2010-07	1	1	0
<b>Richmond Retirement System</b>				
Retirement Sustainability	2013-03	1	0	1
<b>Community Development</b>				
Code Enforcement	2010-08	2	2	0
Permits and Inspections	2010-03	8	6	2
<b>Police</b>				
Operational Analysis	2011-02	2	2	0
PISTOL	2012-10	8	7	1
Towing	2011-04	2	2	0
<b>Social Services</b>				
CSA and Foster Care	2011-11	4	1	3
Harmony System	2011-03	1	0	1
<b>Citywide Audits</b>				
Computer Purchases	2011-14	4	3	1
Towing	2011-04	1	1	0
Grants Process	2010-05	3	2	1
RAPIDS	2014-04	4	2	2
<b>Richmond Public Schools</b>				
Accounts Payable and Procurement	2009-04	2	2	0
Benefits	2014-03	15	15	0
General Operational Audit	2007-06	7	7	0
Information Technology	2009-05	19	19	0
Payroll	2014-02	3	2	1
Procurement	2014-06	15	6	9
School Nutrition Services	2015-02	2	2	0
Training and Development	2015-01	1	1	0
Transportation	2014-07	13	13	0
<b>Total Recommendations</b>		<b>290</b>	<b>221</b>	<b>69</b>

## **Attachment 2: List of High Priority Open Recommendations by Department/Agency**

The Audit Committee has indicated a desire for the City Auditor to prioritize the outstanding recommendations and identify those having the most impact on City operations. As a result, the Auditor's Office has identified four risk areas which we believe have the most impact on current and future City operations. These four areas include:

- Financial (budgetary)
- Delivery of Citizen Services
- Public Relations
- Internal Controls

Considering these areas of priority, the City Auditor's Office has identified the following outstanding recommendations having the highest potential impact.

***Recommendation:***

***Adhere to Policy 11-001, Delinquency Collection Policy and document detailed procedures for the collection of delinquent taxes and fees.***

***Department: Finance – Revenue Administration Division***

***Issue Date: March 2006***

***Responsible Individual/Department: Finance Management***

***Financial Impact: \$10.9M in delinquent collections during FY12***

***Risk Area: Financial (budgetary)***

***Background:***

According to Policy 11-001 Delinquency Collection Policy, detailed procedures for the collection of delinquent taxes and fees are documented in the Comprehensive and Detailed Delinquency Collection Procedures Manual. However, the Department did not follow their Policy for collections. Additionally, the Department did not have sufficient written procedures for the collection of delinquent taxes and fees for Business, Professional, and Occupation License Tax. The exact amount of receivables was not known at the time of the audit due to discrepancies in the tax audit process. However, these receivables could be substantial.



### *Status Update*

The Department has recently hired a new Chief of Revenue Administration who is currently reviewing and assessing the Division's operations. This position was vacant for some time. The Department is also in the process of acquiring a new revenue administration system, which is anticipated to be implemented within 24 months once a vendor is selected and the installation process begins. The business processes will be developed with the new system installation. As such, the Division has requested an extension for implementation of this recommendation to July 1, 2017. Also, the City Auditor's Office is currently conducting a Revenue Administration Audit as a part of the FY15 audit schedule. The City Auditor's Office and the DCAO of Finance and Administration have agreed to use the audit results to assist the Chief of Revenue Administration in addressing the deficiencies.

### **Recommendation:**

*Periodically review the underutilized vehicles and submit the results to the Chief Administrative Officer.*

*Department: Department of Public Works – Fleet Services*

*Issue Date: May 2007*

*Responsible Individual/Dept: Fleet Services*

*Financial Impact: Cannot be quantified at this time*

*Risk Area: Financial (budgetary) and Internal Control*

### *Background*

Fleet was unable to use common criteria to evaluate adequacy of utilization: 1) they did not keep accurate records of mileage driven; and 2) they did not establish criteria for appropriate usage. Underutilized vehicles could be re-allocated (replacing current higher mileage vehicles) to meet other prevailing City transportation needs; thereby reducing replacement needs Citywide. Although, the exact financial impact cannot be computed at this time, it is anticipated to be substantial.

### *Status Update*

Fleet is in the process of reviewing the utilization rate of vehicles and making recommendations to user agencies and management. A revised due date of December 31, 2015 was requested to allow for adequate documentation on the recommendation of surplus vehicles based on utilization and action with user agencies.

**Recommendation:**

*Segregate duties between the buyers, the employees making vendor database changes, and the employees reviewing them.*

*Department: Finance and Procurement Services*

*Issue Date: February 2008*

*Responsible Individual/Dept: None Identified*

*Financial Impact: During the audit there was exposure of \$247M Citywide purchases*

*Risk Area: Internal Control and Financial (budgetary)*

***Background***

The audit found lack of supervisory review of vendor data input, changes and deletions. Staff can add, change and delete vendors without supporting documentation. This internal control weakness can contribute to fraudulent activity, such as establishing fictitious vendors. The financial impact of fraud could be substantial.

***Status Update:***

The Procurement Services Director noted that several buyers have the ability to modify the vendor database. The Department is currently awaiting DIT to conduct testing to determine the impact (if any) on changing the buyers' system access. In an effort to implement a mitigating control while waiting for DIT to perform testing, the Procurement Director requested a report to monitor vendor file changes. However, DIT has not provided the report nor conducted testing. An extended due date of June 30, 2015 has been requested.

**Recommendation:**

*Implement a pilot rental inspection program.*

*Department: Department of Community Services*

*Issue Date: March 2010*

*Responsible Individual/Dept: Operations Manager*

*Financial Impact:*

*The audit identified between \$640,000 to \$1 million, which will pay for the program*

*Other Impact: Ensures the health and safety of tenants living in 51% of all occupied units*

*Risk Area: Delivery of Citizen Services and Public Relations*

***Background***

This was identified as a possible solution to address urban decline and blight. Rental properties with absentee landlords were cited as a contributing factor to urban decline. Conducting routine periodic inspections is the most effective way of ensuring renter occupied housing is in compliance with minimum standards, regarding the health and safety of the public. Implementation of this recommendation could improve quality of life and assist in economic development.

***Status Update:***

A resolution to establish rental inspection within those districts and require inspection of residential real estate dwellings, with those districts, was introduced to Council on July 14, 2014. This matter has been continued to March 23, 2015. Recommendation is scheduled to be followed up as of June 30, 2015.

**Recommendation:**

***Work with the City's Real Estate Division to relocate the Property and Evidence unit to a more appropriate facility.***

***Department: Richmond Police Department***

***Issue Date: July 2010***

***Responsible Individual/Dept: RPD Deputy Director of Finance***

***Other Impact: Health and Safety of employees and visitors is threatened and the deficiencies in the building could compromise evidence***

***Risk Area: Delivery of Citizen Services and Public Relations***

***Background:***

Unsafe and poor working conditions (e.g. asbestos or mold) exist for employees who work at the Public Safety Building. Poor working conditions can cause health hazards for employees; unsafe working conditions could expose the City to liability; and police evidence can be comprised due to water leaks or excessive temperatures that can contribute in the contamination of evidence, which could severely affect the outcome of criminal court cases.

***Status Update:***

Recommendation is scheduled to be followed up as of June 30, 2015.

**Recommendation:**

*The Richmond Police Department should implement additional differential response techniques, including the use of internet reporting for non-emergency, low-priority calls for service.*

*Department: Richmond Police Department*

*Issue Date: July 2010*

*Responsible Individual/Dept: None Identified*

*Financial Impact: The audit identified an approximate savings of \$108,000*

*Risk Area: Financial (budgetary)*

***Background:***

Additional differential response techniques could be used to reduce the number of non-emergency and low priority calls handled by sworn officers. There is an expected annual cost savings of \$108,000 due to the reduction of two officer positions.

***Status Update:***

Per Department staff, initial testing has been completed for the server that will perform this function. Final testing and staff training is needed for implementation. An extended due date of June 30, 2015 has been requested.

**Recommendation:**

*Parks and Recreation should analyze the cost-effectiveness of winter projects.*

*Department: Department of Recreation, Parks and Community Facilities*

*Issue Date: February 2011*

*Responsible Individual/Dept: Operations Manager*

*Financial Impact: During the audit, there was a potential loss of some productivity for 42 positions during winter months.*

*Risk Areas: Financial (budgetary) and Delivery of Citizen Services*

***Background:***

Park operations activities are impacted by seasonal weather changes. The Department has some winter projects. However, management's evaluation of the effectiveness of staff's use for this purpose has been

inadequate. Use of staff time during winter months need to be evaluated for proper resource allocation to ensure needs are met Citywide.

***Status Update:***

The Department management indicated that winter projects compare to that of the other three seasons and an analysis of the winter projects is not an efficient use of resources by the Department at this time. However, the implementation of the Department's new software will provide a more standardized and efficient method of tracking the expenses noted in this recommendation. An extended due date of June 30, 2015 has been requested.

**Recommendation:**

***Develop a strategy to improve the overall structural integrity and the surface quality of the roads for good ride quality.***

***Department: DPW***

***Issue Date: November 2011***

***Responsible Individual: City Engineer***

***Financial Impact: \$276M in Funding Needs as of FY10***

***Risk Area: Delivery of Citizen Services and Public Relations***

***Background***

Sixty-six percent (66%) of the City's streets were identified as being in fair and poor conditions during the 2010 assessment. The condition assessment consists of contractors visually inspecting roads for frequency and severity of pavement distress from moving vehicles. This type of assessment is less reliable as it does not provide a true assessment of the structural integrity of the roadways. Compared to the City's approach, VDOT used a more sophisticated and scientific process to assess roadway conditions. Having a strategy to effectively evaluate the surface quality could help the City identify all the segments of roadways that need repairs, maintenance or replacement.

***Status Update***

The Department entered into a contract with a State vendor to complete a lane mile inventory and road condition assessment. Upon completion of the inventory and assessment, this information will be analyzed and used to develop appropriate strategies. An extended due date of June 30, 2015 has been requested.

**Recommendation:**

*Develop estimates of total funding needed to address road improvement issues using:*

- a. accurate measurements;*
- b. reliable assessments of the road conditions; and*
- c. appropriate cost per unit for maintenance, rehabilitation and reconstruction activities.*

*Department: DPW*

*Issue Date: November 2011*

*Responsible Individual/Dept: Paving Manager and Paving Engineer*

*Financial Impact: \$276M Funding Needs as of FY10*

*Risk Areas: Financial (budgetary) and Delivery of Citizen Services*

***Background:***

A disparity between funding needs and the availability of funding for road improvements exists. DPW had requested inadequate funding to address perceived need. Funding requests were based upon historical data of approved budgets. Funding requests only included maintenance procedures. In addition, the Department lacked a complete inventory of roads and reliable assessment of road conditions needed in order to adequately estimate funding needs. Funding needs as of FY2010 were estimated at \$276 million.

***Status Update:***

The Department entered into a contract with a State vendor to complete a lane mile inventory and road condition assessment. Upon completion of the inventory and assessment, this information will be inputted into the Department's pavement management systems, analyzed and used to develop appropriate strategies. An extended due date of June 30, 2015 has been requested.

**Recommendation:**

*Implement proper management practices to ensure efficiency and effectiveness in the Assessment, Collections, Tax and Compliance Audit, and Tax Enforcement Units. Specifically: a. Hold employees accountable by managing their productivity. b. Require Tax Audit, and Tax Enforcement Units to have a documented annual plan for their work. c. Analyze the risk of non-reporting and under-reporting of taxes to focus collection, audit and enforcement efforts to high risk accounts to maximize effectiveness. d. Include this analysis for all tax types.*

***Department: Department of Finance – Revenue Administration***

***Issue Date: April 2012***

***Responsible Individual/Dept: Director of Finance***

***Financial Impact: The accumulated delinquent account balance for personal property tax was approximately \$15 million***

***Risk Areas: Internal Control and Financial (budgetary)***

***Background:***

Productivity of the Tax Enforcement Unit could not be determined due to disorganized documentation. The amount of revenue collected by the Tax Enforcement Unit could not be determined based upon available documentation. The Tax and Compliance Audit unit was inadequately managed with significantly low productivity and missed opportunities to generate substantial additional revenues. The Tax Enforcement and Tax and Compliance Units did not have formal annual work plans. The Finance Department's collection efforts are inadequate as collection consistently lags the levy. In the past six years, the City has an accumulated delinquent account balance of approximately \$15 million for personal property tax. As of report writing, the City had written off approximately \$5.4 million in receivables for personal property tax. A significant risk of under-reporting or non-reporting of business personal property and meals taxes exists.

***Status Update:***

The Department has hired a new Chief of Revenue Administration who is currently reviewing and assessing the Division's operations. The Department is also in the process of acquiring a new revenue administration system, which is anticipated to be implemented within 24 months once a vendor is selected and the installation process begins. The business processes will be developed with the new system installation. As such, the Division has requested an extended due of July 1, 2017. Also, the City Auditor's Office is currently conducting a Revenues Administration Audit as a part of the FY15 audit schedule.

**Recommendation:**

***Develop, implement and monitor policies and procedures to: a) Place DMV holds timely and consistently. b) Ensure compliance with State Code provisions related to charging the administrative fees for delinquent accounts. c) Address DMV and DGIF uploads within predetermined timeframes.***

***Department: Department of Finance – Revenue Administration***

***Issue Date: April 2012***

***Responsible Individual/Dept: Director of Finance***

***Financial Impact: The City could have generated an additional \$1.3 million in FY2010***

***Risk Areas: Internal Control and Financial (budgetary)***

***Background:***

The Department of Motor Vehicles (DMV), at the request of the City, flags the accounts of delinquent taxpayers to put a hold on future renewals of their annual registration. The DMV registration holds are effective only when they are used consistently and timely. The City Auditor's staff found that 18 out of 50 (36%) reviewed delinquent accounts did not show DMV holds. The delinquencies on some of these accounts date back to 2006. The Finance Department does not place holds until the account is delinquent for at least six months. The Finance staff could not provide an adequate explanation for waiting six months prior to placing the DMV holds. It took the Finance Department an average of 94 days to upload the data received from DMV and Department of Game and Inland Fisheries (DGIF) into MUNIS. This can result in poor customer service and limit the City's ability to collect revenues that otherwise would be collected. The State Code of Virginia § 58.1-3958 affords localities the ability to charge an administrative fee to all delinquent accounts. However, the Finance Department did not begin charging this fee until 2011. According to the City Auditor's staff research, several localities, such as Henrico County, Norfolk, Virginia Beach and Hampton, are charging this fee. Charging this fee could help the City improve its cash flow. Based on the information provided by the Finance Department, the City could have generated an additional \$1.3 million in FY2010.

***Status Update:***

The Department has hired a new Chief of Revenue Administration who is currently reviewing and assessing the Division's operations. This position was vacant for some time. The Department is also in the process of acquiring a new revenue administration system, which is anticipate implemented within 24 months once the vendor is selected and the installation process begins. The business processes will be developed with the new system installation. As such, the Division has requested an extended due of July 1, 2017. Also, the City Auditor's Office is currently conducting a Revenues Administration Audit as a part of the FY15 audit schedule.



**Recommendation:**

*Conduct a comprehensive legal analysis to evaluate the current program and make appropriate changes based on the results of the legal analysis to better enable the City to enforce contractual provisions related to MBE/ESB participation.*

*Department: Office of Minority Business Development*

*Issue Date: August 2012*

*Responsible Individual/Dept: Director and Deputy Director*

*Other Impact: Currently, the City's OMBD program may not meet the legal test. Without establishing the validity of the City's program, the City may face legal challenges.*

*Risk Area: Public Relations*

***Background:***

The City cannot enforce adherence to minority participation, which the prime contractors pledge to receive City contracts. As such, certain prime contractors continually pledge minority participation but fail to demonstrate present or past good faith; however, they still receive City contracts. This practice does not treat contractors that honestly disclose their intentions not to use minority participation or those who honor their pledges fairly.

***Status Update:***

A legal analysis has not been completed to evaluate the current OMBD program. The Auditor's Office will schedule a meeting to discuss this analysis with the Chief Administrative Officer's (CAO) Office. An extended due date of June 30, 2015 has been established.

**Recommendation:**

*Conduct a cost benefit analysis to determine the appropriateness of conducting a disparity study. If found beneficial, conduct a disparity study.*

*Department: Office of Minority Business Development*

*Issue Date: August 2012*

*Responsible Individual/Dept: Director and Deputy Director*

*Financial Impact: See above*

*Risk Area: Public Relations*

***Background:***

Currently, OMBD is not able to ensure compliance with the MBE/ESB participation goals. This practice does not ensure fair treatment to contractors that honestly disclose their intentions not to use minority participation or those who honor their pledges. Repeat offenders failing to comply with pledged participation continue to get City business. There is a possibility of overhauling the current program after conducting a “disparity study.” The Tenth Circuit, in its 2003 decision, considered disparity studies as a tool available for governments to establish an affirmative action program that can endure legal scrutiny. However, according to the Administration’s representations to the City Auditor’s Office, a disparity study could cost up to \$400,000 to conduct. Without a disparity study, it would be difficult for the City to extend any benefits to minority vendors that are not offered to non-minority vendors.

***Status Update:***

A Cost benefit analysis has not been completed on the appropriateness of conducting a disparity study. The Auditor’s Office will schedule a meeting to discuss this study with the CAO’s Office. An extended due date of June 30, 2015 has been established.

**Recommendation:**

*Establish written procedures for monitoring small purchases and PD exemptions procured by the departments to assure compliance with the City policies.*

***Department: Department of Procurement Services***

***Issue Date: August 2012***

***Responsible Individual/Dept: Director and Sr. Level Managers***

***Financial Impact: During the audit period, small purchases totaling approximately \$75 million were exposed to this deficiency***

***Risk Areas: Internal Control and Financial (budgetary)***

***Background:***

Small dollar purchases (\$50,000 or less) have been delegated to the city departments and agencies. These purchases are processed on departmental purchases (PDs). PDs are also used to purchase items which are exempted from competition. During the audit period, small purchases totaled approximately \$75 million. Inadequate monitoring and oversight is in place for small dollar purchases (\$50,000 or less) that have been delegated to city departments and agencies. PD exemptions are approved based upon exemption type cited

on purchase orders, without supporting documentation. Competitive procurement requirements were circumvented by splitting purchases. Ninety-seven split purchases totaling approximately \$175,000 were identified during audit testing. Departments/agencies are required to solicit three quotes for purchases between \$5,001 and \$50,000. They are allowed to proceed with procurement even if two of the three vendors do not respond to the quote requests. Improving the process and procedures will help ensure proper and economical purchases.

***Status Update:***

The Department submitted a draft policy relating to small purchases and PD exemptions during the follow up period. The Procurement Director indicated that this policy will be finalized and implemented in early 2015. An extended due date of June 30, 2015 has been established.

**Recommendation:**

***Require RPS management to work with City management and legal assistance, specialized in healthcare, to expedite negotiations and signing of the contract with CIGNA.***

***Department: Richmond Public Schools - Benefits***

***Issue Date: November 2013***

***Responsible Individual/Dept: Superintendent and City of Richmond (COR)***

***Financial Impact: CIGNA's fees (administrative, cost containment, and stop loss premiums) for RPS and COR exceeded \$10M (including \$5M for RPS) during audit period.***

***Risk Areas: Internal Control and Financial (budgetary)***

***Background:***

RPS and COR jointly entered into an Administrative Services Only Agreement (ASO) with CIGNA to provide medical claims administration services. RPS and the City did not have a formal, signed agreement with CIGNA. RPS and COR have complied with established procurement policies; however, agreeable terms and conditions have not been reached.

***Status Update:***

RPS indicated that COR has maintained direction over the contract process and funding management for CIGNA. The auditor submitted follow up questions to RPS staff to determine what actions (if any) had been taken to finalize and sign ASO. However, RPS staff did not provide responses. An extended due date of June 30, 2015 has been requested.

**Recommendation:**

*The Board may consider discontinuing unused sick leave pay-out in the categories which are inconsistent and not in alignment with other school divisions.*

*Department: Richmond Public Schools - Benefits*

*Issue Date: November 2013*

*Responsible Individual/Dept: Superintendent and School Board*

*Financial Impact: \$1.3 million spent for unused sick leave during audit period*

*Risk Areas: Financial (budgetary)*

***Background:***

RPS employees are allowed to sell their unused sick leave due to any separation, such as resignation, retirement, termination for cause, or death. Additionally, the administrative policy allows active employees to sell unused sick leave when they accumulate more than 100 days. Employees can sell a maximum of 50 days per year, at half the rate of a substitute teacher's hourly wage. During the 18 month audit period, RPS spent \$1.3 million reimbursing retirees, terminated, and existing employees for unused sick leave.

***Status Update:***

RPS indicated that alignment and consistency with other school divisions is one consideration factor, but not a sole factor that is considered when making benefit and compensation policy changes. The Administration will make a recommendation to the Board regarding changes to the current unused sick leave pay-out policy that will complement the District's overall employer benefit program. Changes to the unused sick leave pay-out policy should consider factors such as: cost effectiveness/cost savings for the District, attracting and retention of employees, organizational best practices as well as comparability to other school districts. An extended due date of June 30, 2015 has been requested.

**Recommendation:**

*The Board may consider revising its policy to provide health insurance subsidies only to those retirees who do not qualify for the VRS health insurance subsidy.*

*Department: Richmond Public Schools - Benefits*

*Issue Date: November 2013*

***Responsible Individual/Dept: Superintendent, School Board***

***Financial Impact: Thirty-five percent (35%) subsidy provided to retirees resulting in approximately \$1.4 million annually***

***Risk Areas: Financial (budgetary)***

***Background:***

RPS provides for more generous subsidies to retirees than those of other surrounding School Divisions. RPS early retirees (less than 65 years of age) with 15 or more credited years of service receive a subsidy from Virginia Retirement System (VRP), as a monthly credit ranging from \$60-\$120, which is added to their monthly retirement benefits to subsidize their medical costs. In addition, RPS provides a 35% subsidy to assist retirees' with their medical premiums which approximates \$282 per retiree per month or \$1.4M annually.

***Status Update:***

Per RPS response, there is no current Board policy on employer paid retiree health care benefits. The Board may consider revising the health care benefits offered to retirees that can include a decision not to provide a subsidy to retirees that are receiving the VRS health care credit as one possibility. The Administration will make a recommendation to the Board regarding the practice of providing employer paid health benefits for retirees who are receiving a VRS health care credit, which considers cost savings to the district, organizational best practices as well as how this benefit integrates into the overall employer paid benefits portfolio. An extended due date of June 30, 2015 has been requested.

**Recommendation:**

***Require Superintendent to assign the responsibility and verify accountability for monitoring and reconciling claims that exceed the stop loss limits.***

***Department: Richmond Public Schools - Benefits***

***Issue Date: November 2013***

***Responsible Individual/Dept: Superintendent, Benefits, and Risk Management***

***Financial Impact: Administrative and stop fees costing RPS about \$200,000 per month***

***Risk Areas: Internal Control and Financial (budgetary)***

***Background:***

CIGNA guarantees to limit RPS' claim losses to \$300,000 per calendar year for each participant. If the claims liability exceeds the limit, the stop loss insurance purchased by RPS/COR covers it and accordingly CIGNA absorbs the losses. CIGNA charges RPS/COR a per employee premium for this coverage. Collectively, administrative and stop fees are costing RPS about \$200,000 per month.

RPS does not monitor and reconcile claims exceeding the stop loss limits. RPS delegated this responsibility to CIGNA. During the audit period, nine individuals exceeded the stop loss limit in the aggregate of \$931,384.

***Status Update:***

Per RPS response, detailed monthly reports can be provided by CIGNA. From this report, RPS can audit against the stop-loss reimbursement report to make sure that the credit is deposited back to the health care bank account held by COR. This audit process will be implemented monthly by the RPS Benefits & Risk Management Department and supporting documentation will be kept on file for all audits. An extended due date of June 30, 2015 has been requested.

**Recommendation:**

***Require RPS administration to conduct a study quantifying future health benefits costs for the current non-contract employees, due to the PPACA, and report the results to the Board.***

***Department: Richmond Public Schools - Benefits***

***Issue Date: November 2013***

***Responsible Individual/Dept: School Board***

***Financial Impact: \$1.4M to \$2.9M annually beginning in January 2015***

***Risk Areas: Financial (budgetary)***

***Background:***

During the audit period, RPS had 221 non-contract employees who did not get benefits. Some of these employees work identical hours as their counterparts that have contracts. The Patient Protection and Affordable Care Act (PPACA) is a federal statute signed into law in March 2010. The Act will protect employees who work 30 or more hours per week so that the employer must provide health benefits. This Act will have an effect upon RPS because many of the non-contractual workers will become eligible for

benefits. The auditor estimated the additional costs could range from \$1.4M to \$2.9M annually beginning in January 2015.

***Status Update:***

Per RPS response, Mercer, which serves as the Health Care Consultant for COR and RPS, completed a health care study for RPS to quantify potential future health benefit costs if health care were offered to current part-time/non-contract employees, due to the Patient Protection and Affordable Care Act (PPACA). Mercer provided the report to the administration in January 2013 and that report was also presented to the School Board at the April 8, 2013 Board Meeting. The School Board later passed a resolution effective August 1, 2013 limiting the number of hours for all part-time or non-contracted employees. The resolution states that as of August 1, 2013, part-time or non-contracted employees are limited to no more than twenty-eight hours per week. An extended due date of June 30, 2015 was requested, at which time, the Auditor will validate the above.

**Recommendation:**

***Until the system limitations are addressed, require Purchasing Services to periodically analyze the procurement data to detect and address bid splitting incidences, and identify potential opportunities to establish contracts for similar commodities to procure volume discounts.***

***Department: Richmond Public Schools – Procurement***

***Issue Date: April 2014***

***Responsible Individual/Dept: Director of Procurement and Control***

***Financial Impact: Due to a lack of information, split purchases could not be tested.***

***Risk Areas: Internal Control and Financial (budgetary)***

***Background:***

Adequate controls and procedures are not in place to monitor for split purchases. According to the RPS staff, monitoring for split purchases is accomplished via review of the daily purchase order report for purchases and unauthorized purchase orders. However, it would be difficult to detect split purchases using this approach unless the purchase orders were generated on the same day and the numbers were in sequential order. Also, small purchases (not exceeding \$1,000) were not monitored using this approach as Purchasing Services is not involved in small purchases and does not receive copies of the small purchase orders. In

addition, the Purchasing Division has not performed a district-wide analysis to identify opportunities for bulk purchases for volume discounts.

***Status Update:***

RPS indicated that split purchase monitoring is accomplished via review of the daily purchase order reports. However, this is the same process that was in place during the audit scope for which the recommendation was issued. As such, this recommendation remains open with a revised due date of June 30, 2015.

**Recommendation:**

***Require Purchasing Services to verify analysis done by Instruction Department on all textbook needs (both adopted and non-adopted) and conduct proper planning prior to purchasing textbooks to avoid excessive purchases.***

***Department: Richmond Public Schools – Procurement***

***Issue Date: April 2014***

***Responsible Individual/Dept: Director of Procurement and Control***

***Financial Impact: \$375,481 spent on excess textbooks for school years 2012 and 2013***

***Risk Areas: Internal Control and Financial (budgetary)***

***Background:***

Textbook purchases are not in line with the student population. During the audit, it was noted that available textbooks (on hand and purchased) exceeded student population for school years 2012 and 2013 by an average of 2,000 books each year. Approximately, \$375,000 was spent on excessive books.

***Status Update:***

RPS explained that the new Destiny system is being implemented, and it will be used for assessing textbook needs and starting the process for ordering textbooks based on needs. An extended due date of September 30, 2015 has been established.

**Recommendation:**

***The Superintendent needs to seek a second legal opinion on the legality of the current scoring process.***

***Department: Richmond Public Schools – Procurement***

***Issue Date: April 2014***



***Responsible Individual/Dept: Superintendent and School Board***

***Financial Impact: Legal liability exposure***

***Risk Areas: Public Relations and Financial (budgetary)***

***Background:***

Based upon review of the scoring sheets, the auditors noted that offerors who were African American firms or pledged MBE participation of an African American firm received 20 points. Other firms who were or pledged participation of other groups included in the federal definition of minority were awarded 15 points. The scoring process has been reviewed and approved by RPS' Legal Counsel. According to RPS Legal Counsel, in the early 1990s, a disparity study was conducted on behalf of the City of Richmond, RPS, and Richmond Redevelopment Housing Authority which was provided to audit during the audit period. However, the study does not appear to support the current scoring practice for minority business participation. The method used by RPS to score minority participation could be interpreted as discriminatory for giving preference to a particular race. There may be a legal liability exposure to RPS due to the current scoring process.

***Status Update:***

Evidence of a second legal opinion has not been provided. An extended due date of June 30, 2015 has been established.

**Recommendation:**

***The Superintendent should develop a structured plan for bus replacement:***

- a. Using an analytical approach that incorporates total life cycle cost.***
- b. Recognizing all current, relevant environmental standards.***

***Department: Richmond Public Schools – Pupil Transportation***

***Issue Date: May 2014***

***Responsible Individual/Dept: Superintendent***

***Financial Impact: Unknown at this time***

***Risk Areas: Internal Control, Financial (budgetary) and Public Relations***

***Background:***

The buses in the RPS fleet range in age from one year to 23 years, with an average bus age of 12.46 years. There is a clear relationship between the age of vehicles and the Fleet costs. Generally, compared to new vehicles, older vehicles may be unreliable and tend to break down more frequently. Therefore, keeping vehicles or equipment in service for a period longer than their economic life increases fleet costs. Currently, there is not a mandate for the replacement of buses. However, not having a structured approach to bus replacement could be expensive. The Department has not developed a replacement schedule to ensure the buses transporting students meet all environmental standards and has indicated that a lack of funding has hindered the ability to purchase buses on a more regular basis.

***Status Update:***

Per RPS response, a replacement plan has been developed. However, the actual replacement of buses is contingent on funding. Seventy-eight buses have been purchased to date using a lease-purchase approach. However, due to non-response from RPS on this recommendation after multiple attempts to validate, an extended due date of June 30, 2015 has been established.

**Recommendation:**

***Require the Transportation Department to perform a thorough analysis of staffing needs to:***

- a. Adjust staffing to reduce overtime and improve availability of drivers.***
- b. Ensure the driver contracts and daily schedules are appropriately aligned with the Division's daily transportation needs.***

***Department: Richmond Public Schools – Pupil Transportation***

***Issue Date: May 2014***

***Responsible Individual/Dept: Transportation Director***

***Financial Impact: Overtime of \$755,000 paid during audit period***

***Risk Areas: Internal Control and Financial (budgetary)***

***Background:***

RPS' decision to reduce the number of full time drivers in recent years without a reduction in demand for transportation services along with other factors (e.g. field trips and substituting for absence drivers) has resulted in higher overtime costs. RPS paid more than \$755,000 in overtime during the audit period.

The auditors determined that 32% of the 25 randomly selected drivers did not have work schedules to cover their contractual obligations. Since the scheduled hours for their regular runs are not sufficient to meet contract requirements, drivers must pick up additional runs, including field trips, activity, and mid-day runs as needed. It appears that RPS needs to review all contracts to ensure their appropriateness for the hours available to be scheduled.

Also, the impending enforcement of the Affordable Care Act, requiring employers to provide healthcare coverage to all employees working more than 29 hours per week, compounds this issue. To comply with this new legislation, the Department must either assume additional benefit costs for current non-contract staff working more than 29 hours weekly, or right size their staff with full-time and part-time positions (working less than 29 hours weekly) to avoid additional benefits costs. If the Department were to maintain the current number of contracted and non-contracted employees and offer them benefits, as will be required, the additional benefits cost would be approximately \$195,000.

***Status Update:***

Responses from RPS indicated that the Transportation Department has completed an analysis of current practices and procedures. This analysis included examining routing for streamlining driver hours, feasibility of hiring additional drivers, and installing functioning digital video monitoring equipment on buses; costs of providing auxiliary runs to schools; appropriate billing rates; and fleet management including vehicle procurement, maintenance schedules, bus replacements and disposals. The FY16 budget is being built with this information. However, due to non-response from RPS on this recommendation after multiple attempts to validate, an extended due date of June 30, 2015 has been established.