



CITY OF RICHMOND  
CITY AUDITOR

**DATE:** March 25, 2019

**TO:** Mrs. Selena Cuffee-Glenn  
Chief Administrative Officer

**FROM:** Louis Lassiter *LL*  
City Auditor

**SUBJECT:** Department of Budget & Strategic Planning  
Capital Improvement Plan audit

The City Auditor's Office has completed the Capital Improvement Plan audit and the final report is attached.

We would like to thank the City of Richmond Administration and Richmond Public Schools' Budget & Planning staff for their cooperation and assistance during this audit.

**Attachment**

**cc:** The Richmond Audit Committee  
The Richmond City Council  
Ms. Lenora Reid, DCAO Finance & Administration  
Mr. Robert Steidel, DCAO Operations  
Mr. Darin Simmons, Jr., COO Richmond Public Schools

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2019-10

# Department of Budget & Strategic Planning Capital Improvement Plan

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City of Richmond, VA  
City Auditor's Office  
March 25, 2019



Executive Summary.....	i
Background, Objectives, Scope, Methodology .....	1
Findings and Recommendations .....	5
Budget Reconciliation .....	Appendix A
Management Responses.....	Appendix B

# Highlights

Audit Report to the Audit Committee, City Council, and the Administration

## Why We Did This Audit

The Office of the City Auditor conducted this audit per the request of City Council.

This audit focused on the CIP reconciliation and funding for RPS and the citywide CIP process used to develop, track and report CIP funds to include RPS.

## What We Recommend: The

- Director of DPW ensure the Chief Special Capital Projects Manager reviews and reconciles all awards expenditures on a monthly basis.
- DCAO of Finance and Administration implement controls in RAPIDS over the default accounts.
- Director of DPW ensure project managers request reallocation of expenditures to the appropriate awards to reflect the correct balances for future budgeting/spending decisions.
- Investment and Debt Portfolio Manager develop guidelines for qualifying CIP debt related expenditures and distribute to the appropriate staff.
- DCAO of Operations ensure opening ceremony expenses are not charged in the future to capital improvement plans and the project manager should promote good stewardship of taxpayer resources.

The auditors also made other recommendations to improve operations.



## Capital Improvement Plan

**Background** - The Annual Capital Improvement Plan (CIP) is a five year capital expenditures budget that is prepared by the City’s Office of Budget and Strategic Planning (Budget Office) based on input from City departments and Richmond Public Schools (RPS). For FY19, City Council adopted a CIP Budget of approximately \$299.4 million. The five-year CIP planned budget for FY19 through FY23 was approximately \$911.4 million. During the FY19 budget process, staff from RPS and the Budget Office were asked to reconcile the available funds for the RPS awards as of June 30, 2018. As a result, City Council formally requested an audit of the reconciliation and the CIP process.

## Commendations

**Budget Submission and Approval** - The auditors noted the FY18 and FY19 CIP budgets were adopted prior to the mandated date of May 31<sup>st</sup>.

## Needs Improvement

**Finding #1 – Reallocation of Expenditures** - The auditors identified 72 invoices totaling \$17,648,016 that were charged to a default award and later allocated to the school CIP Planning and Construction Award. Approximately \$15.4 million of the \$17.6 million occurred in FY14 when the City transitioned from the old financial system (Advantage) to the new financial system (RAPIDS). The auditors noted the RAPIDS System lacks a control that requires payments to be attached to an award number. The auditors noted that the available funds for the RPS CIP awards need to be adjusted as follows:

Award No.	500160	500492	500840	500493	500495	500863
Over(Under)Stated	(\$142,681)	\$288,127	(\$80,733)	\$10,293	\$154,902	\$0

### Monroe Park (Awards 500195 & 500761)

- FY14 payments of \$7,009 were not reflected on the CIP budget until FY18.
- FY18 payments of \$16,219 and \$4,055 were keyed to a default award. These amounts were set to be moved to the appropriate award in different periods.
- Expenditures of \$49,173 were charged to the School CIP Planning and Construction Award instead of the Monroe Park Award and is not set to be moved. Expenditures of \$295,638 were charged to the School CIP Planning and Construction instead of the Monroe Park Award and is set to be moved to the correct award.

**Finding #2 - Grand Opening Expenditures** - The City used CIP funding of \$70,572 for grand opening ceremonies and services related to schools. In addition, the City capitalized other grand opening expenditures of \$7,146. Amounts spent for ceremonial events should promote stewardship of taxpayer resources and should not be capitalized.

**Finding #3 – Communication between RPS and City Finance** - During FY17 and FY18, RPS only submitted one and six CIP reimbursement requests, respectively. On average, City Finance staff keyed CIP reimbursements in RAPIDS 151 days, 37 days and 20 days after receipt in FY16, FY17 and FY18, respectively. Once the invoices were reviewed by City staff in FY16, they did not inform RPS of the rejected/accepted expenditures in a timely manner. However, communication between City and RPS staff has improved since FY17. The untimely submittals of expenditures in FY16 and FY17 impacted the accuracy of the available funds reported by the Budget Office.

**Finding #4– CIP Website and Master Plan** – The City is in agreement with six GFOA best practices for CIP processes and partially in agreement with two. The City has not updated its CIP website since 2016 and its Master Plan in over 10 years.

Management concurred with 8 of 8 recommendations. We appreciate the cooperation received from management, staff and RPS while conducting this audit.

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## ***Richmond City Auditor's Report #2019-10***

*Department of Budget and Strategic Planning*

*Capital Improvement Plan*

*March 25, 2019*

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# **BACKGROUND, OBJECTIVES, SCOPE, METHODOLOGY, MANAGEMENT RESPONSIBILITY and INTERNAL CONTROLS**

This audit was conducted in accordance with the Generally Accepted Government Auditing Standards promulgated by the Comptroller General of the United States. Those Standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for their findings and conclusions based on the audit objectives. We believe that the evidence obtained provides a reasonable basis for their findings and conclusions based on the audit objectives.

## **BACKGROUND**

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### **Overview**

The annual Capital Improvement Plan (CIP) is a five year capital expenditures budget that is prepared by the City's Office of Budget and Strategic Planning (Budget Office) based on input from City departments and Richmond Public Schools (RPS). The plan is reviewed and proposed by the Mayor and adopted by City Council each year with a revolving five year window. The CIP is funded by:

- bonds,
- special revenue funds,
- federal funds/grants,
- direct cash contributions (PAYGO), and
- other funding sources, when available.

For FY19, City Council adopted a CIP Budget of approximately \$299.4 million. The five-year CIP planned budget for FY19 through FY23 was approximately \$911.4 million.

## Richmond City Auditor's Report #2019-10

Department of Budget and Strategic Planning

Capital Improvement Plan

March 25, 2019

FY 2019 - FY 2023 Capital Improvement Program Funding Sources: All Funds Summary						
All Funds Sources of Funds	Adopted FY 2019	Planned				TOTAL
		FY2020	FY2021	FY2022	FY 2023	
Bonds	239,371,071	102,568,799	88,896,000	107,463,500	104,483,500	642,782,870
Short-Term Debt	3,457,600	1,580,000	1,500,000	4,000,000	4,540,000	15,077,600
Pay-as-you-go Sources	34,874,451	35,607,350	31,160,238	33,802,310	32,756,310	168,200,659
Other	21,698,369	18,106,305	19,404,572	14,032,000	12,092,000	85,333,246
<b>Total: All Funds</b>	<b>299,401,491</b>	<b>157,862,454</b>	<b>140,960,810</b>	<b>159,297,810</b>	<b>153,871,810</b>	<b>911,394,375</b>

Source: CIP FY19-23

The purpose of the City's CIP is to improve, build, and maintain City facilities and capital assets.

The CIP Process timeline is described below:

CIP Process Timeline	
Month	Description
<b>October</b>	Budget Office holds kickoff meeting.
<b>November</b>	Departments submit funding requests to the Budget Office.
<b>December</b>	Investment and Debt Portfolio Manager determines the debt service affordability of general obligations bonds. The Budget Office uses the calculated amount to balance the CIP budget.
<b>January-February</b>	The Mayor and the Administration review the budget and make any needed adjustments. Once a prospective budget is set, the Budget Office meets with the departments to communicate the funded requests.
<b>March</b>	The budget is presented to the Planning Commission and City Council on a day of their choosing.
<b>May</b>	City Council must adopt the budget no later than May 31st of each year.

### Monitoring and Tracking Project Expenditures

Each quarter, the Budget Office runs a life to date expenses report for each project and submits them to their respective Project Managers to verify their accuracy. The Project Managers within the departments review these reports and return them with comments. Once all of the figures have been verified by the project managers, they are presented to City Council.

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## ***Richmond City Auditor's Report #2019-10***

*Department of Budget and Strategic Planning*

*Capital Improvement Plan*

*March 25, 2019*

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### **Additional Funds and Transfer of Funds**

Funds appropriated by City Council for specific projects cannot be transferred to other projects unless they are complete. Once a project is complete, the Mayor can transfer unspent funds from one project to another. Additionally, the Budget Office can request funds to be appropriated to support the next year's CIP if there have been no expenditures for three years or project is complete. However, City Council must approve this change. City Council has the authority to move funds as they need to cover funding gaps or if they deem another project of higher priority at any time during the year as long as the Mayor proposes the adjustment.

### **RPS CIP Reconciliation**

As of June 30, 2018, RPS CIP was comprised of six different awards as follows:

<b>Award #</b>	<b>Award Name</b>	<b>Available Funds per reconciliation</b>
500160	School CIP Planning & Construction	\$12,235,946
500492	School Capital Maintenance	\$5,119,182
500840	School Capital Maintenance (cash)	\$2,650,109
500493	High School Athletic Facilities	\$568,000
500495	Schools ADA Compliance	\$975,866
500863	School Bus Lease	\$771,093

Source: Budget and RPS reconciliation – See appendix A for more details

During FY14 through F18, the City appropriated approximately \$187 million for Award 500160, which is solely managed by the City's Special Capital Projects Division within the Department of Public Works (DPW). Funds for the remaining awards are managed by RPS and are provided to RPS on a reimbursement basis.

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## ***Richmond City Auditor's Report #2019-10***

*Department of Budget and Strategic Planning*

*Capital Improvement Plan*

*March 25, 2019*

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During the FY19 budget process, staff from RPS and the Budget Office were asked to reconcile the available funds for the RPS awards as of June 30, 2018. As a result, City Council formally requested an audit of the reconciliation and the CIP process.

### **OBJECTIVES**

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The objectives for this audit were to:

- Analyze the CIP reconciliation and funding for Richmond Public Schools.
- Evaluate the citywide CIP process used to develop, track and report CIP funds to include RPS.

### **SCOPE**

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The scope of this audit was the CIP created in FY18 to include projects and processes as well as the RPS CIP reconciliation performed by RPS and the Budget Office.

### **METHODOLOGY**

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The auditors performed the following procedures to complete this audit:

- Interviewed management and staff;
- Reviewed and evaluated relevant policies and procedures and tested for compliance;
- Reviewed invoices for expense descriptions;
- Verified that reconciliation figures were reflective of actual expenditures; and
- Performed other tests, as deemed necessary.

### **MANAGEMENT RESPONSIBILITY**

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City management is responsible for ensuring resources are managed properly and used in compliance with laws and regulations; programs are achieving their objectives; and services are being provided efficiently, effectively, and economically.



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## ***Richmond City Auditor's Report #2019-10***

*Department of Budget and Strategic Planning*

*Capital Improvement Plan*

*March 25, 2019*

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### **INTERNAL CONTROLS**

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According to the Government Auditing Standards, internal control, in the broadest sense, encompasses the agency's plan, policies, procedures, methods, and processes adopted by management to meet its mission, goals, and objectives. Internal control includes the processes for planning, organizing, directing, and controlling program operations. It also includes systems for measuring, reporting, and monitoring program performance. An effective control structure is one that provides reasonable assurance regarding:

- Efficiency and effectiveness of operations;
- Accurate financial reporting; and
- Compliance with laws and regulations.

Based on the audit test work, the auditors concluded that internal controls related to the CIP expenditure recording and oversight need improvement, which are discussed throughout this report.

## **FINDINGS and RECOMMENDATIONS**

### **What Works Well**

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#### **Budget Submission and Approval**

The Budget Office must meet strict budgeting deadlines. According to City Code §6.02, the budget is to be presented to City Council on a day of their choosing no earlier than the second Monday of February and not later than April 7<sup>th</sup> and City Council must adopt the CIP budget no later than May 31<sup>st</sup>. The auditors noted the FY18 and FY19 CIP budgets were adopted prior to the mandated date of May 31<sup>st</sup>.

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## ***Richmond City Auditor's Report #2019-10***

*Department of Budget and Strategic Planning*

*Capital Improvement Plan*

*March 25, 2019*

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### **Improvements Needed**

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#### ***Finding #1 – Reallocation of Expenditures***

##### **School CIP Planning and Construction (Award 500160)**

The Special Capital Projects Division within DPW is responsible for managing all projects for the School CIP Planning and Construction Award. The Chief Special Capital Projects Manager worked with a vendor contracted by the City to manage and oversee the construction of the new schools. The auditors analyzed the FY14 through FY18 invoices to determine whether the expenditures for this Award were appropriate and properly supported. We also analyzed the reconciliation performed by the Budget Office and RPS staff. The Budget Office reconciled the award by using figures from RAPIDS as well as input from DPW and Finance. The auditors reviewed transactional details for all amounts charged to the Award to reconcile the Budget Office's figures. In reviewing the award, there were approximately \$31,200,000 in debits and credits that offset crossing over the five fiscal years and manual/adjusting entries keyed in lump sum to correct the award numbers. In some examples, expenditures were moved multiple times and/or changed several years after the invoices were paid. Due to these changes, the auditors were not able to fully reconcile this award, but recommend adjustments to the available funds (Budget Office figures) as follows:

##### *General Ledger Allocation of Funds:*

The auditors reviewed the transactional details for all amounts charged to the Award. The auditors identified 72 invoices totaling \$17,648,016 that were charged to a default award (miscellaneous) and later allocated to the School CIP Planning and Construction Award. In some examples, expenditures were moved multiple times and/or changed several years after the invoices were paid. Approximately \$15.4 million of the \$17.6 million occurred in FY14 when the City transitioned from the old financial system (Advantage) to the new financial system (RAPIDS). According to management the expenditures were not coded to the appropriate award due to lack of training during the RAPIDS implementation. The expenditures coded to the default award were as follows:

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## ***Richmond City Auditor's Report #2019-10***

*Department of Budget and Strategic Planning*

*Capital Improvement Plan*

*March 25, 2019*

---

<b>Fiscal Year</b>	<b>Amount</b>
<b>2014</b>	\$15,409,391
<b>2015</b>	\$1,927,063
<b>2016</b>	\$311,562

Source: RAPIDS

According to the Government Finance Officers Association's (GFOA) best practices, "Meaningful reports should provide straightforward project information for executive leadership and internal staff as well as citizens and the media, and, at minimum:

- *Provide a comparison of actual results to the project plan, including:*
- *Percent of project completed*
- *Percent of project budget expended*
- *Progress on key project milestones*
- *Contract status information including time remaining and percentage used*
- *Revenue and expenditure activity*
- *Cash flow and investment maturities*
- *Funding commitments*
- *Available appropriation*
- *Comparison of results in relation to established performance measure"*

The auditors noted the RAPIDS System lacks a control that requires payments to be attached to an award number. The System allows payments without an award number to be coded to a default award. Inaccurate keying of expenditures caused RAPIDS to reflect inaccurate CIP balances. This means the figures used by the City's Budget Office for the quarterly CIP reporting was materially inaccurate. City Council and the City Administration rely on these figures to make financial decisions and could make decisions that are based on inaccurate data. The reallocation of funding in multiple periods does not allow for an accurate representation of the award balance at set periods of time for those charged with making decisions on the funds.

### *Erroneous charges to the School CIP Planning and Construction Award*

During FY14 through F18, the City appropriated approximately \$187 million for Award 500160. The auditors noted the available funds for the CIP Planning and Construction Award were understated by \$142,681 as follows:

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## ***Richmond City Auditor's Report #2019-10***

*Department of Budget and Strategic Planning*

*Capital Improvement Plan*

*March 25, 2019*

---

- \$64,963 – Expenditures related to other awards, such as Monroe Park were charged to this Award:
  - During FY16-FY18, unrelated expenditures of \$2,956,374 were charged to this Award for expenditures related to other DPW CIP projects. \$2,818,811 were scheduled to be moved to the appropriate award in RAPIDS. The remaining \$137,562 were not set to be moved in RAPIDS during the audit. Based on input from City staff, the Budget Office staff made an adjustment of \$2,891,411 to correct the balances in their reconciliation. This left a balance of \$64,963 that should be moved out of this award.
- \$77,718 - Operating expenditures for Grand Openings of Schools were capitalized and charged to this award. This is discussed later in this report.

The auditors also analyzed the reconciliation for the awards managed by RPS. The auditors verified all appropriations, amendments, and transfers for each Project from FY14-FY18. These included the yearly appropriations, as well as all ordinances requesting transfers from one award to another. No exceptions were noted. *(Note: The auditors could not analyze RPS' invoices for FY14 and FY15 as they were beyond the record retention requirements and were no longer available).*

The auditors noted that the reconciliation performed by the Budget Office was based on RAPIDS numbers and hardcopy documentation which the auditors verified. The auditors noted some variances as noted below:

<b>School Capital Maintenance (Award 500492)</b>	
<b>Funds available per reconciliation:</b>	\$5,119,182
<b>Funds available per auditor's reconciliation:</b>	\$4,831,055
<b>Available funds Overstated by :</b>	<b>\$288,127</b>

The variance for Award 500492 was due to:

- ↓\$97,675 & ↓763,813 timing difference - reimbursement occurred after the reconciliation was performed by the Budget Office.
- ↑\$421,566 – During FY16 RPS submitted non-capital expenditures for reimbursement, which were approved by City Finance staff and charged to this Award:
  - \$357,080 – Classroom and office Modular rentals.
  - \$64,486 – Miscellaneous classroom supplies, painting, and task force updates

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## ***Richmond City Auditor's Report #2019-10***

*Department of Budget and Strategic Planning*

*Capital Improvement Plan*

*March 25, 2019*

---

- ↓\$13,400 - Capital expenditure for a sprinkler system were not approved for reimbursement by City Finance staff.
- ↑\$10,293 and ↑\$154,902 – Expenditures for the Athletics and ADA Awards, respectively were incorrectly charged to 500492.

The City incurred 20-year debt (CIP funds) to pay for classroom and office modular rentals and miscellaneous expenses. The Auditors also noted that the City denied a Richmond Public School's request to use CIP funds for an asset that qualified to be paid with these funds.

Government Accounting Standards Board (GASB) has guidelines on what should be capitalized. According to GASB 34:

*“The term capital assets includes land, improvements to land, easements, buildings, building improvements, vehicles, machinery, equipment, works of art and historical treasures, infrastructure, and all other tangible and intangible assets that are used in operations and that have initial useful lives extending beyond a single reporting period.”*

The City does not have guidelines to assist staff in identifying capital expenditures that qualify to be financed using CIP debt. Staff should have procedures to guide them when performing their duties on a daily basis. Ideally localities should not incur debt when the asset's lifespan is shorter than that of the incurred debt.

School Capital Maintenance (Cash Award 500840)	
Funds available per reconciliation:	\$2,650,109
Funds available per auditor's reconciliation:	\$2,730,842
Available funds understated by:	\$80,733

The variance was due to:

- RPS requested \$1,598,297 of which \$915,217 were reimbursed [*\$683,080 difference*]. Subsequent to the Budget Office's reconciliation, this entry was reversed and was replaced by a reimbursement of \$834,484. This left a balance of \$763,813 that should have been reimbursed. This was done subsequent to the reconciliation in Award 500492.

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## ***Richmond City Auditor's Report #2019-10***

*Department of Budget and Strategic Planning*

*Capital Improvement Plan*

*March 25, 2019*

---

<b>High School Athletic Facilities (Award 500493)</b>	
<b>Funds available per reconciliation:</b>	\$568,000
<b>Funds available per auditor's reconciliation:</b>	\$557,707
<b>Available funds overstated by:</b>	<b>\$10,293</b>

The variance was due to:

- FY16 expenditures of \$10,293 were allowable, but they were charged to School Capital Maintenance instead of this award.
- FY14 & FY15 expenditures of \$221,591 were charged to the School Capital Maintenance Award. However, based on RPS' expense descriptions they should have been charged to this Award. Since the invoices for FY14 and FY15 were not available, the auditors could not validate the purpose of the expenditures nor recommend them being moved from the School Capital Maintenance Award.

<b>Schools ADA Compliance (Award 500495)</b>	
<b>Funds available per reconciliation:</b>	\$975,866
<b>Funds available per auditor's reconciliation:</b>	\$820,964
<b>Available funds overstated by:</b>	<b>\$154,902</b>

The variance was due to:

- In FY16, expenditures of \$154,902 were charged to the School Capital Maintenance Award instead of the ADA Compliance Award.

<b>School Bus Lease (Award 500863)</b>	
<b>Funds available per reconciliation:</b>	\$771,093
<b>Funds available per auditor's reconciliation:</b>	\$771,093
<b>No variance:</b>	<b>↔\$0</b>

### *Management of City CIP Projects*

In addition to reviewing the RPS' CIP projects, the auditors reviewed three City CIP projects to gauge their processes of monitoring, approving, and reporting expenditures. The auditors randomly selected three of the larger City CIP projects for the first three quarters of FY18. The March 31, 2018 period was selected as this was the figure reported in the annual CIP document.

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**Richmond City Auditor's Report #2019-10***Department of Budget and Strategic Planning**Capital Improvement Plan**March 25, 2019*

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The sample excluded the Department of Public Utilities and RPS. The auditors reviewed the invoices to determine whether they were properly supported and were for legitimate CIP expenses.

Project	Amount	Properly Supported	Properly Capitalized	Charged to Correct Award
<b>Fleet Replacement Program</b>	\$2,824,270	Yes	Yes	Yes
<b>Main Street Station</b>	*\$3,273,516	Yes	Yes	Yes
<b>Monroe Park</b>	\$2,959,684	Yes	Yes	<b>*No</b>

\*See explanation below

Source: RAPIDS

**Monroe Park (Awards 500195 & 500761)**

The Monroe Park Project was managed by the City's Special Capital Projects Division. The Division contracted a Project Management vendor to provide on-site project management services. During the first three quarters of FY18, payments totaling \$2,959,684 were charged to Awards 500195 and 500761 (Monroe Park). The auditors analyzed the expenditures to ensure they were properly classified and captured in the appropriate awards and noted the following:

- **\$7,009** – FY14 payments of \$7,009 were not reflected on the CIP budget until FY18. Two payments were recorded in the default award on June 30, 2014 and were not removed until November 1, 2017. These payments are now properly coded to the Monroe Park Award.
- **\$16,219** - FY18 payments of \$16,219 were keyed to the default award. These were paid in the first three quarters of FY18 but were not moved to the Monroe Park Award until after the third quarter. This means that these expenditures were not reflected in the third quarter report used for the CIP Budget.
- **\$4,055** – FY18 expenditures of \$4,055 were keyed to the default award. These expenditures were moved to the Monroe Park Award in FY19, which means that the FY18 CIP totals were inaccurate.

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## ***Richmond City Auditor's Report #2019-10***

*Department of Budget and Strategic Planning*

*Capital Improvement Plan*

*March 25, 2019*

---

- **\$49,173** – Expenditures of \$49,173 were charged to the School CIP Planning and Construction Award instead of the Monroe Park Award and is not set to be moved. This amount is included in the \$2.9 million noted earlier in the report.
- **\$295,638** – Expenditures of \$295,638 were charged to the School CIP Planning and Construction Award instead of the Monroe Park Award and is set to be moved to the correct award. This amount is included in the \$2.9 million noted earlier in the report.

### **Main Street Station (Award 500283)**

The Auditors validated all expenditures for the first three quarters of FY18. These were properly supported and appropriately classified as capital expenditures. The auditors noted the expenditures in RAPIDS were greater than those reported on the CIP budget report as follows:

Source	Total
RAPIDS	\$3,273,516
Budget CIP Document	\$2,729,747
Variance	<b>\$543,769</b>

According to the Economic Development staff, the variance was due to reporting estimated figures to the Budget Office.

The Budget Office, City Administration, and City Council use these reported figures in planning future projects as well as current projects. Without accurate expenditures, budgeting and spending decisions are made based on inaccurate available funding. These inaccuracies could lead to City Council moving allocations to another fund leaving the Monroe Park fund without the necessary funds to complete the project.

### ***Recommendations:***

1. *We recommend the Director of DPW ensure the Chief Special Capital Projects Manager reviews and reconciles all award expenditures on a monthly basis.*
2. *We recommend the DCAO of Finance and Administration to implement controls in RAPIDS over the default accounts.*



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## ***Richmond City Auditor's Report #2019-10***

*Department of Budget and Strategic Planning*

*Capital Improvement Plan*

*March 25, 2019*

---

3. *We recommend the Director of DPW ensure project managers request reallocation of expenditures to the appropriate awards to reflect the correct balances for future budgeting/spending decisions.*
4. *We recommend the Investment and Debt Portfolio Manager develop guidelines for qualifying CIP debt related expenditures and distribute to the appropriate staff.*

### ***Finding #2 - Grand Opening Expenditures:***

The auditors noted the City paid \$213,329 during the period of FY14 through FY16 for the services provided by a subcontractor. These payments were related to staff time for marketing and public relations services associated with the Building a Better Richmond Schools. Some of the tasks performed by the vendor included:

- Web design, development and maintenance for the “Build a Better Richmond” website.
- Designing and proofing the monthly “Build a Better Richmond” Newsletter.

The auditors analyzed \$133,473 of the \$213,329 total paid to the subcontractor to determine if any of those payments were related to the grand openings of Huguenot High School and Martin Luther King, Jr. Middle School. The analysis revealed the City used CIP funding of \$70,572 for services related to the grand openings. The expenditures included:

- Time capsule research and brainstorming ideas.
- Contacting rental companies to secure items for the grand opening ceremony.
- Designing invitations for public tour.
- Creating Rain Plan agenda for grand opening.

100% of these costs were hourly rates paid to the subcontractor to arrange these services. Rates ranged from \$118.82 – \$193.02 per hour. In addition to the funds paid to the subcontractor, the City capitalized other grand opening expenditures of \$7,146. Some of these expenditures included:

- Renting podiums and sound systems
- Bows and balloons
- Posters
- Renting tent, sidewall and water barrel
- Food items

Amounts spent for ceremonial events should promote stewardship of taxpayer resources.

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**Richmond City Auditor’s Report #2019-10**

Department of Budget and Strategic Planning

Capital Improvement Plan

March 25, 2019

---

**Recommendation:**

5. *We recommend the DCAO of Operations ensure opening ceremony expenses are not charged in the future to capital improvement plans and the project manager should promote good stewardship of taxpayer resources.*

**Finding #3 – Communication between RPS and City Finance**

Expenditures incurred by RPS for the CIP awards managed by their staff are reimbursed by the City upon request. RPS staff submit a memo to the City’s Finance Department stating their expenditures by award. City Finance staff review the support for the expenditures and determine if the expenditures are reimbursable based on the City incurring 20-year debt. Once the invoices were reviewed by City staff in FY16, they did not inform RPS of the rejected/accepted expenditures in a timely manner. However, communication between City and RPS staff has improved since FY17. The auditors noted that during FY17 and FY18, RPS only submitted one and six CIP reimbursement requests, respectively. The requested totals were as follows:

Fiscal Year	Amount Submitted (Approximately)
2017	\$7.4 Million
2018	\$3.1 Million
2018	\$2.0 Million
2018	\$1.4 Million
2018	\$306 Thousand
2018	\$217 Thousand
2018	\$155 Thousand

Source: prepared by auditor from RPS files

On average, City Finance staff keyed CIP reimbursements in RAPIDS 151 days, 37 days and 20 days after receipt in FY16, FY17 and FY18, respectively. The untimely submittals of expenditures in FY16 and FY17 impacted the accuracy of the available funds reported by the Budget Office.

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# ***Richmond City Auditor’s Report #2019-10***

*Department of Budget and Strategic Planning*

*Capital Improvement Plan*

*March 25, 2019*

---

## **Recommendations:**

6. *We recommend that the City Controller ensure that the Capital Improvement Plan reimbursement requests are entered in the City’s financial system and notify RPS of the approvals/denials monthly.*
7. *We recommend that the Richmond Public Schools Chief Operating Officer establish procedures to ensure Capital Improvement reimbursement requests are submitted and reconciled monthly.*

## **Finding #4– CIP Website and Master Plan**

The auditors researched best practices for Capital Improvement Plans and found seven GFOA best practices that included eight different criteria and compared them against the City’s CIP process.

In comparing the City’s CIP process to the seven best practices (eight criteria), the auditors found that the City was in agreement with six of the best practices and partially in agreement with two others as follows:

<b>Best Practice</b>	<b>City</b>	<b>Comments</b>
<b>Develop communication plan for public participation.</b>	Partial	The City gets feedback from the Administration, City Council and is open to public comment prior to adopting the budget. However, the City’s website, which reflect the CIP project status has not been updated since 2016. This is not in alignment with Sec 2-1351 and Sec. 2-1352 of the City Code.
<b>Make capital project investment decisions that are aligned to their long term master plan.</b>	Partial	The City has a Master plan that lays out future Capital goals for different organizations and communities throughout the City, however, it has not been updated for at least 10 years. The City's landscape has changed as well as its economy.

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**Richmond City Auditor's Report #2019-10***Department of Budget and Strategic Planning**Capital Improvement Plan**March 25, 2019*

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Identify and incorporate legal and fiduciary requirements into capital monitoring and reporting processes.	Yes	The City fulfills its legal and fiduciary requirements.
Develop and adopt capital planning policies taking into account their unique organizational characteristics	Yes	The City has procedures in place to address the process and the City's unique characteristics.
Economic development strategies and capital improvement planning should be coordinated and integrated within and among governments	Yes	Departments and City Council are asked to propose projects. The Mayor's Office and City Council are involved in proposing and approving the budget, respectively.
Master Plans should provide a vision for capital project plans and investments.	Yes	The City has a Master Plan that lays out future Capital goals for different organizations and communities throughout the City.
State and local governments prepare and adopt comprehensive, fiscally sustainable, and multi-year capital plans to ensure effective management of capital assets.	Yes	The City's plans are comprehensive and plan out five years of Capital expenditures. They meet with the Finance Department to determine their debt capacity to ensure the funding is sustainable. The Finance Department only allows debt that follows the City's debt capacity policies.
Governments incorporate certain guidelines when presenting the capital budget.	Yes	The City received the GFOA's Distinguished Budget Presentation Award for its budget for the biennium beginning July 1, 2017. The award is given for presentation of required information along with financial policies of the organization.

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## ***Richmond City Auditor's Report #2019-10***

*Department of Budget and Strategic Planning*

*Capital Improvement Plan*

*March 25, 2019*

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*The City Auditor's Office previously issued a recommendation to the Planning and Development Director and the Planning Commission to review the current Comprehensive Master Plan and propose necessary updates. This recommendation is still open with an implementation date of 12/31/20.*

The auditors also reviewed the CIP processes for a couple of surrounding localities to identify any potential improvements the City could implement. In reviewing their CIP processes, the auditors found that their processes are similar to the City's. Each locality prioritizes projects based on their missions and goals and work with the departments to fine tune estimates and make the proposals.

### ***Recommendation:***

- 8. We recommend that the DCAO of Operations work with the Director of Information Technology to ensure that the City's CIP webpage is updated quarterly as required by City Code.***

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## **Other Observation**

### ***Payments to a Subcontractor***

The City uses a hybrid approach for construction management with internal staff as well as an onsite Project Management vendor. The auditors noted the City paid the Project Management vendor approximately \$8.8 million for their services from FY14 to FY18. Included in this amount was approximately \$1.7 million to a subcontractor for two positions (Minority Business Coordinator and Office Support). Some tasks reimbursed were not directly related to the school CIP but in support of other Economic and Minority Business development efforts, such as:

- Microloan research
- Case management for the Office of Minority Business Development
- SWOT analysis for Office of Minority Business Development
- Reviewing Request For Proposals (RFP) for the Riverfront Plan

It appears further analysis of the use of internal staff and external vendors and where these type of work assignments are funded and expensed would be beneficial to the City.

## Appendix A

Project Name	School CIP Planning and Const.	School Capital Maintenance	School Capital Maintenance (Cash)	High School Athletic Facilities	Schools ADA Compliance	School Bus Lease	TOTALS
Award Number	2308198/500160	7808111/500492	500840	7808105/500493	7808103/500495	500863	
6/30/13 Total Appropriations (Per Advantage)	114,884,962	64,546,121	-	2,372,438	24,072,717	-	90,991,276
6/30/13 Total Expenditures (Per Advantage)	93,098,874	64,208,364	-	2,090,438	17,195,146	-	83,493,948
Total Funds Available (Per Advantage)	21,786,088	337,757	-	282,000	6,877,571	-	7,497,328
Plus FY14 Appropriation	30,864,148	685,000	-	86,000	-	-	771,000
Plus/Less Amendments/Transfers	(394,855)	494,855	-	-	-	-	494,855
Less FY14 Expenditures	51,770,165	942,420	-	-	1,133,091	-	2,075,511
Plus FY15 Appropriation	29,005,659	7,050,000	-	-	-	-	7,050,000
Plus/Less Amendments/Transfers	(900,000)	900,000	-	-	(3,600,000)	-	(2,700,000)
Less FY15 Expenditures	24,759,091	3,738,317	-	-	296,470	-	4,034,787
Plus FY16 Appropriation	18,000,000	8,126,632	-	200,000	-	-	8,326,632
Plus/Less Amendments/Transfers	(4,571,710)	-	-	-	-	-	-
Less FY16 Expenditures	5,016,616	6,566,572	-	-	671,710	-	7,238,282
Plus FY17 Appropriation	-	9,000,000	-	-	-	-	9,000,000
Plus/Less Amendments/Transfers	-	-	-	-	-	-	-
Less FY17 Expenditures	2,610,363	7,283,694	-	-	200,434	-	7,484,128
Plus FY18 Appropriation	-	1,600,000	3,565,326	-	-	4,228,631	9,393,957
Plus/Less Amendments/Transfers	-	-	-	-	-	-	-
Less FY18 Expenditures through 3rd quarter	1,353,772	5,185,146	-	-	-	-	5,185,146
TOTAL Appropriations FY14-Present		91,007,753	3,565,326	2,658,438	24,072,717	4,228,631	125,532,865
TOTAL Amendments/Transfers FY14-Present		1,394,855	-	-	(3,600,000)	-	(2,205,145)
TOTAL Expenditures FY14-Present		87,924,512	-	2,090,438	19,496,851	-	109,511,802
<b>REMAINING FUNDS PER AWARD</b>		<b>4,478,096</b>	<b>3,565,326</b>	<b>568,000</b>	<b>975,866</b>	<b>4,228,631</b>	<b>13,815,918</b>
Plus 4th Quarter Amendments	-	1,000,000	-	-	-	-	1,000,000
Less FY18 Expenditures (4th Quarter)	194,103	358,913	915,217	-	-	3,457,538	4,731,668
FY18 Corrections							
Previous Years transaction credits	4,150,724	-	-	-	-	-	-
<b>REMAINING FUNDS PER AWARD</b>	<b>12,235,946</b>	<b>5,119,182</b>	<b>2,650,109</b>	<b>568,000</b>	<b>975,866</b>	<b>771,093</b>	<b>10,084,250</b>
TOTAL Appropriations FY14-Present	192,754,769	91,007,753	3,565,326	2,658,438	24,072,717	4,228,631	125,532,865
TOTAL Amendments/Transfers FY14-Present	(5,866,565)	2,394,855	-	-	(3,600,000)	-	(1,205,145)
TOTAL Expenditures FY14-Present	174,652,258	88,283,426	915,217	2,090,438	19,496,851	3,457,538	114,243,470
<b>REMAINING FUNDS PER AWARD</b>	<b>12,235,946</b>	<b>5,119,182</b>	<b>2,650,109</b>	<b>568,000</b>	<b>975,866</b>	<b>771,093</b>	<b>10,084,250</b>

**APPENDIX B: MANAGEMENT RESPONSE FORM**  
**2019-10 Capital Improvement Plan audit**

#	RECOMMENDATION	CONCUR Y/N	ACTION STEPS
1	We recommend the Director of DPW ensure the Chief Special Capital Projects Manager reviews and reconciles all award expenditures on a monthly basis.	Y	The Director of Public Works will develop a Standard Operating Procedure for these reviews and reconciliations. These reviews have been occurring during the current fiscal year.
	TITLE OF RESPONSIBLE PERSON		TARGET DATE
	Director of DPW		03/31/19
	IF IN PROGRESS, EXPLAIN ANY DELAYS		IF IMPLEMENTED, DETAILS OF IMPLEMENTATION
#	RECOMMENDATION	CONCUR Y/N	ACTION STEPS
2	We recommend the DCAO of Finance and Administration to implement controls in RAPIDS over the default accounts.	Y	The DCAO of Finance and Administration will work with the Department of Information Technology and the Department of Finance to make the award field a required field in RAPIDS for capital projects.
	TITLE OF RESPONSIBLE PERSON		TARGET DATE
	DCAO of Finance and Administration		7/31/19
	IF IN PROGRESS, EXPLAIN ANY DELAYS		IF IMPLEMENTED, DETAILS OF IMPLEMENTATION
#	RECOMMENDATION	CONCUR Y/N	ACTION STEPS
3	We recommend the Director of DPW ensure project managers request reallocation of expenditures to the appropriate awards to reflect the correct balances for future budgeting/spending decisions.	Y	The report indicates Award 500160 is understated by \$143K which is 0.076% of the \$186.9 million project, and reallocations are also needed for four other awards. The Director of DPW will work with the project managers to request reallocation of the appropriate expenditures.
	TITLE OF RESPONSIBLE PERSON		TARGET DATE
	Director of DPW		6/30/19
	IF IN PROGRESS, EXPLAIN ANY DELAYS		IF IMPLEMENTED, DETAILS OF IMPLEMENTATION
#	RECOMMENDATION	CONCUR Y/N	ACTION STEPS
4	We recommend the Investment and Debt Portfolio Manager develop guidelines for qualifying CIP debt related expenditures and distribute to the appropriate staff.	Y	The Investment and Debt Portfolio Manager will work with the Director of Finance and DCAO for Finance and Administration to develop written guidelines for debt-related expenditures, and distribute them to the Project Managers.
	TITLE OF RESPONSIBLE PERSON		TARGET DATE
	Investment and Debt Portfolio Manager		6/30/19
	IF IN PROGRESS, EXPLAIN ANY DELAYS		IF IMPLEMENTED, DETAILS OF IMPLEMENTATION

**APPENDIX B: MANAGEMENT RESPONSE FORM**  
**2019-10 Capital Improvement Plan audit**

#	RECOMMENDATION	CONCUR Y/N	ACTION STEPS
5	We recommend the DCAO of Operations ensure opening ceremony expenses are not charged in the future to capital improvement plans and the project manager should promote good stewardship of taxpayer resources.	Y	The \$78K in operating expenses related to the opening ceremony represent 0.042% of the \$186.9 million overall project. Project managers will receive direction to properly categorize expenses as capital or operating. Project managers will be directed to receive the portfolio DCAO approval for any ceremonial expenses.
	<b>TITLE OF RESPONSIBLE PERSON</b>		<b>TARGET DATE</b>
	DCAO of Operations		4/30/19
	<b>IF IN PROGRESS, EXPLAIN ANY DELAYS</b>		<b>IF IMPLEMENTED, DETAILS OF IMPLEMENTATION</b>
#	RECOMMENDATION	CONCUR Y/N	ACTION STEPS
6	We recommend that the City Controller ensure that the Capital Improvement Plan reimbursement requests are entered in the City's financial system and notify RPS of the approvals/denials monthly.	Y	The City Controller will develop a Standard Operating Procedure for the receipt of these requests and entry into the City's financial system. During the current fiscal year, RPS has been submitting capital reimbursement requests on a monthly basis, and receiving notifications from the Department of Finance.
	<b>TITLE OF RESPONSIBLE PERSON</b>		<b>TARGET DATE</b>
	City Controller		3/31/19
	<b>IF IN PROGRESS, EXPLAIN ANY DELAYS</b>		<b>IF IMPLEMENTED, DETAILS OF IMPLEMENTATION</b>
#	RECOMMENDATION	CONCUR Y/N	ACTION STEPS
7	We recommend that the Richmond Public Schools Chief Operating Officer establish procedures to ensure Capital Improvement reimbursement requests are submitted and reconciled monthly.	Y	A procedure to ensure capital improvement reimbursement requests are submitted and reconciled monthly exists and is being followed.
	<b>TITLE OF RESPONSIBLE PERSON</b>		<b>TARGET DATE</b>
	Director of Finance		completed
	<b>IF IN PROGRESS, EXPLAIN ANY DELAYS</b>		<b>IF IMPLEMENTED, DETAILS OF IMPLEMENTATION</b>
	Completed		A procedure has always existed. Prior to FY16 submissions were timely. However the City implemented a new process late into FY16, effective beginning FY16. The City's FY16 audit and CAFR were not completed until April FY17 which created huge delays with the FY17 process which delayed FY18. Effective May 2018 RPS is on track and reconciliations and submissions are occurring monthly.



**APPENDIX B: MANAGEMENT RESPONSE FORM**  
**2019-10 Capital Improvement Plan audit**

#	RECOMMENDATION	CONCUR Y/N	ACTION STEPS
8	We recommend that the DCAO of Operations work with the Director of Information Technology to ensure that the City's CIP webpage is updated quarterly as required by City Code.	Y	Access to the current webpage will be provided to project managers and they will be directed to update all information in accordance with Sections 2-1351 and 1352 of City Code.
	<b>TITLE OF RESPONSIBLE PERSON</b>		<b>TARGET DATE</b>
	DCAO of Operations		6/30/19
	<b>IF IN PROGRESS, EXPLAIN ANY DELAYS</b>		<b>IF IMPLEMENTED, DETAILS OF IMPLEMENTATION</b>