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**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

The Honorable Members of the City Council
City of Richmond, Virginia

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Richmond, Virginia (the City), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated November 6, 2018.

Our report includes a reference to other auditors who audited the financial statements of the following discretely presented component units: Richmond School Board, Richmond Economic Development Authority, and Richmond Behavioral Health Authority. We also did not audit the financial statements of the Richmond Retirement System which was included in the aggregate remaining fund information. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness yet important enough to merit attention by those charged with governance.

The Honorable Members of the City Council
City of Richmond, Virginia

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses as items 2018-001 through 2018-004, that we consider to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

City of Richmond's Responses to Findings

The City's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



CliftonLarsonAllen LLP

Arlington, Virginia
November 6, 2018

CITY OF RICHMOND, VIRGINIA
SCHEDULE OF FINDINGS AND RESPONSES
Year ended June 30, 2018

2018-001 – Recording of Retainage Payable – Significant Deficiency

Condition

Retainage payable represents a liability attributable to the acquisition, construction or improvement of capital assets (in this case, construction in progress). The retainage payable amount is included on construction in progress invoices as a reduction of total expenditures incurred. The City did not record a liability for retainage payable related to these construction in progress invoices.

Criteria

Generally Accepted Accounting Principles (GAAP) require that all transactions of an entity be properly accounted for in the period they occur.

Cause

The City has a history of not accounting for these transactions and therefore, did not established the appropriate policies and procedures to ensure proper accounting.

Effect

Failure to record retainage payable may result in the misstatement of liability and expenditures. Further, the financial information provided to management and those charged with governance may not be accurate or relevant.

Recommendation

We recommend that the City recognize retainage and establish ongoing training for those individuals responsible for the accounting of these transactions as well as the departments required to provide information needed by the Finance Department to properly account for retainage.

Management's Response

Purchase orders are created for the entire amount of the project which encumbers the funds. Currently, projects are paid in phases and a hold is placed on a portion of the funds until the completion date of the project. Once the project is complete, the balance on the purchase order which is encumbered, is released/paid to reflect the retainage amount which was held. The City has a mechanism in the system that identifies retainage as a type of payment but this was not used in previous years as an identifying marker for the final payment (retainage). The Finance Department has communicated with all applicable departments to identify the release of the financial retainage amounts prior to the payment being released. In future year, the City expects to do an upgrade to the financial system and it will track and record those retainages that have not been paid at year end and record them as a liability.

2018-002 – Journal Entry Approvals – Significant Deficiency

Condition

There is an inadequate segregation of duties within the accounting function. Certain individuals have the ability to prepare and post journal entries without a secondary approval.

Criteria

Journal entries should be reviewed and approved by someone other than the preparer.

Cause

The lack of sufficient employee resources within the City during the year resulted in an inappropriate segregation of duties.

CITY OF RICHMOND, VIRGINIA
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Year ended June 30, 2018

Effect

Lack of segregation of duties results in an increased risk of financial reporting errors or misappropriation of assets. Having a lack of segregation of duties could also increase the ability to conceal fraud.

Recommendation

We recommend that the City establish policies to ensure regardless of the staffing constraints that segregation of duties is always maintained or compensating controls be established. Additionally, the City should enable computer settings within the system that prevent the same user from preparing, posting and approving an entry.

Management's Response

The Department of Information Technology will conduct a review of the current settings, to determine if there are options to match more closely these recommendations. To further assist with this effort, the City Administration engaged Astyra Corporation to assist with City with reviewing existing access controls and making recommendations to ensure that conflicting/competing access is eliminated.

2018-003 – Information Technology Controls – Significant Deficiency

Condition

Our review of the general computer controls at the City's Department of Information Technology (DIT) disclosed several internal control deficiencies. Their general computer control deficiencies included:

- Strategic Plan – The City's DIT has not developed a strategic plan for the short- or long-term objectives for IT resources and projects to meet the City's needs.
- Periodic Review of Access – The City has not developed a process to periodically review the active user listing for either the continued need for access or the appropriateness of access retained.
- Password Configuration – The City has not configured a password setting in conformance with the established policy or leading industry practices. These configurations included password history, minimum password age, and account lockout settings.

Criteria

A well-designed system of internal controls related to application access and security requires sound general computer controls be established and functioning to reduce the risk that the City's operations are out of compliance with industry best practices and management's objectives and expectations.

Cause

The lack of sufficient employee resources within the City during the year resulting in their inability to perform the required steps necessary to ensure controls are operating and effective. In addition, the City does not have sufficient policies and procedures, including monitoring controls.

Effect

An ineffective control environment increases the risk that financial data integrity is not maintained.

Recommendation

We recommend the City evaluate the items noted and implement updated procedures to improve the general computer controls to include:

- Develop an IT strategic plan to develop resources in alignment with the overall City direction and strategy.

CITY OF RICHMOND, VIRGINIA
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Year ended June 30, 2018

- Develop a process to periodically review the active user listing in the system to validate the appropriateness of user accounts and their associated access rights.
- Implement configuration changes to conform to City policies and periodically assess that configurations continue to align with management's expectations.

Management's Response

The Department of Information Technology (DIT) is emerging from an extended period without necessary funding and staffing to support a full IT program for the City. Operation of existing, production systems and replacement of past-life infrastructure has been the priority. In FY2018 the Department was funded at 100% for positions, but has experienced difficulty attracting candidates in order to reduce its 20-25% vacancy rate. A permanent Director was named in March 2018. As positions fill, DIT will be able to move from operations-only/reactionary mode and give focus to strategy. This will include increased focus on efforts to develop and implement related procedures.

2018-004 – Use of Miscellaneous Vendor – Significant Deficiency

Condition

The "Miscellaneous Vendor" code is not being consistently used for its intended purpose. This code was established for small social services reimbursements; however, we noted the code was being used for large recurring vendors. The use of the "Miscellaneous Vendor" code allows for a bypass of the normal procurement process.

Criteria

All large vendors paid by the City should be subjected to the City's procurement processes.

Cause

The City is not monitoring the use of the "Miscellaneous Vendor" code and necessary procurement processes are not being followed.

Effect

The use of the "Miscellaneous Vendor" code can allow employees to surpass the approval process of requesting a new vendor through the procurement department. This could result in related party vendors or vendors who are suspended and debarred. Bypassing the procurement process may also increase the risk of fraud related to disbursement of funds.

Recommendation

We recommend the City limit the use of the "Miscellaneous Vendor" code. We also recommend the City establish controls to review all checks issued to "Miscellaneous Vendor".

Management's Response

The Procurement Department is currently coordinating with all City Departments to reduce the number of large recurring vendors identified as Miscellaneous when files are interfaced from subsystems to Oracle "Rapids" during the current year.

The Finance Department is also coordinating with City Departments regarding electronic payments for the subcontractors that are being used for personal property tax refunds, housing, rent and recipient payments in order to expedite payments and reduce Miscellaneous Vendor checks.