

CITY OF RICHMOND, VIRGINIA

REPORT ON SINGLE AUDIT

JUNE 30, 2018

**CITY OF RICHMOND, VIRGINIA
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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 it.

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



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR
FEDERAL PROGRAM, REPORT ON INTERNAL CONTROL OVER COMPLIANCE, AND
REPORT ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
REQUIRED BY THE UNIFORM GUIDANCE**

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

Report on Compliance for Each Major Federal Program

We have audited the City of Richmond, Virginia's (the City) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended June 30, 2018. The City's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

The City's basic financial statements include the operations of Richmond School Board, Richmond Ambulance Authority, Richmond Redevelopment and Housing Authority, Economic Development Authority, and Richmond Retirement System. These component units have been excluded from the accompanying schedule of expenditures of federal awards during the year ended June 30, 2018. Our audit, described below, did not include the operations of Richmond School Board, Richmond Ambulance Authority, Richmond Redevelopment and Housing Authority, Economic Development Authority and Richmond Retirement System because these component units engaged other auditors to perform an audit in accordance with Title 2 U.S. Code of Federal Regulations for Federal Awards, where applicable.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City's compliance.

Basis for Qualified Opinion on Temporary Assistance for Needy Families (TANF)

As described in the accompanying schedule of findings and questioned costs, the City did not comply with requirements regarding CFDA #93.558 – Temporary Assistance for Needy Families (TANF) as described in 2018-005 for Eligibility. Compliance with such requirements is necessary, in our opinion, for the City to comply with the requirements applicable to the programs.

Qualified Opinion on Temporary Assistance for Needy Families (TANF)

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on CFDA 93.558 - Temporary Assistance for Needy Families for the year ended June 30, 2018.

Unmodified Opinion on Each of the Other Major Federal Programs

In our opinion, the City complied in all material respects with the types of compliance requirements referred to above that could have a direct and material effect on each of its other major federal programs identified in the summary of auditors' results section of the accompany schedule of findings and questioned costs for the year ended June 30, 2018.

Other Matters

The City's responses to the noncompliance findings identified in our audit are described in the accompanying corrective action plan. The City's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on them.

Report on Internal Control Over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, 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 over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify a deficiency in internal control over compliance, described in the accompanying schedule of findings and questioned costs as item 2018-005 that we consider to be a material weakness.

The City's responses to the internal control over compliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The City's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on them.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the result of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited 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 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. We issued our report thereon dated November 6, 2018, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The City's financial statements include the operations of Richmond School Board, Richmond Ambulance Authority, Richmond Redevelopment and Housing Authority, Economic Development Authority and Richmond Retirement Systems for the year ended June 30, 2018. The federal expenditures, where applicable, for Richmond School Board, Richmond Ambulance Authority, Richmond Redevelopment and Housing Authority, Economic Development Authority and Richmond Retirement System are not included in the schedule of expenditures of federal awards. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditure of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.



CliftonLarsonAllen LLP

Arlington, Virginia
November 30, 2018

**CITY OF RICHMOND, VIRGINIA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2018**

Federal Grantor/Pass Through Grantor/Program Title	CFDA Number	Pass Through Grantor Number	Pass-Through to Subrecipients	Federal Expenditures
OFFICE OF NATIONAL DRUG CONTROL POLICY				
Passed Through Cal Ripkin, Sr. Foundation				
High Intensity Drug Trafficking Agency	07.999	2017-FED-WBHIDTA-B4B- VA-1707	\$	2,673
Passed Through Mercy Hurst University				
High Intensity Drug Trafficking Agency	07.999	I-2017TXRichmond		120,333
High Intensity Drug Trafficking Agency	07.999	I-2018TXRichmond, G18WB0004A		36,441
				<u>159,447</u>
TOTAL DEPARTMENT OF INTERIOR				
U.S. DEPARTMENT OF AGRICULTURE:				
Direct Payments:				
Child and Adult Food Care Program	10.558			70,809
Summer Food Service Program for Children	10.559			724,084
Passed Through Virginia Department of Social Services:				
Supplemental Nutrition Assistance Program (SNAP) Cluster: State Administrative Matching Grants for the Supplemental Nutrition Assistance Program Total SNAP Cluster	10.561	Laser Report		<u>4,422,135</u> <u>4,422,135</u>
				<u>5,217,028</u>
TOTAL U.S. DEPARTMENT OF AGRICULTURE				
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT				
Direct Payments:				
Community Development Block Grant Cluster Community Development Block Grant Program Entitlement Grants (CDBG)	14.218		\$ 2,510,848	4,579,434
Community Development Block Grant Program- Outstanding Loans	14.218			421,882
Total Community Development Block Grant Cluster				<u>5,001,316</u>
Home Investment Partnerships Program (HOME)	14.239		1,077,871	1,137,324
Emergency Shelter Grant	14.231			346,501
Housing Opportunities for Persons with AIDS (HOPWA)	14.241			909,256
Continuum of Care - Fuse PSH	14.267			115,969
Continuum of Care - Shelter Plus Care	14.267			867,994
Total Continuum of Care				<u>983,963</u>
				<u>8,378,360</u>
TOTAL U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT				
U.S. DEPARTMENT OF JUSTICE				
Direct Payments:				
Crime Victim Assistance	16.575			729,535
Drug Court Discretionary Grant Program	16.585			233,236
Public Safety Partnership and Community Policing Grants	16.710			45,015
Edward Byrne Memorial Justice Assistance Grant Program	16.738			181,209
Passed Through Bedford County:				
Juvenile Justice and Delinquency Prevention	16.540	N/A		<u>40,696</u>
				<u>1,229,691</u>
TOTAL U.S. DEPARTMENT OF JUSTICE				

**CITY OF RICHMOND, VIRGINIA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
YEAR ENDED JUNE 30, 2018**

Federal Grantor/Pass Through Grantor/Program Title	CFDA Number	Pass Through Grantor Number	Pass-Through to Subrecipients	Federal Expenditures
U.S. DEPARTMENT OF TRANSPORTATION				
Passed Through Virginia Department of Transportation:				
Highway Planning and Construction Cluster:				
Highway Planning and Construction (Capital Projects) -	20.205	290-8130 TRAFF SAFETY		\$ 3,575,346
Passed Through Virginia Department of Transportation Virginia Department of Rail and Public Transportation:				
Employee Trip Reduction	20.205	SC-2015-55123-5862		50,983
Employee Trip Reduction	20.205	47017-04		39,920
Total Highway Planning and Construction Cluster				<u>3,666,249</u>
Passed Through Virginia Division of Motor Vehicles:				
Highway Safety Cluster:				
FY17 Sel Enf-Alcohol	20.600	154AL-2017-57029-6678		11,749
FY17 Sel Enf-Occupant	20.600	OP-2017-57046-6695		1,328
FY17 Sel Enf-Speed	20.600	SC-2017-57065-6714		8,172
FY17 Sel En-Ped/Bic	20.600	PS-2017-57067-6716		1,274
DMV FY18 Selective Enforcement Ped/Bike	20.600	FPS-2018-58198-8198		2,558
DMV FY18 Selective Enforcement Alcohol	20.600	154AL-2018-58180-8180		29,153
DMV FY18 Selective Enforcement Speed	20.600	SC-2018-58194-8194		24,044
DMV FY18 Selective Enforcement Occup	20.600	FOP-2018-58195-8195		5,009
Total Highway Safety Cluster				<u>83,287</u>
TOTAL U.S. DEPARTMENT OF TRANSPORTATION				<u>3,749,536</u>
ENVIRONMENTAL PROTECTION AGENCY				
Passed Through Virginia Resource Authority				
Clean Water State Revolving Fund Cluster:				
Capitalization Grants for Clean Water State Revolving Funds- Virginia Water Facilities Revolving (EPA)	66.458	C-515430-02		152,953
Total Clean Water State Revolving Fund Cluster				<u>152,953</u>
Brownfield Assessment (Hazardous Substance)	66.818	BF-963233-01-0		5,435
Brownfield Assessment (Petroleum)	66.818	BF-963232-01-0		722
Total Brownfield Assessment				<u>6,157</u>
TOTAL ENVIRONMENTAL PROTECTION AGENCY				<u>159,110</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES				
Direct Payment:				
Heathy Start	93.926			726,298
Passed Through Mercy Hurst University				
Adult Drug Court - RADTC - SAMHSA Grant	93.243	5H79T1026079-02		98,342
Adult Drug Court - FY18 RADTC-SAMHSA	93.243	5H79T1026079-03		191,519
Total Adult Drug Court				<u>289,861</u>
Passed Through Virginia Department of Social Services:				
Promoting Safe and Stable Families & Administration	93.556	RDSS LASER		132,993
Temporary Assistance for Needy Families Cluster				
Temporary Assistance for Needy Families	93.558	RDSS LASER		3,998,673
Total Temporary Assistance for Needy Families Cluster				<u>3,998,673</u>

**CITY OF RICHMOND, VIRGINIA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
YEAR ENDED JUNE 30, 2018**

Federal Grantor/Pass Through Grantor/Program Title	CFDA Number	Pass Through Grantor Number	Pass-Through to Subrecipients	Federal Expenditures
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES (CONTINUED)				
Passed Through Virginia Department of Social Services (Continued):				
Refugee Assist (Refugee Resettlement) & Administrative	93.566	RDSS LASER		\$ 5,671
Low Income Home Energy Assistance Program - Staff & Operations	93.568	RDSS LASER		556,257
Child Care Cluster:				
Child Care and Development Block Grant	93.575	RDSS LASER		(696)
Child Care Mandatory and Matching Funds	93.596	RDSS LASER		650,600
Total Child Care Cluster				<u>649,904</u>
Chafee Education and Training Vouchers	93.599	RDSS LASER		34,409
Adoptive Incentive	93.603	RDSS LASER		2,523
Child Welfare Services - IVB1 Admin.	93.645	RDSS LASER		13,177
Foster Care Title IV E	93.658	RDSS LASER		4,009,387
Adoption Assistance - Title IV-E	93.659	RDSS LASER		2,853,555
Social Service Block Grant (SSBG),	93.667	RDSS LASER		2,997,436
Chafee Foster Care - Independent Living & Administrative	93.674	RDSS LASER		66,054
Children's Health Insurance Program- Local Medicaid -FAM Administrative	93.767	RDSS LASER		189,514
Medicaid Cluster				
Outstationed Worker/Local Medicaid / Staff & Operations, Administrative & Cost Allocation	93.778	RDSS LASER		4,791,446
Total Medicaid Cluster				<u>4,791,446</u>
TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES				<u>21,317,158</u>
CORPORATION FOR NATIONAL AND COMMUNITY SERVICE:				
Passed Through Virginia Department of Social Services:				
DHS AmeriCorps- FY17	94.006	CVS-15-055-04		32,208
FY18 AmeriCorps	94.006	CVS-17-048		180,427
TOTAL CORPORATION FOR NATIONAL AND COMMUNITY SERVICE TOTAL				<u>212,635</u>
U.S. DEPARTMENT OF HOMELAND SECURITY				
Passed Through Virginia				
Department of Emergency Management				
FY16 LEMPG	97.042	LEMPG FY16		6,188
FY17 LEMPG	97.042	EMP-2017-EP-00006		72,603
Total LEMPG				<u>78,791</u>
Shelter Enhancement - FY16 SHSP Statewide Shelter and Mass Care	97.067	7328		44,088
Whole Community Preparedness Outreach and Education	97.067	7326		11,991
FY17 SHSP Grant Shelter Training	97.067	EMW-2017-SS-00088		1,736
Total Homeland Security Grant Program				<u>57,815</u>
TOTAL U.S. DEPARTMENT OF HOMELAND SECURITY TOTAL				<u>136,606</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS				<u>\$ 40,559,571</u>

**CITY OF RICHMOND, VIRGINIA
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2018**

NOTE 1 BASIS OF PRESENTATION

Organization

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal grant activity of the primary government of the City of Richmond, Virginia (the City), and is presented on the modified-accrual basis of accounting. Federal awards of component units of the City reporting entity are not included in this Schedule.

The information in this Schedule is also presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in this Schedule may differ from amounts presented in, or used in, the preparation of the basic financial statements.

Expenditures of federal award grant funds are made for the purposes specified by the grantor, and are subject to certain restrictions. Expenditures are also subject to audit by the relevant federal agency. In the opinion of management, disallowed costs, if any, from such audits will not have a material effect on this Schedule or the financial position of the City.

NOTE 2 LOAN PROGRAMS WITH CONTINUING COMPLIANCE REQUIREMENTS

The City participates in the Community Development Block Grant. The balance of loans from previous years and current year loan activity, as required under the Uniform Guidance, are presented in the Schedule of Expenditures of Federal Awards. As of June 30, 2018, the CDBG outstanding loan balance was \$350,232.

NOTE 3 INDIRECT COST

The City did not elect to use the 10% de minimis cost rate for indirect costs.

**CITY OF RICHMOND, VIRGINIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2018**

Section I – Summary of Auditors’ Results

Financial Statements

1. Type of auditors’ report issued: Unmodified
2. Internal control over financial reporting:
- Material weakness(es) identified? _____ yes x no
 - Significant deficiency(ies) identified? x yes _____ none reported
3. Noncompliance material to financial statements noted? _____ yes x no

Federal Awards

1. Internal control over major federal programs:
- Material weakness(es) identified? x yes _____ no
 - Significant deficiency(ies) identified? _____ yes x none reported
2. Type of auditors’ report issued on compliance for major federal programs: See below
3. Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? x yes _____ no

Identification of Major Federal Programs

CFDA Number(s)	Name of Federal Program or Cluster
14.239	Unmodified – Home Investment Partnerships Program
93.558	Qualified – Temporary Assistance for Needy Families
93.658	Unmodified – Foster Care – Title IV-E
93.667	Unmodified – Social Services Block Grant
93.778	Unmodified – Medical Assistance Program

Dollar threshold used to determine Type A programs: \$1,216,787

Auditee qualified as low-risk auditee? _____ yes x no

CITY OF RICHMOND, VIRGINIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2018

Section II – Financial Statement Findings

2018-001 – Recording of Retainage Payable – Significant Deficiency
Prior Year Finding #2017-003

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 establish 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.

CITY OF RICHMOND, VIRGINIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2018

Section II – Financial Statement Findings (Continued)

2018-002 – Journal Entry Approvals – Significant Deficiency
Prior Year Finding #2017-004

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.

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.

**CITY OF RICHMOND, VIRGINIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2018**

Section II – Financial Statement Findings (Continued)

**2018-003 – Information Technology Controls – Significant Deficiency
Prior Year Finding #2017-005**

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.
- 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.

CITY OF RICHMOND, VIRGINIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2018

Section II – Financial Statement Findings (Continued)

2018-004 – Use of Miscellaneous Vendor – Significant Deficiency
Prior Year Finding #2017-006

Criteria: All large vendors paid by the City should be subjected to the City’s procurement processes.

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.

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.

**CITY OF RICHMOND, VIRGINIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2018**

Section III – Federal Award Findings and Questioned Costs

2018-005

Federal Agency:	U.S. Department of Health and Human Services,
Federal Program:	Temporary Assistance for Needy Families (TANF)
Pass-Through Agency	Virginia Department of Social Service
Pass-Through award Number:	None
CFDA Number:	93.558
Award Period:	July 1, 2017 – June 30, 2018
Grant Number:	None
Compliance Requirement:	Eligibility
Type of Finding:	Material Weakness, material non-compliance
Prior Year Finding:	Yes, 2017-009

Criteria:

Internal controls: The non-Federal entity must: (a) Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in “Standards for Internal Control in the Federal Government” issued by the Comptroller General of the United States or the “Internal Control Integrated Framework”, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

(b) Comply with Federal statutes, regulations, and the terms and conditions of the Federal awards.

(c) Evaluate and monitor the non-Federal entity’s compliance with statutes, regulations and the terms and conditions of Federal awards.

(d) Take prompt action when instances of noncompliance are identified including noncompliance identified in audit findings.

Compliance: Any family that includes an adult or minor child, head of household or a spouse of the head of household who has received assistance under any State program funded by Federal TANF funds for 60 months (whether or not consecutive) is ineligible for additional federally funded TANF assistance.

An entity may not use funds to provide cash assistance to an individual that has been convicted of fraudulent representation with respect to assistance within the past 10 years, in fleeing prosecution or convicted of felony after 8/1/1996.

Only adults age 18 and over who are TANF eligible, and able-bodied parents are eligible to participate in employment assistance services to receive TANF funds through the Virginia Initiative for Employment not Welfare Program (VIEW). Localities must maintain eligibility documentation for each eligible individual.

**CITY OF RICHMOND, VIRGINIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2018**

Section III – Federal Award Findings and Questioned Costs (Continued)

Condition: We noted the following:

- 9 out of 40 case files tested did not contain adequate documentation to verify eligibility requirements and approval of benefits.

- In addition, we noted 1 out of 8 case files tested did not contain adequate documentation to determine eligibility with the Virginia Initiative for Employment not Welfare Program (VIEW).

- 1 out the 8 case files tested could not be located. We were unable to determine if eligibility requirements were met.

Questioned Costs: Not determined.

Cause: Noncompliance was due to review process for eligibility not being properly designed.

Effect: The City is providing assistance to individuals who may not be eligible. Internal controls may be ineffective if procedures are not consistently performed.

Recommendation: We recommend that the City review its procedures and enhance them as deemed necessary to ensure proper monitoring occurs. The City should reiterate its procedures for documenting eligibility and maintenance of case files to ensure consistent application of procedures.

Views of responsible officials: See Corrective Action Plan

CITY OF RICHMOND, VIRGINIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2018

Section III – Findings and Questioned Costs Related to Compliance With Commonwealth of Virginia Laws, Regulations, Contracts, and Grants

2018-APA 01 – Department of Social Services Computer System Access
Prior Year finding: 2017-APA 001

Criteria: In accordance with the Auditor of Public Accounts *Specifications for Counties, Cities and Towns, Chapter 3 Section 15*, local government officials are required to terminate the access privileges of all Virginia Department of Social Services system users within three working days of employment termination.

Condition: One out of five employees sampled did not have their system access removed within three days of their separation date as mandated by policy.

Cause and effect: The requirement to terminate access privileges timely after termination of employment was not performed properly. No known inappropriate access resulted from this late termination of access.

Recommendation: The requirement to terminate access privileges timely after termination of employment was not performed properly. No known inappropriate access resulted from this late termination of access.

Views of responsible officials: See Corrective Action Plan.