

CITY OF RICHMOND, VIRGINIA

COMPLIANCE REPORTS

For the Year Ended June 30, 2014

CITY OF RICHMOND, VIRGINIA
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**Report of Independent Auditor 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***

To 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, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and the *Specifications for Audits of Counties, Cities and Towns*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia, 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, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated October 5, 2015. That report recognizes that the City implemented one new accounting standard effective July 1, 2013. Our report included an emphasis paragraph indicating that the governmental activities' opinion unit financial statement opinion was qualified due to a scope limitation over our testing. Our report included an emphasis paragraph indicating that the governmental activities, the business-type activities, individual major funds (Capital Projects, Gas, Water, Wastewater, Stormwater) and the aggregate remaining fund information fund balance or net position as of June 30, 2013 have been restated. Our report includes a reference to other auditors who audited the financial statements of the Richmond Redevelopment and Housing Authority, the Economic Development Authority of the City of Richmond, Virginia, and the Richmond Behavioral Health Authority, all of which are component units of the City. 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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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 were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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 entity'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. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2014-001 through 2014-004 to be material weaknesses.

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 one instance of noncompliance required to be reported under *Government Auditing Standards* as described in the accompanying schedule of findings and questioned costs as item 2014-005.

City of Richmond, Virginia's Responses to Findings

The City's responses to the 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 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 results 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.

A handwritten signature in blue ink that reads "Cheryl Behrman CPA". The signature is written in a cursive style.

Richmond, Virginia
October 5, 2015

Report of Independent Auditor on Compliance For Each Major Program and on Internal Control over Compliance Required By OMB Circular A-133

To 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 U.S. Office of Management and Budget ("OMB") *Circular A-133 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, 2014. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

The City's basic financial statements include the operations of the Richmond Redevelopment and Housing Authority and the Richmond Behavioral Health Authority, which received approximately \$53,480,000 and \$6,130,000, respectively, in federal awards, which are not included in the schedule of expenditures of federal awards (the "Schedule") for the year ended June 30, 2014. Our audit, described below, did not include the operations of the Richmond Redevelopment and Housing Authority and the Richmond Behavioral Health Authority because the component units engaged other auditors to perform an audit in accordance with OMB Circular A-133.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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 and Medical Assistance Programs

As described in items 2014-006 and 2014-007 in the accompanying schedule of findings and questioned costs, we were unable to obtain sufficient documentation supporting the compliance of the Temporary Assistance for Needy Families (CFDA Number 93.558) and Medical Assistance Program (CFDA Number 93.778) requirements regarding participant eligibility, nor were we able to satisfy ourselves as to the City's compliance with those requirements by other auditing procedures. Compliance with such requirements is necessary, in our opinion, for the City to comply with the requirements applicable to those programs.

Qualified Opinion on Temporary Assistance for Needy Families and Medical Assistance Programs

In our opinion, except for the possible effects of such noncompliance discussed in the *Basis for Qualified Opinion* paragraph, if any, as might have been determined had we been able to examine sufficient evidence regarding the City's compliance with the requirements of its Temporary Assistance for Needy Families and Medical Assistance programs regarding eligibility, 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 the Temporary Assistance for Needy Families and Medical Assistance Programs for the year ended June 30, 2014.

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 auditor's results section of the accompanying schedule of findings and questioned costs for the year ended June 30, 2014.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2014-009, 2014-011, 2014-012 and 2014-013. Our opinions on each major federal program are not modified with respect to these matters.

The City's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The City's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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 OMB Circular A-133, 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.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph 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 were not identified. However, as described below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

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 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. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2014-006 through 2014-011 to be material weaknesses.

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. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2014-012 and 2014-013 to be significant deficiencies.

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

Schedule of Expenditures of Federal Awards (the "Schedule")

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, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated October 5, 2015, which contained a modified opinion on the governmental activities and unmodified opinion on all other opinion units presented within those financial statements. We did not audit the financial statements of the Richmond Behavioral Health Authority, the Richmond Redevelopment and Housing Authority, and the Richmond Economic Development Authority, which represent 68.87%, 27.75%, and 102.63%, respectively, of the total assets, revenues, and net position of the aggregate discretely presented component units. Those financial statements were audited by other auditors whose reports have been furnished to us and our opinions insofar as they relate to the amounts included for the Richmond Behavioral Health Authority, the Richmond Redevelopment and Housing Authority, and the Richmond Economic Development Authority are based solely on the reports of the other auditors.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying Schedule is presented for the purposes of additional analysis as required by OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* 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.

Basis for Qualified Opinion on the Relationship of the Basic Financial Statements to the Schedule

For the fiscal year ended June 30, 2014, City management cannot materially reconcile awards passed through to the City from the Virginia Department of Social Services (the "VDSS"), as confirmed by the VDSS and reflected in the Schedule approximating \$22,300,000, to its general ledger. This is also considered to be a material weakness in internal control over compliance as described in the accompanying schedule of findings and questioned costs as item 2014-010.

Qualified Opinion

In our opinion, except for the effects of the matter described in the *Basis for Qualified Opinion on the Relationship of the Basic Financial Statements to the Schedule* paragraph, if any, as might have been determined had the City been able to provide for testing a valid reconciliation of its general ledger to VDSS confirmed balances as required by OMB Circular A-133, the Schedule is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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 results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Cheryl Behrnt CP

Richmond, Virginia
July 13, 2016

**Report of Independent Auditor on Compliance with
Commonwealth of Virginia’s Laws, Regulations,
Contracts, and Grants**

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

We have audited, 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 *Specifications for Audits of Counties, Cities and Towns (the “Specifications”)*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia, 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, 2014, and the related notes to the financial statements and have issued our report thereon dated October 5, 2015. Our report includes a reference to other auditors who audited the financial statements of the City’s Component Units. 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City’s financial statements are free of material misstatement, we performed tests of the City’s compliance with certain provisions of the Commonwealth of Virginia’s laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, the objective of our audit of the basic financial statements was not to provide an opinion on overall compliance with such provisions, and accordingly, we do not express such an opinion. The following is a summary of the Commonwealth of Virginia’s laws, regulations, contracts, and grants for which we performed tests of compliance:

<u>Code of Virginia</u>		<u>State Agency Requirements</u>
Budget and Appropriation Laws	Procurement	Education
Cash and Investments	Unclaimed Property	Comprehensive Services Act Funds
Conflicts of Interest	Property Taxes	Social Services
Debt Provisions	Retirement Systems	Highway Maintenance Funds
Intergovernmental Revenues	Reporting	Stormwater Management
Intergovernmental Agreements		

The results of our tests disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with the Specifications, as described in the accompanying schedule of findings and questioned costs as items 2014-014 through 2014-019. The City’s responses to the 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 the responses.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of compliance with certain provisions of the Commonwealth of Virginia’s laws, regulations, contracts, and grants and the results of that testing, and not to provide an opinion on the City’s compliance. Accordingly, this communication is not suitable for any other purpose.



Richmond, Virginia
July 13, 2016

CITY OF RICHMOND, VIRGINIA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2014

Federal Grantor/Pass Through Grantor/Program Title Pass Through Grantors' Number	Federal CFDA Number	Federal / Pass Through Grantor Number	2014 Federal Expenditures
OFFICE OF NATIONAL DRUG CONTROL POLICY			
Passed Through University of Maryland:			
High Intensity Drug Trafficking Agency	7.999	Z992311, Z921105, Z921112	\$ 38,748
HIDTA	7.999	Z992314, Z992311, 9442-Z9744006	49,265
TOTAL OFFICE OF NATIONAL DRUG CONTROL POLICY			88,013
DEPARTMENT OF AGRICULTURE:			
Direct Payments:			
Farm to School Grant Program	10.575		4,500
Passed Through Virginia Department of Agriculture and Consumer Services:			
Richmond DJS Child and Adult Care	10.558	USDA FY 14	51,484
Passed Through Virginia Department of Health:			
Child and Adult Food Program	10.558	03CH0173/28	3,036
Child and Adult Food Program	10.558	59729	205,081
		Subtotal	<u>259,601</u>
Direct Payments:			
Summer Food Service Programs for Children	10.559		226,384
Passed Through Virginia Department of Health:			
Summer Food Service Programs for Children	10.559	56393	690,250
		Subtotal	<u>916,634</u>
Passed Through Virginia Department of Agriculture and Consumer Services:			
National School Lunch Program	10.555	10.555/2014	435,256
Passed Through Virginia Department of Education:			
National School Lunch Program	10.555	10.555/2013; 10.555/2014	6,907,906
		Subtotal	<u>7,343,162</u>
National School Breakfast Program	10.553	10.553/2013; 10.553/2014	2,924,557
		Total Child Nutrition Cluster (10.553/10.555/10.559)	<u>11,184,353</u>
Passed Through Virginia Department of Education:			
Fresh Fruit & Vegetables Program	10.582	10.582/13/14	453,960
Passed Through the Virginia Department of Social Services:			
State Administrative Matching Grants for Supplemental Nutrition Assistance Program	10.561		4,035,585
TOTAL DEPARTMENT OF AGRICULTURE			15,937,999

CITY OF RICHMOND, VIRGINIA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2014

Federal Grantor/Pass Through Grantor/Program Title Pass Through Grantors' Number	Federal CFDA Number	Federal / Pass Through Grantor Number	2014 Federal Expenditures
DEPARTMENT OF DEFENSE:			
Direct Payments:			
Air Force ROTC	12.XXX		59,875
Army ROTC	12.XXX		450,583
TOTAL DEPARTMENT OF DEFENSE			510,458
DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:			
Direct Payments:			
Community Development Block Grant Program	14.218	B13MC510019	4,505,662
Emergency Shelter Grant	14.231	E13-MC-51-0004	329,753
Supportive Housing Program	14.235	VA001283F001104	60,480
Shelter Plus Care	14.238	VA0149C3F00900	1,134,296
The Home Program	14.239	M12MC510205	1,292,533
HOPWA	14.241	VAH12-F001	912,585
Neighborhood Stabilization Program	14.264	B-11-MN-51-0001	512,215
Neighborhood Stabilization Program (HUD- Fund 0301)	14.256	2208 NSP-12	40,000
TOTAL DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			8,787,524
DEPARTMENT OF JUSTICE:			
Direct Payments:			
Drug Court Discretionary Grant	16.585	2013-DC-BX-0222	72,000
Bulletproof Vest Partnership Program	16.607		6,655
Criminal and Juvenile Justice and Mental Health Collaboration Program	16.745	2010-MO-BX-0056, 2013-MO-BX0021 2010-DJ-BX-1649 2011-DJ-BX-2588, 2012-DJ-BX- 0602, 2013-DJ-BX-1056	11,931
Edward Byrne Memorial Justice Assistance Grant Program	16.738		239,585
Passed Through:			
Criminal Justice Planner to Establish Jail Bed Use Plan & Alternative Placement Process	16.738	14-B2611AD12	38,351
Subtotal			<u>277,936</u>
TOTAL DEPARTMENT OF JUSTICE			368,522

CITY OF RICHMOND, VIRGINIA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2014

Federal Grantor/Pass Through Grantor/Program Title Pass Through Grantors' Number	Federal CFDA Number	Federal / Pass Through Grantor Number	2014 Federal Expenditures
DEPARTMENT OF LABOR:			
Passed Through Capital Region Workforce Partnership: WIA Youth Activities	17.259	AA-21426-11-55A-51, AA-22966-12-55A-51	287,072
TOTAL DEPARTMENT OF LABOR			287,072
DEPARTMENT OF TRANSPORTATION:			
Passed Through Virginia Department of Transportation: Highway Planning and Construction	20.205	290-8130 TRAFF SAFETY	6,204,109
Passed Through Virginia Division of Motor Vehicles: Selective Enforcement - Alcohol	20.601	K82013532945009; K82014541535401	101,545
Selective Enforcement - Pedestrian/Bicycle	20.600	PS2013533255040; PS2014543155563	5,062
Selective Enforcement - Speed	20.600	SC2013533245039; SC2014543185566	63,880
Selective Enforcement - Occupant Protection	20.600	OP2013532955010; MOOP2014542885535	7,929
Total Highway Safety Cluster (IDEA) (20.600/20.601)			<u>178,416</u>
Passed Through Virginia Department of Rail and Public Transportation: CMAQ FY12 Employee Trip Reduction (80%)	20.205	47012-49	32,028
Strategic Master Plan for Transportation	20.205	UPC#642222	13,933
CMAQ FY12 Employee Trip Reduction (20%)	20.205	47012-49	138,830
CMAQ FY14 Employee Trip Reduction	20.205	72514-14-CM 5A27 (303)	7,504
Subtotal			<u>192,295</u>
TOTAL DEPARTMENT OF TRANSPORTATION			6,574,820
NATIONAL SCIENCE FOUNDATION:			
Passed Through University of Washington: Education and Human Resources	47.076	747638	807
TOTAL NATIONAL SCIENCE FOUNDATION			807
ENVIRONMENTAL PROTECTION AGENCY:			
Capitalization Grants for Clean Water State Revolving Funds	66.458	C-515430-02	3,717,048
EPA Cooperative Agreement Grant	66.440	EPA-96315101	32,015
TOTAL ENVIRONMENTAL PROTECTION AGENCY			3,749,063

CITY OF RICHMOND, VIRGINIA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2014

Federal Grantor/Pass Through Grantor/Program Title Pass Through Grantors' Number	Federal CFDA Number	Federal / Pass Through Grantor Number	2014 Federal Expenditures
DEPARTMENT OF EDUCATION:			
Direct Payments:			
Impact Aid	84.041		207,867
Fund for Improvement of Education	84.215	U215X090442	122,905
Passed Through Virginia Department of Education:			
Title I Grant to Local Educational Agencies	84.010	S010A110046 /S040A120046/S010A130046123- S010A120046-42892	18,693,277
Special Education - Grants to States	84.027	H027A110107 /H027A120107/H027A130107/123- 87056-H027A120107/123-61134-H027A120107	7,228,397
Special Education - Preschool Grants	84.173	H173A110112/H173A120112/H173A130112	122,356
Total Special Education Cluster (IDEA) (84.027/84.173)			<u>7,350,753</u>
Adult Education – Basic Grants to States	84.002	V002A120047/V02A130047	1,273,089
Title I State Agency Program for Neglected and Delinquent Children and Youth	84.013	S013A110046/S013A120046/S013A110046	139,358
Career and Technical Education - Basic Grants to States	84.048	V048A130046	631,341
Twenty-First Century Learning Centers	84.287	123-60565-S287C130047	80,303
Advanced Placement Program	84.330	123-PL-107-110	25,996
English Language Acquisition Grants	84.365	S365A110046;S365A120046	118,149
Improving Teacher Quality State Grants	84.367	S367A110044 / S367A120044/S364A1310044	1,766,161
School Improvement Grants, Recovery Act	84.388	S388A0900047	711,639
Passed Through Virginia Commonwealth University:			
School Leadership	84.363	PT103454-SC102856	12,897
Improving Teacher Quality State Grants	84.367	PT109331-SC104987	56,829
Teacher Quality Partnerships, Recovery Act	84.405	ED-GRANTS-080409-001	265,150
Passed Through National Board for Professional Teaching Standards:			
Teacher Incentive Fund	84.374	S374A100029	1,570,183
Passed Through the College of William and Mary	84.196	G123-13/G123-14	109,705
TOTAL DEPARTMENT OF EDUCATION			33,135,602

CITY OF RICHMOND, VIRGINIA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2014

Federal Grantor/Pass Through Grantor/Program Title Pass Through Grantors' Number	Federal CFDA Number	Federal / Pass Through Grantor Number	2014 Federal Expenditures
DEPARTMENT OF HEALTH AND HUMAN SERVICES:			
Direct Payments:			
Head Start	93.600	03CH0173/29;03CH0173/28	6,542,454
Healthy Start Initiative	93.926	H494MC00124	945,681
Passed Through Virginia Department of Social Services:			
Child Care and Development Block Grant	93.575		(12,329)
Child Care Mandatory of the Child Care and Development Fund	93.596		633,969
Total CCFD Cluster (93.575/93.596)			<u>621,640</u>
Promoting Safe and Stable Families	93.556		187,188
Temporary Assistance for Needy Families	93.558		4,309,741
Healthy Families	93.558	FAM-12-084-28	33,435
Subtotal			<u>4,343,176</u>
Refugee and Entrant Assistance - State Administered Programs	93.566		43,468
Low-Income Home Energy Assistance	93.568		499,163
Chafee Education and Training Vouchers Program (ETV)	93.599		24,486
Stephanie Tubbs Jones Child Welfare Services Program	93.645		31,644
Foster Care - Title IV - E	93.658		2,919,851
Adoption Assistance	93.659		2,659,666
Social Services Block Grant	93.667		3,029,189
Chafee Foster Care Independence Program	93.674	VA0010C3F001104	61,400
Children's Health Insurance Program	93.767		135,271
Medical Assistance Program	93.778		3,756,389
TOTAL DEPARTMENT OF HEALTH AND HUMAN SERVICES			<u>25,800,666</u>
CORPORATION FOR NATIONAL AND COMMUNITY SERVICE:			
Passed Through Virginia Department of Social Services:			
Ameri Corps	94.006	CVS-12-043-08, CVS-12-043-05	172,771
TOTAL CORPORATION FOR NATIONAL AND COMMUNITY SERVICE			<u>172,771</u>

CITY OF RICHMOND, VIRGINIA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2014

Federal Grantor/Pass Through Grantor/Program Title Pass Through Grantors' Number	Federal CFDA Number	Federal / Pass Through Grantor Number	2014 Federal Expenditures
DEPARTMENT OF HOMELAND SECURITY:			
Direct Payments:			
Assistance to Firefighters	97.044	EMW-2012-FO-04948, EMW-2012-FP-00312	59,093
Port Security Grant Program	97.056	EMW-2012-PU-00342-S01	38,044
Passed Through Virginia Department of Health:			
Metropolitan Medical Response System (MMRS)	97.071	2010MMRS, 2011MMRS	223,352
MSA Public Outreach and Education	97.067	2012 SHSP	4,990
Citizen Preparedness	97.067	2012 SHSP	18,743
		Subtotal	<u>23,733</u>
		Total Homeland Security Cluster (97.071/97.067)	<u>247,085</u>
Passed Through Virginia Department of Emergency Management:			
LEMPG	97.042	LEMPG 09, EMPG Video Conferencing, Local Emergency Management Grant	106,873
Emergency Management Performance Grant	97.042	VA Special Needs	169,034
		Subtotal	<u>275,907</u>
Central Virginia Special Needs Registry	97.073	MSA Public Outreach	26,852
TOTAL DEPARTMENT OF HOMELAND SECURITY			646,981
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 96,060,298

CITY OF RICHMOND, VIRGINIA
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2014

Note 1—Basis of presentation

The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") presents the activity of all federal financial programs of the City of Richmond, Virginia, the Primary Government, and Richmond City Public Schools, a discretely presented component unit (collectively, the "City"). The Schedule is presented on the modified accrual basis of accounting.

The information in this Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in or used in the preparation of the financial statements.

Note 2—Subrecipients

Of the federal expenditures presented in the schedule, the City provided federal awards to subrecipients as follows:

<u>Program Title</u>	<u>CFDA Number</u>	<u>Subrecipients</u>
Community Development Block Grants/Entitlement Grants	14.218	\$ 1,782,339
Emergency Shelter Grant	14.231	195,937
Home Investment Partnerships Program	14.239	883,506
Housing Opportunities for Person with AIDS	14.241	705,866
Criminal and Juvenile Justice and Mental Health Collaboration Program	14.256	24,000
Head Start	93.600	923,255
Total Subrecipient Reimbursements		<u>\$ 4,514,903</u>

Note 3—Loans outstanding

The City had the following loan balances outstanding at June 30, 2014:

<u>Program Title</u>	<u>CFDA Number</u>	<u>Amount Outstanding</u>
Section 108	14.248	\$ 10,695,000
Virginia Resources Authority Loan	66.458	65,048,457
		<u>\$ 75,743,457</u>

CITY OF RICHMOND, VIRGINIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2014

(1) Summary of Auditor's Results

- a. The type of report issued on the financial statements: **Modified opinion**
- b. Significant deficiencies in internal control disclosed by the audit of the financial statements: **No**
- c. Material weakness in internal control disclosed by the audit of the financial statements: **Yes; Findings 2014-001 through 2014-004**
- d. Noncompliance which is material to the financial statements: **None**
- e. Significant deficiencies in internal control over major programs: **Yes; Findings 2014-012 and 2014-013**
- f. Material weakness in internal control over major programs: **Yes; Findings 2014-006 through 2014-009**

Material weakness in internal control over City Department of Social Services system-wide matters: **Yes; Findings 2014-010 and 2014-011**

- g. The type of report issued on compliance for the Schedule of Expenditures of Federal Awards and major programs:

Qualified opinion due to scope limitation regarding eligibility of the Temporary Assistance for Needy Families (CFDA Number 93.558) and Medical Assistance Program (CFDA Number 93.778).

Qualified opinion on the fair presentation of the Schedule of Expenditures of Federal Awards, in all material respects, in relation to the basic financial statements as a whole.

Unmodified opinions over other applicable compliance requirements for all other major programs.

- h. Any audit findings which are required to be reported under Section 510(a) of OMB Circular A-133: **Yes**
- i. Major programs:
 - Title I, Part A Cluster (CFDA Number 84.010)
 - Special Education Cluster (IDEA) (CFDA Numbers 84.027 and 84.173)
 - Child Care and Development Fund Cluster (CFDA Numbers 93.575 and 93.596)
 - Social Services Block Grant (CFDA Number 93.667)
 - Medical Assistance Program (CFDA Number 93.778)
 - Temporary Assistance for Needy Families (CFDA Number 93.558)
 - Highway Planning and Construction (CFDA Number 20.205)
 - Capitalization Grants for Clean Water Revolving Loan Fund (CFDA Number 66.458)
 - State Administrative Matching Grants for Supplemental Nutrition Assistance Program (CFDA Number 10.561)
- j. Dollar threshold used to distinguish between Type A and Type B programs: **\$2,881,808**
- k. Auditee qualified as low-risk auditee under Section 530 of OMB Circular A-133: **No**

CITY OF RICHMOND, VIRGINIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2014

(2) Findings Relating to the Financial Statements Reported in Accordance with *Government Auditing Standards*

2014-001: Material Weakness – Internal Control Over Financial Reporting – Capital Assets (repeat circumstance from finding 2013-1)

Criteria: In order to prepare financial statements in accordance with accounting principles generally accepted in the United States of America (“GAAP”), accurate and complete subsidiary records must be maintained to support the existence, completeness, accuracy, and valuation of all assets and liabilities, revenues, and expenditures/expenses to ensure an accurate presentation of the financial position and activity of the City for the fiscal year just ended.

Condition and Effect: Yearly, the City’s Finance Department oversees the preparation, processing, and recordation of tens of thousands of financial transactions that ultimately will be reflected in the yearly Comprehensive Annual Financial Report (“CAFR”) produced by the Finance Department. In order to ensure the transactions are fairly presented, procedures must be in place and functioning effectively to produce complete and accurate financial information. During the 2014 year end closing and the CAFR audit processes, errors related to prior fiscal years were identified by City Finance Department management and Cherry Bekaert. Specifically related to capital assets, the City identified multiple instances where activities in the previous fiscal years were inaccurately recorded within the general ledger and issued financial statements as follows:

- The City identified capital assets in the governmental and business-type activities recorded in prior years as construction in progress that were placed in service in previous years. The governmental activities were corrected by increasing the beginning balances of their respective capital asset categories (infrastructure - \$34,886,092; buildings and structures - \$26,831,902; equipment and other assets - \$953,106; and improvements other than buildings - \$4,638,221) with a corresponding decrease in construction in progress as of June 30, 2013. Accumulated depreciation for these categories was also corrected through this restatement by increasing their respective beginning balances (infrastructure - \$6,362,051; buildings and structures - \$4,570,873; equipment and other assets - \$290,169; and improvements other than buildings - \$135,072). Although these errors were identified and adjusted by the City within the governmental activities’ CAFR balances, the amounts could not be suitably substantiated by City Finance management to a degree of accuracy and completeness to allow for related audit testing to support an opinion on their fair presentation in accordance with GAAP and, accordingly, a qualified audit opinion due to a scope limitation was rendered.

The business-type activities (\$176,252,731) and individual enterprise major funds (Gas - \$56,279,062; Water - \$19,599,986; Wastewater - \$100,373,683) plant-in-service assets were corrected by increasing their respective beginning balances with a corresponding decrease in construction in progress. Plant-in-service accumulated depreciation for business-type activities (\$13,453,377) and individual enterprise major funds (Gas - \$4,499,148; Water - \$1,510,514; Wastewater - \$7,443,715) was also corrected through this restatement by increasing their respective beginning balances.

- The City identified capital assets in the Electric Utility Internal Service fund recorded in prior years as construction in progress that were placed in service in previous years (\$6,976,407). The Electric Utility Internal Service fund activities were corrected by increasing the beginning balance of buildings and structures, with a corresponding decrease in construction in progress. The net restatement (\$915,449) included accumulated depreciation of \$6,060,958.

CITY OF RICHMOND, VIRGINIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2014

- The City identified incorrectly recorded vehicle and equipment costs (\$8,030,877) purchased under the fleet maintenance program as expenses in the Fleet Management Internal Service fund. The net restatement (\$4,456,993) included accumulated depreciation of \$3,573,884.

Cause: Internal control processes were not in place to monitor related account activities to ensure the existence and appropriateness of capital assets and their complete and accurate reporting in the CAFR.

Recommendation: We recommend that the City strengthen its processes for managing the subsidiary ledger detail listing of capital assets to ensure that it properly supports the City's ownership and accountability of balances required to be reported within the financial statements as follows:

- Procedures should be developed and implemented requiring an at least twice-yearly review of construction in progress activity to ensure the projects are still active and that the costs incurred are capitalizable.
- Procedures should include the review of activity within the projects to ensure that they are re-categorized timely to a depreciable asset when the project has closed and this review should incorporate personnel from the Finance Department, the Department of Utilities, the Department of Public Works, and any other associated departments (e.g., Public Schools, if schools are involved).
- The results of all reviews should be documented to memorialize facts noted and decisions made.
- Existing staffing should be reviewed, and adjusted as deemed necessary, to ensure clear lines of responsibility over the complete and accurate recordation and reporting of capital assets is achieved and maintained.

Views of Responsible Officials: The City concurs with the recommendation set forth by Cherry Bekaert and will strengthen and/or develop policies and procedures over capital assets, inclusive of CIP, for the Department of Finance and all City departments that have accounting or project responsibilities for capital assets.

2014-002: Material Weakness – Internal Control Over Financial Reporting – Annual External Financial Reporting In Accordance With GAAP (repeat circumstance from finding 2013-2)

Criteria: Annual external reporting of the City's financial activities should be performed in accordance with the requirements of GAAP.

Condition: Yearly, the City's Finance Department oversees the preparation, processing, and recordation of tens of thousands of financial transactions that ultimately will be reported externally through its CAFR. The efficient, effective, and timely preparation of the CAFR depends heavily on personnel from various City departments and includes closing the City's general ledger, performing appropriate financial analyses and reconciliations of yearly activity, and accumulating the required data for reporting. In order to verify that the transactions are fairly presented, procedures must be in place and functioning effectively to ensure the financial information is complete, accurate, and in accordance with GAAP.

CITY OF RICHMOND, VIRGINIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2014

During the year-end closing and CAFR audit processes, errors related to prior fiscal years were identified by the City Finance Department management and Cherry Bekaert. These errors were considered material to the City's financial statements presentation by both City management and Cherry Bekaert, resulting in the restatement of the fund balance as of June 30, 2013 of the Capital Projects fund and the net position as of June 30, 2013 of the governmental activities; the business-type activities; the Gas, Water, Wastewater and Stormwater major proprietary funds, and the aggregate remaining fund information opinion units. Specifically, the City identified multiple instances where activities in the previous fiscal years were inaccurately recorded within the general ledger and issued financial statements as follows:

- Misapplication of GAAP as evidenced by:
 - The City reviewed its policies for establishing and utilizing rate stabilization amounts and determined that the balances were not appropriately being recognized as revenue systematically over time. Accordingly, the net position of the applicable enterprise funds were restated in the amount of \$99,664,219 (Gas - \$29,337,851, Water - \$42,616,446, Wastewater - \$23,939,356, Stormwater - \$3,770,566) and the net position of the Electric Utility Internal Service fund was restated in the amount of \$3,093,543.
 - The City reviewed its policies for inflows for state of readiness costs charged to other local government utility customers. The City determined that amounts previously received under local water supply agreements are revenue from an exchange transaction. Accordingly, the net position of the Water Utility Enterprise fund was restated in the amount of \$30,629,213.
 - The City reviewed its policies for inflows for state of readiness costs charged to other local government utility customers. The City determined that amounts received under local water supply agreements are revenue from an exchange transaction and should be recorded as revenue when the underlying capital expenditures are incurred. Accordingly, the net position of the Water Utility Enterprise fund was restated in the amount of \$3,542,899 for income that was earned but not yet received.
 - At June 30, 2013, the outstanding borrowed balance on the City's line of credit was \$95.8 million. As the line was refinanced between that fiscal year-end and the issuance of the 2013 financial statements, the balance should not have been presented as a liability of the Capital Projects fund and should have only been presented as a current liability on the Statement of Net Position for Governmental Activities.
- The accounting effect of certain material one-time transactions were not documented and recorded appropriately as evidenced by:
 - The City entered into a Section 108 loan from the United States Department of Housing and Urban Development during the fiscal year ended June 30, 2013. The proceeds of the loan (\$10,125,000) were forwarded to the Economic Development Authority of the City of Richmond, Virginia to fund a revolving loan program; however, at the governmental activities' level, the City did not record a corresponding receivable from the Economic Development Authority when the cash was forwarded.
 - The City previously had not recognized its deferred outflow of resources related to its loss on refunding of debt of \$17,267,294.

CITY OF RICHMOND, VIRGINIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2014

- During fiscal year 2011, the Commonwealth of Virginia's Board of Corrections approved the request from the City to fund up to 25% of the construction costs for a new 1,032-bed jail. At June 30, 2013, eligible reimbursement costs had been incurred but not reimbursed by the Commonwealth and not recorded by the City as revenue (\$19,614,378) on a full accrual basis at the governmental activities' level.

Cause: The Finance Department, as currently constituted, lacks the technical critical mass to analyze the myriad of transactions the City enters into yearly in order to effectively, efficiently, and compliantly prepare the City's CAFR in accordance with GAAP. This material weakness is manifested in many ways to include the inability to effectively analyze accounting transactions, research related accounting principles for propriety and reporting options within the standards, and to understand internal relationships within the general ledger and the CAFR to be able to know when an amount or disclosure is wrong based on the given relationship between the two accounts/disclosures. As the requirements of GAAP evolve and change yearly, the lack of technical strength in the City Finance Department is a detriment and impedance to timely and compliant external financial reporting. This overarching weakness is so prevalent that the City, to its credit, retained an external accounting firm to provide leadership, technical ability, and daily accounting support throughout the June 30, 2014 financial reporting process.

Effect: The controls in place to close the year-end books, reconcile the balances, analyze the period transactions, and accumulate and assimilate such data into a timely, GAAP compliant financial report simply did not function, leading to the inefficient use of Finance Department personnel and hours that would have been better served in other Finance Department operations.

Recommendation: We recommend that the Finance Department and the City address this people-centric need by considering the identification, hiring, and retaining of experienced accountants as a mission-critical, long-term objective. During the 2014 reporting process, the ineffective monitoring of financial activity, unfamiliarity with GAAP, and staff turnover exacerbated the City's inability to provide auditable and timely financial records. Over the years, the City has struggled to hire and retain experienced accountants within the Finance Department. The turnover of the Deputy Chief Administrative Officer for Finance and Administration in June 2015, and the departures in August 2015 of the Finance Director, after arriving in December 2014, and the Controller, a position vacant twice since June 30, 2014, are examples of retention issues. There remains an ongoing struggle to fill vacancies with candidates possessing the skill sets needed for a fully-functioning financial accounting and reporting operation. This is consistent with our recommendation after the Fiscal Year 2013 financial audit and we cannot stress enough the need for the City to identify, hire, and retain experienced governmental accountants, specifically Certified Public Accountants, in key finance management positions and to strive to maintain a minimum of five such designations consistently within the financial operations. Additionally, a structured cross-training program should be implemented within financial operational functions (e.g., general accounting, accounts payable) aimed at expanding the skill sets of available team members to be utilized in periods of staff turnover or increased demands in a particular area.

Views of Responsible Officials: The City concurs with the recommendation set forth by Cherry Bekaert and continues with a recruitment and hiring plan to attract individuals with the requisite skills and credentials for all finance positions. In addition, the City will institute a cross-training program aimed at expanding the skill sets of the staff.

CITY OF RICHMOND, VIRGINIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2014

2014-003: Material Weakness – Segregation of Duties and System Based Logical Access Controls

Criteria: Segregation of duties (“SOD”) is fundamental to fraud risk management. SOD control should operate on a continuous basis in order to be effective. For example, in the procurement to payment business cycle, best practices are to separate the following duties:

- Purchasing goods and services
- Authorizing the purchase
- Receiving goods and services
- Making payments

Moreover, SOD must be supported by business system logical access. Information technology, general computer controls related to access, and system security must be evaluated periodically (at least annually), but especially in the year of a material change to the system of internal control.

Condition: The City implemented Oracle Enterprise Business System (“eBS”) and Oracle Projects & Grants (“P&G”) in July 2013. However, the City has not yet re-established periodic access review (“PAR”) controls to ensure end user access is appropriate and consistent with SOD controls as part of the City’s anti-fraud program and objective to safeguard taxpayer assets. For example, certain personnel in the Accounts Payable department had “master user” access rights and privileges within RAPIDS – access that allows for the modification of purchase orders, authorization, payment and recording of cash out the door all by one person. This was in addition to instances we noted where the same person created and approved purchase requisitions and related purchase orders. Although no inappropriate disbursements were noted, the ability to perform all of these actions is a material weakness in payables processing.

Cause: The City implemented Oracle eBS and P&G in July 2013. These systems are complex and represent a material change to the system of internal control. After the initial Enterprise Resource Planning (“ERP”) implementation, system based “Roles and Responsibilities” require an evaluation to determine whether inherent conflicts exist within the system based Roles and Responsibilities and then whether system Roles and Responsibilities are appropriately assigned to User Accounts based on the City’s SOD requirements and complimentary control elements in the City anti-fraud program of controls. We could not find evidence the City had re-evaluated its Oracle system based Role and Responsibilities for inherent conflicts and potential conflicts with assigned User Accounts and functional job responsibilities. Further, we could not find evidence the City had re-established PAR controls to ensure system based access continues to align with appropriate SOD as part of the City’s anti-fraud program of controls.

Effect: Without a thorough review of system based roles, responsibilities, and end user access, the City is subject to an increased exposure to unintended consequences in the form of error and fraud until the control environment matures on the new Oracle environment and PAR controls are placed in service.

Recommendation: We recommend that the City:

- Perform a fraud risk assessment and verify functional SOD and related anti-fraud control elements considered important as part of its anti-fraud program of controls.
- Identify and verify key Oracle “Form/Functions” important to SOD and that they are limited to only the desired Oracle Responsibilities consistent with the City’s expectations.
- Review end users’ logical access against the end users’ Oracle Responsibilities containing the aforementioned key Form/Functions to ensure they remain appropriate given the employee/user’s job responsibilities and duties, and the City’s requirements for SOD.

CITY OF RICHMOND, VIRGINIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2014

- Design PAR controls to operate on a quarterly basis to ensure all end user access remains appropriate considering a given employee's current job responsibilities, changes in employee status such as, new hires, terminations, and employee job rotation in the normal course of business.

In addition, the City should evaluate its IT production support center for appropriate SOD controls as follows:

- Personnel in IT do not have the responsibility for transaction and accounting duties normally performed by end users in the functional area.
- IT personnel administering security do not have responsibilities for programming, database management, or computer operations.
- Programmers and developers do not have access to modify production software code.

Additionally, controls should be in place to ensure that all users are uniquely identified, meaning there are no shared user IDs except for limited, read-only access. Access rights of any generic IDs should be appropriately limited.

Views of Responsible Officials: The City concurs with the recommendations as the City seeks to meet the best-practices described by the auditors regarding SOD.

2014-004: Material Weakness – Information Technology – General Controls and Business System Implementation

Criteria: Information technology general computer controls ("ITGCs") are used to manage and control the City's information technology activities. ITGCs are pervasive controls that contribute indirectly to the achievement of most financial statement assertions and serve as a foundation that supports the City's business operations, financial, and accounting systems, including the system of controls that safeguard information, process financial transactions, and maintain accounting records.

In the year of a material change to underlying financial systems, risk in financial reporting increases. The ITGCs related to System Development Life Cycle ("SDLC") controls must be evaluated to ensure that the application software being implemented adequately supports financial reporting objectives. The key components of SDLC controls that should be in place during a material system conversion include (1) Determining System Requirements, (2) Project Plan, (3) Testing System Controls, (4) System Integration Testing, (5) Data Conversion, and (6) End User Acceptance Testing and Training. These components represent a series of preventative and detective control objectives that are necessary to mitigate the risk of material misstatement and to allow for the timely close of the year-end books and records used to prepare the financial statements.

Condition: Within the last two fiscal years, the City implemented multiple Oracle systems (e.g., Human Resource Management ("HCM"), Oracle eBS, Oracle P&G), and integrated certain legacy business systems in two phases as its ERP platform under the City's RAPIDs initiative. The Oracle based ERP implementation covers all significant business cycles and related classes of transactions that would materially affect or are reasonably likely to materially affect the City's system of internal control over financial reporting.

The City's business requirements, system implementation plan, resource commitments, user testing, and training to ensure business activities would integrate with the new ERP system for business and financial operations was insufficient to achieve financial reporting related compliance objectives under government accounting and auditing standards.

CITY OF RICHMOND, VIRGINIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2014

Specifically, we could not find evidence that User Acceptance Testing (“UAT”) and business cycle End-to-End and/or Conference Room Pilot (“CRP”) testing and related training was sufficiently robust to ensure both operational and financial reporting objectives would be achieved under normal City business conditions. While we did note the City conducted a one (1) day financial close training session which included reconciling subsidiary ledgers and the P&G module, the City used “dummy data” versus copies of the City’s production data. Note that dummy data is not representative of the City’s business transactions and, therefore, it would be unlikely to produce the processing issues, exceptions, and system defects normally associated with UAT and CRP testing and training sessions in order for the City to timely identify and remedy such issues, exceptions, and defects prior to going live on the new system. We would typically expect to see several days of UAT and CRP testing over financial close processes and the related system based reports to verify outcomes were in line with expectations. Hence, we were unable to find sufficient evidence that the City completed sufficient UAT and CRP and related end user training for Oracle eBS and P&G prior to going live, including the testing of key system based reports necessary to verify results were in line with management’s expectations and that system reporting was sufficient to meet annual reporting requirements on a timely basis.

Cause: The City experienced a high level of unplanned turnover in the RAPIDs project team including City staff and contractors. Significant turnover occurred during and after the implementation phase, including members of the Oracle Implementation firm (Consulting Firm), contractors, and in several critical internal ERP project team positions including IT Directors, Finance personnel and Project Managers, impacting knowledge transfer and post go-live production support.

Other significant contributing factors included:

- The City used “dummy data” for the user acceptance testing rather than copies of City production data. During user acceptance testing and training, organization production data will typically produce a number of issues, errors, and system defects that need to be corrected prior to going live on the new system. This also affords the ERP project and development teams greater accuracy to identify potential gaps in the system and how it will process organizational data using existing City business processes or whether business processes need to be modified and re-trained. Utilizing data that mimics live production data can allow the systems development team to cover virtually all conditions, including system stress testing under processing the various types of transactions that need to be tested as well as having other normal production data characteristics to observe near-post go-live production environment results.
- Lack of robust UAT and CRP testing and training related for Oracle eBS and P&G financial close and reconciliation processes significantly impacted the City’s ability to timely close their books and records in the new Oracle system ERP environment. Moreover, it hindered the City’s ability to timely apply all the procedures normally expected to verify financial outcomes for the year-end financial close and the preparation of financial statements.
- Oracle Financial Statement Generator (“FSG”) was originally intended to be the primary tool for general ledger (“GL”) reporting. We understand that GL testing was performed by a contractor that is no longer with the City. However the tests did not include review of the key reports typically used to verify results and produce management reports used to prepare the City’s CAFR under regulatory reporting requirements. We understand the City’s plan was to use a Microsoft Excel based/capable reporting product that would either connect directly to Oracle or allow importing GL data into the reporting tool to support management’s internal and external reporting requirements.

CITY OF RICHMOND, VIRGINIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2014

- The City employed a “direct cutover” approach to “going live” on Phase II of the new Oracle eBS as opposed to a parallel testing approach leading up to the cutover. A parallel approach is often used to verify operational and financial outcomes against the legacy business system(s) prior to going live on the new system. In a direct cutover approach, organizations will typically use several rounds of UAT and or end-to-end business cycle training sessions on copies of the organization's production data to gain comfort with operational and financial outcomes using the new system reporting tools prior to system cutover.
- Much of the RAPIDs implementation team depended on the Consulting Firm to implement the system and on other consultants. For example, the City contracted a consultant who was responsible for managing the City's RAPIDs Phase II end user acceptance testing which included writing test scripts and evaluating the results of testing in the identification of issues, exceptions, and defects that would require corrective action. Only a few issues and exceptions were noted during testing, which in our experience, is extremely rare with an ERP implementation of this magnitude.
- The City used a “train-the-trainer” approach as part of the knowledge transfer objective and has experienced unplanned turnover of over 60% (5 of 8) of the trainers since going live on Phase II, impacting post go-live production support.

These conditions tend to lead end users to create manual “workaround” type activities including re-creating accounting sub-ledger transaction details in order to review, reconcile, detect and correct errors to general ledger accounts as part of the financial close process. Thus, there is a high degree of dependency on manual spreadsheets and manual journal entries in accounting for City transactions, which is not sustainable but for short periods. Further, these conditions often manifest by delays in sourcing and paying for goods and services due to the sheer volume and complexity in procurement-to-payment operations and the related accounting for capital and period expense transactions in the proper City fund accounts.

In summary, we could not find sufficient evidence the City conducted robust financial close training and testing prior to going live on the new system. We believe this increased the risk of unintended consequences, including errors and reduced productivity, and impacted the City's ability to timely perform financial close processes and prepare the annual financial statements.

Effect: Had these procedures been performed at the appropriate level, it is likely they would have achieved “knowledge transfer” objectives and timely detected the design and operating control deficiencies related to the financial close processes; specifically the financial module interdependencies and reconciliation between Oracle sub-ledger accounting, Oracle P&G and Oracle eBS GL accounting, and financial close processes to ensure accuracy and completeness in timely performing the year-end financial close. This directly impacts the City's ability to timely prepare and issue its CAFR. The conditions described above resulted in inefficiencies affecting the time and effort required by City personnel to execute fiscal year-end financial close processes and correspondingly significantly increases the risk of error in financial reporting and the City's ability to ensure accuracy and completeness of financial results in preparing the City's CAFR.

Recommendation: Short of executing “back out” procedures and reverting to legacy business accounting systems, the City should consider re-implementing certain Oracle modules such as P&G where knowledge transfer objectives were clearly not met.

CITY OF RICHMOND, VIRGINIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2014

At a minimum, we believe the City would benefit from more robust Oracle UAT and end-to-end business process training sessions using “cloned data” or copies of City production data in a test environment covering each business class of transactions from (1) initiation, (2) authorization, (3) processing, (4) recording, and (5) reporting through the complete business cycles such as procurement to payment, project and grant accounting, and the related financial close processes and reconciliations.

The City would also benefit from more extensive user training on how to apply Oracle financial close applications such as:

- The order of the financial close processes and interdependencies of the financial modules during the financial close e.g., purchasing, accounts payable, and inventory/cost management.
- Interdependencies between Oracle Projects & Grants and Oracle eBS in accounting for Grants and for construction in progress (“CIP”), placing CIP in service by transferring cost to Oracle eBS Fixed Asset Module, placing assets in service, and using depreciation.
- The use of exception reporting embedded in the financial close processes to verify outcomes.
- Researching and resolving exceptions in the close processes.
- Proper methods to correct complex systems-based transaction processing exceptions and the risks associated with using manual overrides applied to business and/or accounting sub-ledger modules.
- Additional training on the use of Oracle Procurement and interdependent relationships between purchase requisitioning, purchase orders, general ledger account coding, use of receiving/invoice processing tolerance controls, debit memos, and clearing the un-invoiced receipts account (a/k/a accrued accounts payable).
- Selecting, implementing, and training on robust reporting tools for use with Oracle such as, FSG, Oracle Discover, Oracle Business Intelligence, or other spreadsheet based reporting tools that are certified by Oracle and connect live to the general ledger via open database connectivity (“ODBC”) or other medium.

Absent robust testing and training in these areas applied to the ERP project, the City is exposed to higher risk of unintended consequences such as, inefficiency, error, and to some degree fraud until the control environment matures on the new ERP system.

Views of Responsible Officials: The City concurs with the findings in its entirety and with the majority of the recommendations. The City will implement a plan to refresh the data from production to a testing environment to perform extensive testing to ensure that the system is functioning as intended and that the data is accurate and complete.

2014-005: Noncompliance – Commonwealth of Virginia Yearly Financial Reporting

Criteria: Per Section 15.2-2510 of the *Code of Virginia*, local governments must submit their audited financial report to the Commonwealth of Virginia’s Auditor of Public Accounts (“APA”) by November 30 of each year.

Condition: The City did not submit its audited financial report to the APA by the required date.

Cause: The City’s controls in place to close the year-end books, reconcile the balances, analyze the period transactions, and assimilate and accumulate such data into a timely, GAAP compliant financial report simply did not function timely to meet the required deadline.

Effect: Non-compliance with Commonwealth’s requirements may result in sanctions.

CITY OF RICHMOND, VIRGINIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2014

Recommendation: The City should implement corrective action aimed at enhancing internal controls to ensure that financial reporting is made in accordance with Section 15.2-2510 of the *Code of Virginia*.

Views of Responsible Officials: The City concurs with the recommendation.

(3) Findings and Questioned Costs Relating to Federal Awards

2014-006: Compliance Scope Limitation and Material Weakness – Eligibility (repeat circumstance from findings 2012-1 and 2013-3)

Program: Temporary Assistance for Needy Families (CFDA Number 93.558 - U.S. Department of Health and Human Services - Virginia Department of Social Services; Federal Award Number: not available; Federal Award Year: 2014)

Condition: Of the sixty (60) participants selected for testing, fifteen (15) files had been transferred to other Virginia localities due to participant relocations or the participant had no services provided to them during fiscal year 2014. Of the forty-five (45) remaining participant files, the following exceptions were noted:

- Five (5) participant files could not be located for our review.
- Twenty-one (21) of forty-five (45) participant files available for review were missing one or more of the required forms:
 - Application or redetermination {14 forms};
 - Notice of Action {21 forms};
 - Notice of Personal Responsibility {14 forms};
 - Notice of Cooperation and Good Cause {one form}, and
 - Notice of Intentional Program Violations and Penalties {one form}
- Forty-five (45) of forty-five (45) participant files available for review retained no physical evidence (e.g., Case Reading Sheet) of required supervisory review.

Criteria: Per CFR Section 260.31 (a), participants in the Temporary Assistance for Needy Families program must meet specified eligibility criteria to receive program assistance.

Cause: A lack of functioning controls over participant documentation retention as City Social Service personnel did not follow City approval procedures and documentation policies.

Effect: The City's scope limitation prevents the determination on compliance, which may result in costs disallowed by the grantor or reduced future funding for this program.

Questioned Cost: Undeterminable due to a scope limitation.

Recommendation: The City should implement a corrective action plan aimed at enhancing internal controls related to participant eligibility to ensure that accurate and complete documentation supporting all participant intake information is prepared and maintained, in accordance with City and federal record retention requirements.

CITY OF RICHMOND, VIRGINIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2014

Views of Responsible Officials and Planned Corrective Action:

- **Contact Person:** Deputy Director, EIS
- **Corrective Action:** All staff members processing TANF actions must have attended initial TANF training and must attend the yearly TANF refresher training. Staff will complete the Evaluation of Eligibility form and the comment screens in ADAPT for all actions completed on applications and reviews. Supervisors were provided with two training tools, (1) TANF list of Verifications and (2) TANF citations. The VIEW team will be assigned all new TANF applications for processing.

Each supervisor will be required to read 5 TANF case actions monthly from each staff member with the responsibility for the TANF program. The supervisor will randomly select the TANF cases to be read from each worker. All case readings will be recorded in Rushmore. A copy of the case readings will be given to the individual worker to maintain as a training tool. Rushmore will be monitored by the program managers.

With the implementation of the new CommonHelp system, applications are not printed and filed in the case record. The application number and verification are documented in the ADAPT comment box. All required forms must be filed in the case file. Failure to do so will be documented on the Rushmore, case reading sheet.

- Supervisors will monitor worker error. Rushmore will be the system of record. Program Managers will monitor the Rushmore case reading system, holding supervisors accountable for the number of cases and adhering to the corrective action plan.
- **Anticipated Completion Date:** December 2016

2014-007: Compliance Scope Limitation and Material Weakness – Eligibility (repeat circumstance from findings 2012-2 and 2013-4)

Program: Medical Assistance Program (CFDA Number 93.778 - U.S. Department of Health and Human Services - Virginia Department of Social Services; Federal Award Number: not available; Federal Award Year: 2014)

Condition: Of the sixty (60) participants selected for testing, the review of the first twenty (20) participants noted the following exceptions:

- Three (3) participant case files did not contain evidence that the annual eligibility redetermination had been performed.
- Seven (7) participant case files were missing evidence that the participant's identification had been validated.
- Four (4) participant case files did not include evidence of Social Security Number documentation to establish citizenship.
- Four (4) participant case files did not include evidence of worker review and certification of initial eligibility determination/redetermination.

Due to the exception rate for the first twenty (20) participants reviewed, further testing on the remaining forty (40) sample items was not deemed necessary.

CITY OF RICHMOND, VIRGINIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2014

Criteria: Per the 42 CFR sections 435.907, 435.910, 435.913, 435.916 and 435.920, participants in the Medicaid program must meet specified eligibility criteria to receive program assistance. For participants in the program longer than one year, a redetermination of eligibility is required to be performed at least every 12 months.

Cause: A lack of functioning controls over participant documentation retention as City Social Service personnel did not follow City approval procedures and documentation policies.

Effect: The City's scope limitation prevents the determination on compliance, which may result in costs disallowed by the grantor or reduced future funding for this program.

Questioned Cost: Undeterminable due to a scope limitation.

Recommendation: The City should implement a corrective action plan aimed at enhancing internal controls related to participant eligibility to ensure that accurate and complete documentation supporting all participant intake information is prepared and maintained, in accordance with City and federal record retention requirements.

Views of Responsible Officials and Planned Corrective Action:

- **Contact Person:** Deputy Director, EIS
- **Corrective Action:** Staff training and instructions on utilizing the new system the Virginia Case Management System (VaCMS), VDSS has for processing Medicaid applications and or renewals. Cases processed through the required system will automatically verify citizenship and social security numbers through the federal HUB. Documentation to support the case will be housed in the VaCMS.
- **Anticipated Completion Date:** September 2016

2014-008: Material Weakness – Allowable Costs

Program: Highway Planning and Construction Program (CFDA Number 20.205 - U.S. Department of Transportation - Virginia Department of Rail and Public Transportation; Federal Award Numbers: 47012-49, UPC#642222, 72514-14-CM 5A27 (303); Federal Award Year: 2014)

Condition: Of the sixty (60) invoices selected for testing, nine (9) invoices for allowable activities and costs did not include evidence of project manager or department manager approval for payment.

Criteria: Per 23 CFR sections 1.9, 630.106, and 630.205, "Federal funds can be used only to reimburse costs that are (a) incurred subsequent to the date of authorization to proceed, except for certain property acquisition costs permitted under 23 USC 108; (b) in accordance with the conditions contained in the project agreement and the plans, specifications, and estimates (PS&E); (c) allocable to a specific project; and (d) claimed for reimbursement subsequent to the date of the project agreement."

Cause: A lack of functioning controls over expenditure documentation retention as City personnel did not follow City approval procedures and documentation policies.

Effect: The City's malfunctioning internal controls may result in costs disallowed by the grantor or reduced future funding for this program.

Questioned Cost: None.

CITY OF RICHMOND, VIRGINIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2014

Recommendation: The City should implement a corrective action plan aimed at enhancing internal controls to ensure that accurate and complete documentation supporting all program costs are prepared and maintained, in accordance with City and federal record retention requirements.

Views of Responsible Officials and Planned Corrective Action:

- **Contact Person:** Director of Public Works
- **Corrective Action:** Before processing payment, Department Managers will ensure invoices are signed and dated as evidence of approval.
- **Anticipated Completion Date:** September 30, 2016

2014-009: Noncompliance and Material Weakness – Special Tests and Provisions – Fraud Detection and Repayment

Program: Child Care and Development Fund Cluster (CFDA Number 93.575 and 93.596 - U.S. Department of Health and Human Services - Virginia Department of Social Services; Federal Award Number: not available; Federal Award Year: 2014)

Condition: From a population of nine (9), and a sample of three (3), one (1) fraud case review folder could not be provided for testing and two (2) other case review folders provided had no approval evidence of the required supervisory review.

Criteria: 45 CFR section 98.60 states that Lead Agencies shall recover child care payments that are the result of fraud. Per the Commonwealth of Virginia's *Fraud Reduction and Elimination Effort Manual* (the "FREE") Appendix 1, Section F (1), each local jurisdiction shall establish fraud presentation and investigation units to ensure said efforts are pursued.

Cause: A lack of functioning controls.

Effect: Lack of supporting documentation may result in costs disallowed by the grantor or reduced future funding for this program.

Questioned Cost: Undeterminable.

Recommendation: The City should implement a corrective action plan aimed at enhancing internal controls related to FREE activities to ensure that accurate and complete documentation is prepared and maintained, in accordance with City and federal record retention requirements.

Views of Responsible Officials and Planned Corrective Action:

- **Contact Person:** Senior Policy Advisor
- **Corrective Action:** Management concurs with the 2014 single audit findings. An internal agency audit was completed between August 2015-November 2015. This internal audit revealed similar findings, including that a significant number of physical fraud investigation case files could not be located and that a significant percentage of closed cases did not have any evidence of supervisory review. In response to these internal findings, personnel changes were implemented. In addition, in December 2015, the Unit enacted Standard Operating Procedures and Performance Expectations to address these concerns and to provide structure and consistency to move the Unit forward. Thus far, in 2016, the Unit is performing at a high level that is drastically distinct from its prior performance.
- **Anticipated Completion Date:** December 2015

CITY OF RICHMOND, VIRGINIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2014

2014-010: Material Noncompliance and Material Weakness – Reporting

Program: City Department of Social Services system-wide matter.

Criteria: Per Section .320(a) of Office of Management and Budget (the “OMB”) Circular A-133, governments must submit their audited financial and federal reporting package to the Federal Data Collection Warehouse within the earlier of thirty (30) days after the receipt of the auditor’s report or nine (9) months after fiscal year-end, or March 30 for the City. Additionally, Section .500(b) requires that the Schedule of Expenditures of Federal Awards (the “Schedule”) be “presented fairly in all material respects in relation to the auditee’s financial statements taken as a whole.”

Condition: For the fiscal year ended June 30, 2014, City management cannot materially reconcile awards passed through to the City from the Virginia Department of Social Services (the “VDSS”), as confirmed by the VDSS and reflected in the Schedule approximating \$22,300,000, to their general ledger.

Cause: The City’s controls in place to close the year-end books, reconcile the balances, analyze the period transactions, and assimilate and accumulate such data into a timely, GAAP and OMB compliant financial report simply did not function timely.

Effect: Non-compliance with grantors requirements may result in sanctions.

Questioned Cost: Undeterminable.

Recommendation: The City should implement corrective action aimed at enhancing internal controls to ensure that reporting is made in accordance with OMB Circular A-133.

Views of Responsible Officials and Planned Corrective Action:

- **Contact Person:** Deputy Director, Finance and Administration
- **Corrective Action:** DSS will provide to City Finance the monthly Laser Reconciliation report and supporting documentation. Revenue from the state will be reconciled monthly to the Laser Reconciliation reports provide to City Finance.
- **Anticipated Completion Date:** Estimated start date: August 31, 2016

2014-011: Noncompliance and Material Weakness: Allowable Costs

Program: City Department of Social Services system-wide matter.

Condition: Of the forty (40) Random Moment Sample (the “RMS”) Observation Forms selected for testing, the following exceptions were noted:

- One (1) instance where the RMS Observation Form could not be located for testing.
- Four (4) instances where the RMS Observation Form was not completed appropriately as the social service program was not identified to enable effective use of data and to determine compliance.
- Four (4) instances where the RMS Observation Form was not completed appropriately (e.g., observer date or time not provided, not signed by observer and/or employee) to enable effective use of data and to determine compliance.

CITY OF RICHMOND, VIRGINIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2014

- One (1) instance where the RMS Observation Form denoted an observation that was not performed within the VDSS's timelines.

Criteria: To comply with the requirements of OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, with regard to support for allowable activities, VDSS utilizes a "Random Moment Sampling" procedure to ensure that payroll expenses are properly allocated based upon case worker efforts. Each quarter, the VDSS performs a random sample of employees within the system ("RMS List of Observations") for the locality and performs a random sample of the population. For each sampled case worker in the quarter, the RMS Observer documents the case worker's activities at that particular moment according to the program and activity definitions from the descriptive list accompanying the "RMS Observation Form". The RMS Observer is to observe and certify that the observation is conducted timely and that the observation form is completed accurately.

Cause: A lack of functioning controls over RMS process. City Social Service personnel did not follow State and City documented procedures and policies.

Effect: The City's inability to support time charges ultimately charged to social service programs in accordance with Virginia regulations may result in costs disallowed by the grantor or reduced future funding.

Questioned Cost: Undeterminable.

Recommendation: The City should implement a corrective action plan aimed at emphasizing adherence to the State's RMS procedures to ensure that accurate and complete time documentation is accumulated in accordance with State and City requirements.

Views of Responsible Officials and Planned Corrective Action:

- **Contact Person:** Human Resource Liaison
- **Corrective Action:** VDSS initiated an electronic RMS process which will eliminate the errors found in the FY14 audit. We completed a dual RMS process of paper forms and electronic documentation February 2016. The RMS process will be completely electronic effective July 1st.
- **Anticipated Completion Date:** July 1, 2016

2014-012: Noncompliance and Significant Deficiency – Allowable Costs

Program: Child Care and Development Fund Cluster (CFDA Number 93.575 and 93.596 - U.S. Department of Health and Human Services - Virginia Department of Social Services; Federal Award Number: not available; Federal Award Year: 2014)

Condition: Of the sixty (60) participants selected for testing, although the participants were eligible for the program, three (3) Purchase of Service Orders (POSO) could not be provided for testing.

Criteria: Per the CFR Section 42 USC 9858c(c) (2) (A), "Funds may be used for child care services in the form of certificates, grants, or contracts."

Cause: A lack of functioning controls over participant documentation retention as City Social Service personnel did not follow City documentation retention policies.

Effect: Lack of supporting documentation may result in costs disallowed by the grantor or reduced future funding for this program.

CITY OF RICHMOND, VIRGINIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2014

Questioned Cost: Undeterminable.

Recommendation: The City should implement a corrective action plan aimed at enhancing internal controls related to participant eligibility to ensure that accurate and complete POSO documentation is prepared and maintained, in accordance with City and Federal record retention requirements.

Views of Responsible Officials and Planned Corrective Action:

- **Contact Person:** Deputy Director, EIS
- **Corrective Action:** RDSS will require in accordance with Child Care Policy that purchase of services orders must be returned within the specified timeframes or services must be terminated. A process has been put in place to track all purchase of services orders receipt and or non-receipt with notification to the individual staff to stop services. Supervises will be included on all correspondences and are required to monitor this process daily to prevent re-occurrence's.
- **Anticipated Completion Date:** December 2016

2014-013: Noncompliance and Significant Deficiency – Title I Application (repeat circumstance from finding 2013-6)

Program: Title I Grant to Local Educational Agencies (CFDA Number 84.010 - U.S. Department of Education - Virginia Department of Education; Federal Award Numbers: S010A110046 /S040A120046/S010A130046123-S010A120046-42892; Federal Award Year: 2014)

Condition: The City of Richmond Public Schools (“Public Schools”) did not retain a copy of the grant application signed and approved by the Superintendent and the School Board, which is inconsistent with grantor requirements.

Criteria: Per Virginia Department of Education guidelines, “the application cover page, signed by the division superintendent and the local school board chairperson, should be retained and filed at the division level.”

Cause: A lack of functioning controls over retention of the approved Title I application.

Effect: Lack of evidence of the required review and approval of the Title I application may result in costs disallowed by the grantor or reduced future funding for this program.

Questioned Cost: Undeterminable.

Recommendation: The Public Schools should emphasize compliance with existing internal controls to ensure that the required approved application is retained for inspection consistent with grantor requirements and for a period consistent with applicable record retention policies.

Views of Responsible Officials and Planned Corrective Action:

- **Contact Person:** Dr. Ernestine H. Scott
- **Corrective Action:** An internal final application checklist established around Virginia Department of Education guidelines will be developed requiring the Title I Director's review and sign-off to include:
 - Signature of Superintendent and date
 - Signature of School Board Chair and date

CITY OF RICHMOND, VIRGINIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2014

- **Anticipated Completion Date:** Immediate. Signatures of the School Board Chair and the Superintendent have been obtained as required on the cover page of the 2014-2015 and 2015-2016 Title I applications.

(4) Findings and Questioned Costs Relating to Compliance with Commonwealth of Virginia Laws, Regulations, Contracts, and Grants

2014-014: Social Services System Access (repeat circumstance from finding 2013-7)

Condition: For a sample of ten (10) employees separated during the year, seven (7) employees' systems access was not removed within three days of their separation date.

Criteria: Per Section 15.2-2511 of the *Code of Virginia*, when an employee separates from the local social services department, his or her access privileges must be immediately removed from all systems that they were authorized to use.

Cause: Termination dates were not reported to the individual responsible for removing system access privileges in a timely manner.

Effect: Non-compliance may result in unauthorized individuals having system access.

Questioned Cost: Non-financial finding.

Recommendation: The City should implement corrective action aimed at enhancing internal controls related to the communication of the separation of social services employees to ensure that system access privileges of separated employees are removed immediately.

Views of Responsible Officials and Planned Corrective Action:

- **Contact Person:** Director, Department of Social Services and Deputy Director of Finance and Administration
- **Corrective Action:** Notification Review of process is underway now. Immediate notification to Technical Team.
- **Anticipated Completion Date:** August 2016

2014-015: Virginia Department of Social Services LASER Reporting

Condition: Due to uncorrected information technology system limitations, the City could not reconcile its GL balances, in total and by program, to the VDSS LASER system.

Criteria: Amounts reported in LASER must be reconciled monthly to be in compliance with Section 3.60, LASER Expenditure Reconciliation and Certification, of the LDSS *Finance Guidelines Manual for Local Departments of Social Service*. The local government's general ledger should also be reconciled to the local social services warrant registers.

Cause: Implementation of new information technology system presented recording issues that have not been corrected.

CITY OF RICHMOND, VIRGINIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2014

Effect: If the an entity fails to complete monthly LASER reconciliations or submit the Certification Form in a timely manner, they are subject to VDSS withholding reimbursement of administrative expenses for the following LASER period.

Questioned Cost: Undeterminable.

Recommendation: The City should implement corrective action aimed at accurately and completely reconciling monthly with the LASER system.

Views of Responsible Officials and Planned Corrective Action:

- **Contact Person:** Deputy Director, Finance and Administration
- **Corrective Action:** Reconcile Monthly expense and revenue to report to VDSS.
- **Anticipated Completion Date:** August 2016

2014-016: Conflicts of Interest

Condition: One (1) of seventeen (17) City officials did not file a completed annual Statement of Economic Interests form by the January 15, 2014 deadline.

Criteria: Section 2.2-3115 of the *Code of Virginia* requires local officials to file a statement of economic interest with the clerk of the governing body semi-annually to disclose personal financial interests that may cause conflicts.

Cause: Disclosure forms were not filed timely.

Effect: Non-compliance may result in action by the Commonwealth.

Questioned Cost: Non-financial finding.

Recommendation: City officials should file a complete and accurate statement of economic interest on a timely basis to comply with the deadlines.

Views of Responsible Officials and Planned Corrective Action:

- **Contact Person:** City Clerk
- **Corrective Action:** City Clerk will provide all related officials with a copy of the requirements yearly and will send scheduled reminders to the officials aimed before each due date.
- **Anticipated Completion Date:** September 30, 2016

2014-017: Highway Maintenance

Condition: Documentation supporting the 2013 Weldon-Cooper Survey was unable to be provided, which prevented any related compliance testing.

Criteria: Sections 33.1-41.1 and 33.1-23.5:1 of the *Code of Virginia* require an annual categorical report accounting for all expenditures of highway maintenance funds and an annual audit of this report.

Cause: Supporting documentation was not retained.

CITY OF RICHMOND, VIRGINIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2014

Effect: Non-compliance may result in action by the Commonwealth.

Questioned Cost: Undeterminable.

Recommendation: The City should implement corrective action aimed at enhancing internal controls related to document retention of the information used to prepare and submit the Weldon-Cooper Center financial survey.

Views of Responsible Officials and Planned Corrective Action:

- **Contact Person:** Director of Public Works
- **Corrective Action:** The City will ensure the Weldon Cooper's supporting documentation is stored on the City of Richmond's server.
- **Anticipated Completion Date:** July 1, 2017

2014-018: Comparative Cost Reporting

Condition: The Comparative Report Transmittal Forms package for the fiscal year ended June 30, 2014 was submitted to the Commonwealth of Virginia APA was incomplete and not by the required November 30, 2014 deadline.

Criteria: The *Code of Virginia* requires the APA to prepare an annual report detailing comparative data for all local governments in Virginia. To prepare this report, the APA requires local governments to submit data, using the Comparative Report Transmittal Forms, along with an auditor's report on the forms, by November 30 of each year in accordance with § 15.2-2510 of the *Code of Virginia*.

Cause: The City did not complete its draft submission of the forms by the Commonwealth's deadline. Also, necessary supporting documentation for the completion and submission of the required auditor's report was not provided; therefore, the City's submission was incomplete.

Effect: Non-compliance may result in action by the Commonwealth.

Questioned Cost: Non-financial finding.

Recommendation: The City should implement corrective action to ensure appropriate completion and submission of the 2014 transmittal forms.

Views of Responsible Officials and Planned Corrective Action:

- **Contact Person:** Interim Director of Finance
- **Corrective Action:** The draft report was completed and submitted on 11/25/2015. The City now has a process to include this report on its PBC list to the auditors and to have it completed on or before November 30th of each year. For the year ended June 30, 2015, the City did submit its unaudited 2015 Transmittal on November 30th 2015. The required report will be issued for June 30, 2016 by September 30, 2016.
- **Anticipated Completion Date:** November 30, 2016

CITY OF RICHMOND, VIRGINIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2014

2014-019: Retirement Systems

Condition: The City did not provide the necessary information required for completion of the Commonwealth of Virginia's mandated census data verification procedures. Therefore, this information was not provided to the Virginia APA by the October 1, 2014 deadline.

Criteria: Chapter 3-7 of the *Specifications for Audits of Counties, Cities, and Towns*, issued by the APA, requires the City's external auditor to submit a letter by October 1st of each year reporting on the completeness and accuracy of certain data submitted to the Virginia Retirement System for active participants.

Cause: The City did not provide the necessary information required for completion of these procedures.

Effect: Non-compliance may result in action by the Commonwealth.

Questioned Cost: Non-financial finding.

Recommendation: The City should implement corrective action to ensure appropriate completion of required examinations pertaining to data submitted to the Virginia Retirement System.

Views of Responsible Officials and Planned Corrective Action:

- **Contact Person:** Director of Human Resources
- **Corrective Action:** The required report will be issued for June 30, 2016 by September 30, 2016.
- **Anticipated Completion Date:** September 30, 2016

CITY OF RICHMOND, VIRGINIA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

YEAR ENDED JUNE 30, 2014

Findings Relating to the Financial Statements Reported in Accordance with *Government Auditing Standards*

2013-1: Internal control over Financial Reporting – Capital Assets

Criteria: In order to prepare financial statements in accordance with accounting principles generally accepted in the United States of America (“GAAP”), accurate and complete subsidiary records must be maintained to support the existence and valuation of all assets and liabilities, revenues and expenditures/expenses to ensure an accurate presentation of the financial position of the City at year end.

Condition and Effect: Yearly, the City’s Finance Department oversees the preparation, processing, and recordation of tens of thousands of financial transactions that ultimately will be reflected in the yearly Comprehensive Annual Financial Report (“CAFR”), which is also produced by the Finance Department. In order to ensure the transactions are fairly presented, procedures must be in place and functioning effectively to ensure the financial information is complete and accurate. During the year-end closing and the CAFR audit process, errors related to prior fiscal years were identified by City Finance Department management and Cherry Bekaert. Consequently, the City has restated its governmental activities’ and Fleet Management Fund’s beginning net position for the following:

- After an extensive review of governmental Construction in Process (“CIP”) assets, the City noted multiple project balances that had been capitalized in prior years inconsistent with GAAP (e.g., repairs and maintenance activities, costs incurred that didn’t relate to the development of a capital asset or assets recorded as both CIP and a depreciable capital asset). As a result of the City’s review procedures, a reduction of \$65,285,344 to the beginning balance of the governmental activities’ CIP assets and net position was recorded.
- The City identified capital assets recorded in prior years as governmental expenditures but were not capitalized as a capital asset at the government wide level. These items were corrected by increasing the beginning balances of their respective capital asset categories (buildings - \$2,073,148 and equipment - \$1,237,072) as of June 30, 2012. Accumulated depreciation for these categories was also corrected by increasing their respective balances (buildings - \$979,740 and equipment - \$133,708).
- The City identified it had incorrectly capitalized \$23,273,109, net, of improvements to the Carpenter Center even though the facility had been leased to another organization under capital leasing terms. Under GAAP, the City should have reported the assets as if it had relinquished ownership and removed the assets from the general ledger.
- To effectively implement an Internal Audit department recommendation, the City converted all vehicle information reported within the Fleet Management internal service fund’s asset inventory system over to the City’s financial reporting system. During conversion, it was noted certain assets listed in the legacy system were lower than the related financial statements balance by \$2,870,397. Additionally, accumulated depreciation recalculated within the new system was \$3,171,991 under depreciated.

Resolution: Similar finding noted in 2014 and reported in the schedule of findings and questioned costs as finding 2014-001.

CITY OF RICHMOND, VIRGINIA

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

YEAR ENDED JUNE 30, 2014

2013-2: Internal Controls over Financial Reporting – Report Preparation and Review

Criteria: The City's CAFR is a large and complex report comprised of three sections with multiple statements, schedules, notes and tables, all of which must agree and reconcile not only with the general ledger but also internally within the CAFR. As the CAFR is the City's main mechanism for sharing financial results with the myriad of its users (e.g., citizens, investors), this document must have the City's full attention from preparation to printing to ensure the City's financial story is accurately portrayed. Yearly, this requires hundreds of hours of effort by multiple Finance personnel. As a best practice, this effort should encompass multiple layers of CAFR review by City personnel to reduce the risk of misstatements in financial reporting due to error or omission.

Condition: During the course of our CAFR review, it was evident that the City did not have a process in place for the detail review of the draft CAFR prior to providing the report to us for our review. This resulted in over a half-dozen versions being reviewed to identify and correct financial reporting errors that should have been caught and corrected prior to submission to the auditors for review.

Resolution: Similar finding noted in 2014 and reported in the schedule of findings and questioned costs as finding 2014-002.

Findings and Questioned Costs Relating to Federal Awards

2013-3: Compliance Scope Limitation and Material Weakness: Eligibility (repeat circumstance from finding 2012-1)

Program: Temporary Assistance for Needy Families (CFDA Number 93.558 - U.S. Department of Health and Human Services - Virginia Department of Social Services; Federal Award Number: FAM-12-084-28; Federal Award Year: 2013)

Condition: Of the sixty (60) participants selected for testing, seven (7) files had been transferred to other Virginia localities due to participant relocations. Of the fifty-three (53) remaining participant files, the following exceptions were noted:

- Five (5) participant files could not be located for our review.
- Forty-eight (48) of forty-eight (48) participant files available for review retained no physical evidence (e.g., Case Reading Sheet) of required supervisory review.
- Twelve (12) of forty-eight (48) participant files available for review were missing one or more of the required forms (e.g., Notice of Personal Responsibility {10 forms}, Notice of Cooperation and Good Cause {7 forms}, Do You Have a Disability {6 forms}, and Notice of Intentional Program Violations and Penalties {7 forms}).
- Sixteen (16) of forty-eight (48) participant files available for review were missing a case worker signature prior to case approval on one or more of the required forms (e.g., Notice of Personal Responsibility {3 forms}, Notice of Cooperation and Good Cause {6 forms}, Do You Have a Disability {14 forms}, and Notice of Intentional Program Violations and Penalties {3 forms}).
- For ten (10) case files reviewed, a decision was not rendered on the application by the 30th calendar day following the application filing date, and/or the required Notice of Action form was not present.

Criteria: Per CFR Section 260.31 (a), participants in the Temporary Assistance for Needy Families program must meet specified eligibility criteria to receive program assistance.

CITY OF RICHMOND, VIRGINIA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

YEAR ENDED JUNE 30, 2014

Resolution: Similar program findings were noted in 2014 and reported in the schedule of findings and questioned costs as findings 2014-006.

2013-4: Compliance Scope Limitation and Material Weakness: Eligibility (repeat circumstance from finding 2012-2)

Program: Medical Assistance Program (CFDA Number 93.778 - U.S. Department of Health and Human Services - Virginia Department of Social Services; Federal Award Number: not available; Federal Award Year: 2013)

Condition: Of the sixty (60) participants selected for testing, the following exceptions were noted:

- Two (2) participant case files could not be provided for review.
- One (1) participant case file did not contain a completed application signed by an adult household member or authorized representative.
- Nine (9) participant case files were missing valid identification and/or Social Security Number documentation to establish citizenship.
- Two (2) case files did not include evidence of worker review and certification of initial eligibility determination/redetermination.

Criteria: Per the 42 CFR sections 435.907, 435.910, 435.913, 435.916 and 435.920, participants in the Medicaid program must meet specified eligibility criteria to receive program assistance. For participants in the program longer than one year, a redetermination of eligibility is required to be performed at least every 12 months.

Resolution: Similar program findings were noted in 2014 and reported in the schedule of findings and questioned costs as finding 2014-007.

2013-5: Compliance Scope Limitation and Material Weakness: Eligibility (repeat circumstance from finding 2012-3)

Program: Child Care and Development Fund Cluster (CFDA Number 93.575 and 93.596 - U.S. Department of Health and Human Services - Virginia Department of Social Services; Federal Award Number: not available; Federal Award Year: 2013)

Condition: Of the sixty (60) participants selected for testing, the following exceptions were noted:

- Three (3) participant files could not be located for our review.
- Fifty-seven (57) of fifty-seven (57) participant files available for review retained no physical evidence (e.g., Case Reading Sheet) of required supervisory review.
- Two (2) participant files contained Notice of Awards issued more than 30 days after the application was received.
- Two (2) participant files contained Purchase of Service Orders that were issued more than 30 days after the application was received

Criteria: Per the 45 CFR Section 98.30 (a) and 98.80 (f), children must be under age 13 (or up to age 19, if incapable of self-care or under court supervision), who reside with a family whose income does not exceed 85 percent of state/territorial/tribal median income for a family of the same size, and reside with a parent (or parents) who is working or attending a job-training or education program; or are in need of, or are receiving, protective services. Lead Agencies shall establish a sliding fee scale, based on family size, income, and

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other appropriate factors, that provides for cost sharing by families that receive CCDF child care services. Lead Agencies may exempt families below the poverty line from making copayments and shall establish a payment rate schedule for child care providers caring for subsidized children.

Resolution: Corrected, no current year related finding.

2013-6: Non Compliance and Significant Deficiency: Title I Application

Program: Title I Grant to Local Educational Agencies (CFDA Number 84.010 - U.S. Department of Education - Virginia Department of Education; Federal Award Numbers: S010A100046, S010A110046, S040A120046, 123-S010A090046; Federal Award Year: 2013)

Condition: The School Board did not retain a copy of the grant application signed and approved by the Superintendent and the School Board, which is inconsistent with grantor requirements.

Criteria: Per Virginia Department of Education guidelines, "the application cover page, signed by the division superintendent and the local school board chairperson, should be retained and filed at the division level."

Resolution: Similar finding noted in 2014 and reported in the schedule of findings and questioned costs as finding 2014-013.

Findings and Questioned Costs Relating to Compliance with Commonwealth of Virginia Laws, Regulations, Contracts, and Grants

2013-7: Social Services System Access

Condition: For a sample of five (5) employees separated during the year and who were granted social services' system access privileges, all five (5) employees' systems access was not removed within three days of their separation date.

Criteria: Per Section 15.2-2511 of the *Code of Virginia*, when an employee separates from the local social services department, his or her access privileges must be immediately removed from all systems that they were authorized to use.

Resolution: Similar program findings were noted in 2014 and reported in the schedule of findings and questioned costs as finding 2014-014.

2013-8: Social Services Acceptable Use Awareness Acknowledgment Form

Condition: For a sample of ten (10) employees selected for testing, two (2) employees did not have a current year Information Security Program and Acceptable Use Awareness Acknowledgement Form on file.

Criteria: Per Section 3-15 of the *Specifications for Audits of Counties, Cities and Towns*, published by the Commonwealth's Auditor of Public Accounts, "In October 2012 via Agency Broadcast #7640 each local department employee was instructed to read the 2012 VDSS Information Security Program and sign the Information Security Program and Acceptable Use Awareness Acknowledgment Form no later than close of business November 30, 2012."

Resolution: Corrected, no current year related finding.

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2013-9: Virginia's Initiative for Employment not Welfare ("VIEW") Purchased Services

Condition: For a sample of twenty-five (25) VIEW purchased service transactions selected for testing, one (1) VIEW case file could not be located.

Criteria: Per Section 3-15 of the *Specifications for Audits of Counties, Cities and Towns*, published by the Commonwealth's Auditor of Public Accounts, VIEW purchased service transactions must be in accordance with policy and based on individual VIEW participants Activity and Service Plan.

Resolution: Corrected, no current year related finding.