



CITY of RICHMOND
City Auditor's Office

DATE: April 4, 2024

TO: Lincoln Saunders
Chief Administrative Officer

FROM: Riad Ali
City Auditor

SUBJECT: Citywide - Continuous Auditing

The City Auditor's Office has completed the Citywide - Continuous Auditing and the final report is attached.

We would like to thank the Administration's staff for their cooperation and assistance during this audit.

Attachment

cc: The Richmond Audit Committee
The Richmond City Council
Sabrina Joy-Hogg, DCAO of Finance & Administration
Robert Steidel, DCAO of Operations
Traci DeShazor, DCAO of Human Services
Sharon Ebert, DCAO of Economic Development
Melvin Carter, Chief of Fire & Emergency Services

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Office of the City Auditor
Citywide – Continuous Auditing
Report#: 2024-08
April 4, 2024



Audit Report Staff

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Highlights

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

Why We Did This Audit

The Office of the City Auditor conducted this audit as part of the FY 2024 audit plan approved by the Audit Committee. The main objective for this audit was to compile and produce an annual report of the activities listed below and test for exceptions.

- Leave in excess of limits – Mental Health/Wellness Holiday, Holidays, FMLA;
- Employee/Vendor matching – Search for potential conflicts of interest;
- Overtime earners greater than 1,040 hours per calendar year;
- Separated employees paid more than two weeks after their separation dates;
- Separated employees with computer system access;
- Top 40 vendors payments;
- Duplicate payments; and
- Payments to inactive or Miscellaneous Vendors.

What We Recommend:

We recommend:

- Identified City Departments recover identified duplicate payments from the vendors by either receiving a refund of the overpayment or a credit on future invoices.

Below are recoverable costs identified from audit testing.

Recoverable Costs from Audit	Amount
Duplicate Payments	\$34,646
FMLA	\$8,084
Holiday	\$3,173
Mental Health/Wellness	\$12,858
Earnings Beyond Separation	\$25,207
Overtime	(\$884)
Total	\$83,084

Continuous Auditing

Background

Continuous Auditing as defined by the Institute of Internal Auditors (IIA) is “the combination of technology enabled ongoing risk and control assessments. Continuous auditing is designed to enable the internal auditors to report on subject matter within a much shorter timeframe than under the traditional retrospective approach.”

What Works Well

Employee Separation & Access to City Systems – The Auditor compared the CY 2023 separated employee listing to the active directory listing. Three (3) employees were still enabled in the active directory, however, they did not log into their account after separation and their passwords had expired, indicating the process is working effectively.

Top 40 Paid Vendors -The Auditor extracted from RAPIDS the FY 2023 top 40 paid vendors in the City with a total distribution amount of \$1,639,035,987. The Auditor determined 22 of 40 vendors had active contracts with the City while the remaining 18 had payments for various transfers, non-departmental, debt service, i.e. Based on a review of the top-paid invoices for the 22 vendors with active contracts, it was determined that payments were reasonable based on the contract and invoice descriptions.

Employee/Vendor Matching - A total of 16,687 vendor payments for FY 2023 were matched against employee file data to identify potential conflicts of interest. Thirty-three City vendors matched City employees’ information, no conflicts of interest were identified.

Vendor Database - As of December 31, 2023, 22,428 vendors were listed in the vendor database. We compared these vendors against payment activity within 18 months. Based on this analysis, 19% of the active vendors did not have payments in the last 18 months, which is a decrease from the last audit.

Needs Improvement

Finding #1 –Use of Miscellaneous Vendor

The City’s use of the Miscellaneous Vendor attribute increased by over \$17 million from FY 2022 to FY 2023 due to a one time rebate to taxpayers. After removing this rebate, the increase was only \$2.3 million. Use of the Miscellaneous Vendor attribute has been noted as a Significant Deficiency on the External Auditor’s Report on Internal Controls for the last six years. We tested a limited sample of 52 payments focusing on those that had received 15 checks or \$25,000 or more, and noted no exceptions.

Finding #2 –Duplicate Payments

For FY 2023, the auditor analyzed 1,990 City invoices greater than \$300 (all identified to same vendor) to identify potential duplicates. Twenty-three invoices were identified as duplicate payments which totaled approximately \$34,646 (one was recovered during the audit). Seven additional duplicates were recovered prior to the audit.

Findings #3, 4, & 5 –Leave in Excess of Limits (FMLA), (Holiday), (Mental Health/Wellness)

For CY 2023, it was determined that:

- Five employees exceeded the established FMLA paid leave thresholds for Paid Parental Sick and Paid Maternity/Bonding by 266.25 hours or \$8,084.
- Twenty employees had excess holiday leave identified by the audit. Eight required adjustments of 88.5 or \$3,173.
- Twenty-nine employees had excess mental health/wellness holidays and required adjustments from the audit valued at approximately \$12,858.

Additional Findings

Additional Findings related to Earnings Paid Beyond Separation (\$25,207 recoverable) and Overtime (payments required of \$884) are noted in the report as well. The auditor analyzed employee and vendor master file data and noted 56 instances that required further review. Based on the review, the auditor referred one issue to the Office of the Inspector General.

Management concurred with **1 of 1** recommendation. We appreciate the cooperation received from management and staff while conducting this audit.

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Citywide – Continuous Auditing

April 4, 2024

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

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

BACKGROUND

Continuous Auditing as defined by the Institute of Internal Auditors (IIA) is “the combination of technology-enabled ongoing risk and control assessments. Continuous auditing is designed to enable the internal auditors to report on subject matter within a much shorter timeframe than under the traditional retrospective approach.”

Payments to City Employees

The City pays employees on a bi-weekly basis. At the end of the payroll cycle, each department is responsible for ensuring that employee time is entered and approved. The Payroll Division processes a payroll run before final payroll validation, allowing departments to review and process corrections. Payroll earnings for CY 2023 were as follow:

Payroll Element¹	CY 2023 Total Dollars Paid
Regular City Payroll All Departments	\$ 314,395,847
Overtime	\$ 29,439,350
Holiday	\$ 13,753,713
Mental Health/Wellness Days	\$ 1,511,281
FMLA Paid Leave	\$ 2,197,721
Vacation	\$ 16,035,672

¹ The totals represented below only depict totals keyed to the identified payroll elements in RAPIDS.

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During CY 2023, the total number of newly hired City employees was **1,047**, and the total number of separations from City service was **751**. Department timekeepers and Human Resource Liaisons are responsible for the on-boarding and off-boarding of City employees from RAPIDS for City payroll.

Overtime

The Fair Labor Standards Act states nonexempt employees must be paid overtime at a rate of time and a half when they work in excess of typically 40 hours or more depending on the type of employment. Law enforcement and fire protection employees are subject to different standards. The City of Richmond did not have a citywide policy to limit overtime hours during the scope of the audit. Effective January 19, 2024, a policy was put in place by the Chief Administrative Officer (CAO). The City has a policy that excludes counting vacation, sick, holiday, compensatory time, or other leave as hours worked for the purposes of computing overtime, with the exception of sworn public safety employees.

On September 13, 2021, City Council passed resolution 2021-R046 for the Mayor to address overtime by issuing an administrative regulation that requires supervisors to not expose employees to the safety and health risks caused by working extended overtime hours over long periods. Additionally, the resolution states that the CAO present monthly financial and activity reports by agency on the number of overtime hours worked by each employee and the dollar value paid to each employee.

As identified in prior City audits, employees earn significant amounts of overtime in many City departments. Overtime hours for the City increased in CY 2023 when compared to CY 2022. The below table represents the total overtime hours and dollars paid in each City department during CY 2022 and CY 2023:

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Department Name	Total CY 2022 Overtime Hours	Total CY 2022 Overtime Dollars*	Total CY 2023 Overtime Hours*	Total CY 2023 Overtime Dollars*	Change from CY 2022 to CY 2023 (OT hours)
Adult Drug Court	-	-	422	\$11,290	↑422
Animal Care and Control	2,349	\$75,036	2,231	\$75,157	↓118
Budget	48	\$1,673	65	\$2,568	↑17
CAO's Office	20	\$835	3	\$193	↓17
Circuit Court	184	\$7,290	199	\$7,639	↑15
Citizen Service & Response	651	\$21,939	653	\$24,386	↑2
City Clerk	-	-	8	\$272	↑8
City Library	219	\$7,063	248	\$7,853	↑29
Commonwealth Attorney	75	\$3,125	-	-	↓75
Community Wealth Building	1	\$35	2	\$57	↑1
Court Services Unit	-	-	2	\$67	↑2
Emergency Communications	23,695	\$845,124	27,223	\$1,137,133	↑3,528
Economic Development	67	\$3,026	4	\$193	↓63
Finance	3,820	\$130,100	2,738	\$103,389	↓1,082
Fire & Emergency Services	193,357	\$7,266,935	166,598	\$7,125,515	↓26,759
Human Resources	19	\$694	177	\$7,960	↑158
Human Services	-	-	173	\$7,370	↑173
Information Technology	268	\$10,210	271	\$11,933	↑3
Justice Services	6,406	\$224,593	8,969	\$328,229	↑2563
Mayor's Office	303	\$10,337	227	\$10,667	↓76
Minority Business Development	1,265	\$41,010	526	\$17,975	↓739
Parks & Recreation	15,437	\$464,874	10,998	\$354,399	↓4,439
Planning & Development Review	1,048	\$40,177	682	\$26,498	↓366
Police Department	162,418	\$8,051,379	184,200	\$10,250,599	↑21,782
Public Utilities	76,218	\$2,897,609	77,644	\$3,095,645	↑1,426
Public Works	58,734	\$1,937,543	61,804	\$2,218,478	↑3,070
Sheriff's Department	82,741	\$3,027,658	88,190	\$3,592,868	↑5,449
Social Services	18,016	\$686,610	19,638	\$799,511	↑1,622

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Department Name	Total CY 2022 Overtime Hours	Total CY 2022 Overtime Dollars*	Total CY 2023 Overtime Hours*	Total CY 2023 Overtime Dollars*	Change from CY 2022 to CY 2023 (OT hours)
Office of Elections	4,395	\$153,176	5,557	\$211,888	↑1,162
Office of Strategic Communication and Civic Engagement ²	56	\$2,081	242	\$9,621	↑186
Grand Total	651,810	\$25,910,134	659,694	\$29,439,353	↑7,880

*All amounts are rounded to the nearest dollar. Grand Total(s) have been rounded based on Actual Total as opposed to Rounded Total.

Holiday and Mental Health/Wellness Days

Administrative Regulation 5.2 outlines the designated number of holidays each year. In calendar year 2023, two mental health/wellness days were granted to City employees. A total of **144** holiday hours were granted and paid to non-public safety City employees during CY 2023.

FMLA Paid Leave

According to the United States Department of Labor, FMLA “is a federal law that provides eligible employees of covered employers with unpaid, job-protected leave for specified family and medical reasons.” During a given 12-month period, eligible employees may take up to 12 weeks of unpaid leave for the following events:

- Birth or placement of a child (including adoption, foster, and bonding time);
- Care of an immediate family member with a qualifying serious health condition;
- Serious health condition of the employee (including pregnancy or COVID); and
- Qualifying needs of immediate family members for military and active-duty members.

² Press Secretary Office has been absorbed into the Office of Strategic Communications and Civic Engagement

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Effective July 1, 2019, the City of Richmond implemented Administrative Regulation 4.3-A for paid Parental Leave (PPL). PPL works in conjunction with FMLA, which means employees must meet the eligibility requirements as outlined by FMLA and cannot exceed the number of hours allowed.

During CY 2023, **464** City employees recorded time to one of the FMLA earnings elements with approximately **69,031** hours totaling **\$2,197,721**.

Employee Separation – Active Directory

Each City Department has at least one Automation Coordinator (AC). The AC submits a System Access Privilege Request (SAPR) to separate employees within their departments from the City's Active Directory as well as other City systems. The City's Active Directory is an employee account in the City's employee database that allows them to access the City's network, email, and other City systems to perform their duties.

Payments to City Vendors

Duplicate Payments

The City implemented an Optical Character Recognition (OCR) invoice scanning system (OnBase) in FY 2019, which synchronizes with RAPIDS to upload invoices once matched with receipts to process payments. The OCR identifies the vendor, invoice number, purchase order number, and the amount and matches to the City's financial system. Departments manage their invoice processing. Once department representatives key receipts in OnBase, the invoice is processed and loaded into RAPIDS for processing. The RAPIDS system has built-in controls to detect and prevent the payment of duplicate invoice numbers to the same vendor. Factors external to the system that contributes to the risk of duplicate payments are the following:

- Duplicate vendors set up in the system;
- Inconsistent manually assigned invoice numbers;
- Lack of invoice date and/or number on the invoice;
- Multiple purchase orders/receipts; and
- Same invoice numbers paid by different departments.

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During FY 2023, approximately **146,873** vendor invoices totaling over **\$1.99** billion were processed.

Miscellaneous Vendor

The City has procurement regulations in which vendors are set up with a supplier ID and they are held to procurement policies and standards. The Miscellaneous Vendor attribute allows users to bypass the procurement process and issue payments to vendors. The main purpose of this was to be able to issue one-time payments for social services, jury duty, voting workers, and refunds. If multiple payments were to be issued, the vendor would be set up as a supplier through procurement.

OBJECTIVE

The objective of this audit is to compile and produce a report of the following activities and test for exceptions (other reports may also be developed):

- Leave in excess of limits – Mental Health/Wellness Days, Holiday, FMLA
- Active and Miscellaneous Vendor
- Overtime Earners greater than 1,040 hours per calendar year
- Analysis of highest-paid vendors
- Employee/Vendor Matching
- Separated Employees paid for more than 2 weeks after their separation dates
- Separated Employees with Active Directory System Access
- Duplicate Payments
- Conflict of Interest – City Payments & Employee Listing

SCOPE

The data analysis scripts will be broken into three separate scope periods as follows:

Calendar Year Analysis:

- Leave in excess of limits – Mental Health/Wellness, Holiday Hours, Holiday Hours, FMLA Leave
- Overtime Earners greater than 1,040 hours per calendar year

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- Separated employees paid more than two weeks after their separation dates
- Separated employees with Active Directory System Access

Fiscal Year Analysis:

- Duplicate Payments
- Employee/Vendor Matching – Conflicts of Interest
- Top 40 Vendor Payments

18-Month Period Ending December 31, 2023:

- Active Vendor Testing

METHODOLOGY

For most of the data analysis, the auditor did not select samples (except for Top 40 Vendors and Overtime Analysis). RAPIDS data was input into a data analytics software and the auditor analyzed the data for potential exceptions utilizing scripts. Additional analysis was performed on the exceptions as follows:

- Analyzed payroll and vendor payments;
- Compared analysis results to source documents;
- Inquired with City departments on analysis results; and
- Performed other tests, as deemed necessary to identify potential exceptions.

MANAGEMENT RESPONSIBILITY

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

INTERNAL CONTROLS

According to the Government Auditing Standards, internal control, in the broadest sense, encompasses the agency's plan, policies, procedures, methods, and processes adopted

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by management to meet its mission, goals, and objectives. Internal control includes the processes for planning, organizing, directing, and controlling program operations. It also includes systems for measuring, reporting, and monitoring program performance. An effective control structure is one that provides reasonable assurance regarding:

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

Based on the audit test work, the auditor concluded the internal controls related to the Continuous Auditing Objectives need to be improved.

FINDINGS and RECOMMENDATIONS

What Works Well

Employee Separation & Access to City Systems

Condition:

Department Automation Coordinators submit System Access Privilege Requests (SAPRs) in the form of Service Requests (SRs) to notify the Department of Information Technology (DIT) that an employee has separated from City employment. In addition, Human Resources (HR) sends DIT a monthly report of separated employees. In the past, DIT would not remove access until a SAPR was received. However, as of July 1, 2022, access is removed immediately if an employee's name is on the list received from HR.

The Auditor compared a listing of all employees who separated in calendar year (CY) 2023 to the active directory listing to determine if separated employees had access to City systems after separation from City employment. Of the 780 separated employees in CY 2023, four still had active directory access as of January 16, 2024.

- One was not an exception as the department requested access remain open until January 1, 2024.

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- One employee was removed but returned as a contractor with a new active directory account. The old account became active but was not accessed and the password had expired.
- Two employees were terminated, an offboarding SR was not created by the department, and an error occurred with DIT's process. These accounts were not accessed since termination and their passwords had expired.

The following table outlines a three-year trend of the number of separated employees we have identified over the years with active directory access after termination:

Year	Number of Employees
2021	101
2022	0 ³
2023	3 ⁴

Auditor Prepared

Criteria:

Administration Regulation 2.6 indicates that it is the responsibility of the employee's manager and automation coordinator to notify the DIT to remove system access.

Standard Operating Procedure "*Personnel Life Cycle & Position Control*," effective August 1, 2021, outlines procedures for employee separation. It requires notification by the HR Generalist to Department Automation Coordinators to deactivate network/software access.

³ Two employees were identified during extrapolation of the initial data, however during testing it was found that their access had been removed.

⁴ A 4th employee was not an exception.

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Additionally, separated employees should not have continued access to the City's systems.

Cause:

One City Department did not submit SRs to remove access for applicable employees. In addition, the DIT process to catch and remove these employees did not work due to an error in the process.

Effect:

Separated employee accounts remain active in the City's Directory, which could result in inappropriate access to City Systems after an employee terminates employment.

The process is working effectively as only minor exceptions were noted. No recommendations were made.

Top 40 Paid Vendors

Condition:

The Auditor extracted from RAPIDS the FY 2023 top 40 paid vendors in the City with a total distribution amount of **\$1,639,035,987**. The Auditor reviewed each of the vendors and determined the following:

- Twenty-two of the top 40 vendors had active contracts with the City;
- Eighteen vendors had payments for various transfers, non-departmental, debt service, payroll-related, healthcare, and payments on behalf of Richmond Public Schools.

As shown in the table below, payments to the 22 vendors with active contracts ranged from **\$4,193,579** to **\$128,539,672**. Based on the review of the top-paid invoices for the 22 vendors with active contracts, the auditor noted there were invoices present for the expenditures and the descriptions aligned with the contracts.

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Vendor Name	Total Payments	Contract with the City	Contract Description
BP ENERGY COMPANY	\$128,539,672	YES	Natural Gas Supply
Mastec North America Inc	\$35,993,980	YES	Installations of New Water Facilities
Southwood Building Systems Inc	\$19,992,839	YES	Contract Grit Removal
J R PIERCE INC	\$12,231,368	YES	Permanent Restoration of Utility
POSSIE B CHENAULT INC	\$12,079,972	YES	Annual Stormwater Replacement & Installations
COLONY CONSTRUCTION INC	\$11,888,603	YES	Mill and Overlay Paving
PMA Management Corp.	\$10,263,933	YES	Worker Compensation
Tidewater Utility Construction	\$9,910,880	YES	Annual Stormwater Replacement & Installations
HMI Utilities, LLC	\$9,724,599	YES	Installation of Water Facility& Natural Gas
MEDIKO PC	\$9,014,061	YES	Inmate Medical
AON RISK SERVICES SOUTH INC	\$7,001,933	Yes	Insurance Agent/Broker of Record Services
CorTech LLC	\$6,881,942	YES	Temp Agency for Temp Workers
SP PLUS CORPORATION	\$6,599,585	YES	Parking Facility Management Services
MESSER CONTRACTING LLC	\$6,173,535	YES	Land Development Services
LEE HY PAVING CORP	\$6,080,759	YES	1 Inch Mill and Overlay Paving
Inliner Solutions, LLC	\$5,023,364	Yes	Annual Sewer Rehabilitation Services

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Vendor Name	Total Payments	Contract with the City	Contract Description
Top Guard, Inc	\$4,688,140	YES	Security and Safety Services all City owned bldgs.
G.L. HOWARD INC	\$4,681,031	YES	Stormwater & Wastewater Repair Services
GREELEY AND HANSEN LLC	\$4,535,079	YES	Wastewater & Stormwater Utility Engineering Services
Benchmark VA LLC Subsurface Utl Services	\$4,231,596	YES	Underground Utility Locating Services
CDW GOVERNMENT INC	\$4,193,579	YES	IT Hardware, Software & Related Services
WASTE MANAGEMENT OF VIRGINIA	\$4,870,274	YES	Public Works Solid Waste

Auditor Prepared

The following table represents a three-year trend from FY 2021 to FY 2023:

Fiscal Year	All Vendors had a Contract with the City	All Invoices Aligned with Contracts	Total	Number Reviewed
2021	Yes	Yes	\$ 177,323,943	11
2022	Yes	Yes	\$ 277,423,407	20
2023	Yes	Yes	\$324,600,723	22 ⁵

Auditor Prepared

Criteria:

Payments to the top vendors should be contracted as required by the City's procurement code and supported with documentation for the disbursements made.

⁵ Of note, the total dollar amounts of the contracts and the number of contracts reviewed increased in 2022 and 2023. The 2022 and 2023 reviews included the top 40 vendors versus the top 25 in 2021.

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Cause:

For the top vendors and disbursements tested City departments complied with the procurement code by having active contracts along with supporting documentation.

Effect:

Based on the limited review of the top 22 vendors with active contracts, no irregularities were identified for the payments reviewed. Unidentified irregularities may still exist but were not detected.

No exceptions were noted; therefore, no recommendations were made.

Employee/Vendor Matching

Condition:

A total of 16,687 vendor payments for FY 2023 were matched against employee data file information to identify potential conflicts of interest. Thirty-three City vendors that were paid matched City employees' information. Based on a review of all invoices paid to these employees, no conflicts of interest were identified. Payments to the employees were for expense reimbursements, travel advances/settlements, education, community events, and certifications.

Additionally, the auditor analyzed employee and vendor master file data and noted 56 instances that required further review. Based on the review, the auditor referred one issue to the Office of the Inspector General.

Criteria:

The Department of Procurement Services (DPS) Purchasing Policy #23 Conflict of Interest outlines the City's policy related to procurement transactions. DPS's policy is consistent with the City Code and Code of Virginia related to Conflict of Interest. The purpose of the policy is to serve as a guide to using departments on managing and avoiding conflicts as the "expenditure of public funds requires the highest degree of public

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trust and impeccable standard of conduct.” In the policy, family interests such as services purchased from a relative or their business are identified as a common conflict.

City Code Section 2-1295 states *“No officer or employee of the City, whether classified, unclassified or otherwise, shall appoint or employ, or cause to be appointed or employed, any relative of such officer or employee to any position, classified or unclassified, within a department or other agency under the direct or indirect supervision of such officer or employee.”* It further states *“No officer or employee of the City, whether classified, unclassified or otherwise, shall place any two persons related to each other as relatives in a supervisor-subordinate relationship in the same agency.”*

Cause:

Procurement regulations are in place in the Department of Procurement Services. They have also implemented a training program to educate City employees on Conflicts of Interest.

Effect:

Based on the analysis completed of the vendor file and the employee data file, we did not identify any conflicts of interest for this testing period. Unidentified conflicts may still exist but were not detected. One issue was noted and referred to the Office of the Inspector General.

No exceptions were noted; therefore, no recommendations were made.

Vendor Database Management

Condition:

A total of 22,428 vendors were listed in the vendor database as of December 31, 2023. The auditor compared these vendors with the city's payment records to determine if vendors without payment activity were inactivated after 18 months, as required by Procurement Services Policy Number 49. The 18-month period used in this analysis was from

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July 1, 2022, to December 31, 2023. Based on this analysis, the auditor determined that 19% of the active vendors did not have payments in the last 18 months.

The rate of 19% is a decrease from the last time the listing was tested. The table below notates the percentages from recent auditor tests of vendors with no payments in the prior 18 months and no inactive date in the system.

Date of Audit Test	Number of Vendors	Percent of Total Vendors
June 2019	6,593	35%
October 2020	1,570	8%
December 2021	4,438	22%
December 2023	4,188	19%

Auditor Prepared

Criteria:

Procurement Services Policy Number 49 indicates that “...an annual vendor clean-up process that includes, the inactivation of vendors that have had no payment, purchase order, requisition, or receiving activity for a period of 18 months...” should be completed.

Cause:

The process to remove inactive vendors is manual and time consuming. Some vendors stay open longer than 18 months such as government entities and Department of Social Services providers/parents (reviewed and directed by DSS).

Per Procurement staff, the last update was supposed to occur in June 2023. However, due to staffing and restructuring, the process is currently ongoing with a completion date set for April 1, 2024.

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Effect:

Vendors that are not inactivated could result in payments being sent to an incorrect address or closed bank account.⁶ Vendors that are not inactivated result in an increased risk of fraud.

As this process is occurring annually and currently in process, no recommendations were made.

What Needs Improvement

Finding #1 – Use of Miscellaneous Vendor

Condition:

The City has a Miscellaneous Vendor attribute which allows users to bypass the City’s procurement process for supplier registration. The main purpose of this supplier code was to issue payments for social services, jury duty, voter registration, and refunds. Use of the Miscellaneous Vendor attribute has been noted as a Significant Deficiency on the External Auditor’s Report on Internal Controls for the last six years. The table below shows the usage of the Miscellaneous Vendor attribute for FY 2023:

Category	Value
Number of Miscellaneous Vendors	64,236
Number of Miscellaneous Vendor Checks	82,369
Amount Paid to Miscellaneous Vendors	\$30,065,047

As displayed in the tables below, in the City’s FY 2023 payment data, the auditor noted:

- 2,884 Miscellaneous Vendors were issued at least 3 checks.
- 376 Miscellaneous Vendors were paid more than or equal to \$10,000.
- 229 checks were written for more than or equal to \$10,000.

⁶ Reactivating a vendor requires updated documents (i.e. W-9 and banking information such as ACH & EDI).

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Vendor Amount Received	Number of Miscellaneous Vendors	Percent of Total
<500.00	58,071	90%
500.00-999.99	3,545	6%
1,000.00-2,499.99	1,455	2%
2,500.00-9,999.99	789	1%
10,000.00-49,999.99	329	1%
50,000.00-99,999.99	25	<1%
≥100,000.00	22	<1%
TOTAL	64,236	100%

Check Amount	Number of Checks	Percent of Total
<100.00	27,920	34%
100.00-249.99	34,728	42%
250.00-499.99	11,743	14%
500.00-999.99	5,504	7%
1,000.00-2,499.99	1,532	2%
2,500.00-9,999.99	713	1%
10,000.00-24,999.99	144	<1%
≥25,000.00	85	<1%
TOTAL	82,369	100%

*Auditor Prepared (*Both tables are more than 100% due to rounding*)*

After reviewing the data, the auditor created the breakdown shown in the table below based on the invoice description from RAPIDS. It should be noted that some payments within the “Other” category could belong to one of the categories displayed, however, based on the invoice description, the auditor could not make the determination.

Payment Type	Number of Checks	Check Totals
DSS Payments	2,936	\$2,563,515
Other	935	\$4,309,623
Utilities Refunds	3,872	\$1,202,073
Voter Registration/Jury Duty	2,972	\$425,831
Refunds for Personal Property Taxes, Real Estate Taxes or Business License Fees	4,758	\$4,763,537
Real Estate Rebate	66,896	\$16,800,467
Grand Total	82,369	\$30,065,047

Auditor Prepared

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As displayed in the table above, in FY 2023, the use of the Miscellaneous Vendor attribute increased exponentially due to the issuance of a one-time real estate tax rebate.

To compare the Miscellaneous Vendor payment data across years, the FY 2023 rebate payments were removed by the auditor. As displayed in the table below, after removing the rebate payments from the data, the auditor found that the use of the Miscellaneous Vendor attribute increased from FY 2022 to FY 2023.

Category	FY 2021	FY 2022	FY 2023 ⁷
Number of Miscellaneous Vendors	12,301	9,467	10,174
Number of Checks	18,306	13,779	15,473
Amount Paid to Miscellaneous Vendors	\$15,159,674	\$10,909,680	\$13,264,581

Auditor Prepared

The table below is a breakdown of the Miscellaneous Vendors categories for the last three fiscal years.

Payment Type	Percent of Checks			Percent of Check Amount		
	FY2021	FY2022	FY2023	FY2021	FY2022	FY2023
DSS Payments	23%	28%	19%	20%	29%	19%
Other	6%	6%	6%	23%	44%	33%
Utilities Refunds	36%	34%	25%	10%	12%	9%
Voter Registration/Jury Duty	15%	14%	19%	2%	1%	3%
Refunds for Personal Property Taxes, Real Estate Taxes or Business License Fees	20%	18%	31%	45%	14%	36%

Auditor Prepared

To verify that the Miscellaneous Vendor payments were appropriate government expenditures, the auditor reviewed supporting documentation for one payment for each non-rebate vendor with:

⁷ Does not include Real Estate Rebates.

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- Greater than 15 checks or
- Greater than \$25,000 in checks received.

The auditor selected 52 that met the criteria described above. The auditor reviewed all 52 payments and found no exceptions. That is, the 52 payments reviewed were payments to citizens for tax or utility refunds, settlements, or tax sale of properties.

Criteria:

Suppliers should have to go through the standard Procurement process for the registration of new suppliers/vendors. The process includes:

- Reviewing the vendor for conflicts of interests with City employees,
- Comparing the vendor to the debarment list, and
- Ensuring IRS for W-9 and any other applicable forms are completed.

Per City Staff, if the purchase was for goods or services or multiple payments were going to be made, then the supplier would have to be set up in the City's system with their own supplier account.

Cause:

Use of the Miscellaneous Vendor attribute reduces the time it takes to pay a vendor as the standard procurement vendor registration process can be avoided.

Effect:

Without going through the standard vendor registration through Procurement, there is an increased risk of:

- Using suspended or debarred vendors,
- Using vendors with relationships to City employees creating conflicts of interest, and
- Fraud.

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Recommendation:

The 2022 Report on Internal Controls noted the use of Miscellaneous Vendors as a Significant Deficiency and the City agreed to the finding and provided the following Management Response:

“Procurement Services will establish miscellaneous vendor supplier records by payment types to align to source and purpose for creation. Additionally, Procurement Services will create a dashboard and validate the use of the miscellaneous vendor payment types.”

We will not issue a duplicate recommendation but will coordinate with the external auditor and continue to perform this analysis as a part of continuous auditing.

Finding #2 – Duplicate Payments

Condition:

The auditor analyzed City payment records in order to identify any invoices that appeared to be paid twice to any city vendor. The auditor focused on payments greater than \$300 where invoices with the same invoice attributes, such as invoice number, amount, and date, were paid to the same vendor. A total of 1,990 invoices that totaled approximately \$13.6 million were identified and reviewed in detail by the auditor to determine if they were duplicate payments.

Based on our review of the 1,990 invoices, we found:

- Thirty invoices were identified as duplicate payments totaling \$89,238.
 - One payment, totaling \$315, was recovered after the auditor notified the department.
 - Twenty-two duplicate payments were not refunded or credited to the City for a total of \$34,331 as displayed in the table below:

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Department	Duplicate Invoices Not Recovered
City Attorney	\$40
Fire	\$11,002
Planning and Development Review	\$7,409
Public Utilities	\$7,605
Public Works	\$8,275

Auditor Prepared Table

- Seven duplicate payments, totaling \$54,592, were recovered prior to the start of the audit.

Criteria:

System controls in RAPIDS prevent the same invoice numbers from being paid for the same amount and vendor site code. Department employees responsible for processing invoices should monitor and validate invoice accuracy and not bypass system controls.

Cause:

Duplicates resulted from the vendor sending over the invoice twice or the same invoices were paid to the same company under two different names. It is the responsibility of the department to ensure that vendor invoices are not processed multiple times and the information in the system matches what is on the invoice.

Effect:

City vendors were paid multiple times resulting in duplicate funds being expended for services not received. However, the amount was not large as a part of total invoices analyzed as potential duplicates. This could result in the loss of thousands of dollars for the city.

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Actions Taken

The auditor has communicated the identified duplicates to the five departments, and they have or are working to make corrections as necessary.

Recommendation:

1. We recommend the following City departments recover identified duplicate payments from the vendors by either receiving a refund of the overpayment or a credit on future invoices:

- **City Attorney**
- **Fire and Emergency Services**
- **Planning and Development Review**
- **Public Utilities**
- **Public Works**

Finding # 3 - Leave in Excess of Limits (FMLA)

Condition:

The Auditor analyzed CY 2023 employee earnings for all Paid FMLA Leave and identified five employees exceeding the established paid leave thresholds. The following table outlines overages by FMLA Paid Leave type:

FMLA Paid Leave Type	Number of Employees	Total Hours Over Threshold	Total Recoverable Costs Associated with Leave Over Threshold
Paid Parental Sick	3	50.25	\$1,524
Paid Maternity/Bonding	2	216	\$6,560
Totals	5	266.25	\$8,084

Auditor Prepared Table

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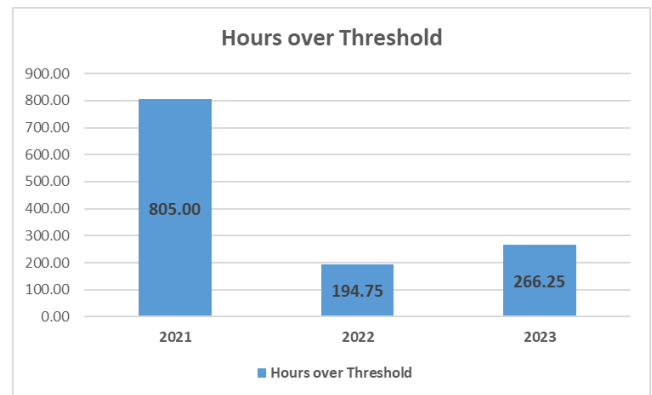
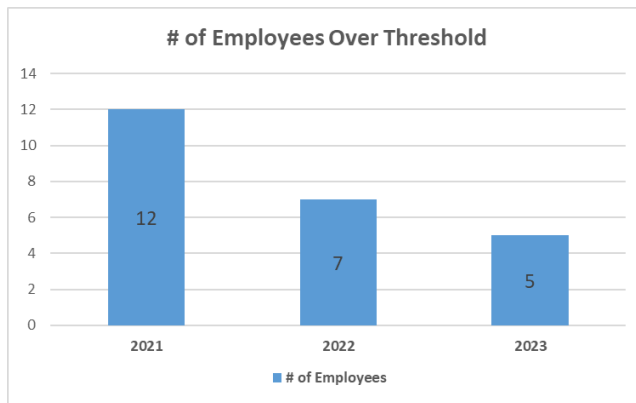
For the 50.25 hours of Excess Paid Parental Sick Leave:

- 5.5 hours were paid in excess and are being recovered.
- Twelve hours should have been charged to sick leave and are being corrected.
- 32.75 hours were an error and the employee has left employment with the City.

For the 216 hours of Excess Paid Maternity/Bonding:

- Sixteen hours should have been charged to sick leave and are being corrected.
- Two hundred hours should have been charged to vacation leave and are being corrected.

The tables below show the three-year trend of employees and hours over FMLA thresholds.



Auditor Prepared

Criteria:

Effective July 7, 2018, the City implemented Paid Parental Leave for various FMLA categories. The table below outlines the City's Administrative Regulation 4.03A. It shows the type of event and the number of weeks that can be granted as paid leave to eligible employees:

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FMLA Paid Leave Type	Period Granted	Leave Use
Birthing Mothers	8 weeks	Continuous
Stillbirth (birthing mother)	2 weeks	Continuous
Bonding – non-birthing parent	8 weeks	Continuous or intermittent
Adoption/foster care placement	8 weeks	Continuous or intermittent
Care for sick parent	4 weeks	Continuous or intermittent

*Auditor Prepared***Cause:**

Supervisors did not have proper oversight to ensure the accuracy of leave taken by their direct reports.

Effect:

The City granted excess Paid Parental Sick or Bonding Leave to 5 employees totaling 266.25 hours in excess of the allotted number of hours. This overage totaled approximately \$8,084.

These errors have been communicated to the respective departments and their timekeepers for corrections to be made.

Finding #4 – Leave in Excess of Limits (Holiday Leave Hours)**Condition:**

The auditor analyzed holiday hours paid during CY 2023 and identified 24 employees with holiday leave hours that were more than the allotted hours. The auditor reviewed the leave records for the 24 employees and determined:

- Four employees were identified by the department prior to the audit. Three employees have had their leave hours corrected and the Department is working on recouping the leave hours for the fourth.
- Twelve employees did not require adjustments as the excess hours did not affect their leave balance.

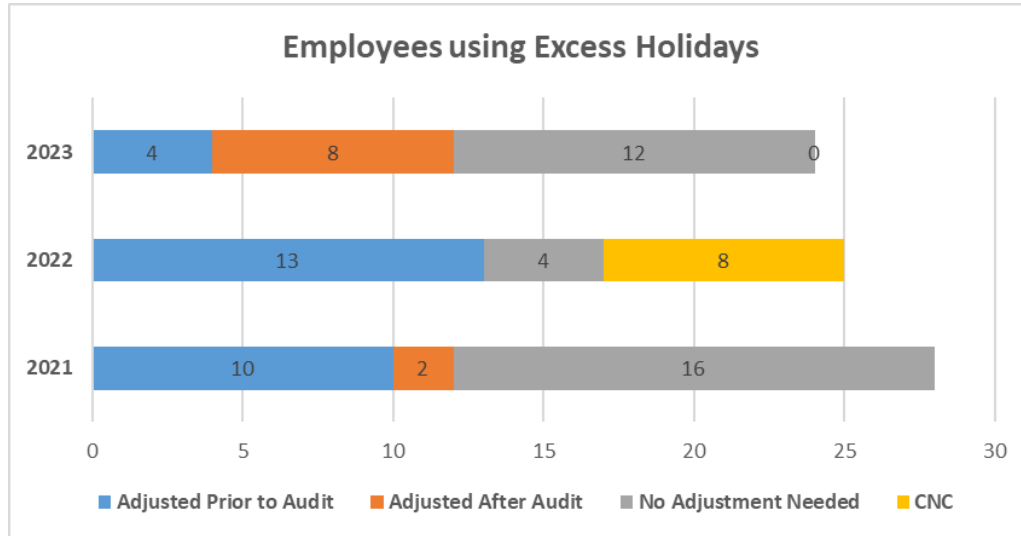
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- Eight employees required an adjustment be made to their leave balance, leading to cost savings of **\$3,173 (88.5 hours)**.

The table below represents the three-year trend for excess holidays used by employees.



Auditor Prepared

CNC=Could Not Conclude

Criteria:

According to Administrative Regulation 5.2, employees are allotted a predetermined number of holidays during each calendar year. Except for shift personnel, City employees are granted eight hours for holidays.

Cause:

Supervisors did not have proper oversight to ensure the accuracy of leave taken by their direct reports. Also, the system does not restrict the number of holiday hours recorded.

Effect:

Improper keying and approval of additional holiday hours led to excess leave hours valued at **\$3,173** not being used. This oversight also resulted in loss of productivity due

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to additional administrative work by the departments, HR, and central finance to make the necessary adjustments.

These errors have been communicated to the respective departments and their timekeepers for corrections to be made.

Finding #5 – Leave in Excess of Limits (Mental Health/Wellness Holiday Hours)**Condition:**

The auditor analyzed the CY 2023 mental health/wellness holiday hours and identified 45 employees with mental health/wellness holiday earnings where employees took more than the two mental health/wellness days allowed per policy. Of these, the following was determined:

- Seven employees had their leave records corrected prior to the audit.
- Thirty-eight employees took the extra mental health/wellness holiday in error, and their leave records were adjusted due to the audit as follows:
 - Eighteen employees had their hours adjusted from holiday hours to vacation hours. **(\$7,469)**
 - Eleven employees had their hours adjusted from holiday hours to banked holiday hours. **(\$5,389)**
 - Nine employees had their hours adjusted from holiday hours to sick leave hours.

The following table outlines mental health/wellness holiday overages by department:

Department	Number of Employees with Mental Health/Wellness Days Over Threshold	Number of Employee Adjustments Identified by Audit	Total Cost Savings for Mental Health/Wellness Days Over Threshold
City Attorney	1	1	\$741
Community Wealth Building	2	1	\$88
Fire	1	1	\$320
Police	34	30	\$9,944

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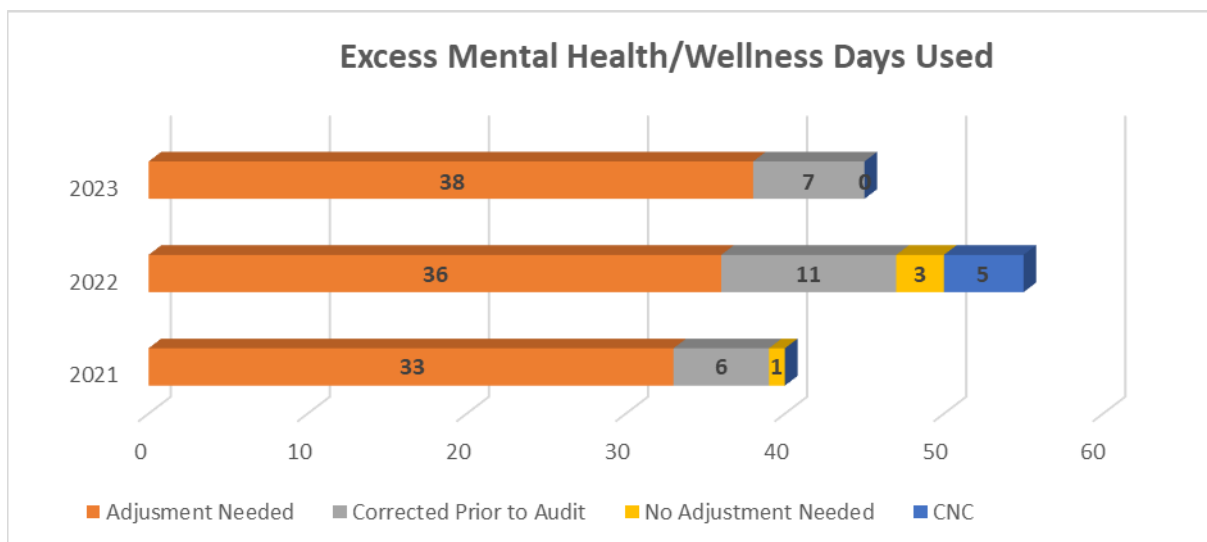
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Parks & Recreation	1	1	\$147
Planning and Development	2	0	-
Social Services	2	2	\$1,286
Public Utilities	1	1	\$188
Public Works	1	1	\$143
Totals	45	38	\$12,858

Auditor Prepared Table

The following graph demonstrates the three-year trend of excess Mental Health/Wellness Days taken by employees.



Auditor Prepared Graph

*CNC=Could not conclude

Criteria:

According to Administrative Regulation 4.8, Employees are allotted two Mental Health/Wellness Holidays each calendar year. Except for shift personnel, City employees are granted eight hours for holidays.

Cause:

Supervisors did not have proper oversight to ensure the accuracy of leave taken by their direct reports.

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Effect:

Improper keying and approval of additional holiday and mental health/wellness holiday hours resulted in employees showing higher vacation and sick leave balances. This resulted in extra mental health/wellness holiday pay. Additional administrative work is required to make the necessary adjustments.

These errors have been communicated to the respective departments and their timekeepers for corrections to be made.

Finding #6 – Earnings Paid Beyond Separation

Condition:

The auditor analyzed earnings paid beyond the identified employee separation dates for the following:

Earnings Beyond 14 Days of Separation

The auditor identified **22** employees whom the City paid 14 or more days after the separation date documented in RAPIDS. Based on inquiries with department representatives and a review of supporting documentation it was determined that:

- **Four** employees were overpaid in the amount of **\$25,207** and as of March 2024, payments have not been recovered.
- **Two** employees were overpaid, and the overpayments were recovered prior to the audit.

Vacation/Holiday Payouts Beyond 30 Days After Separation

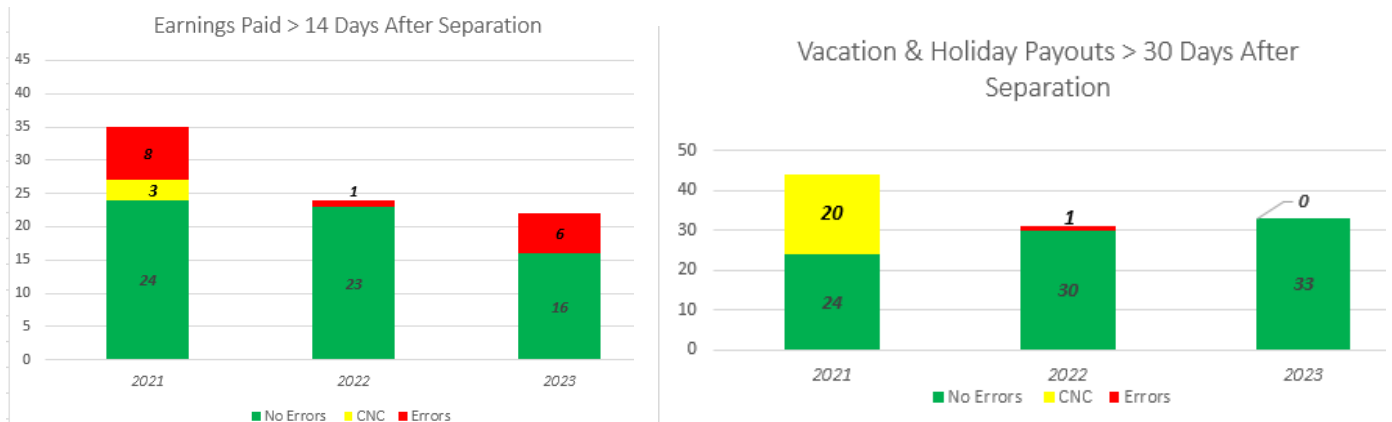
The auditor identified **33** employees paid more than 30 days after their separation date with the City. The auditor found no exceptions in a review of these 33 employees.

The following graphs depict the three-year trend of payments to employees after separation from 2021 through 2023.

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Auditor Prepared

Criteria:

Standard Operating Procedure “*Personnel Life Cycle & Position Control*,” effective August 1, 2021, outlines procedures for the separation of employees or Off-Boarding as follows:

- Hiring Manager notifies the HR Generalist immediately upon receipt of notice that an employee is separating (1 Day);
- HR Generalist emails notices of separation to the Department timekeepers to confirm leave and related final pay;
- HR Generalist will complete and submit the HR Transaction Form to initiate the separation process in RAPIDS; and
- HR Generalist will complete and submit the “Payroll Transaction Form” via email to the Finance Department for leave payout and facilitate the final payout.

Cause:

City Departments provided numerous reasons for delays in processing employee earnings, holiday payouts, and vacation payouts:

- Reorganization of the Human Resources Department during CY 2023;
- Extended time to reconcile hours to be paid out;
- Lack of communication to Human Resources that an employee is separating;
- Failure by Human Resources to process the separation;

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- Disciplinary process;
- Earnings adjustments;
- Errors in processing;
- Transition of Human Resources Generalists;
- Time corrections; and
- Collection of City Property.

Effect:

Employees received wages in error beyond their employment with the City, which totaled approximately **\$25,207**.

These errors have been communicated to the respective departments and their timekeepers for potential cost recovery as beneficial and as advised by the City Attorney's Office.

Finding #7 – Overtime**Condition:**

During CY 2023, 61 City employees in eight departments earned overtime in excess of 1,040 hours. Of these employees, 34 had more than 1,040 overtime hours in CY 2022. The breakdown of total overtime hours and dollars for those exceeding 1,040 hours are summarized by the department as follows:

Department	Number of Employees	Total CY 2023 OT Hours for Employees Meeting 1,040 Hours	Total CY 2023 OT Dollars for Employees Meeting 1,040 Hours
Department of Emergency Communications	5	8,306	\$ 334,258
Fire & Emergency Services	19*	25,167	\$ 1,278,346
Justice Services	1	1,181	\$ 40,575
Police Department	7	9,044	\$ 495,191
Public Utilities	5	6,828	\$ 290,772
Public Works	6	7,021	\$ 291,090

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Social Services	1	1,053	\$ 31,345
City Administration TOTAL	44	58,600	\$ 2,761,577
Sheriff's Department	17	23,871	\$ 971,848
Constitutional Officer Total	17	23,871	\$ 971,848
Grand Total	61	82,470	\$ 3,733,426

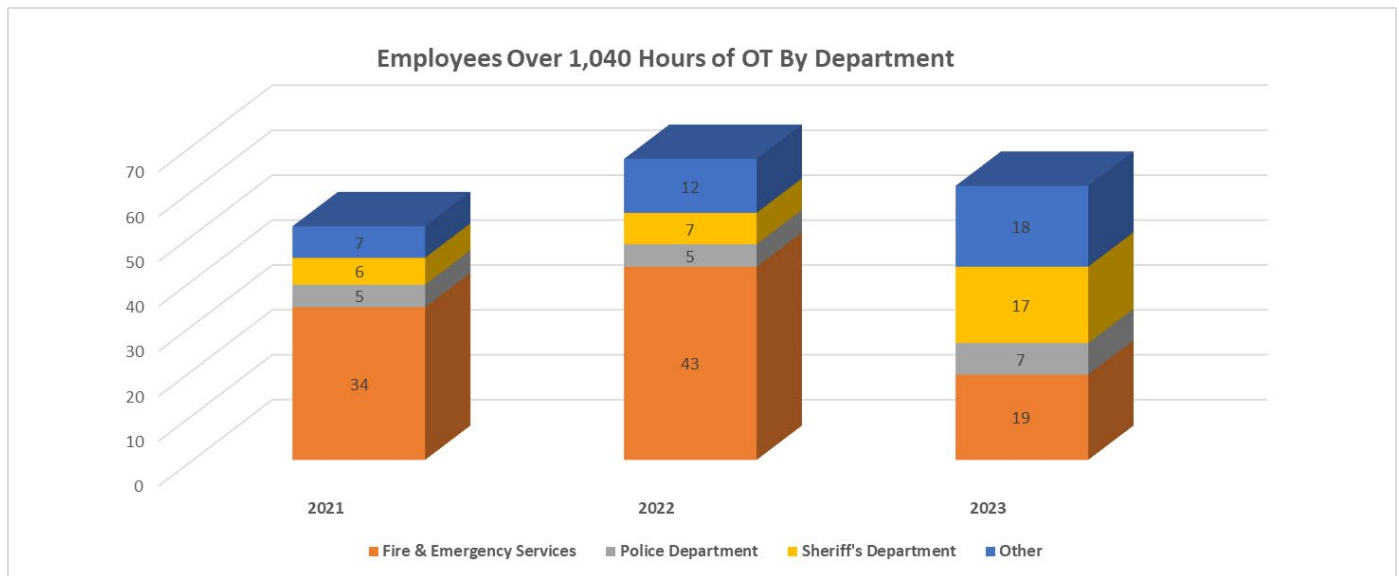
Auditor Prepared

Firefighters were included in this testing; however, they have a higher midpoint (1,456) due their separate FLSA cycle and built in required overtime. Three of these firefighters overtime hours were above their respective midpoint (1,456).

Overtime in Excess of 1,040 decreased from CY 2022 to CY 2023 as shown below in the table and graph.

Title	Number of Employees	Total Hours	Total Dollars
CY 2021	52	68,964	\$2,428,236
CY 2022	67	93,140	\$3,775,123
CY 2023	61	82,470	3,733,426
Total Decrease from CY 2022 to CY 2023	6	10,670	\$41,697

Auditor Prepared



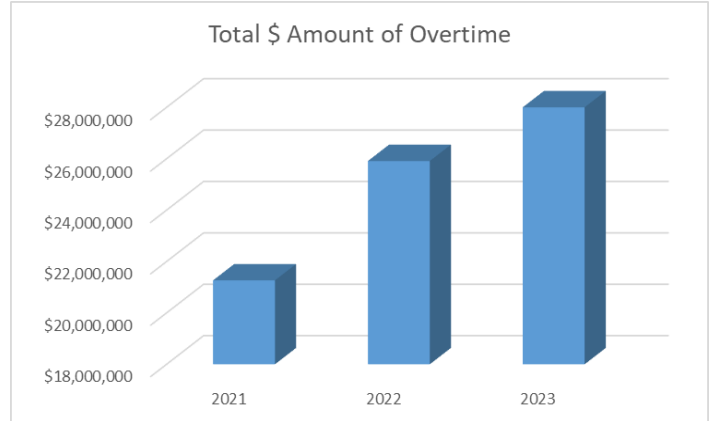
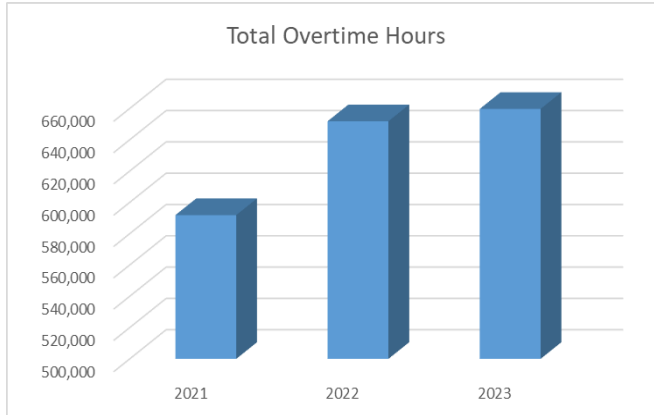
Auditor Prepared

The graphs below show the three-year trend of total citywide OT hours and the associated dollar amounts paid.

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Auditor Prepared

The auditor performed a limited review of overtime payments to 25 employees who were paid more than 1,040 hours of overtime in CY 2023. Specifically, the auditor identified the highest overtime pay period for each of the 61 employees who were paid more than 1,040 hours in overtime. Out of the 61 pay periods identified, the auditor then selected the top 20 pay periods for review. The auditor then judgmentally selected an additional five pay periods from the top 61 overtime earners in CY 2023 for additional review. The table below shows departments who had employee pay periods selected for review.

Department	# of Employees
Fire and Emergency Services	12
Sheriff Department	4
Public Utilities	2
Emergency Communications	4
Public Works	2
Social Services	1
Total	25

Auditor Prepared

Based on the review, the auditor found that 22 employees had appropriate supporting documentation for the overtime, and the overtime was approved. We also found that three Fire Department employees were paid incorrect overtime hours. However, due to the audit, the Fire Department has submitted Payroll Action Forms to correct these incorrect payments. The incorrect payments were as follows:

- One employee was overpaid two hours (\$116).
- Two employees were underpaid 16 hours and 4 hours, respectively (\$1,001).

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Criteria:

Employers should monitor and approve overtime hours to ensure high productivity and employee safety.

On September 13, 2021, City Council approved resolution 2021-R046 (noting audit report 2019-07) requesting the Mayor address the finding on high overtime through administrative regulation and the CAO supply Council with monthly overtime reports.

Cause:

The City did not have a policy monitoring the amount of overtime an employee may work. This is an open outstanding recommendation from the 2019-07 Citywide Payroll audit.

The City is not fully staffed for the various departments.

A portion of large overtime earners are in the Fire Department. This was caused due to requirements that four firefighters staff the apparatuses that are in use and staff shortages. Firefighters have a different FLSA cycle that includes 156 hours of planned overtime a year per person.⁸

Effect:

Studies have shown that employees working extended overtime hours over long periods may result in reduced employee productivity and exposes the employees to safety and health risks. Additionally, such high overtime amounts appear to be unreasonable to maintain for an organization.

Without an adequate approval and documentation process in place, employees may be paid for time not worked creating losses for the City.

⁸ Our analysis was conducted citywide utilizing a midpoint of 1,040 hours for overtime, which is based on a standard work schedule. Firefighters were included in this testing; however, they have a higher midpoint due their separate FLSA cycle and built in required overtime.

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Actions Taken:

The list of high overtime earners has been communicated to the administration so that this open follow-up item can be researched and addressed.

As of January 19, 2024, the City has put a new Overtime rule in place that non-exempt employee's overtime should not exceed 50% of an employee's standard working hours. If the employee is needed for overtime beyond this threshold, the Director will have to demonstrate that all options have been exhausted to assign the workload to other qualified employees and that services and/or public safety will be negatively impacted by limiting the individual from working additional hours.

APPENDIX A: MANAGEMENT RESPONSE FORM

2024-08 Citywide – Continuous Auditing

#	RECOMMENDATION	CONCUR Y/N	ACTION STEPS
1	We recommend the following City departments recover identified duplicate payments from the vendors by either receiving a refund of the overpayment or a credit on future invoices: <ul style="list-style-type: none"> •City Attorney •Fire and Emergency Services •Planning and Development Review •Public Utilities •Public Works 	Y	The Departments will work to recover identified duplicate payments from vendors. Most agencies have made contact with the vendors, have reconciled, and are in the process of recovering payments.
	TITLE OF RESPONSIBLE PERSON		TARGET DATE
	COR Administration		August 31, 2024
	IF IN PROGRESS, EXPLAIN ANY DELAYS		IF IMPLEMENTED, DETAILS OF IMPLEMENTATION