



CITY OF RICHMOND
Office of the City Auditor

July 16, 2024

Members of the Richmond Audit Committee

I am excited to begin my first full fiscal year as Richmond's new City Auditor, and I am pleased to present you with the proposed audit plan for fiscal year 2025. The plan outlines key focus areas for the City Auditor's Office, including ongoing work, new initiatives, and annual projects. The audit plan is the result of the development of a risk model by the City Auditor's Office to assess risk of all city departments and evaluate where we should prioritize an audit. In forming the plan, we solicited input from the City Council as well as the City Administration.

It is important for the City Auditor to have a sound methodology for selecting audits and projects to ensure independent and objective evaluation of city operations and maximum benefit to Richmond's residents. I believe the process we have established achieves this goal.

We aim to initiate as many engagements as possible that are identified in the audit plan during the fiscal year. However, the audit plan is a living document that may change throughout the year because of unexpected circumstances and emerging risks. For example, changes could impact the audit plan due to the need for emergency audits, City Council or City Administration audit requests, staff availability, decreased risks due to improvements within city departments, and increased risk that leads to changing audit objectives and audit scope. As such, some of the projects listed on the plan may not be initiated during the year, and other projects may be conducted that are not on this audit plan. In addition, this year's audit plan includes supplemental audits that may be initiated if time is available.

Two important components of this year's audit plan that I would like to highlight are follow-up and contract auditing. First, we will provide quarterly status updates on open recommendations to the Audit Committee as more continuous follow-up should lead to more implemented recommendations. Furthermore, we are performing follow-up audits of areas we have audited in the past to ensure proper controls are currently in place. For example, we have included a Meals Tax Follow-Up audit on the plan as well as a Personal Property Tax Follow-Up audit on the supplemental plan.

Regarding contract audits, based on prior audits' findings, I am making it a priority to include multiple contract audits on the plan to ensure taxpayer funds are accurately and appropriately spent. This includes two contract audits already in progress; one new contract audit, and another included in the supplemental plan.

Over the course of my first full year as Richmond's City Auditor, there will be changes in audit reports, focus, and depth. However, we will remain committed to our mission of promoting open and accountable city government through independent audit services, and we will be available to assist stakeholders when needed. As such, if you have any questions or would like to discuss any aspect of this proposed audit plan, please call me anytime.

Respectfully,

A handwritten signature in blue ink that reads "Riad Ali".

Riad Ali, CPA, CIGA
City Auditor

cc: The Richmond City Council
Lincoln Saunders, Chief Administrative Officer
LaTasha Holmes, Council Chief of Staff

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Introduction

To ensure the most efficient and effective use of audit staff resources, it is essential that areas selected for audit be carefully considered. Since the audit function, like other governmental functions, should provide the maximum benefit to City of Richmond residents, audits should be conducted which will ultimately result in the most benefit. Due to the large number of possible auditable areas throughout the City and limited staff resources to audit them, a strategic planning process has been conducted and used in developing this audit plan. The methodology of selecting audits and the areas selected for audit are presented below.

Sources of Areas Selected for Audit

Areas selected for audit can come from a variety of sources. These include risk assessments, requests from City Council, City Administration, employees, and members of the public.

Risk is one of the primary factors used in selecting areas for audit. Risk for some aspects of city operations is higher than others. Areas of the City which are high risk should receive more audit attention than those of lower risk. It should be noted, however, that areas of lower risk should not be ignored; rather, they should be audited with less frequency than the higher risk areas.

In addition to risk, City Councilmembers and City Administration sometimes have concerns about certain areas and believe an audit is desirable. One of the goals of the Office of the City Auditor is to assist both the City Council and the City Administration; therefore, their requests were seriously considered in forming the audit plan.

Additionally, some audits must be conducted on a surprise basis whenever prior knowledge could compromise the integrity of the audit. These types of audits include cash counts, payroll verifications, inventory and asset verifications, safety inspections, and some areas with a higher risk of fraud.

Risk Assessment Methodology

The first step in determining a risk assessment methodology is to determine the possible auditable entities which may include departments, programs, activities, and agencies that collectively contribute to the effectiveness of the City's operations. We primarily utilized the City's budget by cost center to compile a comprehensive list of auditable entities.

Once auditable entities were identified, we assessed the risk associated with each entity based on the following risk factors:

1. Financial Exposure, including
 - Budgeted Expenditures
 - Amount and Volume of Transactions
 - Revenue Generated

2. Complexity of Operations, including
 - Number of Staff
 - Number of Active Contracts
 - Operational Impact on other City Departments
 - Regulatory/Legal Risk
 - Information Systems
 - Inherent Fraud Risk

3. Control Environment, including
 - Average Vacancy Rate
 - Turnover Rate
 - History of Audit Findings
 - Open Recommendations Beyond One Year
4. Effect on the Public, including
 - Public Dependency on Services
 - Public Impact/Perception
5. Time Since the Last Audit

Each risk factor was weighted by relative importance, with Financial Exposure bearing the largest weight. Each auditable entity was then scored, and a total score was calculated. The auditable entities were grouped into high, medium, and low risk categories based on their total risk score. The audit plan primarily includes auditable entities from the high-risk category, though it also includes entities in medium and low risk categories. It may also include audits requested by City Council and City Administration regardless of the risk category. Overall, approximately 50% of the projects documented on this year's audit plan are related to departments in the high-risk categories.

Audit Plan

After the plan is finalized, new information not considered in forming the audit plan may come to light. Events, initiatives, priorities, and risks within the City may change. The flexible nature of the Audit Plan as a living document provides the ability to change course when it is in the best interest of the City. Therefore, some audits identified herein may not be conducted this year, while audits may be conducted that are not included in this document. Some audits may even be entirely removed from the plan throughout the year for various reasons, including the auditable entity being audited or investigated by another government agency, risk assessment changes, regulatory changes, and resource constraints. Finally, the projected hours for some audits are split between multiple years as those audits are projected to start in one fiscal year and be completed in the next fiscal year.

Audits in Progress as of July 1, 2024

Project	Preliminary Objectives	Projected Hours
Street Light Maintenance	Evaluate the expenditures, efficiency, effectiveness, and maintenance of streetlights.	300
Warehousing & Inventory Management	Evaluate the warehouse inventory management controls and efficiency regarding duplication/ordering for the main warehouses operated by the City.	300
Budget Department and Funding	Evaluate the non-department budget process for compliance and monitoring for return on investments of funding allocated.	300
Purchasing Cards	Test expenditures for compliance with policy and internal controls within this program.	600
Richmond Retirement System	Evaluate the timeliness and accuracy of year-end 1099 processing.	500
DPW – Fleet Fuel Usage	Evaluate the internal controls, monitoring, and efficiency of fuel usage for the City's fleet.	600
Contract Audit – Top Guard	Evaluate compliance with deliverables and the terms and conditions of the contract.	1000

Audits Planned to Be Initiated During Fiscal Year 2025

Project	Preliminary Objectives	FY 2025 Projected Hours	FY 2026 Projected Hours	Total Projected Hours
Affordable Housing Trust Fund Expenditures	Evaluate the program expenditures and supporting documentation for compliance with program objectives and overall program efficiency and effectiveness.	400	400	800
American Rescue Plan Act (ARPA) Expenditures	Evaluate internal controls over ARPA expenditures and ensure subrecipient expenditures are in compliance with agreements.	800	0	800
Finance Meals Tax – Follow-up	Evaluate the process and controls in place for collection of meals tax revenue as well as the process and progress of reviewing delinquent accounts.	500	500	1000
Continuous Auditing and Risk Assessment	Analytical review of City expenditures to identify possible trends and issues, and to assist in risk assessment for the development of future audit plans.	800	0	800
Fire and Emergency Services - Payroll	Evaluate the controls in place over the payroll process and the accuracy of payroll payments and leave accruals.	500	500	1000
Miscellaneous Vendors	Assess the controls in place over the City's use of the miscellaneous vendor attribute and determine if payments made were properly supported and appropriate.	700	0	700
Overtime Compliance	Evaluate compliance with the City's new overtime policy.	500	0	500
Human Resources Salary	Review current practices and controls in place related to requests for salary adjustments for City staff and constitutional offices.	600	0	600
Contract Audit - AECOM Technical Services	Evaluate compliance with the terms and conditions of the contract and determine if the contract was awarded in compliance with city policies and best procurement practices.	600	900	1500

Special Projects Planned to Be Initiated During Fiscal Year 2025

Project	Preliminary Objectives	Projected Hours
APA Comparative Cost Analysis	Provide a high-level analysis of like-kind local governments in Virginia to provide comparative cost structure information for a range of service areas.	200
Cybersecurity & Network Vulnerability Assessment	Hire a consultant to assess and test the City's Cybersecurity practices and network vulnerability.	100
Follow up – Recommendations	Quarterly follow up with City departments to assess the number of audit recommendations that are implemented.	300
External Audit Assistance	Provide external audit assistance.	300
Other Special Projects	Audits and other reviews completed at the request of City Council, City Administration or at the discretion of the City Auditor.	500

Supplemental Projects –The Following Projects May Be Performed

Project	Preliminary Objectives	Projected Hours
Finance Bank Reconciliations	Evaluate the internal controls over the bank reconciliation process for the concentration account.	600
Personal Property Tax Assessment and Collections – Follow up	Evaluate the process and controls in place for assessing, billing, and collecting personal property taxes.	1000
DPU – Natural Gas Utility	Benchmark the gas leakage percentage against similar gas systems and evaluate the return-on-investment model for gas system expansion and calculations for new service connections to determine if it adds economic value for the City and impacts existing ratepayers.	1000
Contract Change Order/Modification Management and Administration	Evaluate controls related to the justification, approval, and pricing of change orders/modifications.	1000
Contract Audit – Temporary Employee Contracts	Evaluate compliance with the terms and conditions of the contract and determine if the contract was awarded in compliance with City policies and best procurement practices.	1000
Real Estate Assessments	Evaluate controls in place to ensure real estate taxes are properly assessed in compliance with applicable laws.	1000