

CITY OF RICHMOND, VIRGINIA

**REPORT ON SINGLE AUDIT
JUNE 30, 2017**

CITY OF RICHMOND, VIRGINIA

**REPORT ON SINGLE AUDIT
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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	1
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**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Richmond, Virginia (the City), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated November 13, 2017.

Our report included a reference to the other auditor who audited the financial statement of the Richmond School Board, a discretely presented component units. We also did not audit the financial statements of the Richmond Retirement System which was included in the aggregate remaining fund information. The financial statements of the Richmond Retirement System were not audited in accordance with *Government Auditing Standards*. 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 have not been identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the following deficiencies described in the accompanying schedule of findings and responses to be material weaknesses: 2017-001 and 2017-002.

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 following deficiencies described in the accompanying schedule of findings and responses to be significant deficiencies: 2017-003, 2017-004, 2017-005 and 2017-006.

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 an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and responses as item 2017-007.

City of Richmond's Response to Findings

The City's response to the findings identified in our audit are described in the accompanying schedule of findings and responses. 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 it.

Purpose of this Report

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



CliftonLarsonAllen LLP

Arlington, Virginia
November 13, 2017

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

The Honorable City Council
of City of Richmond
Richmond, Virginia

Report on Compliance for Each Major Federal Program

We have audited the City of Richmond's (the City) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended June 30, 2017. The City's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

The City's basic financial statements include the operations of Richmond School Board, Richmond Ambulance Authority, and Richmond Redevelopment and Housing Authority. These component units have been excluded from the accompanying schedule of expenditures of federal awards during the year ended June 30, 2017. Our audit, described below, did not include the operations of Richmond School Board, Richmond Ambulance Authority, and Richmond Redevelopment and Housing Authority because these component units engaged other auditors to perform an audit in accordance with Title 2 U.S. Code of Federal Regulations for Federal Awards, where applicable.

Management's Responsibility

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

Auditors' Responsibility

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

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

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

As described in the accompanying schedule of findings and questioned costs, the City did not comply with requirements regarding CFDA #93.558 – Temporary Assistance for Needy Families (TANF) as described in 2017-008 for Eligibility. Compliance with such requirements is necessary, in our opinion, for the City to comply with the requirements applicable to the programs.

Qualified Opinion on Temporary Assistance for Needy Families (TANF)

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on CFDA 93.558 - Temporary Assistance for Needy Families for the year ended June 30, 2017.

Unmodified Opinion on Each of the Other Major Federal Programs

In our opinion, the City complied in all material respects with the types of compliance requirements referred to above that could have a direct and material effect on each of its other major federal programs identified in the summary of auditors' results section of the accompany schedule of findings and questioned costs for the year ended June 30, 2017.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items 2017-008, 2017-010, and 2017-011. Our opinion on each major program is not modified with respect to these matters.

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

Report on Internal Control Over Compliance

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

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 have not been identified. However, as discussed 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 deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2017-008 to be a material weakness.

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 2017-009, 2017-010 and 2017-011 to be significant deficiencies.

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

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

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

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the City as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated November 13, 2017, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The City's financial statements include the operations of Richmond School Board, Richmond Ambulance Authority and Richmond Redevelopment and Housing Authority for the year ended June 30, 2017. The federal expenditures, where applicable, for Richmond School Board, Richmond Ambulance Authority, and Richmond Redevelopment and Housing Authority are not included in the schedule of expenditures of federal awards. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditure of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.



CliftonLarsonAllen LLP

Arlington, Virginia
March 28, 2018

**CITY OF RICHMOND, VIRGINIA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2017**

Federal Grantor/Pass Through Grantor/Program Title	CFDA Number	Pass Through Grantor Number	Pass-Through to Subrecipients	Federal Expenditures
OFFICE OF NATIONAL DRUG CONTROL POLICY				
Passed Through Mercy Hurst University				
High Intensity Drug Trafficking Agency	07.999	I-2015TXRICH		30,207
High Intensity Drug Trafficking Agency	07.999	I-2016TXRICHMOND		137,592
TOTAL DEPARTMENT OF INTERIOR				167,799
U.S. DEPARTMENT OF AGRICULTURE:				
Direct Payments:				
Child and Adult Food Care Program	10.558			90,738
Summer Food Service Program for Children	10.559			487,841
Passed Through Virginia Department of Social Services:				
Supplemental Nutrition Assistance Program (SNAP) Cluster:				
State Administrative Matching Grants for the				
Supplemental Nutrition Assistance Program	10.561	Laser Report		4,625,863
Total SNAP Cluster				4,625,863
TOTAL U.S. DEPARTMENT OF AGRICULTURE				5,204,442
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT				
Direct Payments:				
Community Development Block Grant Cluster				
Community Development Block Grant Program				
Entitlement Grants (CDBG)	14.218		3,859,780	4,473,755
Community Development				
Block Grant Program- Outstanding Loans	14.218			311,675
Total Community Development Block Grant Cluster				4,785,430
Home Investment Partnerships Program (HOME)	14.239			1,870,189
Emergency Shelter Grant	14.231			393,450
Housing Opportunities for Persons with AIDS (HOPWA)	14.241			857,881
Continuum of Care - Fuse PSH	14.267			229,970
Continuum of Care - Shelter Plus Care	14.267			229,159
TOTAL U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT				8,366,079
U.S. DEPARTMENT OF JUSTICE				
Direct Payments:				
Juvenile Justice and Delinquency Prevention	16.540			11,606
Drug Court Discretionary Grant Program	16.585			91,619
Edward Byrne Memorial Justice Assistance Grant Program	16.738			151,384
TOTAL U.S. DEPARTMENT OF JUSTICE				254,609
U.S. DEPARTMENT OF TRANSPORTATION				
Passed Through Virginia Department of Transportation:				
Highway Planning and Construction Cluster:				
Highway Planning and Construction (Capital Projects) -	20.205	290-8130 TRAFF SAFETY		5,637,311
Passed Through Virginia Department of Transportation Virginia Department of Rail and Public Transportation:				
Employee Trip Reduction	20.205	SC-2015-55123- 5862		69,649
Total Highway Planning and Construction Cluster				5,706,960

**CITY OF RICHMOND, VIRGINIA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
YEAR ENDED JUNE 30, 2017**

Federal Grantor/Pass Through Grantor/Program Title	CFDA Number	Pass Through Grantor Number	Pass-Through to Subrecipients	Federal Expenditures
U.S. DEPARTMENT OF TRANSPORTATION (Continued)				
Passed Through Virginia Division of Motor Vehicles:				
Highway Safety Cluster:				
FY16 Selective Enforcement - Alcohol	20.601	154AL-2015-55120-5859		40,315
FY16 Selective Enforcement - Speed	20.600	OP-2016-56098-6298		9,266
FY16 Selective Enforcement - Ped/Bic	20.600	SC-2016-56095-6295		2,934
FY17 Selective Enforcement - Alcohol	20.600	154AL-2017-57029-6678		64,094
FY17 Selective Enforcement - Occup	20.600	OP-2017-57046-6695		8,672
FY17 Selective Enforcement - Speed	20.600	SC-2017-57065-6714		31,780
FY17 Selective Enforcement - Ped/Bic	20.600	PS-2017-57067-6716		3,950
Total Highway Safety Cluster				<u>161,011</u>
TOTAL U.S. DEPARTMENT OF TRANSPORTATION				<u>5,867,971</u>
ENVIRONMENTAL PROTECTION AGENCY				
Passed Through Virginia Resource Authority				
Clean Water State Revolving Fund Cluster:				
Capitalization Grants for Clean Water State Revolving Funds-				
Virginia Water Facilities Revolving (EPA)	66.458	C-515430-02		524,470
Total Clean Water State Revolving Fund Cluster				<u>524,470</u>
TOTAL ENVIRONMENTAL PROTECTION AGENCY				<u>524,470</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES				
Direct Payment:				
Heathy Start	93.926			620,632
Passed Through Virginia Department of Social Services:				
Promoting Safe and Stable Families & Administration	93.556	RDSS LASER		123,668
Temporary Assistance for Needy Families Cluster				
Temporary Assistance for Needy Families	93.558	RDSS LASER		4,094,228
Total Temporary Assistance for Needy Families Cluster				<u>4,094,228</u>
Refugee Assist (Refugee Resettlement) & Administrative	93.566	RDSS LASER		17,685
Low Income Home Energy Assistance Program -				
Staff & Operations	93.568	RDSS LASER		475,973
Child Care Cluster:				
Child Care and Development Block Grant	93.575	RDSS LASER		(6,548)
Child Care Mandatory and Matching Funds	93.596	RDSS LASER		761,895
Total Child Care Cluster				<u>755,347</u>
Chafee Education and Training Vouchers	93.599	RDSS LASER		35,037
Adoptive Incentive	93.603	RDSS LASER		2,308
Child Welfare Services - IVB1 Admin.	93.645	RDSS LASER		8,888
Foster Care Title IV E	93.658	RDSS LASER		4,313,779
Adoption Assistance - Title IV-E	93.659	RDSS LASER		2,868,470
Social Service Block Grant (SSBG),	93.667	RDSS LASER		3,093,142
Chafee Foster Care - Independent Living & Administrative	93.674	RDSS LASER		55,310
Children's Health Insurance Program-				
Local Medicaid -FAM Administrative	93.767	RDSS LASER		202,468
Medicaid Cluster				
Outstationed Worker/Local Medicaid /				
Staff & Operations, Administrative & Cost Allocation	93.778	RDSS LASER		6,162,768
Total Medicaid Cluster				<u>6,162,768</u>
TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES				<u>22,829,703</u>

**CITY OF RICHMOND, VIRGINIA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
YEAR ENDED JUNE 30, 2017**

Federal Grantor/Pass Through Grantor/Program Title	CFDA Number	Pass Through Grantor Number	Pass-Through to Subrecipients	Federal Expenditures
CORPORATION FOR NATIONAL AND COMMUNITY SERVICE:				
Passed Through Virginia Department of Social Services:				
Ameri Corps	94.006	CVS-15-055-04		14,835
TOTAL CORPORATION FOR NATIONAL AND COMMUNITY SERVICE TOTAL				14,835
U.S. DEPARTMENT OF HOMELAND SECURITY				
Passed Through Virginia				
Department of Emergency Management				
Local Emergency Management Performance Grant	97.042	LEMPG FY16		100,134
TOTAL U.S. DEPARTMENT OF HOMELAND SECURITY TOTAL				100,134
TOTAL EXPENDITURES OF FEDERAL AWARDS				43,330,042

CITY OF RICHMOND, VIRGINIA
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2017

NOTE 1 BASIS OF PRESENTATION

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

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

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

NOTE 2 LOAN PROGRAMS WITH CONTINUING COMPLIANCE REQUIREMENTS

The City participates in the Community Development Block Grant. The balance of loans from previous years and current year loan activity, as required under the Uniform Guidance, are presented in the Schedule of Expenditures of Federal Awards. As of June 30, 2017, the CDBG outstanding loan balance was \$421,882.

NOTE 3 INDIRECT COST

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

**CITY OF RICHMOND, VIRGINIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2017**

PART I – SUMMARY OF AUDITORS’ RESULTS

Financial Statement Section

Type of auditors’ report issued: Unmodified

	<u>Yes</u>	<u>No</u>
Internal control over financial reporting:		
Material weakness(es) identified?	X	
Significant deficiency(ies) identified not considered to be material weaknesses?	X	
Noncompliance material to financial statements noted?	X	

Federal Awards Section

	<u>Yes</u>	<u>No</u>
Material weakness(es) identified?	X	
Significant deficiency(ies) identified not considered to be material weaknesses?	X	

Type of auditors’ report on compliance for major programs: See below

	<u>Yes</u>	<u>No</u>
Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance 2 CFR 516	X	

Identification of major programs:

CFDA Number(s) Name of Federal Program or Cluster

10.561	Unmodified - State Administrative Matching Grants for the Supplemental Nutrition Assistance Program Cluster
14.218	Unmodified - Community Development Block Grant
20.205	Unmodified - Highway Planning and Construction
93.558	Qualified - Temporary Assistance for Needy Families

Dollar threshold used to determine Type A programs: \$1,290,551

	<u>Yes</u>	<u>No</u>
Auditee qualified as low-risk auditee?		X

**CITY OF RICHMOND, VIRGINIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2017**

PART II – FINANCIAL STATEMENT FINDINGS SECTION

2017-001 – Accounting and Financial Reporting for Capital Assets – Material Weakness

Prior Year Finding 2016-001

Condition

The City did not properly account for capital projects in accordance with GAAP. The City completed construction on several capital projects and they were placed in service; however, the City did not close those projects from construction work in process and begin to depreciate the capital assets. While total asset value was recorded correctly in construction work in process, the capital assets were required to be depreciated upon completion in accordance with GAAP and the City's capitalization policy.

Criteria

Capital projects should be capitalized in the period in which they are placed in service or are substantially completed.

Cause

The City has identified project managers with the responsibility of monitoring the progress on construction projects. However, communication between the project managers and those charged with financial reporting responsibilities are insufficient.

Effect

Failure to capitalize capital projects once they are completed could result in misstatement of depreciation expense for the year and improper reporting of capital assets.

Recommendation

We recommend the City establish policies and procedures to ensure that the City's project managers are reviewing all capital projects during the year to determine if projects are substantially completed. The City should also establish policies and procedures to improve communication between the project managers and those charged with financial reporting responsibilities.

Management's Response

Management concurs with the recommendation. The City had limited staffing during the fiscal year, but the Finance Department was able to fill a number of previously vacant positions over the course of the year with additional funding. Further, the Department of Finance has engaged a consultant to review, assess and re-implement the Projects & Grants configuration module in RAPIDS. General government employees will receive additional training on new policies and procedures regarding the use of Projects & Grants module for the reporting of Capital Assets once the re-implementation is complete.

CITY OF RICHMOND, VIRGINIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2017

2017-002 – Timeliness of Reconciliation Processes – Material Weakness
Prior Year Finding #2016-003

Condition

There were numerous routine account reconciliations that were not prepared timely. These reconciliations included monthly cash accounts and capital asset reconciliations from the subsystem to the general ledger.

Criteria

Guidance recommends that responsible personnel perform control activities in a timely manner as defined by the policies and procedures.

Cause

The City has not instituted sufficient monitoring controls to ensure that such reconciliations are prepared, reviewed, and approved timely.

Effect

Failure to perform routine reconciliations timely results in increased risk that a material error in balances may not be prevented and detected. In addition, the financial information provided to those throughout the City may not be accurate, timely, or relevant.

Recommendation

In order to make the financial reports generated by the accounting system as meaningful as possible, the City should reconcile the general ledger accounts for cash and capital assets to supporting documentation on a monthly basis. A benefit of monthly reconciliations is that errors do not accumulate. Such errors can be identified, attributed to a particular period, and corrected, which makes it easier to perform future reconciliations.

Management's Response

Management concurs with the recommendations. The City had limited staffing during the fiscal year, but the Finance Department was able to fill a number of previously vacant positions over the course of the year with additional funding. Reconciliations are now occurring in a timelier manner.

CITY OF RICHMOND, VIRGINIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2017

2017-003 – Recording of Retainage Payable- Significant Deficiency
Prior Year Finding #2016-004

Condition

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

Criteria

Accounting standards require that transactions of an entity be accounted for in accordance with generally accepted accounting principles.

Cause

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

Effect

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

Recommendation

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

Management's Response

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

**CITY OF RICHMOND, VIRGINIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2017**

**2017-004 – Journal Entry Approvals – Significant Deficiency
Prior Year Finding #2016-006**

Condition

Certain individuals within the accounting function have the ability to prepare and post journal entries without a secondary approval.

Criteria

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

Cause

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

Effect

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

Recommendation

We recommend that the City establish policies to ensure regardless of the staffing constraints that segregation of duties is always maintained. Additionally, the City should enable controls within the system that prevent the same user to prepare, post and approve an entry.

Management's Response

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

CITY OF RICHMOND, VIRGINIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2017

2017-005 – Information Technology Controls – Significant Deficiency
Prior Year Finding #2016-007

Condition

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

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

Criteria

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

Cause

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

Effect

An ineffective control environment results increased risk that financial data integrity is not being maintained.

Recommendation

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

- Develop an IT strategic plan to develop resources in alignment with the overall City direction and strategy.
- Develop a process to periodically review active system list to validate that appreciations of account and their associated access rights.
- Implement configuration changes to conform to City policies and periodically assess that configurations continue to align with management's expectations.

Management's Response

Management concurs with the recommendation. The City adopted ORACLE's standard password management and system security settings for the RAPIDS application. The adopted settings included procedures for complex password settings, locking out of a session after a specified period of inactivity and locking an account after a predetermined number of invalid log-on attempts. The City does not have design control over these elements as we would for a self-developed system.

**CITY OF RICHMOND, VIRGINIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2017**

2017-006 – Use of Miscellaneous Vendor – Significant Deficiency

Condition

The City uses the “Miscellaneous Vendor” code for small disbursement for social service reimbursements. However, the “Miscellaneous Vendor” code has been used during the year for large recurring vendors.

Criteria

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

Cause

The City has not instituted sufficient monitoring controls to ensure these procurement processes are being followed.

Effect

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

Recommendation

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

Management’s Response

Management concurs with the recommendation. The Procurement Department is coordinating with the Department of Social Services to reduce the number of large recurring vendors identified as Miscellaneous during the current year. The Finance Department is also coordinating with Social Services electronic payments for the subcontractors that are being used for housing/rent payments in order to expedite payments and reduce Miscellaneous Vendor checks.

**CITY OF RICHMOND, VIRGINIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2017**

**2017-007 – Failure to Comply with the Virginia Reporting Requirements - Material Noncompliance
Prior Year Finding #2016-008**

Condition

The City of Richmond is required to obtain an audit of its schedule of expenditures of federal awards as it expended greater than \$750,000 in federal awards during fiscal year ending June 30, 2017. The City did not issue their audit report by November 30, as required by Virginia

Criteria

The City must submit the final audited financial report, including the single audit, to the Auditor of Public Accounts by November 30 of each year in accordance with Section 15.2-2510 of the Code of Virginia.

Cause

The lack of sufficient employee resources within the City during the year resulted in its inability to perform the required steps necessary to produce the schedules necessary for the single audit on time.

Effect

Failure to comply with Virginia requirements could result in additional activity by the Auditor of Public Accounts.

Recommendation

We recommend that the City implement policies and procedures to ensure that federal grant program reports are available for audit to allow sufficient time for completion of the audit process by the prescribed deadlines.

Management's Response

Management concurs with the recommendation. The City had limited staffing during the fiscal year, but the Finance Department was able to fill a number previously vacant positions over the course of the year with additional funding. The Single Audit for FY2018 will begin in a much timelier manner than the previous years, which will greatly enhance the opportunity for it to be completed on time in coordination with the external auditor.

**CITY OF RICHMOND, VIRGINIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2017**

PART III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS SECTION

2017 – 008

Federal Agency:	U.S. Department of Health and Human Services,
Federal Program:	Temporary Assistance for Needy Families (TANF)
Pass-Through Agency	Virginia Department of Social Service
Pass-Through award Number:	None
CFDA Number:	93.558
Award Period:	July 1, 2016 – June 30, 2017
Grant Number:	None
Compliance Requirement:	Eligibility
Type of Finding:	Material Weakness, material non-compliance
Prior Year Finding:	Yes, 2016-009

Criteria:

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

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

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

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

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

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

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

Condition: We noted 1 out of 60 case files tested were receiving assistance for more than 60 months (whether or not consecutive).

In addition, we noted 11 out of 60 case files tested did not contain adequate documentation to determine eligibility with the Virginia Initiative for Employment not Welfare Program (VIEW).

Questioned Costs: \$227.

**CITY OF RICHMOND, VIRGINIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2017**

Cause: Noncompliance was due to errors that were not detected during the review process.

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

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

Views of responsible officials: See Corrective Action Plan

**CITY OF RICHMOND, VIRGINIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2017**

2017 – 009

Federal Agency:	U.S. Department of Housing and Urban Development,
Federal Program:	Community Development Block Grant (CDBG)
Pass-Through Agency	None
Pass-Through award Number:	None
CFDA Number:	14.218
Award Period:	All years
Grant Number:	B13MC510019, B14MC510019, B15MC510019, B16MC510019
Compliance Requirement:	Special Provisions – Environmental Review
Type of Finding:	Significant deficiency
Prior Year Finding:	No

Criteria:

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

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

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

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

Condition: We noted 1 out of 10 environmental review reports were processed without designated approver signature.

Questioned Costs: None noted; the costs were allowable to the program.

Cause: The missing approval was due to an administrative error.

Effect: The City may charge unallowed costs to the program.

Recommendation: We recommend that the City review and reiterate procedures for approval of all grant required reporting.

Views of responsible officials: See Corrective Action Plan

**CITY OF RICHMOND, VIRGINIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2017**

2017 – 010

Federal Agency:	U.S. Department of Transportation National Highway Traffic Safety Administration, U.S. Department of Justice, and U.S. Department of Health and Human Services
Federal Program:	20.205 – Highway Planning and Construction 16.738 – Edward Byrne Memorial Justice Assistance Grant Program 93.926 – Healthy Start
Pass-Through Agency:	Virginia Department of Transportation, Virginia Department of Justice Services, Virginia Department of Social Services
Pass-Through Award Number:	H49MC00124-17, 2016-DJ-BX-0684, FAM-15-084-27
CFDA Number:	20.205, 16.738, 93.558
Award Period:	2017
Grant Number:	None
Compliance Requirement:	Reporting
Type of Finding:	Significant deficiency in Internal Control, Noncompliance
Prior Year Finding:	No

Criteria: 2 CFR part 200.303 require that non-Federal entities receiving Federal awards (i.e., auditee management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Internal Control-Integrated Framework, published by the Committee of Sponsoring Organizations of the Treadway Commission, provides a framework for organizations to design, implement, and evaluate control that will facilitate compliance with the requirements of Federal laws, regulations, and program compliance requirements.

In addition, 2 CFR Subpart D 200.302 (1) and 200.303 (a) stipulates that the auditee must identify, in its accounts, all Federal awards received and expended and the Federal programs under which they were received. Federal programs and award identification shall include, as applicable, the CFDA title and number, Federal award identification number and year, name of Federal agency, and name of the pass-through entity; establish and maintain effective internal control over Federal award that provides reasonable assurance that the auditee is managing Federal awards in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in “Standards for Internal Control in the Federal Government” issued by the Controller General of the United States and the “Internal Control Integrated Framework”, issued by the Committee on Sponsoring Organizations of the Treadway Commission (COSO).

Condition: The City’s schedule of expenditures of federal awards did not accurately identify proper FY2017 federal expenditures as required by Uniform Guidance. The City did not report program expenditures for FY2017 as expenditures on the SEFA for three federal programs (20.205, 16.738 and 93.926).

Questioned Costs: None.

Cause: The City does not have effective controls in place for identifying and accruing program expenditures to allow proper reporting on the respective year’s SEFA.

Effect: The SEFA contained incorrect expenditure amounts and identifying award information. Therefore, it was not in compliance with 2CFR Subpart D 200.302 (1) and 200.303 (a). The City’s program expenditures may be disallowed if the expenditures are not reported within the allowable period of availability.

**CITY OF RICHMOND, VIRGINIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2017**

Recommendation: We recommend that the City review current procedures for creating the SEFA to ensure that all federal programs and related expenditures incurred and/or paid during the audit period are properly identified.

Views of responsible officials: See Corrective Action Plan.

**CITY OF RICHMOND, VIRGINIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2017**

2017 – 011

Federal Agency:	U.S. Department of Housing and Urban Development,
Federal Program:	Community Development Block Grant (CDBG)
Pass-Through Agency	None
Pass-Through award Number:	None
CFDA Number:	14.218
Award Period:	All years
Grant Number:	B13MC510019, B14MC510019, B15MC510019, B16MC510019
Compliance Requirement:	Allowable Costs/Cost Principles – Time and Effort Reporting
Type of Finding:	Significant deficiency in Internal Control over Compliance, Noncompliance
Prior Year Finding:	No

Criteria:

Control: Per 2 CFR section 200.303(a), a non-Federal entity must: Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in “Standards for Internal Control in the Federal Government” issued by the Comptroller General of the United States or the “Internal Control Integrated Framework”, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Compliance: 2 CFR 200.430 (i) Standards for Documentation of Personnel Expenses states that: Charges to Federal awards for salaries and wages must be based on records that accurately reflect the work performed. These records must: (i) Be supported by a system of internal control which provides reasonable assurance that the charges are accurate, allowable, and properly allocated; (ii) Be incorporated into the official records of the non-Federal entity; (iii) Reasonably reflect the total activity for which the employee is compensated by the non-Federal entity, not exceeding 100% of compensated activities; (iv) Encompass both federally assisted and all other activities compensated by the non-Federal entity on an integrated basis, but may include the use of subsidiary records as defined in the non-Federal entity's written policy; (v) Comply with the established accounting policies and practices of the non-Federal entity; and (vi) [Reserved] (vii) Support the distribution of the employee's salary or wages among specific activities or cost objectives if the employee works on more than one Federal award; a Federal award and non-Federal award; an indirect cost activity and a direct cost activity; two or more indirect activities which are allocated using different allocation bases; or an unallowable activity and a direct or indirect cost activity.

Condition: Time and effort certifications were not documented in accordance with federal requirements. The City did not consistently maintain proper time and effort reporting for employees funded by federal programs.

During our testing, 11 out of 27 employees didn't have proper time and effort documentation to support the amount charged to the federal program.

During our testing, 2 out of 27 employees were missing time and effort certifications.

Questioned Costs: Total questioned costs in the amount of \$1,318 was determined.

Cause: The City does not have effective controls in place for identifying and accruing program expenditures to allow proper reporting on the respective year's SEFA.

**CITY OF RICHMOND, VIRGINIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2017**

Effect: The City's internal controls are ineffective for detecting and/or timely correcting the errors. The City did not establish effective internal controls over allowable costs and activities.

Recommendation: The City should not seek federal reimbursement unless they can substantiate that the time and effort was dedicated to the federal program. The City should evaluate their internal controls to determine what allowed this to occur and take timely corrective action to avoid such instances in the future.

Views of responsible officials: See Corrective Action Plan

**CITY OF RICHMOND, VIRGINIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2017**

**SECTION IV - FINDINGS AND QUESTIONED COSTS RELATED TO COMPLIANCE WITH
COMMONWEALTH OF VIRGINIA LAWS, REGULATIONS, CONTRACTS, AND GRANTS**

2017-APA 01 Department of Social Services Computer System Access
Prior Year finding 2016-APA 02

Condition:

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

2017-APA 02 Annual Financial Report Filing with the Auditor of Public Accounts
Prior Year finding 2016-APA-04

Condition:

The City did not submit the required reports by the required due date.

2017-APA 03 Intergovernmental Agreements

Condition:

Several intergovernmental agreements could not be located.

2017-APA 04 SSI Dedicated Special Welfare Account

Condition:

Refunds to expenditures are not captured in the reimbursement report.