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**Independent Auditors' Report on Compliance with
Requirements Applicable to Each Major Program
and on Internal Control over Compliance in Accordance
with OMB Circular A-133**

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

and

The Honorable Mayor
City of Richmond, Virginia:

Compliance

We have audited the compliance of the City of Richmond, Virginia (the City) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct or material effect on each of the City's major federal programs for the year ended June 30, 2010. The City's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

The City's basic financial statements include the operations of the Richmond Redevelopment and Housing Authority and the Richmond Behavioral Health Authority, which received approximately \$57,000,000 and \$6,000,000, respectively, in federal awards which are not included in the schedule of expenditures of federal awards during the year ended June 30, 2010. Our audit, described below, did not include the operations of the Richmond Redevelopment and Housing Authority and the Richmond Behavioral Health Authority because the component units engaged other auditors to perform an audit in accordance with OMB Circular A-133.

Except as discussed in the following paragraph, we conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City's compliance with those requirements.



As described in items 10-3 in the accompanying schedule of findings and questioned costs, we were unable to obtain sufficient documentation supporting the compliance of the Temporary Assistance for Needy Families (CFDA Number 93.558) program requirements regarding participant eligibility, nor were we able to satisfy ourselves as to the City's compliance with those requirements by other auditing procedures.

In our opinion, except for the effects of such noncompliance, if any, as might have been determined had we been able to examine sufficient evidence regarding the City's compliance with the requirements of its Temporary Assistance for Needy Families program regarding eligibility, as described in the preceding paragraph, the City complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2010. The results of our auditing procedures also disclosed other instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 10-2, 10-4 and 10-5.

Internal Control over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A133, 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 significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses.

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 reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 10-2 through 10-5 to be material weaknesses.

The City's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the City's response, and accordingly, we express no opinion on the responses.

Schedule of Expenditures of Federal Awards

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, 2010, and have issued our report thereon dated December 13, 2010. That report recognizes that the City implemented one new accounting standard



effective July 1, 2001. We did not audit the financial statements of the Richmond Behavioral Health Authority and the Richmond Redevelopment and Housing Authority, which represent 52.38%, 23.43% and 88.26%, respectively, of the total assets, revenues, and net assets of the aggregate discretely presented component units. Those financial statements were audited by other auditors whose reports have been furnished to us and our opinions insofar as they relate to the amounts included for the Richmond Behavioral Health Authority and the Richmond Redevelopment and Housing Authority are based solely on the reports of the other auditors. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of City Council, management, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

March 31, 2011, except as to the paragraph relating to
the schedule of expenditures of federal awards, which
is as of December 13, 2010

CITY OF RICHMOND, VIRGINIA
Schedule of Findings and Questioned Costs
Year ended June 30, 2010

(1) Summary of Auditors' Results

- (a) The type of report issued on the financial statements: **Unqualified opinion**
- (b) Significant deficiencies in internal control disclosed by the audit of the financial statements: **Yes – Year-End Financial Reporting Closing Process**
- (c) Material weakness in internal control disclosed by the audit of the financial statements: **None reported**
- (d) Noncompliance which is material to the financial statements: **None noted**
- (e) Significant deficiencies in internal control over major programs: **Yes, findings 10-2 through 10-5**
- (f) Material weakness in internal control over major programs: **Yes, findings 10-2 through 10-5**
- (g) The type of report issued on compliance for major programs:

Qualified opinion due to scope limitation regarding eligibility of the Temporary Assistance for Needy Families (CFDA Numbers 93.558) program.

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

- (h) Any audit findings which are required to be reported under Section 510(a) of OMB Circular A-133: **Yes**
- (i) Major programs:
 - Foster Care (CFDA Number 93.658)
 - Child Care and Development Fund Cluster (CFDA Numbers 93.575 and 93.596)
 - Medicaid (CFDA Number 93.778)
 - Food Stamps (CFDA Number 10.561)
 - Temporary Assistance for Needy Families (CFDA Number 93.558)
 - Social Services Block Grant (CFDA Number 93.667)
 - Adoption Assistance (CFDA Number 93.659)
 - Title 1 Cluster (CFDA Numbers 84.010 and 84.389)
 - Special Education Cluster (CFDA Numbers 84.027, 84.173, 84.391 and 84.392)
 - State Fiscal Stabilization Cluster (CFDA Numbers 84.394 and 84.397)
 - Head Start Cluster (CFDA Numbers 93.600, 93.708 and 93.709)
 - Capitalization Grants for Clean Water State Revolving Loan Funds (CFDA Number 66.458)

CITY OF RICHMOND, VIRGINIA
Schedule of Findings and Questioned Costs
Year ended June 30, 2010

- Community Development Block Grant Cluster (CFDA Numbers 14.218 and 14.253)
- (j) Dollar threshold used to distinguish between Type A and Type B programs: **\$3,000,000.**
- (k) Auditee qualified as low-risk auditee under Section 530 of OMB Circular A-133: **No**

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

10-1 Year-End Financial Reporting Closing Process

Condition – Yearly, the Director of Finance and departmental staff are charged with closing and reconciling the year-end general ledger accounts and accumulating and assimilating related financial information to prepare the City’s Comprehensive Annual Financial Report (CAFR). This process is multi-faceted and time and labor intensive, incorporating efforts and inputs from personnel City-wide, including City component units. During the fiscal year (FY) 2009 financial statement audit, we reported to the Audit Committee a material weakness in internal control over the City’s financial reporting process, noting that the process was not adequately designed and functioning to ensure that all transactions were accurately and completely recorded in the City’s general ledger and reflected in the City’s financial statements in accordance with U.S. generally accepted accounting principles.

During fiscal year 2010, the Finance Department made substantial progress towards resolving staffing and training deficiencies noted during prior years’ financial statement audits. Although significant strides were made, vacancies in key positions in the finance department were not filled for the entire fiscal year, which impacted the effectiveness and efficiency of the financial reporting process including the drafting of the Comprehensive Annual Financial Report and the maintenance of subsidiary ledger information for key accounts such as capital assets. For example, the City filled its Controller position, which had remained effectively unfilled since early 2008, with an appropriately experienced and trained Certified Public Accountant (CPA) in April 2010. This step, along with employing additional CPAs in response to our specific recommendation made in our 2009 report, helped to reduce, but not eliminate fully, the number of audit related adjustments identified during the current year audit.

Criteria – Per City Code, annual financial statements are to be prepared in accordance with generally accepted accounting principles.

Cause – Availability of funding and ability to retain certain positions have caused the City to be understaffed.

Effect – Increased possibility of errors in financial accounting and reporting.

Recommendation – While the number and magnitude of audit adjustments decreased, the City should continue to make the Finance Department a key focus area, specifically as it relates to ensuring the department functions efficiently and effectively, both in terms of headcount and technical ability.

Views of Responsible Officials – The Finance Department made significant strides during FY 2010 on the preparation of the Comprehensive Annual Financial report and the financial reporting process. For FY 2010, eight Certified Public Accountants (CPAs) were part of the reporting team, compared to four in FY

CITY OF RICHMOND, VIRGINIA

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

2009. Many of this year's year-end closing adjustments were a result of detailed quality control and assurance practices implemented by the Department. The City's commitment to well-managed government practices, including the implementation of an Enterprise Resource Planning system, reorganization, and strengthening of fiscal compliance and controls, will result in on-going systematic improvements to the reporting process.

(3) Findings and Questioned Costs Relating to Federal Awards

10-2 Eligibility

Program – Child Care and Development Fund Cluster (CFDA Numbers 93.575 and 93.596 – U.S. Department of Health and Human Services – Virginia Department of Social Services; Federal Award Number: not available; Federal Award Year: 2010)

Condition – We selected 60 participants for testing and we noted that certain participant eligibility documentation was not maintained by the City to support the agency's eligibility determinations. Specifically, the following documentation could not be provided for review:

- For three participants reviewed, the Notice of Action Form
- For one participant reviewed, the Service Application Form
- For one participant reviewed, the Child Care Service Plan Agreement
- For one participant reviewed, the Statement of Facts Form
- For three participants reviewed, the Childcare Parent Responsibilities Form
- For one participant reviewed, the income verification documentation
- For two participants reviewed, the Purchase of Services Order (POSO) Form

Additionally, regarding the documentation that was provided, we noted that for three participants reviewed, the POSO Form was not approved by the service vendor.

Criteria – Per 45 CFR Section 98.65(c), *Audits and Financial Reporting*, grantors shall ensure that "Lead Agencies shall provide access to appropriate books, documents, papers and records to allow the Secretary (grantor) to verify that Child Care Development Fund funds have been expended in accordance with the statutory and regulatory requirements of the program, and with the Plan."

The inability to directly support the determination of a participant's eligibility is in direct relation to the unallowability of costs/expenditures under the grant's provisions.

Cause – As indicated by the material weakness noted related to the lack of functioning controls over participant documentation retention, City Social Service personnel did not follow grantor approval procedures and documentation policies.

Effect – The City's inability to provide documentation supporting all participants eligibility may result in costs disallowed by the grantor or reduced future funding for this program.

CITY OF RICHMOND, VIRGINIA

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

Questioned Cost – Undeterminable.

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

Views of Responsible Officials – Management concurs with the finding and is cognizant of the importance of the compiling with the grantor's approval and documentation policies and procedures.

- Contact Person: Doris Moseley, RDSS Director
- **Corrective Action:** A corrective action plan has been established that includes developing a comprehensive set of policies and procedures which will provide a quality control system aimed at ensuring accurate and complete documentation and supports all eligibility determinations in accordance with City and Federal record retention requirements. This plan consists of two major components: the standard operating procedures manual and procedures governing the management and audit of case records continuously. It also includes quarterly audits of records by each child care supervisor.
- Anticipated Completion Date: June 30, 2011.

10-3 Eligibility

Program – Temporary Assistance for Needy Families (CFDA Number 93.558 – U.S. Department of Health and Human Services – Virginia Department of Social Services; Federal Award Number: not available; Federal Award Year: 2010)

Condition – Of the 60 participants selected for testing, the following exceptions were noted:

- For seven participants, the Notice of Cooperation, Good Cause and Personal Responsibility forms could not be provided for review.
- For eight participants, Statement of Facts Form or DSS verification forms could not be provided for review.
- For four participants, evidence supporting the participant participation in the VIEW program participation or their respective employment could not be provided for review.

Criteria – Per the OMB A-133 *Compliance Supplement*, participants in the Temporary Assistance for Needy Families program must meet specified eligibility criteria to receive program assistance. Program and federal cost principles require documentation supporting the meeting of the eligibility criteria be maintained. The inability to directly support the determination of a participant's eligibility is in direct relation to the unallowability of costs/expenditures under the grant's provisions.

Cause – As indicated by the material weakness noted related to the lack of functioning controls over participant documentation retention, City Social Service personnel did not follow City approval procedures and documentation policies.

CITY OF RICHMOND, VIRGINIA

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

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

Questioned Cost – Undeterminable. We were unable to determine questioned costs due to a scope limitation.

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

Views of Responsible Officials – Management concurs with the finding and is cognizant of the importance of the compiling with the grantor’s approval and documentation policies and procedures.

- Contact Person: Doris Moseley, RDSS Director
- **Corrective Action:** A corrective action plan has been established that includes developing a comprehensive set of policies and procedures which will provide a quality control system aimed at ensuring accurate and complete documentation and supports all eligibility determinations in accordance with City and Federal record retention requirements. This plan consists of two major components: a standard operating procedures manual and a master checklist of forms required for proper eligibility determination.
- Anticipated Completion Date: June 30, 2011.

10-4 Allowable Costs

Program – Foster Care (CFDA Number 93.658 – U.S. Department of Health and Human Services – Virginia Department of Social Services; Federal Award Number: not available; Federal Award Year: 2010); Child Care and Development Fund Cluster (CFDA Numbers 93.575 and 93.596 – U.S. Department of Health and Human Services – Virginia Department of Social Services; Federal Award Number: not available; Federal Award Year: 2010)

Condition: Of the 60 participants selected for testing for each program, the following exceptions were noted:

- For two of the 60 Foster Care participant disbursements selected for testing, the POSO Form was not approved by the service provider.
- For two of the 60 Child Care and Development Fund Cluster participant disbursements selected for testing, the POSO Form could not be provided City Social Service management for review.
- For two of the 60 Child Care and Development Fund Cluster participant disbursements selected for testing, the POSO Form was not approved by City Social Service management.

Criteria – Per 45 CFR Section 92 of the Uniform Administrative Requirements for Grants and Cooperative Agreement to State, Local and Tribal Governments and section 42, Retention and Access

CITY OF RICHMOND, VIRGINIA
Schedule of Findings and Questioned Costs
Year ended June 30, 2010

Requirements for Records, records must be retained for three years from the starting date specified in paragraph (c) of the section.

Cause – As indicated by the material weakness noted related to the lack of functioning controls over allowable cost documentation completion and retention, City Social Service personnel did not follow grantor approval procedures and documentation policies.

Effect – The inability of the City to provide supporting and approved documentation supporting the determination of expenditure allowability may result in costs disallowed by the grantor or reduced future funding for this program.

Questioned Cost – \$1,195 related to Child Care Development Fund Cluster.

Recommendation – The City should implement corrective action aimed at enhancing internal controls related to participant assistance provided to ensure that accurate and complete documentation supporting all grant related payments to contracted vendors is maintained in accordance with City and federal record retention requirements.

Views of Responsible Officials – Management concurs with the finding and is cognizant of the importance of the compiling with the grantor's approval and documentation policies and procedures.

- Contact Person: Doris Moseley, RDSS Director
- **Corrective Action:** Signed Purchase of Service Orders (POSO) returned by vendors are now being scanned into Harmony to reduce the risk of misplaced Purchase of Service Orders. It is mandatory that staff follow-up with vendors when a signed copy has not been received. Richmond DSS will not pay any invoice for services not approved via Purchase of Service Order. Richmond DSS has also implemented a standardized rate sheet for all approved vendors for consistency in contracts. Effective FY2011, all vendors were required to submit a hard copy of their current State service fee directory rate for the contract year. In addition, this plan also includes the development and implementation of policies governing the management and audit of case records on a continual basis and will include supervisory audits of client case records quarterly.
- Anticipated Completion Date: June 30, 2011

10-5 Eligibility

Program – Medicaid Cluster (CFDA Number 93.778 – U.S. Department of Health and Human Services – Virginia Department of Social Services; Federal Award Number: not available; Federal Award Year: 2010)

Condition – Of the 60 participants selected for testing, the following exceptions were noted:

- One participant case file could not be provided for review.
- One participant case file did not contain complete supporting documentation.

Criteria – Per the OMB A-133 *Compliance Supplement*, participants in the Medicaid program must meet specified eligibility criteria to receive program assistance. Program and federal cost principles require

CITY OF RICHMOND, VIRGINIA

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

documentation supporting the meeting of the eligibility criteria be maintained. The inability to directly support the determination of a participant's eligibility is in direct relation to the unallowability of costs/expenditures under the grant's provisions.

Cause – As indicated by the material weakness noted related to the lack of functioning controls over participant documentation retention, City Social Service personnel did not follow City approval procedures and documentation policies.

Effect – The City's inability to provide documentation supporting all participants eligibility may result in costs disallowed by the grantor or reduced future funding for this program.

Questioned Cost – Undeterminable.

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

Views of Responsible Officials – Management concurs with the finding and is cognizant of the importance of the compiling with the grantor's approval and documentation policies and procedures.

- Contact Person: Doris Moseley, RDSS Director
- **Corrective Action:** A corrective action plan will be developed to provide staff with instructions for resolving issues regarding cases received from the Department of Medical Assistance Services without the required naturalization documentation. This is in addition to the development of a comprehensive set of policies and procedures which will provide a quality control system aimed at ensuring accurate and complete documentation to support all eligibility determinations in accordance with City and Federal record retention requirements. The corrective action plan will also includes the development and implementation of policies governing the management and audit of case records on a continual basis and the supervisory audits of client case records quarterly.
- Anticipated Completion Date: June 30, 2011.