

AUDIT REQUIREMENTS UNDER

The Single Audit Act

OF 1984 AND AMENDMENTS OF 1996
AND OMB CIRCULAR A-133
AUDITS OF STATES, LOCAL GOVERNMENTS
AND NON-PROFIT ORGANIZATIONS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012



CITY OF RICHMOND, VIRGINIA

CITY OF RICHMOND, VIRGINIA

**Audit Requirements Under the Single Audit Act
Of 1984 and Amendments of 1996
And OMB Circular A-133**

Audits of States, Local Governments and Non-Profit Organizations

For Fiscal Year Ended June 30, 2012



MAYOR
Dwight C. Jones

CHIEF ADMINISTRATIVE OFFICER
Byron C. Marshall

DEPUTY CHIEF ADMINISTRATIVE OFFICER
FINANCE & ADMINISTRATION
Sharon O. Judkins

INTERIM DIRECTOR OF FINANCE
T. Wayne Lassiter, CPA, CGMA

CITY CONTROLLER
Alvin L. Cannon

CITY COUNCIL

Kathy C. Graziano
President
Ellen F. Robertson
Vice President

Douglas G. Conner, Jr.
Chris A. Hilbert
E. Martin Jewell
Cynthia I. Newbille
Charles R. Samuels
Reva M. Trammell
Bruce W. Tyler



TITLE PAGE 1

**REPORT OF INDEPENDENT AUDITOR ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*2-3**

**REPORT OF INDEPENDENT AUDITOR ON COMPLIANCE WITH
REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL
EFFECT ON EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-1334-6**

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND NOTES.....7-13

SCHEDULE OF FINDINGS AND QUESTIONED COSTS..... 14-21

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS22-24

**Report of Independent Auditor on Internal Control Over Financial Reporting
and on Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards***

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

The Honorable Mayor of the
City of Richmond, Virginia

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 of Richmond, Virginia (the "City"), as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements, and have issued our report thereon dated December 3, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the *Specifications for Audits of Counties, Cities and Towns*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Other auditors audited the financial statements of the Richmond Behavioral Health Authority and the Richmond Redevelopment and Housing Authority, as described in our report on the City's financial statements. 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. In addition, a separate report on internal control over financial reporting and on compliance and other matters will be issued for Richmond Public Schools.

Internal Control Over Financial Reporting

Management of the City is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we have reported to the management of the City in a separate letter dated December 3, 2012.

This report is intended solely for the information and use of management, the Mayor, City Council, the Audit Committee, 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.

Handwritten signature of Cherry R. Smith, LLP in cursive script.

Richmond, Virginia
December 3, 2012

**Report of Independent Auditor on Compliance with Requirements that
Could Have a Direct and Material Effect on Each Federal Major Program
and on Internal Control Over Compliance in Accordance With OMB Circular A-133**

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

The Honorable Mayor of the
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, 2012. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. 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 \$64,000,000 and \$6,800,000, respectively, in federal awards which are not included in the schedule of expenditures of federal awards for the year ended June 30, 2012. 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.

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 2012-1, 2012-2, and 2012-3 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), Medical Assistance Program (CFDA Number 93.778), and Child Care and Development Fund Cluster (CFDA Number 93.575 and 93.596) 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, Medical Assistance Program, and Child Care and Development Fund Cluster programs regarding eligibility, 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, 2012. The results of our auditing procedures also disclosed another instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 2012-6.

Internal Control over Compliance

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 A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be 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 2012-1, 2012-2, 2012-3, 2012-4 and 2012-5 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, 2012, and have issued our report thereon dated December 3, 2012, which contained unqualified opinions on those financial statements. We did not audit the financial statements of the Richmond Behavioral Health Authority and the Richmond Redevelopment and Housing Authority, which represent 69.48%, 26.00% and 97.76%, 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 the purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the 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 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 financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

This report is intended solely for the information and use of management, the Mayor, City Council, the Audit Committee, 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.

Cherry Point LLP

Richmond, Virginia
March 28, 2013

CITY OF RICHMOND, VIRGINIA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2012

Federal Grantor/Pass Through Grantor/Program Title Pass Through Grantors' Number	Federal CFDA Number	Federal / Pass Through Grantor Number	2012 Federal Expenditures
OFFICE OF NATIONAL DRUG CONTROL POLICY:			
Passed Through University of Maryland: High Intensity Drug Trafficking Agency	07.999	Z972805; Z951415; Z972806	\$ 274,802
TOTAL DEPARTMENT OF INTERIOR			274,802
DEPARTMENT OF AGRICULTURE:			
Direct Payments: Child and Adult Food Program	10.558	59729; 59405	225,215
Direct Payments: Summer Food Service Programs for Children	10.559	56393	956,010
Passed Through Virginia Department of Agriculture and Consumer Services: National School Lunch Program	10.555	10.555/2011	437,953
Passed Through Virginia Department of Education: National School Breakfast Program	10.553	10.553/2011; 10.553/2012; 4098A	2,757,317
National School Lunch Program	10.555	10.555/2011; 10.555/2012	6,623,203
Total Child Nutrition Cluster			<u>10,774,483</u>
Passed Through Virginia Department of Education: Child Nutrition Discretionary Grants Limited Availability	10.579	123-40592; 10.579/2011	11,357
Fresh Fruit & Vegetables Program	10.582	10.582/11/12	339,653
Passed Through Virginia Department of Social Services: State Administrative Matching Grants for Supplemental Nutrition Assistance Program	10.561		3,474,780
TOTAL DEPARTMENT OF AGRICULTURE			14,825,488
DEPARTMENT OF DEFENSE:			
Direct Payments: Air Force ROTC	12.XXX		59,344
Army ROTC	12.XXX		452,650
TOTAL DEPARTMENT OF DEFENSE			511,994

CITY OF RICHMOND, VIRGINIA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2012

Federal Grantor/Pass Through Grantor/Program Title Pass Through Grantors' Number	Federal CFDA Number	Federal / Pass Through Grantor Number	2012 Federal Expenditures
DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:			
Direct Payments:			
Community Development Block Grant Program	14.218	B11-MC-51-0019	4,838,031
CDBG Entitlement Grants - ARRA	14.253		316,317
Total CDBG Entitlement Grants Cluster			<u>5,154,348</u>
Emergency Solutions Grants	14.231	E11-MC-51-0004	215,814
Supportive Housing Program	14.235	VA0012B3F001003; VA0012B3F001104	59,943
Shelter Plus Care	14.238	VA0010C3F000802; VA0147C3F000900; VA0149C3F000900;	1,021,535
The Home Program	14.239	VA0002C3F000800; VA0001C3F000800	2,266,727
HOPWA	14.241	M11-MC-51-0205	797,113
Homelessness Prevention and Rapid Re-Housing Program - ARRA	14.257	VAH11-F001	635,334
Neighborhood Stabilization Program	14.264	S09-MY-51-0004	367,749
Community Challenge Planning Grants and TIGER II Planning Grants	14.704	B11-MN-51-0001	36,636
Passed Through Virginia Department of Housing and Community Development:		CCPVA0040-10	
Neighborhood Stabilization Program	14.264	2008NSP	77,167
TOTAL DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			10,632,366
DEPARTMENT OF JUSTICE:			
Direct Payments:			
Federal Asset Forfeiture	16.XXX		368,121
Second Chance Act Prisoner Reentry Initiative	16.812	2009-CZ-BX-0052	7,663
Juvenile Justice and Delinquency Prevention - Special Emphasis and Technical Assistance	16.541	2010-JL-FX-0037	84,484
Drug Court Discretionary Grant	16.585	2010-DC-BX-0060	79,209
Bulletproof Vest Partnership Program	16.607		125,096
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2008-DJ-BX-0655; 2009-DJ-BX-1224; 2010-DJ-BX-1649; 2011-DJ-BX-2588	395,765
Criminal and Juvenile Justice and Mental Health Collaboration Program	16.745	2010-MO-BX-0056	123,831
Passed Through Virginia Department of Criminal Justice:			
Offender Reentry Initiative	16.202	10-A2204OT07	236,137
Juvenile Accountability Incentive Block Grant	16.523	11-B6002JB08; 11-M3225JB09; 12-N3225JB10; 12-C6002JB09	135,120
Juvenile Justice and Delinquency Prevention	16.540	11-D5431JJ09; 12-E5431JJ09; 12-B2241JJ09; 12-A2339JJ10	124,026
State Victim Assistance Formula, ARRA	16.801	10-A6019VI09	2,001
Passed Through Bedford County Sheriff's Office:			
Internet Crimes Against Children Task Force - ARRA	16.800	2009-SN-B9-K012	23,997
TOTAL DEPARTMENT OF JUSTICE			1,705,450

CITY OF RICHMOND, VIRGINIA

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2012

Federal Grantor/Pass Through Grantor/Program Title Pass Through Grantors' Number	Federal CFDA Number	Federal / Pass Through Grantor Number	2012 Federal Expenditures
DEPARTMENT OF LABOR:			
Passed Through Virginia Department of Education: WIA Adult Program	17.258	VA-2011-GOVERNOR'S STEM ACADEMY-123	38,000
Passed Through Capital Region Workforce Partnership: WIA Youth Activities	17.259	AA-20224-10-55-A-51	224,027
TOTAL DEPARTMENT OF LABOR			262,027
DEPARTMENT OF TRANSPORTATION:			
Direct Payments:			
Federal Transit Capital Investment Grants	20.500		896,860
National Infrastructure Investments	20.933		1,546
			<u>898,406</u>
Subtotal			
Passed Through Virginia Department of Transportation:			
Highway Planning and Construction	20.205	UPC 97360; 47008-32; 47012-49	7,253,637
Recreational Trails Program	20.219		15,593
Total Highway Planning and Construction Cluster			<u>7,269,230</u>
Passed Through Virginia Division of Motor Vehicles:			
Traffic Engineering/Data Surveillance	20.600	SC-2011-51425-4367	8,329
Alcohol Open Container Requirements	20.607	154AL-2012-52121-4499	94,574
TOTAL DEPARTMENT OF TRANSPORTATION			8,270,539
ENVIRONMENTAL PROTECTION AGENCY:			
Passed Through Virginia Resource Authority:			
Capitalization Grants for Clean Water State Revolving Funds	66.458	C-515390-02; C-515430-02	14,439,732
Passed Through Virginia Department of Transportation:			
Chesapeake Bay Program	66.466		247,761
TOTAL ENVIRONMENTAL PROTECTION AGENCY			14,687,493
DEPARTMENT OF ENERGY:			
Direct Payments:			
Energy Efficiency and Conservation Block Grant Program, ARRA	81.128	DE-EE0000878	1,301,603
TOTAL ENVIRONMENTAL PROTECTION AGENCY			1,301,603

FOR THE YEAR ENDED JUNE 30, 2012

10

CITY OF RICHMOND, VIRGINIA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2012

Federal Grantor/Pass Through Grantor/Program Title Pass Through Grantors' Number	Federal CFDA Number	Federal / Pass Through Grantor Number	2012 Federal Expenditures
DEPARTMENT OF HEALTH AND HUMAN SERVICES:			
Direct Payments:			
Substance Abuse and Mental Health Services	93.243	1H79T1023413-01; SH79TI023413-02	328,837
Head Start	93.600	03CH0173/27;03CH0173/28	7,272,143
Healthy Start Initiative	93.926	H494MC00124	1,011,028
Passed Through Virginia Department of Social Services:			
Child Care and Development Block Grant	93.575		2,532,586
Child Care Mandatory of the Child Care and Development Fund	93.596		2,506,472
Total CCFD Cluster			<u>5,039,058</u>
Promoting Safe and Stable Families	93.556		114,194
Temporary Assistance for Needy Families	93.558	SVC-07-070-32	4,915,066
Refugee and Entrant Assistance - State Administered Programs	93.566		16,762
Low-Income Home Energy Assistance	93.568		343,914
Chafee Education and Training Vouchers Program (ETV)	93.599		42,781
Stephanie Tubbs Jones Child Welfare Services Program	93.645		16,949
Foster Care - Title IV - E	93.658		3,267,436
Adoption Assistance	93.659		856,481
Social Services Block Grant	93.667		3,400,833
Chafee Foster Care Independence Program	93.674		95,059
Children's Health Insurance Program	93.767		97,646
Medical Assistance Program	93.778		2,109,393
TOTAL DEPARTMENT OF HEALTH AND HUMAN SERVICES			28,927,580
CORPORATION FOR NATIONAL AND COMMUNITY SERVICE:			
Passed Through Virginia Department of Social Services:			
Ameri Corps	94.006	CVS-09-026-06	87,754
TOTAL CORPORATION FOR NATIONAL AND COMMUNITY SERVICE			87,754

CITY OF RICHMOND, VIRGINIA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2012

Federal Grantor/Pass Through Grantor/Program Title Pass Through Grantors' Number	Federal CFDA Number	Federal / Pass Through Grantor Number	2012 Federal Expenditures
DEPARTMENT OF HOMELAND SECURITY:			
Direct Payments:			
Assistance to Firefighters	97.044	EMW-2010-FO-06989; EMW-2010-FP-01232	276,167
Emergency Operations Centers	97.052	2009-EO-MX-0020	52,040
Port Security Grant Program	97.056	2009-PU-T9-0156; 2010-PU-T0-0093	318,553
Staffing for Adequate Fire and Emergency Response (SAFER)	97.083	EMW-2009-FH-00896	970,685
Assistance to Firefighters Grant, ARRA	97.115	EMW-2009-FC-03949R	2,725,315
Passed Through Virginia Department of Health:			
Metropolitan Medical Response System (MMRS)	97.071	2011MMRS	49,324
Passed Through Virginia Department of Emergency Management:			
Homeland Security Grant Program	97.067	2008MMRS	138,596
State Domestic Preparedness Equipment Support Program	97.004	10-A6117HS08	12,792
Urban Area Security Initiative	97.008	2009CV UASI	260,000
Disaster Grants - Public Assistance	97.036	380649 TS ERNESTO; FEMA-4024-DR-VA	1,440,596
Emergency Management Performance Grant	97.042	2010EMPSG; 2010LEMPG; 2011LEMPG	58,242
State Homeland Security Program Grant	97.073		19,424
TOTAL DEPARTMENT OF HOMELAND SECURITY			6,321,734
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 135,995,184

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

FOR THE YEAR ENDED JUNE 30, 2012

Note 1—Basis of presentation

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

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

Note 2—Subrecipients

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

<u>Program Title</u>	CFDA	
	<u>Number</u>	<u>Subrecipients</u>
High Intensity Drug Trafficking	07.999	\$ 48,245
Community Development Block Grants/Entitlement Grants	14.218	1,787,004
Emergency Shelter Grant	14.231	183,000
Shelter Plus Care	14.238	1,021,535
Home Investment Partnerships Program	14.239	1,840,818
Housing Opportunities for Person with AIDS	14.241	774,113
Juvenile Justice and Delinquency Prevention-Allocation to States	16.540	107,069
Edward Byrne Memorial Justice Assistance Program	16.738	2,125
Criminal and Juvenile Justice and Mental Health Collaboration Program	16.745	70,334
Total Subrecipient Reimbursements		<u>\$ 5,834,243</u>

Note 3—Loans outstanding

The City had the following loan balances outstanding at June 30, 2012.

<u>Program Title</u>	CFDA	
	<u>Number</u>	<u>Amount Outstanding</u>
Section 108	14.248	\$ 1,690,000
Virginia Resources Authority Loan	66.458	39,665,146
Virginia Resources Authority Loan	66.468	179,322
		<u>\$ 41,534,468</u>

CITY OF RICHMOND, VIRGINIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2012

(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: **No**
- c. Material weakness in internal control disclosed by the audit of the financial statements: **No**
- d. Noncompliance which is material to the financial statements: **None reported**
- e. Significant deficiencies in internal control over major programs: **None reported**
- f. Material weakness in internal control over major programs: **Yes**
- 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 Number 93.558) program, Medical Assistance Program (CFDA Number 93.778), and Child Care and Development Fund Cluster (CFDA 93.575 and 93.596)

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:
 - Title I, Part A Cluster (CFDA Number 84.010 and 84.389)
 - Special Education Cluster (IDEA) (CFDA Number 84.027, 84.173, 84.391, 84.392)
 - Child Care and Development Fund Cluster (CFDA Number 93.575 and 93.596)
 - Foster Care (CFDA Number 93.658)
 - Medical Assistance Program (CFDA Number 93.778)
 - Temporary Assistance for Needy Families (CFDA Number 93.558)
 - Child Nutrition Cluster (CFDA Number 10.553, 10.555 and 10.559)
 - Community Development Block Grant (CDBG) Entitlement Grants Cluster (CFDA 14.218 and 14.253)
 - State Administrative Matching Grants for the Supplemental Nutrition Assistance Program (CFDA Number 10.561)
 - Shelter Plus Care (CFDA Number 14.238)
 - Career and Technical Education – Basic Grants to States (CFDA Number 84.048)
 - School Improvement Grants, Recovery Act (CFDA Number 84.388)
 - Education Jobs Fund (CFDA Number 84.410)
 - Head Start (CFDA Number 93.600)
- 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**

CITY OF RICHMOND, VIRGINIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2012

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

None reported

(3) Findings and Questioned Costs Relating to Federal Awards

2012-1: Material Non Compliance and Material Weakness: 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: 2012)

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

- Thirteen case files were missing one or more of the required forms (e.g., Notice of Personal Responsibility {9 forms}, Notice of Cooperation and Good Cause {11 forms}, Do You Have a Disability {13 forms}, and Notice of Intentional Program Violations and Penalties {10 forms}).
- Thirteen case files were missing a case worker signature prior to case approval on one or more of the required forms (e.g., Notice of Personal Responsibility {5 forms}, Notice of Cooperation and Good Cause {4 forms}, Do You Have a Disability {9 forms}, and Notice of Intentional Program Violations and Penalties {2 forms}).
- Two case files were missing applicant's signature on one or more of the required forms (e.g., Do You Have a Disability {1 form} and Notice of Intentional Program Violations and Penalties {1 form}).
- Sixteen case files were missing one of the following forms: Application for Benefits {4 forms}, Request for Assistance {4 forms}, ADAPT Statement of Facts {4 forms}, Notice of Action {10 forms}.
- Four case files were missing case worker and applicant signature. Additionally, a decision was not rendered on the application by the 30th calendar day following the application filing date for one participant.
- One case file was missing proper documentation of United States citizenship or alien eligibility.
- One case file was missing proper documentation to support the participant's age eligibility for the program.

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

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

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 due to a scope limitation.

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

CITY OF RICHMOND, VIRGINIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2012

Views of Responsible Officials: Management concurs with the funding and is cognizant of the importance of the complying 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, 2013.

2012-2: Material Non Compliance and Material Weakness: Eligibility

Program: Medical Assistance Program (CFDA Number 93.778 -U.S. Department of Health and Human Services - Virginia Department of Social Services; Federal Award Number Federal Award Number: not available; Federal Award Year: 2012)

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

- For 56 participants, the required eligibility redeterminations had not been performed within 12 months since the previous determination.
- Four participant case files could not be provided for review.
- Six participant case files did not contain a completed application signed by an adult household member or authorized representative.
- Five participant case files were missing valid identification to establish citizenship.
- Seven participant case files were missing proper Social Security Number documentation.
- Five participant cases were missing proper income verification.

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

Cause: A lack of functioning controls over participant documentation retention. 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 due to a scope limitation.

Recommendation: The City should implement a corrective action plan aimed at enhancing internal controls related to participant eligibility to ensure that accurate and complete documentation supporting all participant intake information is 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 complying with the grantor's approval and documentation policies and procedures.

CITY OF RICHMOND, VIRGINIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2012

- **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 include 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, 2013.

2012-3: Material Non Compliance and Material Weakness: Eligibility

Program: Child Care and Development Fund Cluster (CFDA Number 93.575 / 93.596 -U.S. Department of Health and Human Services - Virginia Department of Social Services; Federal Award Number: not available; Federal Award Year: 2012)

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

- Four participant case files could not be provided for review.
- Three participant files were missing state income eligibility documentation.
- Two participant files were missing the mandatory 12 month income and eligibility review and verification to ensure recipient remains eligible for benefits.
- One participant file was missing proper eligibility documentation (i.e., parents are attending one of the following: work, job training, or education program) for the program.

Criteria: Per the 45 CFR Section 98.30 (a) and 98.80 (f), children must be under age 13 (or up to age 19, if incapable of self-care or under court supervision), who reside with a family whose income does not exceed 85 percent of state/territorial/tribal median income for a family of the same size, and reside with a parent (or parents) who is working or attending a job-training or education program; or are in need of, or are receiving, protective services. Lead Agencies shall establish a sliding fee scale, based on family size, income, and other appropriate factors, that provides for cost sharing by families that receive CCDF child care services. Lead Agencies may exempt families below the poverty line from making copayments and shall establish a payment rate schedule for child care providers caring for subsidized children.

Cause: A 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 due to a scope limitation.

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

CITY OF RICHMOND, VIRGINIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2012

Views of Responsible Officials: Management concurs with the finding and is cognizant of the importance of the complying 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 a review of the policies and procedures for the proper filing and tracking of Child Care case records. Additionally, Child Care program guidance regarding required income verification, appropriate documentation and filing of income verification in case records will be reviewed with all Child Care Case Managers. Finally, each Child Care Case Manager will read 3 cases, per employee, each month to monitor the compliance of the program.
- Anticipated Completion Date: June 30, 2013.

2012-4: Material Weakness: Allowable Costs

Program: Child Care and Development Fund Cluster (CFDA Number 93.575 / 93.596 - U.S. Department of Health and Human Services - Virginia Department of Social Services; Federal Award Number: not available; Federal Award Year: 2012)

Condition: For three of 60 participants tested, program expenditures were not approved by a supervisor in accordance with City policy.

Criteria: Per 42 USC 9858C, funds may be used for child care services in the form of certificates, grants, or contracts. Funds may be used for activities that improve the quality or availability of child care services, consumer education, and parental choice. Funds may be used for any other activity that the state deems appropriate to promoting parental choice, providing comprehensive consumer education information to help parents and the public make informed choices about child care, providing child care to parents trying to achieve independence from public assistance, and implementing the health, safety, licensing, and registration standards established in state regulations. No funds may be expended through any grant or contract for child care services for any sectarian purpose or activity, including sectarian worship or instruction. With regard to services to students enrolled in grades 1 through 12, no funds may be used for services provided during the regular school day, for any services for which the students receive academic credit toward graduation, or for any instructional services that supplant or duplicate the academic program of any public or private school. Accordingly, all funds expended should be approved by City management to ensure allowability of the charge has been reviewed for grant compliance prior to payment.

Cause: A lack of functioning controls over expenditure 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 program expenditures may result in costs disallowed by the grantor or reduced future funding for this program.

Questioned Cost: None

Recommendation: The City should implement a corrective action plan aimed at enhancing internal controls related to allowable costs to ensure that accurate and complete documentation supporting all program expenditures 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 complying with the grantor's approval and documentation policies and procedures.

CITY OF RICHMOND, VIRGINIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2012

- **Contact Person:** Doris Moseley, RDSS Director
- **Corrective Action:** A corrective action plan will be developed to remind staff that all purchase orders must be signed by the Supervisor (or appointed authority) before issuing to vendors or customers. The Office Support Specialists will review all purchase orders before mailing to ensure they are signed by the Supervisor (or appointed authority) and will return any unsigned purchase orders to the Supervisor (or appointed authority).
- Anticipated Completion Date: June 30, 2013.

2012-5: Material Weakness: Allowable Costs

Program: State Administrative Matching Grants for the Supplemental Nutrition Assistance Program (CFDA Number 10.561 – US Department of Agriculture; Federal Award Number: not available; Federal Award Year: 2012)

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

- One instance where the RMS (Random Moment Sample) Observation Form indicated the case worker was working on a specific case number, however the observer marked the case worker as “not present” and there was no evidence of a case worker signature on the RMS Form.
- Two instances where the RMS Observation Form was completed by the observer denoting that the employee was “not present” while the employee signed and dated the form signifying their presence.

Criteria: Per 7 CFR part 277, the U.S. Department of Agriculture, Food and Nutrition Services provides funding for state administration and benefits, and oversees the operation of state agencies to ensure compliance with Federal laws and regulations. Each state is required to have a system for monitoring and improving its administration of SNAP, particularly the accuracy of eligibility and benefit determinations. Based upon the Commonwealth of Virginia Department of Social Services (VDSS) Public Assistance Cost Allocation Plan, VDSS has implemented a "Random Moment Sampling" procedure to ensure that payroll expenses are properly allocated based upon case worker efforts. Each quarter the VDSS performs a random sample of employees within the system ("RMS List of Observations") for the locality and performs a random sample of the population. For each sampled case worker in the quarter, the RMS Observer documents the case worker's activities at that particular moment according to the program and activity definitions from the descriptive list accompanying the "RMS Observation Form". The RMS Observer is to observe and certify that the observation is conducted timely and that the observation form is completed accurately.

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

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

Questioned Cost: Undeterminable.

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

CITY OF RICHMOND, VIRGINIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2012

Views of Responsible Officials: Management concurs with the finding and is cognizant of the importance of the complying 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 conduct RMS training for Managers, Supervisors and Lead Workers as to the proper procedures for conducting the Random Moment Sample.
- Anticipated Completion Date: June 30, 2013.

2012-6: Non Material Non Compliance: Payroll Certification

Program: Special Education Cluster (IDEA) (CFDA Number 84.027, 84.173, 84.391, 84.392 – U.S. Department of Education – Virginia Department of Education

Condition: Although the City has certifications for IDEA personnel covering various periods, Semiannual payroll certifications were not performed during fiscal year 2012.

Criteria: Per OMB Circular A-87, "where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semiannually and will be signed by the employee or supervisory official having first hand knowledge of the work performed by the employees."

Cause: A lack of functioning controls over the semiannual payroll certification process. City Education personnel did not follow Federal documented procedures and policies.

Effect: The City's inability to ensure an employee's time is being charged to the correct Federal program in accordance with Federal regulations may result in costs disallowed by the grantor or reduced future funding for this program.

Questioned Cost: Undeterminable.

Recommendation: The City should implement a corrective action plan aimed at emphasizing adherence to Federal policies and procedures regarding certification of payroll.

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

- **Contact Person:** Angela Anderson, Chief Accountant
- **Corrective Action:** Functioning controls are in place to ensure compliance with federal program regulations, which include a control over the semiannual payroll certification process.

The Grants Accountant responsible for semi-annual payroll certification has consistently completed this task timely and efficiently. A required certification was to be performed in January 2012, six months following the previous certification of June 2011 and six months before the next certification of July 2012, both of which occurred and were properly documented. The required certification following July 2012 was December 2012 (FY2013), and was performed one-month in delay, January 2013.

CITY OF RICHMOND, VIRGINIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2012

The delay in completing the December 2012 was due to a human lapse.

To strengthen controls over this process, the finance accountant and special education department have put a task reminder system in place using Google technology. This reminder is set for a time period well in advance of the required semi-annual payroll certification, and will go to multiple people. This reminder system will support the special education department in complying with all required certifications and mitigate the possibility of this occurrence in the future.

- Anticipated Completion Date: June 30, 2013

CITY OF RICHMOND, VIRGINIA

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

YEAR ENDED JUNE 30, 2012

2011-1: Internal Control Over Financial Reporting – Capital Assets

Criteria: In order to prepare financial statements in accordance with generally accepted accounting principles (GAAP), accurate and complete subsidiary records must be maintained to support the existence and valuation of assets to ensure an accurate presentation of the financial position of the City at the end of the year.

Condition: Internal control processes were not in place to support the value of buildings and Improvements reported on the statement of net assets for governmental activities. As a result, a review of the subsidiary listing of buildings and improvements noted the following:

- Significant amounts representing improvements and betterments could not be associated with individual properties.
- A lack of support for the historical cost, or the estimated historical cost of individual buildings.
- A lack of a process to identify building impairments which could affect the value of buildings.
- Several existing buildings had to be added to the list that had been previously missing.

Resolution:

Corrected.

2011-2: The Control Environment

Criteria: In order for internal control processes to work efficiently and effectively within an organization, elected officials and management must encourage a positive control environment. An entity's control environment is the foundation of an organization's entire internal control structure – financial, operational, and compliance – that incorporates the integrity, ethical values, philosophy and operating style of that entity. Among the characteristics of a strong control environment is the encouragement of a positive attitude toward controls that fosters open communication and cooperation, the continued employment of competent and trained professionals and the existence of an efficient and effective internal audit process.

Condition: Several of the characteristics of a strong control environment were not evident during the period under audit:

- Significant turnover of key finance personnel has occurred over the last several years, including the loss of the top three finance managers shortly after the end of this past fiscal year. This has resulted in a lack of continuity and institutional knowledge of financial operations.
- The Richmond City Internal Auditor has a very active program that includes both financial and operational audits. However, the current confrontational relationship that exists between the City Auditor, the finance department and many other operating departments of the City limits the effectiveness of the internal audit function as a key control over financial operations.

Resolution:

Corrected.

CITY OF RICHMOND, VIRGINIA

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

YEAR ENDED JUNE 30, 2012

2011-3: Internal Controls over Financial Reporting – Report Preparation and Review

Criteria: The Comprehensive Annual Financial Report (CAFR) of the City is a large and complex report with several sections and multiple schedules that must agree and reconcile. A second review of the CAFR is a best practice that reduces the risk of misstatements in financial reporting due to error.

Condition: During the course of our review, it was noted that there was not a process in place to review the draft financial report prior to providing the report to us for our review. The Assistant Controller for Accounting and Reporting has created a robust CAFR preparation process, but received little or no assistance. As a result, there were a number of errors identified that should have been caught and corrected prior to submission.

Resolution:

Corrected.

2011-4: Eligibility

Program: Temporary Assistance for Needy Families (CFDA Number 93.558 -U.S. Department of Health and Human Services - Virginia Department of Social Services)

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.

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

- One participant case file could not be provided for review.
- For three participants, the Notice of Personal Responsibility forms could not be provided for review.
- For four participants, the Notice of Cooperation and Good Cause forms could not be provided for review.
- For three participants, the Notice of Intentional Program Violations and Penalties forms could not be provided for review.
- For two participants, the Do You Have a Disability forms could not be provided for review.
- For one participant, the Statement of Facts Form or DSS verification forms could not be provided for review.
- For one participant, evidence supporting the participant's participation in the VIEW program or their respective employment could not be provided for review.

Resolution:

Although a corrective action plan, that includes a comprehensive policies and procedures manual and a master checklist of necessary forms, has all been completed, similar program findings were noted in 2012 and reported in the schedule of findings and questioned costs

CITY OF RICHMOND, VIRGINIA

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

YEAR ENDED JUNE 30, 2012

2011-5: Eligibility

Program: Medical Assistance Program (CFDA Number 93.778 -U.S. Department of Health and Human Services - Virginia Department of Social Services; Federal Award Number)

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 documentation supporting the meeting of the eligibility criteria be maintained. Additionally, redetermination of eligibility must be performed at least every 12 months. 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.

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

- Three participant case files could not be provided for review.
- Two participant case files did not contain complete supporting documentation.
- For four participants redetermination of eligibility was not performed within 12 months since the previous determination.

Resolution:

Several corrective action steps have been put in place to ensure eligibility for Medicaid is established in accordance with policy and procedures. A policy and procedures manual, guidelines for completing periodic caseload audits and supervisory review of case actions are all in place and completed by the target date of June 30, 2012. However, similar program findings were noted in 2012 and reported in the schedule of findings and questioned costs



**AUDIT REQUIREMENTS
UNDER THE SINGLE AUDIT ACT**

DEPARTMENT OF FINANCE
900 EAST BROAD STREET, 10TH FLOOR
RICHMOND, VIRGINIA 23219

WWW.RICHMONDGOV.COM

PRINTED BY
CITY PRINTING SERVICES
DEPARTMENT OF INFORMATION TECHNOLOGY

