

CITY OF HOPEWELL, VIRGINIA

COMPLIANCE REPORTS

For the Year Ended June 30, 2015

And Reports of Independent Auditor

CITY OF HOPEWELL, VIRGINIA
TABLE OF CONTENTS

COMPLIANCE REPORTS

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* 1-2

Report of Independent Auditor on Compliance for Each Major Federal Program
and on Internal Control over Compliance Required by OMB Circular A-133 3-5

Report of Independent Auditor on Compliance with Commonwealth of Virginia’s Laws,
Regulations, Contracts, and Grants..... 6

SCHEDULES

Schedule of Expenditures of Federal Awards..... 7-8

Notes to Schedule of Expenditures of Federal Awards 9

Schedule of Findings and Questioned Costs..... 10-23

**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 City Council
City of Hopewell, 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 Hopewell, Virginia (the "City"), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated August 31, 2017. Our report included an emphasis paragraph indicating that the business-type activities, the Hopewell Regional Wastewater Treatment Facilities Fund ("HRWTF"), and the Sewer Service Fund opinion units' financial statement opinions are qualified due to a scope limitation over our testing. Our report included an emphasis paragraph indicating that the net position as of June 30, 2014 of the governmental activities, the business-type activities, the HRWTF Fund, the Sewer Service Fund, the Beacon Theatre Fund, and the School Board discretely presented component unit has been restated from the City's previously issued financial statements to reflect the correction of errors. Our report recognizes that the City implemented two new accounting standards effective July 1, 2014.

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.

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 entity's financial statements will not be prevented, or detected and corrected, on a timely basis. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section 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 were not identified. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Questioned Costs as 2015-001 through 2015-003 and 2015-005, which we consider to be material weaknesses. As Finding 2015-005 was determined after the previously issued report, this report is dual dated accordingly.

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 two instances of noncompliance required to be reported under *Government Auditing Standards* as described in the

accompanying Schedule of Findings and Questioned Costs as items 2015-004 and 2015-005. Additionally, if the scope of our work had been sufficient to enable us to express opinions on the basic financial statements and on the fair presentation of the Schedule of Expenditures of Federal Award in relation to the basic financial statements, other instances of noncompliance or other matters may have been identified and reported herein.

Management's Responses to Findings

The City's responses to the 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 the financial statements and, accordingly, we express no opinion on them.

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 results 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.

A handwritten signature in blue ink that reads "Cheryl Behrman CPA". The signature is written in a cursive, flowing style.

Richmond, Virginia

August 31, 2017, except for additional procedures associated with
sufficient audit evidence regarding the fair presentation of
the Schedule of Expenditures of Federal Awards as discussed
in Finding 2015-005, as to which the date is July 31, 2019.

Report of Independent Auditor on Compliance for Each Major Program and on Internal Control over Compliance Required by OMB Circular A-133

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

Report on Compliance for Each Major Federal Program

We have audited the City of Hopewell, Virginia's (the "City") compliance 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 and material effect on each of the City's major federal programs for the year ended June 30, 2015. 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.

Management's Responsibility

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

Auditor's 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organization*. 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 opinions on compliance for each major federal program. However, our audit does not provide a legal determination of the City's compliance.

Summary of Opinions

<u>Major Federal Program</u>	<u>CFDA #</u>	<u>Type of Opinion</u>
Supplemental Nutrition Assistance Program Cluster	10.561	Unmodified
Child Nutrition Cluster	10.553 and 10.555	Unmodified
Temporary Assistance for Needy Families Cluster	93.558	Unmodified
Head Start	93.600	Disclaimer
Social Services Block Grant	93.667	Unmodified
Medical Assistance Program - Medicaid Cluster	93.778	Unmodified

Basis for Disclaimer of Opinion on the Head Start Major Federal Program

Management of the School Board discretely presented component unit could not reconcile the expenditures of federal awards to the trial balance for the Head Start program (CFDA 93.600), which represents 8.1 percent of the City's total expenditures of federal awards.

Disclaimer of Opinion on the Head Start Major Federal Program

Because of the significance of the matter described in the “Basis for Disclaimer of Opinion on the Head Start program (CFDA 93.600)” paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the City’s compliance with the types of compliance requirements described in OMB *Circular A-133 Compliance Supplement* that could have a direct and material effect on the Head Start program for the year ended June 30, 2015. Specifically, the compliance requirements that were determined to be direct and material were allowable activities and related costs; cash management; matching, level of effort and earmarking; period of availability, and reporting. Accordingly, we do not express an opinion on the City’s compliance with the types of compliance requirements referred to above over the Head Start program as noted as item 2015-005 in the Schedule of Findings and Questioned Costs.

Unmodified Opinions on Each Other Major Federal Program

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 for the year ended June 30, 2015.

The City’s response to the noncompliance finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. The City’s response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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 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.

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. *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.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section 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 were not identified. We did identify a deficiency in internal control, described in the accompanying Schedule of Findings and Questioned Costs as 2015-005, which we consider to be a material weakness.

The City’s response to the internal control over compliance finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. The City’s response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited 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, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated August 31, 2017. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. Our report included an emphasis paragraph indicating that the business-type activities, the Hopewell Regional Wastewater Treatment Facilities Fund ("HRWTF"), and the Sewer Service Fund opinion units' financial statement opinions are qualified due to a scope limitation over our testing. Our report included an emphasis paragraph indicating that the net position as of June 30, 2014 of the governmental activities, the business-type activities, the HRWTF Fund, the Sewer Service Fund, the Beacon Theatre Fund, and the School Board discretely presented component unit has been restated from the City's previously issued financial statements to reflect the correction of errors. The accompanying Schedule of Expenditures of Federal Awards is presented for the purposes of additional analysis as required by OMB Circular A-133 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. Because of the significance of the matter described in the "Basis for Disclaimer of Opinion on the Schedule of Expenditures of Federal Awards" paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the Schedule of Expenditures of Federal Awards for the year ended June 30, 2015. Accordingly, we do not express an opinion on the Schedule of Expenditures of Federal Awards in relation to the basic financial statements taken as a whole.

Basis for Disclaimer of Opinion on the Schedule of Expenditures of Federal Awards

For the fiscal year ended June 30, 2015, management of the School Board discretely presented component unit could not reconcile the expenditures of federal awards to the trial balance for the following programs administered by the School Board, which represents 35.6 percent of the total expenditures of federal awards, as noted as item 2015-005 in the Schedule of Findings and Questioned Costs:

<u>Federal Program</u>	<u>CFDA</u>
Career and Technical Education	84.048
Title I Grants to Local Educational Agencies	84.010
Improving Teacher Quality State Grants	84.367
Head Start	93.600
Special Education Cluster	84.027 and 84.173

We have not performed any auditing procedures with respect to the audited financial statements subsequent to the date of the auditor's report on those financial statements.

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 results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



Richmond, Virginia
July 31, 2019

Report of Independent Auditor on Compliance with Commonwealth of Virginia's Laws, Regulations, Contracts, and Grants

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

We have audited, 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* (the "Specifications"), issued by the Auditor of Public Accounts of the Commonwealth of Virginia, 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 Hopewell, Virginia (the "City"), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated August 31, 2017.

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 the City's compliance with certain provisions of the Commonwealth of Virginia's laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, the objective of our audit of the basic financial statements was not to provide an opinion on overall compliance with such provisions and, accordingly, we do not express such an opinion.

The following is a summary of the Commonwealth of Virginia's laws, regulations, contracts, and grants for which we performed tests of compliance:

Code of Virginia		State Agency Requirements
Budget and Appropriation Laws	Procurement	Education
Cash and Investments	Unclaimed Property	Comprehensive Services Act Funds
Conflicts of Interest	Property Taxes	Social Services
Debt Provisions		
Intergovernmental Revenues and Agreements		
Highway Maintenance Funds		

The results of our tests disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with the Specifications, and which are described in the accompanying Schedule of Findings and Questioned Costs as items 2015-006 through 2015-012.

The City's responses to the noncompliance 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.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of compliance with certain provisions of the Commonwealth of Virginia's laws, regulations, contracts, and grants and the results of that testing, and not to provide an opinion on the City's compliance. Accordingly, this communication is not suitable for any other purpose.

Cherry Bekaert LLP

Richmond, Virginia
July 31, 2019

CITY OF HOPEWELL, VIRGINIA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2015

	Federal Catalogue Number	Expenditures
<u>Department of Agriculture</u>		
<u>Pass Through Payments:</u>		
Department of Education		
National School Breakfast Program	10.553	\$ 527,723
National School Lunch Program	10.555	1,328,669
Subtotal		<u>1,856,392</u>
Department of Agriculture		
Food Distribution - School	10.555	119,775
Department of Social Services		
State Administrative Matching Grants for Supplemental Nutrition Assistance Program	10.561	<u>425,716</u>
Total Department of Agriculture		<u>2,401,883</u>
<u>Department of Defense</u>		
<u>Direct Payment</u>		
JROTC	12.000	<u>67,819</u>
Total Department of Defense		<u>67,819</u>
<u>Department of Housing and Urban Development</u>		
<u>Direct Payments:</u>		
Community Development Block Grant - State Programs	14.228	<u>19,116</u>
Total Department of Housing and Urban Development		<u>19,116</u>
<u>Department of Justice</u>		
<u>Pass Through Payments:</u>		
Bulletproof Vest Partnership Program	16.607	7,480
Victim Witness	16.575	134,445
Public Safety Partnership and Community Policing Grant	16.710	72,701
Edward Byrne Memorial Justice Assistance Program	16.738	<u>30,278</u>
Total Department of Justice		<u>244,904</u>
<u>Department of Transportation</u>		
<u>Pass Through Payments:</u>		
<u>Dept. of Motor Vehicles</u>		
State and Community Highway Safety Program - Police	20.600	<u>12,449</u>
Total Department of Transportation		<u>12,449</u>

CITY OF HOPEWELL, VIRGINIA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)

YEAR ENDED JUNE 30, 2015

	Federal Catalogue Number	Expenditures
<u>Department of Education</u>		
<u>Direct Payments:</u>		
Impact Aid	84.041	34,064
<u>Pass Through Payments:</u>		
Title I Grants to Local Educational Agencies	84.010	1,103,483
Special Education Cluster:		
Special Education Grants to States	84.027	842,278
Preschool Handicapped	84.173	19,617
Subtotal		861,895
Career and Technical Education: National Programs	84.048	49,094
Advanced Placement Incentive Program	84.330	4,242
English Language Acquisition Grants (Title III)	84.365	37,148
Improving Teacher Quality State (Title II A)	84.367	229,766
School Improvement Grant	84.377	170,104
Total Department of Education		2,489,796
<u>Department of Health and Human Services</u>		
<u>Direct Payments:</u>		
Administration for Children, Youth and Families (Head Start and Day Care Grant)	93.600	665,050
<u>Pass Through Payments:</u>		
Promoting Safe and Stable Families	93.556	11,933
Temporary Assistance for Needy Families (TANF)	93.558	524,893
Refugee and Entrant Assistance - State Administered Programs	93.566	692
Low Income Home Energy Assistance	93.568	44,994
Child Care Mandatory & Matching Funds of the Child Care & Development Fund	93.596	66,380
Chafee Education and Training Vouchers Program	93.599	3,486
Child Welfare Services - State Grants	93.645	3,020
Foster Care - Title IV-E	93.658	278,784
Adoption Assistance	93.659	221,234
Social Services Block Grant	93.667	282,450
Chafee Foster Care Independence Program	93.674	4,769
State Children's Insurance Program	93.767	14,013
Medical Assistance Program - Medicaid	93.778	761,776
Total Department Health and Human Services		2,883,474
<u>Department of Homeland Security</u>		
<u>Pass Through Payments:</u>		
Dept. of Emergency Services		
Emergency Management Performance Grants	97.042	42,959
Total Department of Homeland Security		42,959
Total Federal Expenditures		\$ 8,162,400

CITY OF HOPEWELL, VIRGINIA

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2015

Note 1—Summary of significant accounting policies

Reporting Entity – The accompanying Schedule of Expenditures of Federal Awards (the “Schedule”) includes the activity of all federal award programs administered by the City. The City’s reporting entity is defined in Note 1 of the City’s basic financial statements.

Basis of Presentation – The information in the Schedule is presented in accordance with the requirements of OMB Circular A-133. Therefore, some amounts presented in the Schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements. Federal award program titles are reported as presented in the Catalog of Federal Domestic Assistance (“CFDA”) in effect for the year in which the award was granted.

Basis of Accounting – The Schedule has been prepared on the modified accrual basis of accounting as defined in Note 1(D) of the City’s basic financial statements. Federal award programs include direct expenditures and monies passed through to other governmental entities (i.e., payments to subrecipients). The City participated in the Federal Food Distribution Programs (CFDA Number 10.555) program in which noncash benefits are provided through the state to eligible program participant. The value of food commodities (\$119,775) was calculated using the U.S. Department of Agriculture’s Food and Nutrition Service commodity price lists.

Child Nutrition Cluster – The City participated in these related grant programs (CFDA Numbers 10.553 and 10.555), which in total represented \$1,976,167 in federal assistance.

Note 2—Relationship to federal financial reports

Federal expenditures, revenues, and capital contributions are reported in the City’s basic financial statements as follows:

Intergovernmental federal revenues per the basic financial statements:

Primary Government:

General Fund	\$ 119,299
Special Revenue Funds:	
Virginia Public Assistance Fund	2,199,813
Community Development Block Grant Fund	24,422
Total Primary Government	<u>2,343,534</u>

Component Unit - School Board:

School Operating Fund	3,550,630
School Cafeteria Fund	1,976,167
Total Component Unit School Board	<u>5,526,797</u>

Total Federal Revenues per Basic Financial Statements	<u>7,870,331</u>
---	------------------

Other Reconciling Items	<u>292,069</u>
-------------------------	----------------

Total Federal Expenditures per the Schedule of Expenditures of Federal Awards	<u>\$ 8,162,400</u>
---	---------------------

CITY OF HOPEWELL, VIRGINIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2015

(1) Summary of Auditor's Results

- a. The type of report issued on the financial statements:

Qualified – The Business-type Activities, the Hopewell Regional Wastewater Treatment Facilities Fund (“HRWTF”), and the Sewer Service Fund opinion units’ financial statement opinions.

Unmodified – all other opinion units

- b. Significant deficiencies in internal control disclosed by the audit of the financial statements: **None reported**
- c. Material weakness in internal control disclosed by the audit of the financial statements: **Yes, Findings 2015-001 through 2015-003 and 2015-005**
- d. Noncompliance which is material to the financial statements: **Yes, Findings 2015-004 and 2015-005**
- e. Significant deficiencies in internal control over major programs: **None reported**
- f. Material weakness in internal control over major programs: **Yes, Finding 2015-005**
- g. The type of report issued on compliance for major programs:
- **Disclaimer** – Fair presentation of the Schedule of Expenditures of Federal Awards
 - **Disclaimer** – Head Start (CFDA Number 93.600) major program
 - **Unmodified** – All other major programs
- h. Any audit findings which are required to be reported under the OMB Circular A-133: **Yes, Finding 2015-005**
- i. Major programs:
- Supplemental Nutrition Assistance Program Cluster (CDFA Number 10.561)
 - Child Nutrition Cluster (CFDA Numbers 10.553 and 10.555)
 - Temporary Assistance for Needy Families Cluster (CFDA Number 93.558)
 - Medical Assistance Program – Medicaid Cluster (CFDA Number 93.778)
 - Social Services Block Grant (CFDA Number 93.667)
 - Head Start (CFDA Number 93.600)
- j. Dollar threshold used to distinguish between Type A and Type B programs: **\$300,000**
- k. Auditee qualified as low-risk auditee: **No**

CITY OF HOPEWELL, VIRGINIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2015

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

2015-001: Material Weakness – Internal Control over Financial Reporting – Annual External Financial Reporting In Accordance With Accounting Principles Generally Accepted in the United States of America (“U.S. GAAP”)

Criteria: In order to prepare financial statements in accordance with U.S. GAAP, accurate and complete general and subsidiary ledgers, along with supporting records, must be maintained to support the existence, completeness, accuracy, and valuation of all assets and liabilities, revenues, and expenditures/expenses to ensure an accurate presentation of the financial position and activity of the City for the fiscal year just ended.

Condition: Yearly, the City's Finance Department oversees the preparation, processing, and recordation of thousands of financial transactions that ultimately will be reflected in the yearly Comprehensive Annual Financial Report (“CAFR”) produced within the Finance Department. In order to ensure the transactions are fairly presented, procedures must be in place and functioning effectively to produce complete and accurate financial information. During the year-end closing and CAFR audit processes, errors related to prior fiscal years and to the misapplication of U.S. GAAP were identified by City and School Board Finance Department management, which were considered material to the financial statement presentation by City management, resulting in the adjustment to the City's financial records. Specifically, examples of the adjustments and approximated amounts recorded included:

- City management could not accurately determine the total amount of the business-type activities, the Hopewell Regional Wastewater Treatment Facilities Fund (“HRWTF”), and the Sewer Service Fund changes in net position for the year ended June 30, 2015. U.S. GAAP requires net position at the end of a fiscal year to equal the years beginning net position plus the changes in net position occurring during the year. For the three opinion units noted, the City recorded unsupported adjustments to the yearly activity to enable net position at June 30, 2015 per the Statement of Net Position to equal net position per the Statement of Activities and the Statement of Revenues, Expenses, and Changes in Net Position. Although amounts needed to roll net position forward were made (HRWTF - \$320,000; Sewer Service Fund - \$580,000), the source and cause of the adjustment could not be suitably substantiated by City Finance management to a degree of accuracy and completeness to allow for related audit testing to support an opinion on their fair presentation in accordance with U.S. GAAP and, accordingly, a qualified audit opinion due to a scope limitation was rendered.
- During fiscal year 2015, multiple instances were identified where activities in the previous fiscal years were inaccurately recorded within the general ledger and issued financial statements as follows:
 - Subsequent to the City's conversion of general ledger systems in September 2014, assets were identified that had been excluded from prior fiscal years' reported capital assets resulting in the restatement of the City's governmental activities' net position of \$766,500. Also, School Board Finance Department management identified that certain buildings were over depreciated in prior years and reduced accumulated depreciation, and increased net position, at June 30, 2014 by \$390,000. Additionally, it was determined that the City's prior calculations of jointly-owned assets with the School Board had incorrectly not taken into account all related outstanding debt resulting in the City's governmental activities recording additional \$4,567,500 of net capital assets and net position with an equal reduction in the School Board's corresponding allocation.

CITY OF HOPEWELL, VIRGINIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2015

- City Finance personnel determined that balances reported as prepaid bond principle at June 30, 2014 in the HRWTF and Sewer Service Funds, \$491,000 and \$479,000, respectively, were not City assets. However, the City noted unreported investments balances of \$586,000 and \$918,000, respectively, resulting in net increases in net position for HRWTF Fund (\$95,000) and Sewer Service Fund (\$440,000) at June 30, 2014.
- City Finance personnel determined that the HRWTF and Sewer Service Funds' accrued bond interest at June 30, 2014 was understated by \$83,000 and \$526,000, respectively, resulting in a reduction of net position for the funds at June 30, 2014. In addition, Sewer Service Fund debt principal outstanding was overstated by \$87,000, resulting in a corresponding increase in Net Position at June 30, 2014.
- City Finance personnel determined that the Governmental Activities' deferred inflows related to prior year refundings of debt were incorrectly calculated and presented in the 2014 CAFR. Accordingly, a deferred outflow of resources as of June 30, 2014 has been recorded in the amount of \$348,000 to adjust the previously reported deferred inflow of resources of \$122,000 for a total adjustment to net position of \$470,000. Additionally, premiums related to Governmental Activities' general obligation bonds were overstated at June 30, 2014 by \$72,000 resulting in an increase in net position at June 30, 2014.
- City Finance personnel determined that HRWTF Fund's refund credits issued to customers, but not yet exercised, at June 30, 2014 had not been accurately tracked such that the amount of the related liability at June 30, 2014 was overstated by \$1,993,000, resulting in an increase in net position at June 30, 2014 by \$1,993,000.
- The Sewer Service Fund's accounts receivable at June 30, 2014 included activity actually related to the HRWTF Fund. Accordingly, \$108,000 of HRWTF Fund receivables and revenues, related to fiscal year 2014 and earlier, were reclassified from the Sewer Service Fund to the HRWTF Fund and net position was decreased and increased, respectively, as of June 30, 2014.
- City Finance personnel determined that the Beacon Theatre Fund's accrued liabilities at June 30, 2014 were overstated by \$455,000, resulting in an increase in net position for the fund at June 30, 2014.
- Recording of the governmental activities' compensated absences as a fund liability in the governmental funds even though U.S. GAAP requires only the portion to be paid with current resources to be recorded as a fund liability. As the entire balance was considered to be a long-term obligation, \$900,000 of expenditures and payables were adjusted out of the General Fund and \$73,000 was adjusted out of the remaining governmental funds.
- Recording of operational funding from the Sewer Service Fund to the Storm Water Fund as a loan between the two funds when there was no requirement for repayment from the Storm Water Fund, which is inconsistent with U.S. GAAP (\$1M).

Cause: The City's Finance Department lacks the technical critical mass to analyze the myriad of transactions the City enters into yearly in order to effectively, efficiently, and compliantly prepare the City's CAFR in accordance with U.S. GAAP. This material weakness is manifested in many ways to include the inability to effectively analyze accounting transactions, research related accounting principles for propriety and reporting options within the standards, and to understand internal relationships within the general ledger and the CAFR to be able to know when an amount or disclosure is wrong based on the given relationship between the two accounts/disclosures. As the requirements of U.S. GAAP evolve and change yearly, the lack of technical strength in the City Finance Department is a detriment and impedance to timely and compliant external financial reporting and efficient internal reporting to support effective financial management.

CITY OF HOPEWELL, VIRGINIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2015

Effect: The controls in place to close the year-end books, reconcile the balances, analyze the period transactions, and accumulate and assimilate such data into a timely, U.S. GAAP compliant financial report simply did not function, leading to the inefficient use of City Finance personnel, hours that would have been better served in other City Finance operations, and significant additional costs incurred related to external accounting services and for hours incurred for the external audit per the City's approved engagement scope.

Recommendation: We recommend the City address this people-centric need by considering the identification, hiring, and retaining of experienced accountants as a mission-critical, long-term objective. During the 2015 reporting process, the ineffective monitoring of financial activity, unfamiliarity with U.S. GAAP, and staff turnover exacerbated the City's inability to provide auditable and timely financial records. Over the years, the City has struggled to hire and retain experienced accountants within the Finance Department. There remains an ongoing struggle to fill vacancies with candidates possessing the skill sets needed for a fully-functioning financial accounting and reporting operation. This is consistent with our recommendation after the Fiscal Year 2014 financial audit and we cannot stress enough the need for the City to identify, hire, and retain experienced governmental accountants, specifically Certified Public Accountants, in key finance management positions and to strive to maintain a minimum of two such designations consistently within the financial operations. Additionally, a structured cross-training program should be implemented within financial operational functions (e.g., general accounting, accounts payable) aimed at expanding the skill sets of available team members to be utilized in periods of staff turnover or increased demands in a particular area.

Views of Responsible Officials:

The City intends to comply with this request fully by hiring as soon as possible an Accounting Professional with a CPA to lead the department as the Director of Finance. City Council has also authorized the hiring of another higher level Accounting Professional to serve in an assistant's role to the Director as a Budget/Audit Specialist. Additionally, we have two current temporary Accounting Professionals who we will utilize to help complete the FY2016 and FY2017 CAFR's as soon as possible. It is our desire and intent to have all past due CAFR's completed and filed in time for the FY2018 audit cycle to flow normally and on-time.

2015-002: Material Weakness – Year-end Completeness and Accuracy of Account Balances

Criteria: In order to prepare financial statements in accordance with U.S. GAAP, accurate and complete general and subsidiary ledgers, along with supporting records, must be maintained to support the existence, completeness, accuracy, and valuation of all assets and liabilities, revenues, and expenditures/expenses to ensure an accurate presentation of the financial position and activity of the City for the fiscal year just ended. The efficient, effective, and timely preparation of the CAFR depends heavily on personnel from various City departments and includes closing the City's general ledger, performing appropriate financial analyses and reconciliations of yearly activity, and accumulating the required data for reporting. In order to verify that the transactions are fairly presented, procedures must be in place and functioning effectively to ensure the financial information is complete, accurate, and in accordance with U.S. GAAP.

Condition: Yearly, the City's Finance Department oversees the preparation, processing, and recordation of thousands of financial transactions that ultimately will be reflected in the yearly CAFR produced within the Finance Department. In order to ensure the transactions are fairly presented, procedures must be in place and functioning effectively to produce complete and accurate financial information. During the year-end external audit and financial reporting processes, multiple instances were identified where the complete and accurate recordation of financial transactions within the General Ledger did not occur such as the following, with approximated amounts:

CITY OF HOPEWELL, VIRGINIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2015

- As of June 30, 2015, the City was unable to reconcile the City's cash balances with financial institutions to the balance per the general ledger, to ensure accuracy and completeness, until September 2016 (\$26.8M).
- As of June 30, 2015, funding receipts from the Commonwealth of Virginia to the City had not been reconciled to the general ledger, to verify accuracy and completeness of the transactions, until March of 2016 (>\$10M).
- For the year ended June 30, 2015, the unadjusted trial balance provided for testing noted \$20.2M of HRWTF Fund capital asset additions recorded as expense and not as capitalized assets.
- When requested for audit testing, City personnel did not have available a reconciliation that verified the investment balances with financial institutions had been analyzed and reconciled to the general ledger (\$40M).
- As a result of audit testing, it was determined that General Fund property tax related receivables and deferred revenues were inaccurately allocated between real property, personal property, and machinery and tools, and City Finance recorded adjustments accordingly (>\$1M)
- During the conversion of general ledger systems, City Finance personnel identified that balances from GEMS were not brought over to MUNIS completely and accurately, such that adjustments to fiscal year 2015 beginning balances were needed for several funds - General Fund (\$63,000 understated); HRWTF Fund (\$7,000 overstated); Sewer Service Fund (\$89,000 overstated).
- As a result of audit testing, it was determined that expenditures/expenses and accounts payables in the HRWTF Fund, the Sewer Service Fund, and the Recreation Fund were incorrectly recorded in the year-end general ledger by \$133,000 (under accrued), \$81,000 (over accrued), and \$8,000 (under accrued), respectively.
- As a result of audit testing, it was determined that accounts receivable and bad debt expenses in the Sewer Service Fund were under recorded in the year-end general ledger by \$916,000 and \$333,000, respectively.
- Recordation of debt and related issuance activities:
 - When general obligation debt was issued, City Finance recorded the liability (credit entry) properly in the general ledger; however, the proceeds of the issuance were recorded as a direct reduction to net position (debit entry) and not to appropriate investment accounts. Consequently, bond proceed investment asset balances at US Bank were never recorded in the General Ledger (HRWTF - \$5.5M);
 - Recording general obligation debt issuance costs as an asset and not expense in the General Fund (\$45,000); and
 - Calculation of Governmental Activities' deferred gains on debt issuance and the amortization of premiums were not recorded until evidence of the amounts was requested for audit (\$2.5M).
- Recording of intra-City amounts due to/from and transferred to/from various funds such that the overall activity did not net to zero, as required by U.S. GAAP.
- An HRWTF fund accrual for receivables and revenues due from the Commonwealth for the nitrogen project was never recorded within the general ledger (\$1.7M).

CITY OF HOPEWELL, VIRGINIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2015

- HRWTF and Sewer Service Funds' related accounts receivable balances had not been reviewed for collectability such that allowances for doubtful accounts (bad debt expense) had to be recorded (HRWTF - \$198,000; Sewer Service - \$1,220,000).

Cause: The City's Finance Department lacks the technical critical mass to analyze the myriad of transactions the City enters into yearly. Internal control processes were not in place to monitor related account activities to ensure the existence, completeness, accuracy, and valuation of all assets and liabilities, revenues, and expenditures/expenses.

Effect: The controls in place to close the year-end books, reconcile the balances, analyze the period transactions, and accumulate and assimilate such data into a timely, U.S. GAAP compliant financial report simply did not function, leading to the inefficient use of City Finance personnel, hours that would have been better served in other City Finance operations, and significant additional costs incurred related to external accounting services and for hours incurred for the external audit per the City's approved engagement scope.

Recommendation: We recommend the City address this people-centric need by considering the identification, hiring, and retaining of experienced accountants as a mission-critical, long-term objective. During the 2015 reporting process, the ineffective monitoring of financial activity, unfamiliarity with U.S. GAAP, and staff turnover exacerbated the City's inability to provide auditable and timely financial records. Over the years, the City has struggled to hire and retain experienced accountants within the Finance Department. There remains an ongoing struggle to fill vacancies with candidates possessing the skill sets needed for a fully-functioning financial accounting and reporting operation. This is consistent with our recommendation after the Fiscal Year 2014 financial audit and we cannot stress enough the need for the City to identify, hire, and retain experienced governmental accountants, specifically Certified Public Accountants, in key finance management positions and to strive to maintain a minimum of two such designations consistently within the financial operations. Additionally, a structured cross-training program should be implemented within financial operational functions (e.g., general accounting, accounts payable) aimed at expanding the skill sets of available team members to be utilized in periods of staff turnover or increased demands in a particular area.

Specific to certain functions, we recommend the City perform bank reconciliations monthly and reconcile intergovernmental activity quarterly with reconciling items being resolved within 45 days from the date that they are identified. We also recommend the City enhance its procedures for the review of cutoff activity between fiscal years and confirmation of amounts owed with key service providers and vendors to ensure all activity is properly accounted for and reported.

Views of Responsible Officials:

The City intends to comply with this request fully by hiring as soon as possible an Accounting Professional with a CPA to lead the department as the Director of Finance. City Council has also authorized the hiring of another higher level Accounting Professional to serve in an assistant's role to the Director as a Budget/Audit Specialist. Additionally, we have two current temporary Accounting Professionals who we will utilize to help complete the FY2016 and FY2017 CAFR's as soon as possible. It is our desire and intent to have all past due CAFR's completed and filed in time for the FY2018 audit cycle to flow normally and on-time.

The City will implement over the current fiscal year internal processes and procedures to mirror this recommendation. Many of these activities are now being performed as recommended but they will be memorialized through written SOP's.

CITY OF HOPEWELL, VIRGINIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2015

2015-003: Material Weakness – Segregation of Duties and System Based Logical Access Controls

Criteria: Segregation of duties (“SOD”) is fundamental to fraud risk management. Users with the ability to administer security to the financial applications should be segregated from users with the ability to administer the financial application’s database and from those with end user capabilities to the financial applications. Information technology general computer controls related to access and system security must be evaluated periodically (at least annually), but especially in the year of a material change to the system of internal control.

Condition: The City implemented MUNIS in September 2014. During our review of the IT internal control environment, we noted that the City does maintain proper segregation of duties over security, administration, and end user access to the financial application and database. Specifically, the City’s Database Administrator has access to administer security within the MUNIS application, as well as being the administrator over the MUNIS database. Additionally, other end users of financial applications, including the Director of Finance, also have administrative permissions. These permissions could result in users having inappropriate access.

We noted that the City does not perform an annual review of access privileges to the MUNIS application. Access privileges to the MUNIS application should be periodically reviewed by the users’ management to verify that the level of access still accurately reflects the minimum level required for the user to perform their job function and accurately reflects an appropriate level of segregation of duties within logical access.

We noted that the City’s password and account lockout settings for the network do not match the settings defined within the City’s Information Security Policy. Current settings include network password length of seven (7) characters and an account lockout threshold of seven (7) invalid attempts.

Cause: The implementation of new financial systems is a complex process and represents a material change to the system of internal control. After the initial implementation, system based roles and responsibilities require an evaluation to determine whether inherent conflicts exist within the system based roles and responsibilities and then whether system roles and responsibilities are appropriately assigned to User Accounts based on the City’s segregation of duties requirements and complimentary control elements in the City anti-fraud program of controls. The City had not re-evaluated its MUNIS system based roles and responsibilities for inherent conflicts and potential conflicts with assigned User Accounts and functional job responsibilities. Further, the City had not re-established periodic access review controls to ensure system based access continues to align with appropriate segregation of duties.

Effect: Without a thorough review of system based roles, responsibilities, and end user access, the City is subject to an increased exposure to unintended consequences in the form of error and fraud until the control environment matures on the MUNIS environment and controls are placed in service.

Recommendation: We recommend the City:

- Segregate users with the ability to administer security to the financial application from users with the ability to administer the financial application’s database. In addition, the City should segregate access for users with the ability to administer security to the financial application from those with end user capabilities to the financial application. If access cannot be segregated, a mitigating control should be implemented to log all security changes made by the personnel and be periodically reviewed by an independent group.

CITY OF HOPEWELL, VIRGINIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2015

- Perform scheduled periodic reviews of user access for the MUNIS application on an annual basis in order to identify unauthorized/inappropriate access based on job function, as well as to identify any terminated users who have remained active in the application. These reviews should be documented and changes identified during the access review should be processed in accordance with the access provisioning procedures. Also, the City should:
 - Perform a fraud risk assessment and verify functional segregation of duties and related anti-fraud control elements considered important.
 - Identify and verify key MUNIS forms and functions important to the segregation of duties and ensure that they are limited to only the desired MUNIS responsibilities consistent with the City's expectations.
 - Review end users' logical access against the end users' MUNIS responsibilities containing the aforementioned key forms and functions to ensure they remain appropriate given the employee/user's job responsibilities and duties, and the City's requirements for segregation of duties.
 - Design controls to operate on a quarterly basis to ensure all end user access remains appropriate considering a given employee's current job responsibilities, changes in employee status such as, new hires, terminations, and employee job rotation in the normal course of business.
 - Ensure that Information Technology personnel 1) do not have the responsibility for transaction and accounting duties normally performed by end users in the functional area and that 2) personnel administering security do not have responsibilities for programming, database management, or computer operations
 - Ensure controls are in place to ensure that all users are uniquely identified (i.e., there are no shared user IDs except for limited, read-only access).
 - Consistent with industry best practices, we recommend password and account lockout settings should be set to the following to reflect the City's Information Security Policy - password length of eight (8) characters and an account lockout threshold of three (3) invalid attempts.

Views of Responsible Officials:

The City will rewrite our security and access policies as part of the policies and procedures mentioned in the prior response. All recommendations above will be considered and implemented when the rewrite occurs. Some of these recommendations have already been implemented, but will be memorialized in policy.

2015-004: Material Noncompliance – Commonwealth of Virginia Yearly Financial Reporting

Criteria: Per Section 15.2-2510 of the *Code of Virginia*, local governments must submit their audited financial report to the Commonwealth of Virginia's Auditor of Public Accounts ("APA") by November 30 of each year.

Condition: The City did not submit its audited financial report to the APA by the required date.

Cause: The City's controls in place to close the year-end books, reconcile the balances, analyze the period transactions, and assimilate and accumulate such data into a timely, U.S. GAAP compliant financial report simply did not function timely to meet the required deadline.

Effect: Non-compliance with Commonwealth's requirements may result in sanctions.

CITY OF HOPEWELL, VIRGINIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2015

Recommendation: The City should implement corrective action aimed at enhancing internal controls to ensure that financial reporting is made in accordance with Section 15.2-2510 of the *Code of Virginia*.

Views of Responsible Officials:

The City has brought in additional temporary staff and will be hiring permanent accounting professionals as well at the earliest convenience in order to work towards getting the late CAFR's (FY2016 and FY2017) completed prior to the end of the current fiscal year and to start and finish the FY2018 CAFR on time. The rewrite of our policies and procedures into a SOP will memorialize the finance and accounting processes so that repeats of the current issues will not occur.

2015-005: Material Weakness and Material Noncompliance – Schedule of Expenditures of Federal Awards (SEFA)

Criteria: OMB Circular A-133 requires the individual grant amounts per the SEFA to be fairly presented in all material respects in relation to the basic financial statements taken as a whole.

Condition: Hopewell Public Schools ("Schools") could not substantiate the expenditures of federal awards per the SEFA to the trial balance for multiple federal grants (i.e., Career and Technical Education; Title I Grants to Local Educational Agencies; Improving Teacher Quality State Grants; Head Start; Special Education), representing 35.6 percent of the total expenditures of federal awards.

Cause: The Schools' controls in place to close the year-end books and reconcile the balances between certain grants simply did not function.

Effect: Individual grant expenditure balances could not be verified; therefore, major program determinations and coverage could not be verified.

Recommendation: The Schools' should implement corrective action aimed at enhancing internal controls to ensure that federal reporting is made in accordance with OMB Circular A-133.

Views of Responsible Officials: Management of the City and City Public Schools agree with the finding and recommendation.

(3) Findings and Questioned Costs Relating to Federal Awards

2015-005: Material Weakness and Material Noncompliance – Schedule of Expenditures of Federal Awards (SEFA)

Criteria: OMB Circular A-133 requires the individual grant amounts per the SEFA to be fairly presented in all material respects in relation to the basic financial statements taken as a whole.

Condition: Hopewell Public Schools ("Schools") could not substantiate the expenditures of federal awards per the SEFA to the trial balance for multiple federal grants (i.e., Career and Technical Education; Title I Grants to Local Educational Agencies; Improving Teacher Quality State Grants; Head Start; Special Education), representing 35.6 percent of the total expenditures of federal awards.

Cause: The Schools' controls in place to close the year-end books and reconcile the balances between certain grants simply did not function.

CITY OF HOPEWELL, VIRGINIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2015

Effect: Individual grant expenditure balances could not be verified; therefore, major program determinations and coverage could not be verified.

Questioned Costs: Undetermined.

Recommendation: The Schools' should implement corrective action aimed at enhancing internal controls to ensure that federal reporting is made in accordance with OMB Circular A-133.

Views of Responsible Officials: Management of the City and City Public Schools agree with the finding and recommendation.

(4) Findings and Questioned Costs Relating to Compliance with Commonwealth of Virginia Laws, Regulations, Contracts, and Grants

2015-006: Instance of Noncompliance – State & Highway Maintenance

Criteria: Section 33.2-319 of the *Code of Virginia* establishes the criteria for determining which highways are eligible for maintenance, construction, or reconstruction funds. Annually, the Virginia Department of Transportation compiles a listing of eligible streets and updates the Urban Inventory.

Condition: For two (2) of twenty-five (25) road expenditures tested, highway maintenance funds were spent for maintenance on a street not included in the Urban Inventory listing.

Cause: Lack of monitoring eligible roads.

Effect: Non-compliance may result in action by the Commonwealth.

Recommendation: Management should implement procedures to ensure that all maintenance, construction, or reconstruction of projects funded by the Commission of Highways are for eligible streets.

Views of Responsible Officials: Management of the City agrees with the finding and recommendation.

2015-007: Instance of Noncompliance – Statement of Economic Interest (“SOEI”) Form

Criteria: Section 2.2-3115 of the *Code of Virginia* requires local government officials to file a SOEI with the clerk of the governing body semi-annually by December 15th and June 15th.

Condition: For both the December 15, 2014 and the June 15, 2015 submission deadlines, we noted nine (9) instances out of twenty-two (22) forms tested where the same officials did not file the semi-annual SOEI with the City Clerk.

Cause: Completed SOEI forms were not filed.

Effect: Non-compliance may result in action by the Commonwealth.

Recommendation: City officials should file the SOEI in accordance with Section 2.2-3115 of the *Code of Virginia*.

Views of Responsible Officials: Management of the City agrees with the finding and recommendation.

CITY OF HOPEWELL, VIRGINIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2015

2015-008: Instance of Noncompliance – Comprehensive Services Act (“CSA”)

Criteria: Section 3.1.5.b. of the 2012 CSA Policy Manual states: “The Community Policy and Management Team shall establish policies governing the referral of troubled youths and families to the Family Assessment and Planning Team or a collaborative, multidisciplinary team process approved by the Council. These policies shall include that all youth and families for which CSA-funded treatment services are requested are to be assessed by the Family Assessment and Planning Team or an approved collaborative, multidisciplinary team process and shall consider the criteria set out in subdivisions A 1 and A 2 of § 2.2-5212.”

Condition: For a sample of twenty-five (25) youth participants tested, we noted the following:

- Thirteen (13) Family Assessment and Planning Team eligibility forms could not be provided for review;
- One (1) rate schedule for services provided could not be provided for testing;
- Three (3) agreements between the vendor and the City, for the proper time period when services were performed, could not be provided for testing;
- Two (2) vendors utilized were not listed on the Commonwealth of Virginia’s website as authorized providers, and
- Eight (8) vendor licenses on file expired before the date of the services provided.

Cause: Unknown

Effect: Non-compliance may result in action by the Commonwealth.

Recommendation: City Social Service management should ensure that procedures are in place and functioning effectively to ensure complete, required documentation is maintained to support all participants’ participation in the program in accordance with the CSA Policy Manual.

Views of Responsible Officials: Management of the City agrees with the finding and recommendation.

2015-009: Instance of Noncompliance – Comprehensive Services Act

Criteria: The Commonwealth of Virginia’s Auditor of Public Accounts’ *Specifications for Audits of Counties, Cities, and Towns* section 3-12 requires the auditor to select a sample of Pool Reimbursement Requests from throughout the year under audit and “determine accuracy of amounts reported by tracing receipts and expenditures to the locality’s general ledger or reviewing the locality’s reconciliation of amounts reported to the general ledger”.

Condition: For one (1) of three (3) monthly reconciliations chosen for testing, reimbursement amounts were \$70,742.52 higher than the balance per the City’s general ledger.

Cause: Unknown.

Effect: Non-compliance may result in action by the Commonwealth.

Recommendation: City Social Services’ management should ensure that reconciliation procedures are in place and functioning effectively such that reports sent to the Commonwealth of Virginia are reconciled and supported against the book of records (i.e., the general ledger)

Views of Responsible Officials: Management of the City agrees with the finding and recommendation.

CITY OF HOPEWELL, VIRGINIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2015

2015-010: Instance of Noncompliance – Public Deposits

Criteria: Deposits must be secured in accordance with the Virginia Security for Public Deposits Act (Section 2.2-4400 et. seq. of the *Code of Virginia*), which requires governments to use bank and financial institutions that meet specific collateralization requirements.

Condition: During of our testing of City bank accounts, we noted three (3) of the City's thirteen (13) bank accounts with financial institutions were not in compliance with the Virginia Security for Public Deposits Act.

Cause: Unknown.

Effect: Non-compliance may result in action by the Commonwealth. Additionally, the City might not have adequate protection against loss for bank balances in excess of insured limits.

Recommendation: We recommend the City Treasurer review City bank accounts with financial institutions to ensure they are qualified depositories and the City accounts are identified as public deposits, which includes all funds of the Commonwealth, local governments, or constitutional officers of local governments, including any canteen and inmate trust funds held by the Sheriff.

Views of Responsible Officials:

The City Treasurer reviewed the three bank accounts in question with the two corresponding financial institutions. Two of the three accounts noted as noncompliant were related to inadvertent coding errors and should have been designated as public deposits; these two accounts have been corrected and are now compliant. During review of the third account, it was discovered that the account does not meet the public deposit requirements as per the Virginia Security for Public Deposits Act. Accordingly, the Treasurer has initiated the process to close this account.

2015-011: Instance of Noncompliance – Locality Reconciliation

Criteria: Local governments should reconcile remittances of state disbursements and federal pass-through assistance appearing on the Commonwealth of Virginia's Auditor of Public Accounts' Schedule of State Disbursements to Localities to the local government's accounting records.

Condition: The City had not timely reconciled remittances of state disbursements and federal pass-through assistance appearing on the Schedule of State Disbursements to Localities to the City's accounting records. The fiscal year 2015 reconciliation was not completed and provided for audit until April 2016.

Cause: Unknown.

Effect: Non-compliance may result in action by the Commonwealth. Additionally, not performing or infrequently performing reconciliations of remittances could result in misstated or misclassified financial statements.

Recommendation: We recommend the City implement a process for reconciling remittances of Commonwealth of Virginia disbursements and federal pass-through assistance on a quarterly basis.

Views of Responsible Officials: Management agrees that the reconciliation was not completed. Turnover in staffing and implementation of a new finance system caused a delay in this assignment being process. Management will cross-train staff to prevent further reoccurrence.

CITY OF HOPEWELL, VIRGINIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2015

2015-012: Instance of Noncompliance – Budgetary Appropriations

Criteria: No money may be paid out for any expenditure unless and until the governing body has made an appropriation for the expenditure (Sections 15.2-2506 and 58.1-3001 of the *Code of Virginia*).

Condition: The City's Virginia Public Assistance and Anti-Litter Funds' year-end expenditures exceeded the final appropriated budget.

Cause: There was a lack of budget monitoring throughout the year to ensure that sufficient appropriations were made for the two City funds.

Effect: The City has not complied with Sections 15.2-2506 and 58.1-3001 of the *Code of Virginia* and has made disbursements in the in excess of appropriations.

Recommendation: We recommend the City monitor the budget for all funds more closely throughout the year to ensure compliance with the *Code of Virginia*.

Views of Responsible Officials: Management of the City agrees with the finding and recommendation.

Status of Prior Year Findings and Questioned Costs Relating to *Government Auditing Standards*

2014-001: Material Weakness – Financial Accounting and Reporting

Condition: Yearly, the City's Finance Department oversees the preparation, processing and recordation of tens of thousands of financial transactions that ultimately will be reflected in the yearly Comprehensive Annual Financial Report (CAFR), which is also produced by the Finance Department. In order to ensure the transactions are fairly presented, procedures must be in place and functioning effectively to ensure the financial information is complete and accurate. During the fiscal year-end closing and the CAFR audit processes, the City was impacted by turnover of key Finance Department staff in addition to implementation of a new financial system (MUNIS) on September 3, 2014, which required resources from the Finance Department. Both of these matters delayed the City in reconciling and analyzing fiscal year 2014 balances and activity levels. During audit fieldwork, adjustments to the City's records were needed to fairly present the basic financial statements in accordance with U.S. GAAP. Non-functioning internal controls increase the probability that monthly and yearly financial accounting and reporting could contain errors, which have the potential to negatively impact the decisions made by management utilizing financial data from the general ledger.

Status: Finding repeated in current year – see 2015-001.

CITY OF HOPEWELL, VIRGINIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2015

Status of Prior Year Findings and Questioned Costs Relating to Federal Awards

2014-002: Material Weakness and Other Instance of Noncompliance – Eligibility

Program – Medicaid (CFDA Number 93.778) – U.S. Department of Health and Human Services – Virginia Department of Social Services; Federal Aware Year - 2014

Condition: 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. For two of 60 participants tested, the required eligibility redetermination was not performed within 12 months of the previous determination.

Status: Finding not repeated.

Status of Prior Year Findings and Questioned Costs Relating to Compliance with Commonwealth of Virginia Laws, Regulations, Contracts, and Grants

2014-003: Instance of Noncompliance – Conflicts of Interest

Condition: As described in Section 2.2-3115 of the Code of Virginia, local officials must file an annual disclosure form, disclosing personal financial interests that may cause conflicts. Four members of the Board of Equalization were late submitting the annual conflict of interest disclosure.

Status: Finding repeated in current year – see 2015-007.