



# *COMMONWEALTH of VIRGINIA*

*Auditor of Public Accounts*

Staci A. Henshaw, CPA  
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December 9, 2022

The Honorable Glenn Youngkin  
Governor of Virginia

The Honorable Stephen E. Cummings  
Secretary of Finance

The Honorable Barry D. Knight, Chair  
House Appropriations Committee

Patience Bennett, Mayor  
City of Hopewell

The Honorable Janet D. Howell, Chair  
Senate Finance and Appropriations Committee

Concetta Manker, Interim City Manager  
City of Hopewell

The Honorable George L. Barker, Chair,  
Senate Finance and Appropriations Committee

Chapter 1 of the 2022 Virginia Acts of Assembly, Item 4-8.03 (Chapter 1), directs the Auditor of Public Accounts (Office) to establish a prioritized early warning system and annually monitor data and information from this system to identify potential fiscal distress within local governments across Virginia. As part of this system, the Office calculates 12 financial ratios using data from each locality's audited financial statements and analyzes the results of each locality's ratio performance using a points-based methodology. Our model also includes a qualitative component that analyzes demographic factors and other external and qualitative information specific to a locality. Based on the results of the ratio and qualitative analyses, we classify each locality into either one of two categories: locality identified for further follow-up through our financial assessment questionnaire and review process, or locality not identified for follow-up for the current monitoring process. If the Office has identified a locality as needing further follow-up, we send written notification to inform the local governing body and management of our determination based on the results of our monitoring analyses.

Since 2016, the City of Hopewell (City) has been delayed each year in submitting its audited financial statements; as a result, our Office has been unable to review the City's financial data or evaluate its financial condition as part of the prioritized early warning system. Accordingly, we have continued to monitor the City as part of the qualitative component of our model. During our 2022 monitoring process, our Office formally corresponded with the City's governing body and management and requested they participate in our review process based on qualitatively identifying the City due to its inability to timely complete audited financial statements for the past four fiscal years. At this time, the City remains delayed in submitting its fiscal year 2019, 2020, and 2021 audits and financial reporting requirements, and the City will be unable to meet the upcoming fiscal year 2022 audit deadline of December 15.

In November 2022, the City participated in our follow-up review process by completing our assessment questionnaire and providing our Office additional information related to budget processes, debt service, expenses and payables, revenues and receivables, and other external variables to assist our review. In December 2022, our Office had further discussions with the City's Finance Director to understand the primary factors contributing to the City's audit and financial reporting delays, along with obtaining a better understanding of the City's current financial situation since we have not been able to analyze its financial data. Our Office also reviewed the City's most recently issued fiscal year 2018 audited financial report. For the 2018 audit, the City received a *disclaimer of opinions* from its external auditor on all financial activity, meaning the external auditor could not obtain sufficient audit evidence to form any opinion over the City's financial statements as a whole. Additionally, during the 2018 audit, the City received multiple material weaknesses, which is the most severe level of audit deficiencies, related to key areas of its internal control framework and financial reporting processes.

Based on our follow-up process and review of the City's 2018 audit report, our Office observed certain internal, organizational factors and conditions that may indicate a situation of distress in the context of the City's significant issues with timely submitting audited financial statements. Specifically, the City does not have the essential resources and sufficient internal staff with expertise in local government operations, accounting, and financial reporting necessary to timely and accurately process and record financial and accounting transactions and perform critical reconciliations and business processes that directly impact the financial statements. Additionally, the City does not have adequate resources to address post system implementation issues since implementing new financial and business operations software (ERP system) in 2016. The lack of resources has prevented the City from focusing efforts on important financial and business processes related to the new ERP system, including properly updating, automating, and designing procedures and processes to align with the functionality of its ERP system; implementing all key modules and features of the ERP system to support proper internal controls and reporting mechanisms; and providing staff continued focused training to support their responsibilities for performing various business processes within the ERP system. Lastly, we observed an overall need for the City to assess its organizational structure and control environment and improve the important foundation of its internal control framework to address shortcomings in key internal controls and processes across all departments and critical business functions, including accounting and financial reporting.

Based on completion of our fiscal distress follow-up review process with the City of Hopewell, our Office provides this notification in accordance with Chapter 1 as our formal recommendation that the Commonwealth consider providing state assistance to further assess and help remediate the City's situation and support the City's efforts to address the primary factors contributing to its deficiencies with implementing sufficient internal controls over accounting and financial reporting and timely submitting audited financial statements. Should the Governor and Money Committees approve a plan for state assistance, our Office recommends the Governor's administration work directly with the City to facilitate the technical assistance.

Additionally, we recommend the administration, in consultation with the Money Committees, develop a plan for state assistance that primarily focuses on establishing and deploying a turnaround team of specialists that will provide hands-on support to the City. Ideally, this turnaround team would include personnel with local government experience, technical expertise in local operations and business processes, and knowledge of governmental accounting and financial reporting. Our Office proposes the following considerations for the turnaround team and overall goals for providing technical assistance:

- Consult with the City to further review our Office's observations specific to evaluating the resources and expertise necessary to support the City's key financial processes, business functions, and the ERP system implementation, and assessing the City's organizational structure and overall internal control framework.
- Collaborate with the City's governing body and management to evaluate any other factors or conditions contributing to the City's deficiencies with implementing sufficient internal controls over accounting and financial reporting and timely submitting audited financial statements.
- Target assistance efforts to work alongside and in partnership with the City's management and current staff in the key departments that support critical business functions and financial statement processes.
- Foster a mindset of teamwork and open communication with the City to support the City's planned efforts for moving forward and ensure a successful outcome of state assistance efforts.

We would like to express our appreciation to the City for their responsiveness and cooperation during our follow-up review process. Should you have any questions or require any further information, please contact me at (804) 225-3350 or [Staci.Henshaw@apa.virginia.gov](mailto:Staci.Henshaw@apa.virginia.gov).

Sincerely,

Staci A. Henshaw  
Auditor of Public Accounts

cc: Johnny Partin, City Vice Mayor  
Janice Denton, City Council member  
Jasmine Gore, City Council member  
Arlene Holloway, City Council member  
Brenda S. Pelham, City Council member  
Deborah Randolph, City Council member  
Michael Terry, City Finance Director  
John Markowitz, Deputy Secretary of Finance  
Delegate Carrie E. Coyner  
Senator Joseph D. Morrissey