



ROBINSON, FARMER, COX ASSOCIATES, PLLC

Certified Public Accountants

Date: December 21, 2021

Memorandum To: Hampton Roads Regional Jail Authority

From: Robinson, Farmer, Cox Associates

Regarding: Audit for year ended June 30, 2021

In planning and performing our audit of the financial statements of Hampton Roads Regional Jail Authority for the year ended June 30, 2021, we considered the Authority's internal control structure to plan our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit, we noted certain matters involving the internal control structure and other operational matters that are presented for your consideration. This letter does not affect our report dated December 21, 2021, on the financial statements of Hampton Roads Regional Jail Authority. Our comments and recommendations, all of which have been discussed with appropriate members of management, are intended to improve the internal control structure, or result in other operating efficiencies. We will be pleased to discuss these comments in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

General Ledger and ACFR Preparation

Finding

The Finance Division divides responsibilities amongst staff and prepares the annual ACFR. Several audit adjustments, including similar entries made last year, were proposed during the audit. Among those entries were the following: Pension deferred outflows and deferred inflows did not reconcile to the valuation report from VRS. The payroll accrual required adjustment as a result of a spreadsheet error. Some receivables from the prior year were not reversed. One kettle purchased during the year was not added to the depreciation schedule and the item it replaced was not reported as a disposal as well as the new timekeeping system being capitalized in the wrong amount. An error in counting the inventory resulted in a negative expense account on the general ledger, which was corrected with an audit entry.

Recommendation

We recommend management create a formal schedule for completion of individual tasks for closing the books at year-end. This should include a list of journal entries to be recorded for specific account balances, which should help to ensure financial information is reconciled and adjusted prior to audit fieldwork. Preparation should include reviewing subsidiary schedules and preparing reconciliations to ensure adjustments were properly recorded in the accounting system in their entirety and posted to the proper accounts. We also recommend management designate one person to oversee ACFR preparation to eliminate inconsistencies within the document. Additionally, we recommend that the Accounting & Budgeting Manager continue to seek training to become more familiar with governmental accounting concepts and ACFR preparation.

Bank Reconciliations

Finding

During another transitional period of turnover and system upgrades, bank reconciliations were not performed in a timely manner. The May and June 2021 operating bank statements were reconciled on July 7, 2021 and August 30, 2021, respectively. The payroll bank statements for April and May 2021 were reconciled on July 7, 2021 and June 2021 was reconciled on July 29, 2021. The flexible benefits bank statement for April 2021 was reconciled on June 23, 2021 and May 2021 was reconciled on July 8, 2021. The inmates trust March, April, and May 2021 bank statements were reconciled on July 16, 2021 and July 23, 2021.

Recommendation

We recommend that all bank accounts, including investments, continue to be reconciled in their entirety on a monthly basis and reconciling items be researched and corrected in a timely manner.

Gift Cards

Finding

Gift cards were given to the employee of the month and were also provided to various employees as part of the holiday raffle; however, they were not included in income and taxed in accordance with IRS regulations. In addition, there was no supporting documentation accounting for the distribution of gift cards from the holiday raffle. According to IRS guidelines, cash or cash equivalent items provided by the employer are never excludable from income. Gift certificates that are redeemable for general merchandise or have a cash equivalent value are not de minimis benefits and are taxable.

Recommendation

We recommend that gift cards given to employees, for any purpose, be included in taxable income. Also, we recommend that supporting documentation be maintained to support the distribution of gift cards and any other items given to employees.

Mental Health Grant

Finding

Testing of credit cards revealed that gift cards were purchased for inmates through the Mental Health grant program. The grant provides for emergency housing, basic needs (essential household items and food) and medication for up to 90 days post-release. Since the inmates in the program often have no clothing or possessions when released, the gift cards are used to purchase clothing, food, household items (kitchen items), and linens. Funds are provided for food until inmates find employment or their Social Security or disability benefits, Medicaid, food stamps, etc. are approved or reactivated, or until the end of 90 days.

A gift card log was provided but management did not maintain adequate documentation to support that the appropriate inmates received the gift cards and/or bus tickets and that they were used in accordance with program requirements.

Recommendation

We recommend that supporting documentation indicating which inmate the purchases were made for be maintained for all purchases using grant gift cards. This documentation should provide support that the funds are used in accordance with program requirements. In addition, an inventory should be maintained for the cards purchased, used, and those still held at year-end.

Payroll and VRS Issues

Finding

Due to turnover and a system upgrade, which resulted in switching to a 14-day cycle instead of a 28-day cycle for payroll, several payroll issues occurred during the year. The issues varied from errors and untimely reconciliations to failure to comply with VRS requirements, as described below.

- Testing revealed several instances of improper deductions from employee's pay. In four cases, amounts were under-withheld, and, in three cases, amounts were over-withheld. For the seven out of twenty-five employees tested, the amounts ranged from \$12.40 to \$184.76, for a net amount of \$45.16 over-withheld.
- For one employee, the SSN in the payroll system (Munis) did not agree to the SSN in *myVRS* Navigator. Documentation showed that the SSN in *myVRS* Navigator was correct, and Munis was later updated to the correct information.
- One employee's salary was not updated in *myVRS* Navigator in a timely manner. The amount in *myVRS* Navigator did not agree to the amount in the payroll system.
- Direct deposit testing for three out of twenty-five employees tested showed discrepancies between approved pay and amounts paid. There were several retroactive pay increases during the year and poor communication between HR and payroll, which exacerbated the issues. Throughout the year, many corrections were made after payroll was run. The payroll coordinator resigned in March 2021 and, subsequently, refunds were issued to various employees for over-deductions. For employees who had resigned or been terminated, reimbursement for any under-withholdings were not pursued. This issue also extends to areas other than VRS, such as insurance, etc.
- An incorrect amount was entered in the June 2021 Form 941 Social Security Wages box, but calculations were correct.
- Formal reconciliations should be prepared and documented for pension, group life, and VLDP contributions to VRS. One of the VRS requirements is that reconciling items be cleared prior to confirming contributions. Generally, pension contributions reported in *myVRS* Navigator are reconciled to the payroll system monthly. For some months, reconciliations were not prepared in a timely manner or issues identified during the reconciliation process were not resolved in a timely manner or at all. For two months tested, group life and VLDP reconciliations were not formally documented. For the three months tested, reconciling items were not cleared prior to confirming contributions for one or all the benefits provided. In addition, online keyed changes were not accurately captured on the July 2020 monthly snapshot and did not occur prior to confirming contributions. Four pay increases effective in July 2020 were not entered until September and October 2020.
- The former Superintendent's *myVRS* Navigator access was not removed in a timely manner, as required by VRS.
- Certain employees are provided vehicles for commuting to and from work, but the benefits are not currently taxed.

Recommendation

We recommend that Human Resources and Finance communicate about pay changes in a timely manner. Also, formal reconciliations for both pension and the OPEB plans to *myVRS* Navigator should be prepared monthly. Any reconciling items should be resolved prior to confirming VRS contributions and a formal review process should be implemented to ensure the reconciliations are performed and reconciling items properly addressed. *MyVRS* Navigator access should be updated in a timely manner in accordance with VRS requirements. IRS regulations should be consulted to determine whether vehicles provided to employees meet the criteria of a working fringe benefit. If so, the commuting rule should be used to calculate and report the tax benefit.

Use of Excel Spreadsheets

Finding

Excel spreadsheets are used for various account reconciliations, trial balance groupings, etc. The accrued leave spreadsheet contained a formula error, excluding new departments that were added during the fiscal year, resulting in an audit adjustment of \$21,911.33.

Recommendation

Spreadsheets are extremely useful to these processes, but care should be taken to include proof totals and other measures to ensure the schedules properly foot, capture all data, and are reliable for use in these circumstances. We recommend that management build logical controls into spreadsheets to protect their integrity (e.g., input fields in different colored font so data is not entered in the wrong cells, locking cells with formulas, proof totals to assist with balancing, etc.).