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**INDEPENDENT AUDITORS' REPORT 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**

The Honorable Members of the City Council
City of Richmond, 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 Richmond, Virginia (the City), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated November 13, 2017.

Our report included a reference to the other auditor who audited the financial statement of the Richmond School Board, a discretely presented component unit. We also did not audit the financial statements of the Richmond Retirement System which was included in the aggregate remaining fund information. The financial statements of the Richmond Retirement System were not audited in accordance with *Government Auditing Standards*. 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.

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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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 have not been identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

The Honorable Member of City Council
City of Richmond, Virginia

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. We consider the following deficiencies described in the accompanying schedule of findings and responses to be material weaknesses: 2017-001 and 2017-002.

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. We consider the following deficiencies described in the accompanying schedule of findings and responses to be significant deficiencies: 2017-003, 2017-004, 2017-005, 2017-006.

Compliance and Other Matters

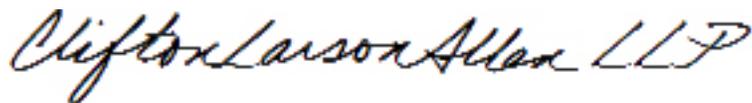
As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect 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 an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and responses as item 2017-007.

City of Richmond's Response to Findings

The City's response to the findings identified in our audit are described in the accompanying schedule of findings and responses. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 result 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.



CliftonLarsonAllen LLP

Arlington, Virginia
November 13, 2017

CITY OF RICHMOND, VIRGINIA
SCHEDULE OF FINDINGS AND RESPONSES
Year ended June 30, 2017

2017-001 – Accounting and Financial Reporting for Capital Assets – Material Weakness

Condition

The City did not properly account for capital projects in accordance with GAAP. The City completed construction on several capital projects and they were placed in service, however the City did not close those projects from construction work in process and begin to depreciate the capital assets. While total asset value was recorded correctly in construction work in process, the capital assets were required to be depreciated upon completion in accordance with GAAP and the City's capitalization policy.

Criteria

Capital projects should be capitalized in the period in which they are placed in service or are substantially completed.

Cause

The City has identified project managers with the responsibility of monitoring the progress on construction projects. However, communication between the project managers and those charged with financial reporting responsibilities are insufficient.

Effect

Failure to capitalize capital projects once they are completed could result in misstatement of depreciation expense for the year and improper reporting of capital assets.

Recommendation

We recommend the City strengthen policies and procedures to ensure that the City's project managers are reviewing all capital projects during the year to determine if projects are substantially completed. The City should also establish policies and procedures to improve communication between the project managers and those charged with financial reporting responsibilities.

Management's Response

Management concurs with the recommendation. The City had limited staffing during the fiscal year, but the Finance Department was able to fill a number previously vacant positions over the course of the year with additional funding. Further, the Department of Finance has engaged a consultant to review, assess and re-implement the Project & Grants configuration module in RAPIDS. General government employees will receive additional training on new policies and procedures regarding the use of Projects & Grants module for the reporting of Capital Assets once the re-implementation is complete.

2017-002 – Timeliness of Account Reconciliations – Material Weakness

Condition

There were numerous routine account reconciliations that were not prepared timely. These reconciliations included monthly cash accounts and capital asset reconciliation from the subsystem to the general ledger.

Criteria

Guidance recommends that responsible personnel perform control activities in a timely manner as defined by policies and procedures.

CITY OF RICHMOND, VIRGINIA
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Year ended June 30, 2017

Cause

The City has not instituted sufficient monitoring controls to ensure that such reconciliations are prepared, reviewed, and approved timely.

Effect

Failure to perform routine account reconciliations timely results in increased risk that a material error in balances may not be prevented and detected. In addition, the financial information provided to those throughout the City may not be accurate, timely, or relevant.

Recommendation

In order to make the financial reports generated by the accounting system as meaningful as possible, the City should reconcile the general ledger accounts for cash and capital assets to supporting documentation on a monthly basis. A benefit of monthly reconciliation is that errors do not accumulate. Such errors can be identified, attributed to a particular period, and corrected, which makes it easier to perform future reconciliations.

Management's Response

Management concurs with the recommendations. The City had limited staffing during the fiscal year, but the Finance Department was able to fill a number previously vacant positions over the course of the year with additional funding. Reconciliations are now occurring in a timelier manner.

2017-003 – Recording of Retainage Payable – Significant Deficiency

Condition

Retainage payable represents a liability attributable to the acquisition, construction or improvement of capital assets (in this case, construction in progress). The retainage payable amount is included on construction in progress invoices as a reduction of total expenditures incurred. The City has not been recording a liability for retainage payable related to these construction in progress invoices.

Criteria

Accounting standards require that transactions of an entity be accounting for in accordance with generally accepted accounting principles.

Cause

The City has a history of not accounting for these transactions and therefore, has not established the appropriate policies and procedures to ensure proper accounting.

Effect

Failure to record retainage payable may result in the misstatement of liability and expenditures. Further, the financial information provided to those charged with governance may not be accurate or relevant.

Recommendation

We recommend that the City recognize retainage and establish ongoing training for those individuals responsible for the accounting of these transactions as well as those departments required to provide information needed by the Finance Department to properly account for retainage.

CITY OF RICHMOND, VIRGINIA
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Year ended June 30, 2017

Management's Response

Management concurs with the recommendation. Purchase orders are created for the entire amount of the project which encumbers the funds. Currently, projects are paid in phases and a hold is placed on a portion of the funds until the completion date of the project. Once the project is complete, the balance on the purchase order which is encumbered, is released/paid to reflect the retainage amount which was held. The City has a mechanism in the system that identifies retainage as a type of payment but this was not used in previous years as an identifying marker for the final payment (retainage). The Finance Department has communicated with all applicable departments to identify the release of the final retainage amounts prior to the payment being released. In future years, the City will track and record those retainages that have not been paid at year end and record them as a liability.

2017-004 – Journal Entry Approvals – Significant Deficiency

Condition

Certain individuals within the accounting function have the ability to prepare and post journal entries without a secondary approval.

Criteria

Journal entries should be reviewed and approved by someone other than the preparer.

Cause

The lack of sufficient employee resources within the City during the year resulted in an inappropriate segregation of duties.

Effect

Lack of segregation of duties results in an increased risk of financial reporting errors or misappropriation of assets. Having a lack of segregation of duties could also increase the ability to conceal fraud.

Recommendation

We recommend that the City establish policies to ensure regardless of the staffing constraints that segregation of duties is always maintained. Additionally, the City should enable controls within the system that prevent the same user to prepare, post and approve an entry.

Management's Response

The Department of Information Technology will conduct a review of the current settings, to determine if there are options to match more closely these recommendations. To further assist with this effort, the City Administration engaged Astyra Corporation to assist the City with reviewing existing access controls and making recommendations to ensure that conflicting/competing access is eliminated.

2017-005 – Information Technology Controls – Significant Deficiency

Condition

Our review of the general computer controls at the City's Department of Information Technology (DIT) disclosed several internal control deficiencies. There general computer control deficiencies included:

- Strategic Plan – The City's DIT has not developed a strategic plan for the short- or long-term objectives for IT resources and projects to meet the City's needs.

CITY OF RICHMOND, VIRGINIA
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Year ended June 30, 2017

- Periodic Review of Access – The City has not developed a process to periodically review active user listing for either the continued need for access or the appropriateness of access retained.
- Password Configuration – The City has not configured password setting in conformance with the established policy or leading practices where a policy statement has not been established. These configurations included password history, minimum password age, and account lockout settings.

Criteria

A well-designed system of internal controls related to application access and security suggests that sound general computer controls be established and functioning to reduce the risk that the City's operations are out of compliance with management's objectives and expectations and industry best practices.

Cause

The lack of sufficient employee resources within the City during the year resulting in their inability to perform the required steps necessary to ensure controls are operating and effective. In addition, the City does not have sufficient policies and procedures, including monitoring controls.

Effect

An ineffective control environment results increased risk that financial data integrity is not being maintained.

Recommendation

We recommend that the City evaluate the items noted and implement updated procedures to improve the general computer controls to include:

- Develop an IT strategic plan to develop resources in alignment with the overall City direction and strategy.
- Develop a process to periodically review active system list to validate that appreciations of account and their associated access rights.
- Implement configuration changes to conform to City policies and periodically assess that configurations continue to align with management's expectations.

Management's Response

Management concurs with the recommendation. The City adopted ORACLE's standard password management and system security settings for the RAPIDS application. The adopted settings included procedures for complex password settings, locking out of a session after a specified period of inactivity and locking an account after a predetermined number of invalid log-on attempts. The City does not have design control over these elements as we would for a self-developed system.

2017-006 – Use of Miscellaneous Vendor – Significant Deficiency

Condition

The City uses the "Miscellaneous Vendor" code for small disbursement for social service reimbursements. However, the "Miscellaneous Vendor" code has been used during the year for large recurring vendors.

Criteria

All large vendors paid by the City should be subjected to the City's procurement processes.

CITY OF RICHMOND, VIRGINIA
SCHEDULE OF FINDINGS AND RESPONSES
Year ended June 30, 2017

Cause

The City has not instituted sufficient monitoring controls to ensure these procurement processes are being followed.

Effect

The use of the "Miscellaneous Vendor" code can allow employees to surpass the approval process of requesting a new vendor through the procurement department. This could result in related party vendors or vendors who are suspended and debarred. Bypassing the procurement process may also increase the risk of fraud related to disbursement of funds.

Recommendation

We recommend the City limit the use of the "Miscellaneous Vendor" code. We also recommend the City establish controls to review all checks issued to "Miscellaneous Vendor".

Management's Response

Management concurs with the recommendation. The Procurement Department is coordinating with the Department of Social Services to reduce the number of large recurring vendors identified as Miscellaneous during the current year. The Finance Department is also coordinating with Social Services electronic payments for the subcontractors that are being used for housing/rent payments in order to expedite payments and reduce Miscellaneous Vendor checks.

2017-007 – Failure to Comply with the Virginia Reporting Requirements – Material Noncompliance

Condition

The City of Richmond is required to obtain an audit of its schedule of expenditures of federal awards as it expended greater than \$750,000 in federal awards during the fiscal year ending June 30, 2017. The City did not issue their audit report by November 30, as required by Virginia.

Criteria

The City must submit the final audited financial report, including the single audit, to the Auditor of Public Accounts by November 30 of each year in accordance with Section 15.2-2510 of the Code of Virginia.

Cause

The lack of sufficient employee resources within the City during the year resulted in their inability to perform the required steps necessary to produce the schedules necessary for the single audit on time.

Effect

Failure to comply with Virginia requirements could result in additional activity by the Auditor of Public Accounts.

Recommendation

We recommend that the City implement policies and procedures to ensure that federal grant program reports are available for audit to allow sufficient time for completion of the audit process by the prescribed deadlines.

CITY OF RICHMOND, VIRGINIA
SCHEDULE OF FINDINGS AND RESPONSES
Year ended June 30, 2017

Management's Response

Management concurs with the recommendation. The City had limited staffing during the fiscal year, but the Finance Department was able to fill a number previously vacant positions over the course of the year with additional funding. The Single Audit for FY2018 will begin in a much timelier manner than the previous years, which will greatly enhance the opportunity for it to be completed on time in coordination with the external auditor.