



Audit Report Number 2005-13
City of Richmond
Audit of Council General Fund Discretionary Accounts
12 months ended March 8, 2005

Prepared by
CITY AUDITOR
Richmond, Virginia

Submitted to
The Honorable Members of City Council
June 23, 2005

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The Honorable Members of City Council
Richmond City Audit Committee
City of Richmond, Virginia 23219

City Auditor's Report

SCOPE

We reviewed the records related to the transactions processed by the City Mayor's Office (formally the City Manager's Office) for City Council's General Fund Discretionary Accounts during the twelve-month period ended March 8, 2005. We reviewed and evaluated the system of internal controls in place during the same period to the extent considered necessary.

OBJECTIVES

Our audit objective was to:

- Ascertain whether Council Members' General Fund Discretionary Accounts were properly managed in accordance with City Policy.

We also identified opportunities for improvement in the internal control structure. Our testing did not indicate any internal control weaknesses that would allow material misstatement in the records processed and maintained by the City to go undetected.

METHODOLOGY

We conducted our audit in accordance with Government Auditing Standards for Performance Audits issued by the Comptroller General of the United States. During the course of our work, we reviewed supporting documents, evaluated management controls, and conducted other appropriate tests. We believe that our audit provides a reasonable basis for our conclusions regarding the internal control structure and our recommendations.

CONCLUSIONS

- Automated postal amounts that were charged to Council accounts bypassed the approval process. The current City Policy does not address these types of instances, especially when amounts exceed \$1,000.
- Several print shop transactions were expensed without completion of a Funding Request Form and Mayor's Office approval.
- There appeared to be confusion regarding the \$1,000 limit as there were two instances where expenditures greater than \$1,000 were split and processed separately rather than going forward through Council's resolution process.
- City Staff did not accurately reconcile their records to the City's financial system for the accounts. This weakness resulted in a double payment, incorrect transactions and account balances, and inaccurate records given to Council members.
- Account expenditures were within policy guidelines, regarding the nature of the expenditure items.

The management of the City of Richmond, Virginia, is responsible for maintaining financial records. It is also responsible for establishing and maintaining a system of internal accounting and management control. In fulfilling this responsibility, management is required to assess the expected benefits and related costs of control procedures.

We discussed the attached comments and recommendations with management throughout the audit and formally on June 1, 2005; we have included managements' responses from the responsible officials. We would like to thank the departmental management and staff for their cooperation and assistance during this audit.

This report is intended for the members of the Richmond City Council, the City Audit Committee, the City and departmental management of the City; it is a matter of public record.

Respectfully submitted,

Lance Kronzer, CPA
City Auditor

Shawnise Newsome
Auditor II

April 15, 2005

Executive Summary

Background

The primary purpose of General Fund Discretionary Accounts is to provide City Council members with a source of funds to use for City-related and community-based projects and expenses. Funds were budgeted in the City's General Fund. Each fiscal year, City Council budgeted an amount for each Council member. From February 2004 forward, Council members were allowed to expend up to \$1,000 on his/her signature. Expenditures greater than \$1,000 were supposed to go before Council for approval via resolution prior to a contractual obligation or expenditure of funds. Carryover of unexpended Council discretionary general funds from one year to the next was allowed only by ordinance.

For FY05, each Council member was budgeted \$25,000 within their General Fund Discretionary Account. All expenditure requests had to be approved and processed by the Mayor's Office (formally by the City Manager's Office). Each district has its own organization code within the City's financial accounting system. The Mayor's Office provided monthly reports to Council members identifying account balances and expenditures.

The criteria for use of funds determine what do and do not constitute allowable expenditures.

A. Community-related projects and expenses may include, but are not limited to the following:

- (1) Disbursements to civic, cultural, charitable, community or public school organizations or associations; and
- (2) Written communications, meetings or events conducted by a Council member for or on behalf of a civic, cultural, charitable, community or public school organization or association.

B. Community-related disbursements will be governed by the following guidelines:

- (1) The organization or association receiving funds must be a local civic, cultural, charitable, community or public school organization or association located in the City of Richmond;
- (2) The organization or association must provide services to the citizens of Richmond;
- (3) The services provided will be available to the community at large; and

(4) The written communication, meeting, or event must be prepared or conducted by a Council member.

C. The following expenditures shall not be allowed from Council discretionary general funds:

- (1) Campaign literature;
- (2) Personal expenses (i.e., local mileage);
- (3) Contributions to political organizations or activities or for any policy advocacy;
- (4) Fundraisers;
- (5) Promotional Items;
- (6) Gifts; or
- (7) Any other expenditure deemed by the Council to be an inappropriate use of this funding source.

In early March 2005, the Mayor's Office requested that the City Clerk's Office assume the responsibility for handling the General Discretionary Fund activity. Therefore, the Clerk's Office will be responsible for providing management responses, where applicable.

**Summary of
Recommendations**

In order to improve and better manage General Fund Discretionary Accounts, we made recommendations for management's consideration.

1. Adjust City Policy for Postal Expenditures Activity.
2. Ensure Funding Request Forms for Printing work are completed and all transactions receive Clerk's Office approval.
3. Better define criteria that explain what expenditures should be presented to the full Council.
4. Reconcile General Fund Discretionary Accounts to the City's Financial System.

FINDINGS AND RECOMMENDATIONS

In early March 2005, the Mayor's Office requested that the City Clerk's Office assume the responsibility for handling the General Discretionary Fund activity. Therefore, the Clerk's Office will be responsible for providing management responses, where applicable.

1. Adjust City Policy for Postal Expenditure Activity.

Due to the automated nature of the accounts, Council Members did not submit any of their postage expenses to the Mayor's Office for approval, nor were any postal expenditures that exceeded \$1,000 submitted to the full City Council for approval before the expenditure of funds. The Mayor's Office would not become aware of postal transactions until after they were posted to Council members' accounts in the City's financial system.

Current policy does not define procedures for approving postage expenditures. Without approval, there is no opportunity for a review to determine the propriety of the expense prior to disbursement.

City staff noted that this issue has been raised in the past but was never resolved.

RECOMMENDATION

We recommend that the Clerk's Office work with City Council to adjust the existing Policy and related ordinance to define how postage expenditures should be handled. Specifically, it should address the \$1,000 expenditure approval process. One method would be to have the Mail Section send a copy of the mail billing to the Clerk's Office; a bill exceeding \$1,000 would go to Council for its after-the-fact approval.

MANAGEMENT RESPONSE

Based on input and direction from City Council and a legal opinion from the City Attorney, the Office of the City Clerk did not assume the responsibility of administering the City Council General Fund Discretionary process in March 2005, as requested by the Mayor.

Effective July 1, 2005, the Council's Discretionary Fund Accounts will no longer exist. The Council's General Fund operating expenditures will be handled administratively by this office. After the responsibility and related funds are transferred to the Office of the City Clerk, an Assistant City Clerk will be assigned to work with the Council and their respective Liaisons to process the necessary paperwork.

If the \$1,000 expenditure limit for postage and other expenses is still applicable after July 1st, the City Clerk will work with the Council to establish new rules and guidelines to amend the current policy and approval process, within a two month period following the effective date.

2. Ensure Funding Request Forms for Printing work are completed and all transactions receive Clerk's Office approval.

City policy requires that Council members shall submit requests for General Fund expenditures with a Funding Request Form. The Policy also states that the Mayor's Office designee certify the request as an appropriate expenditure. All proposed expenditures over \$1,000 shall be submitted to the City Council for approval by resolution.

- Five out of nine districts did not submit a Funding Request Form for twelve print shop expenditures that we tested. As a result, they bypassed the Mayor's Office approval process.
- There were three print shop expenditures from above that exceeded \$1,000 and were not submitted to the full Council for resolution.

Generally, print shop transactions are automatically billed through the City's financial system and are not available right away. However, quotations can be obtained from print shop staff.

Without approval there is no method of determining if expenditures were within policy criteria and that the account had the available funds.

City Staff noted that the Mayor's Office has spoken to Council members and liaisons regarding print shop expenditures approval.

RECOMMENDATION

We recommend that the Clerk's Office ensure that Council Members/liaisons complete Funding Request Forms, forward the forms to the Clerk for approval, and ensure that when a Print shop item exceeds \$1,000 it is given to the full Council for subsequent approval.

MANAGEMENT RESPONSE

This Office can not "ensure that all Print Shop items that exceed \$1,000 be submitted to the full Council for resolution in accordance with City Policy." The Council's discretionary funding process is currently administered and approved by the Office of the Chief Administrative Officer.

To reiterate, after July 1st the Council's discretionary funds process will no longer exist. The Council's General Fund operating expenditures will be handled administratively by this office, using a line item budgeting process.

Once the responsibility and related funds are transferred to this Office, the City Clerk will work with the Council to review and develop new procedures to address the new line item process.

However, it is important to note that even with a procedure in place; it is not possible to ensure that all Print shop items that exceed \$1,000 are submitted to the full Council for resolution in accordance with the Policy.

Historically, accounts for printing services, postage, advertising, telephones and various other in-house expenditures, are automatically debited from the accounts of City departments without prior input, notice or approval from the department whose accounts are being charged.

However, to reiterate the previous response, the \$1,000 City Council General Fund Discretionary policy will not exist after July 1, 2005. Council's General Fund expenses will be administered, by this office, utilizing the line item budget process.

If applicable, the Council will include language, within a two month time period following the effective date, to make sure that all expenditures over their set limits will be approved by the full Council.

This office will work with the City Auditor's Office and the City Administration to put the appropriate steps in place to ensure that the limits, once adopted by the Council, are not exceeded.

3. Better define criteria that explain what expenditures should be presented to the full Council.

City Policy states that requests for using discretionary funds shall be submitted to City Council for approval by resolution prior to the contractual obligation or expenditure of funds. It also states that the City Mayor's Office shall prepare an Ordinance and Resolution for requests over \$1,000.

- In May 2004, there was a request for \$1,073.65 to the City Manager's Office for the application of weed killer in the district. The total was comprised of the supplies plus overtime for two workers; however, the sum exceeded \$1,000 and the City Manager's Office did not submit it to the full Council for resolution.
- In August 2004, without an accompanying request for funding, two separate invoices totaling \$1,271.82 were sent to the City Manager's Office. The City Manager's Office processed them as two requests (even though they were from the same entity with no apparent reason for the split); they were not submitted to the full Council for resolution. City staff claims that since the services or products were on separate invoices and submitted as separate requests they were processed individually.

City Policy does not specifically define what constitutes a “request.” For instance, it does not define whether separate invoices for the same purpose should be processed as one request or separate requests for approval, if the sum exceeds the \$1,000. Additionally, the Policy does not discuss how invoices for labor and materials for the same project are to be handled.

RECOMMENDATION

We recommend that the Clerk’s Office modify existing Policy to include a more detailed definition of a “request.” It should include guidance relative to instances where labor is applied to a particular project, thereby increasing the total project over the \$1,000 limit. In addition it should define how “invoices” are related to a “request.”

MANAGEMENT RESPONSE

Only the Council can amend or modify the Policy. As such, the City Clerk will work with the Council to establish new rules, procedures, guidelines and definitions that address their new line item budgeting process, within a two month period following the effective date.

If applicable, the Council will consider adding language to their new procedures to define specifically what a “request” entails. The Council’s review and discussion will occur after the current budget related issues, between the Council and the Mayor are resolved. However, a procedure should be finalized within a two month period following the effective date.

4. Reconcile General Fund Discretionary Accounts to the City’s Financial System.

City Policy states that General Fund Discretionary Accounts must be reconciled to the City’s Financial System prior to reports being distributed to Council members.

Our review of the Mayor’s Office General Fund Discretionary Account logs revealed that they were not reconciled to the City’s Financial System. City Staff noted that, upon receiving the responsibility of managing the General Fund Discretionary Accounts, no one provided training as to a proper method of reconciling documentation to the City’s Financial System. Therefore, the account balances, as reported to Council, were incorrect. For example:

- One double payment for \$4,000
- Mathematical errors in account balances
- Duplicate postings
- System transactions not listed on the account logs
- Transactions listed on the account logs as paid that were not reflected on the City’s Financial System

Lack of reconciliation to the City’s Financial System allowed some transactions to remain unrecorded or to be recorded incorrectly. We have accumulated a list of

adjustments that the Mayor's Office should make to Council members' account logs in order for their records to reflect the correct account balances.

We provided detail adjustments to the Mayor's Office separately in a letter dated April 25, 2005. The following table summarizes the adjustments for Council account balances as of March 8, 2005:

District Number	Adjustment Amount As of 3/8/05
District 1	\$15
District 2	\$0
District 3	\$815
District 4	\$4,453
District 5	\$655
District 6	\$6,536
District 7	\$811
District 8	\$2,603
District 9	\$0

RECOMMENDATION

We recommend that: a) the Mayor's Office ensure that staff adjust Council accounts, and b) the Clerk's Office enhance the report log to include a mechanism to include reconciling items on Council's report summary so that the balance shown takes into account known pending items, amounts requested but not paid and any reconciling items that Council members need to be aware of, and c) the Mayor's Office attempt to recoup the \$4,000 duplicate payment.

MANAGEMENT RESPONSE

a) In response, to the findings which indicate that adjustments will need to be made to several of the District Discretionary Accounts, the Senior Assistant to the CAO will direct the Department of Finance to make those adjustments, prior to July 1, 2005.

b) Once this process has been transferred to the City Clerk's Office, the Assistant City Clerk assigned to this task, will immediately enhance the report log to include reconciling items for Council as indicated.

c) The Department of Finance has been advised of the double payment of \$4,000 to the vendor and has been directed to collect on the overpayment error. An attempt had been previously made by the (former) City Manager's Office; however, the stop-payment on the second check was applied too late. The vendor has been notified informally, by the Chief Administrator's Office that they will receive immediate formal notification of the error, by the Finance Department, and that the City will collect the \$4,000 overpayment by necessary means, assuming they have not by that time voluntarily repaid the funds. The Senior Assistant to the CAO will review this issue within 60 days with the City Auditor to ensure that these funds have been collected.

