



CITY OF RICHMOND
CITY AUDITOR

DATE: May 21, 2020

TO: Ms. Lenora Reid
Acting Chief Administrative Officer

FROM: Louis Lassiter *LL*
City Auditor

SUBJECT: Citywide
Special Revenue Funds audit

The City Auditor's Office has completed the Citywide Special Revenue Funds audit and the final report is attached.

We would like to thank the Administration staff for their cooperation and assistance during this audit.

Attachment

cc: The Richmond Audit Committee
The Richmond City Council
Ms. Sharon Ebert, DCAO of Economic Development
Mr. Reginald Gordon, DCAO of Human Services
Mr. Scott Firestine, Director of Richmond Public Library

Intentionally left blank

City of
RICHMOND
Office of the City Auditor

Audit Report# 2020-13
Citywide - Special Revenue Funds Audit
May 21, 2020

Audit Report Staff

Lou Lassiter, City Auditor
Lily Hernandez, Deputy City Auditor
W. Bret Lewis, Lead Auditor
Toni Noel, Auditor

Executive Summary	i
Background, Objectives, Scope, Methodology	1
Findings and Recommendations	5
Excess Funds Table	Appendix A
Management Responses	Appendix B

Highlights

Audit Report to the Audit Committee, City Council, and the Administration

Why We Did This Audit

The Office of the City Auditor conducted this audit as part of the FY20 audit plan approved by the Audit Committee. The main objective for this audit was to evaluate the controls, compliance and monitoring of Special Revenue Funds.

What We Recommend

Chief Administrative Officer

- Develop and implement formal policies and procedures to provide guidance on creating, monitoring and closing Special Revenue Fund accounts.

Director of Finance:

- Remove the identified accounts from the Special Revenue Fund accounts and move them to their respective cost centers in the Grants Module, General Fund or Enterprise Fund and work with the Budget Department to request any budget adjustments that may require legislative approval.

Communications Director:

- Develop and implement formal procedures to ensure compliance with the PEG franchise agreements/Cable Ordinance.
- Work with the Budget Department to obtain legislative approval to appropriate \$1,229,840 from other sources, to recover the funds used for unallowable PEG expenditures.
- Ensure expenses which occurred subsequent to December 31, 2019 for website re-design and web services, and 31% of production studio/office renovation cost be reclassified from or not charged to the PEG account.

Other recommendations to improve internal controls are included in the report.

Citywide Special Revenue Funds Audit

Background - In the City of Richmond, Special Revenue Funds are created to account for revenues appropriated by City Council for a specific purpose either during the adoption of the Fiscal Plan or an approved ordinance. These funds are primarily derived from user fees, assessments, grants, and taxes. As of June 30, 2019 the City had 95 Special Revenue Fund accounts.

Commendation – Except for the Public, Educational, and Governmental Fund, all expenditures tested were allowable.

Needs Improvement

Finding #1 – Excessive Special Revenue Fund Accounts - Only 34 of the 95 accounts met the GASB guidelines. In FY19, forty Special Revenue Fund accounts had neither revenues nor expenditures and twenty-three of those did not have either a beginning or ending balance. This resulted in approximately **\$2 Million** in the Special Revenue Fund accounts that should have been included in the General Fund.

Finding #2 – Incorrect Entry – While reviewing the Special Revenue Fund accounts, it was noted that during FY19, a **\$1,084,100.99** check for Utility Sales Tax was erroneously recorded in a Special Revenue Fund account instead of the General Fund.

Finding #3 - Public, Educational, and Governmental (PEG) – As of 12/31/19, expenditures of **\$1,229,840** were not allowable including a citywide website redesign, new offices and other miscellaneous expenditures. Additionally, revenues were not always deposited timely and recorded to the PEG account. Three checks totaling **\$154,092** were deposited at least three months after the check issuance.

Finding #4 – Affordable Housing Trust Fund – Interest revenues were not deposited and recorded in the account in a timely manner. Checks dated back to 2015 through 2018 were not deposited and had to be replaced by the issuer in 2019.

Finding #5–Law Library – Expenditures were allowable; however, in FY19 they exceeded revenues by **\$118,180**. Revenues were not always recorded in the account. A lump-sum of **\$1,290,277.04** was coded to the account in FY18 to reclassify the revenues received from FY14 through FY17. As of June 30, 2019, the account was in a deficit of **\$324,212**.

Finding #6–Permits & Inspections Technology Renewal Fee – The 5% permit fee allocation to the Technology Renewal account was under allocated by **\$47,388** during FY19. The account was further understated by **\$2,000** due to a keying error.

Finding #7–Special District Assessments – Rehabilitation exemptions of **\$557,895** were erroneously applied against Special District charges. This has been corrected by Finance. Staff did not have formal guidance for handling rehabilitation exemptions.

Finding #8–Rapid Transit Pulse Project – This project is complete; however, the account had a deficit of **\$119,639**. Applicable revenues were not applied to the account and was not closed upon completion of the project.

Finding #9–DJS Supervision Fees – The account had a deficit of **\$21,933** mainly due to understated deposits in prior years and an unknown transfer of **\$49,479**. Staff were not aware of these errors as a reconciliation of the account had not been performed.

Finding #10–Public Library Foundation – The account had a deficit of **\$25,047** due to recording revenues of **\$33,500** to a different account. Staff were not aware of the activities in the account as they had not been trained on the reporting capabilities in RAPIDS.

Finding #11–Delinquent Tax Sales Special Revenue Fund – Staff follow State Code for guidance; however, the Code is vague and does not specifically identify which expenditures are allowable. The City Attorney’s Office is currently developing procedures to provide guidance to their staff.

Management concurred with 19 of 19 recommendations. We appreciate the cooperation received from management and staff while conducting this audit.



Richmond City Auditor's Report #2020-13

Citywide

Special Revenue Funds

May 21, 2020

BACKGROUND, OBJECTIVES, SCOPE, METHODOLOGY, MANAGEMENT RESPONSIBILITY and INTERNAL CONTROLS

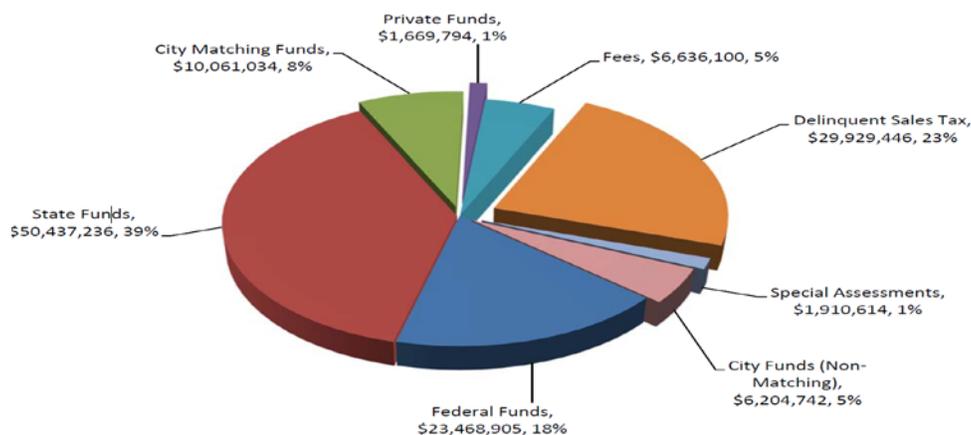
This audit was conducted in accordance with the Generally Accepted Government Auditing Standards promulgated by the Comptroller General of the United States. Those Standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on the audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on the audit objectives.

BACKGROUND

Overview:

In the City of Richmond, Special Revenue Funds are created to account for revenues appropriated by City Council for a specific purpose either during the adoption of the Fiscal Plan or an approved ordinance. These funds are primarily derived from user fees, assessments, grants, and taxes:

The FY19 Special Revenue Funds funding sources were as follows:



Source: 2019-2020 Biennial Fiscal Plan

Richmond City Auditor's Report #2020-13

Citywide

Special Revenue Funds

May 21, 2020

The City had 95 Special Revenue Fund Accounts as of June 30, 2019. The following table depicts the activities for each account during FY19:

<i>Department</i>	No. of Special Funds	Funds in Deficit	Funds Transferred to Close-out Balance	Funds with Activities	Funds with Balance Without Activity	Funds Without Balance or Activity
<i>Public Works</i>	17	1		11		5
<i>Emergency Communications</i>	9			4		5
<i>Economic & Community Development</i>	9	1	2	6		
<i>Library</i>	8	3		3	1	1
<i>Judiciary</i>	8			6		2
<i>Parks and Rec.</i>	7			4	1	2
<i>Justice Services</i>	5	1		2		2
<i>Police</i>	5			2	2	1
<i>Finance</i>	5			1	3	1
<i>Human Services</i>	5				5	
<i>Fire & EMS</i>	3			1	2	
<i>City Attorney</i>	2	1		1		
<i>City Council</i>	1				1	
<i>Mayor's Office</i>	1			1		
<i>Social Services</i>	1			1		
<i>Planning & Development</i>	1			1		
<i>Sheriff's Office</i>	1				1	
<i>Animal Care & Control</i>	1			1		
<i>CAO's Office</i>	1			1		
<i>Other Miscellaneous</i>	5				1	4
<i>Total</i>	95	7	2	46	17	23

Special Funds Process:

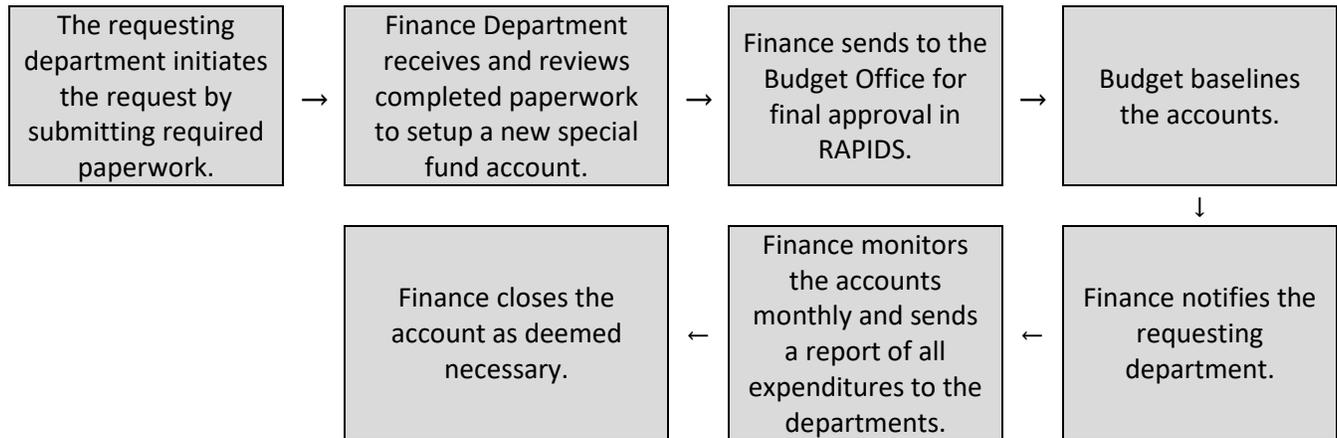
The Special Revenue Fund process is a coordinated effort between the requesting departments, the Finance Department and the Budget Office. The process to establish, monitor, and closeout a Special Revenue Fund account is depicted as follow:

Richmond City Auditor's Report #2020-13

Citywide

Special Revenue Funds

May 21, 2020



OBJECTIVES

The objectives for this audit were to:

- Evaluate the controls, compliance and monitoring of Special Revenue Fund accounts and determine if they met Government Accounting Standards requirements.
- Determine if any Special Revenue Funds were in structural deficits and if efficiencies could be achieved by reducing the number of special funds.

SCOPE

The scope of this audit covered Special Revenue Funds for FY19 and the current environment. The scope for one of the accounts tested, the Programming, Educational, and Government (PEG) Fund, covered FY18 and FY19, as well as the six months ended December 31, 2019.

METHODOLOGY

The auditors performed the following procedures to complete this audit:

- Interviewed staff;
- Reviewed and evaluated relevant City of Richmond policies and procedures for compliance;
- Benchmarked against other Virginia localities;

Richmond City Auditor's Report #2020-13

Citywide

Special Revenue Funds

May 21, 2020

- Reviewed revenues and expenditures for selected Special Revenue Fund accounts;
- Reviewed GASB Statements number 34 and 54;
- Reviewed City Ordinances, City Code, and State Code for Special Revenue Funds; and
- Performed other tests, as deemed necessary.

MANAGEMENT RESPONSIBILITY

City of Richmond management is responsible for ensuring resources are managed properly and used in compliance with laws and regulations; programs are achieving their objectives; and services are being provided efficiently, effectively, and economically.

INTERNAL CONTROLS

According to the Government Auditing Standards, internal control, in the broadest sense, encompasses the agency's plan, policies, procedures, methods, and processes adopted by management to meet its mission, goals, and objectives. Internal control includes the processes for planning, organizing, directing, and controlling program operations. It also includes systems for measuring, reporting, and monitoring program performance. An effective control structure is one that provides reasonable assurance regarding:

- Efficiency and effectiveness of operations;
- Accurate financial reporting; and
- Compliance with laws and regulations.

Based on the audit test work, the auditors concluded the internal controls over the Special Revenue Funds Process are significantly weak and need improvements. The following are some of the weaknesses noted:

- Policies and procedures to guide staff through the Special Revenue Fund process did not exist.
- Revenues were not always tracked and managed and/or erroneously coded to incorrect accounts.

Richmond City Auditor's Report #2020-13

Citywide

Special Revenue Funds

May 21, 2020

- Accounts that did not meet the Special Revenue Fund guidelines were recorded as such.
- Unallowable expenditures.
- Untimely deposits of revenues received.

These internal control weaknesses are discussed throughout this report.

FINDINGS and RECOMMENDATIONS

What Works Well

Expenditures

Except for the Public, Educational, and Governmental Fund (PEG), all expenditures tested were allowable.

What Needs Improvement

Finding #1 – Excessive Special Revenue Fund Accounts

As of June 30, 2019, the City of Richmond had 95 Special Revenue Fund accounts. The auditors reviewed the 95 accounts to determine whether they met the General Accounting Standards Board (GASB), guidelines. According to GASB, Statement No. 54, "Special revenue funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects."

The auditors noted only 34 of the 95 Accounts met the GASB guidelines. The excessive Special Revenue Fund accounts were mainly due to not having policies and procedures to guide staff through requesting, creating, monitoring and closing out the accounts. GASB Statement #34 states governments should establish only the minimum number of funds necessary to operate legally because unnecessary funds result in inefficient financial administration. Governments

Richmond City Auditor's Report #2020-13

Citywide

Special Revenue Funds

May 21, 2020

ould no longer report the special revenue fund and transfer the remaining revenues to the general fund, if the majority of the revenue source is no longer restricted.

Of the 95 Special Revenue Fund accounts, the auditors noted the following:

- 34 - met the Special Revenue Fund guidelines
- 37 - Inactive, miscoded or errors
- 12 – Grants
- 12 - Not Special Revenue Funds

The auditors also noted accounts that became dormant/inactive were not removed. In FY19, forty Special Revenue Fund accounts had neither revenues nor expenditures and twenty-three of those did not have either a beginning or ending balance. There were approximately ***\$2 Million*** in the Special Revenue Fund accounts that should have been included in the General Fund. (See Appendix A for summary)

The auditors benchmarked other Virginia localities to compare the number of Special Revenue Fund accounts in the City of Richmond with the number in those localities. In comparison, the City of Richmond has almost four times the number of accounts as the next closest locality as depicted on the following table:

Locality	# of Special Funds
Richmond	95
Henrico	24
Virginia Beach	18
Chesterfield	4
Roanoke	8

Source: prepared by auditor

Richmond City Auditor's Report #2020-13

Citywide

Special Revenue Funds

May 21, 2020

Recommendations:

- 1. We recommend the Chief Administrative Officer develop and implement formal policies and procedures to provide guidance on creating, monitoring and closing Special Revenue Fund accounts.*
- 2. We recommend the Director of Finance remove the identified accounts from the Special Revenue Fund accounts and move them to their respective cost centers in the Grants Module, General Fund or Enterprise Fund and work with the Budget Department to request any budget adjustments that may require legislative approval.*

Finding #2 – Incorrect Entry

While reviewing the Special Revenue Fund accounts, it was noted that during FY19, a ***\$1,084,100.99*** check for Utility Sales Tax was erroneously recorded in a Special Revenue Fund account instead of the General Fund. The staff who prepared the deposit form coded the revenues to an incorrect accounting code.

According to management, Finance staff perform quarterly projections of citywide general fund revenues. They also perform some reviews and look for major variances during the preparation of the monthly financial reporting. The Finance Director identified the discrepancy in a year-end review of actual revenues during August of 2019 and asked staff to research this matter along with others. However, this had not been researched and corrected. As a result, the FY19 General Fund revenues were understated by ***\$1,084,100.99***. Prior to closing this audit, Finance staff moved the funds to the General Fund.

Recommendation:

- 3. We recommend the Director of Finance assign a specific staff person to be responsible for follow-up of all material General Fund revenue variances at the end of each quarter.*

Revenues and Expenditures

The auditors reviewed five Special Revenue Fund Accounts to determine whether expenditures were allowable based on their requirements. The auditors also reviewed the revenues coded to the selected accounts and tested for completeness.

Richmond City Auditor's Report #2020-13

Citywide

Special Revenue Funds

May 21, 2020

Finding #3 – Public, Educational, and Governmental (PEG)

The Code of Virginia §15.2-2108.22 requires a cable operator to pay a recurring fee, which is referred to as the PEG Capital Fee, including institutional networks “to support the capital costs of public, educational, and governmental channel facilities.” Additionally, according to Cable Ordinance 2007-116-240, “The Franchisee shall pay to the City a recurring fee to be called the “PEG Capital Fee” to support the capital costs of PEG facilities, including institutional networks.”

Expenses

The auditors reviewed 100% of the PEG expenditures during FY18 and FY19, as well as the six months ended December 31, 2019. The expenditures during this period totaled \$1,811,777. The auditors noted ***\$1,229,840*** of these expenditures were not allowable as follows:

Citywide website re-design:

100% of the expenditures (***\$1,070,340***) for the City’s website re-design were not allowable as these expenditures did not “support capital costs of PEG facilities” or were “incurred in or associated with the construction of PEG access facilities”. The new website has been delayed in implementation and at this time management has indicated the website should go live in the summer of 2020.

Production studio/office renovation:

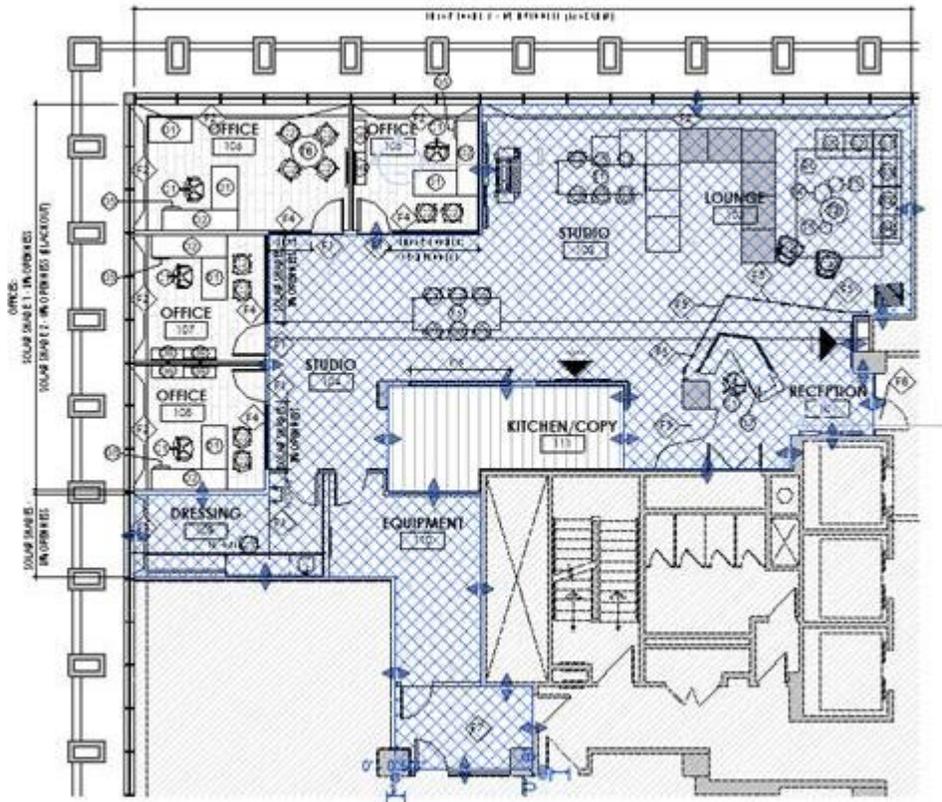
31% of the expenditures (***\$156,957***) were not allowable. The Office of the Press Secretary (OPS) contracted a vendor to renovate approximately 2,840 square feet of interior space in City Hall. The project’s floor plan included a production studio, dressing room, kitchen, equipment room, reception area, and four offices. The project floor plan is depicted as follows:

Richmond City Auditor's Report #2020-13

Citywide

Special Revenue Funds

May 21, 2020



The auditors obtained the square footage assigned to the production studio, which included a dressing room, equipment room, and a reception area. Based on the floor plan, 31% of the square footage were non-production studio related and therefore not allowable. Additional expenses occurred after December 31, 2019 which are also were not allowable.

Other Miscellaneous Expenditures:

OPS also paid **\$2,543** in other miscellaneous non-allowable expenditures.

Although PEG funds are restricted, OPS did not have a formal process to monitor PEG expenditures to ensure compliance with the franchise agreements/Cable Ordinance.

Revenues

According to the Cable Franchise Ordinance, the Franchisee must submit an annual report that describes the cable services begun or dropped, the total number of cable subscribers and the

Richmond City Auditor's Report #2020-13

Citywide

Special Revenue Funds

May 21, 2020

number of homes passed. The report must also include the Franchisee's total operating revenues from each type of cable service, gross revenues and the amount of communications tax and PEG access fees by the Franchisee.

The auditors reviewed the revenues submitted to the City by the cable companies noting whether all the revenues had been recorded in the PEG Special Revenue Fund account. 100% of the revenues were deposited in the City's bank account; however the auditors noted:

- On 12/11/19, the Finance Department reclassified eight PEG revenue checks totaling **\$421,999** to properly move PEG revenues from the General Fund to the PEG Special Revenue Fund Account.
- Two PEG revenue checks dated 7/21/17 and 10/20/17 for **\$61,426.93** and **\$59,555.84**, respectively were not recorded in the PEG Special Revenue Fund account. These payments were recorded in multiple General Fund accounts, such as Right of Ways, Utility Sales and/or Consumption tax. Upon auditors' inquiries, these revenues were reclassified and coded to the PEG Account on April 17, 2020.

The auditors noted neither Finance nor OPS monitored the revenues for completeness. OPS and Finance staff did not know where the funds should have been recorded.

Untimely Deposits

The auditors noted revenue payments submitted to the City for the PEG Special Revenue Fund account were not deposited timely. Three checks totaling **\$154,092** were deposited at least three months after the check issuance date as depicted on the following table:

Check Date	Paid Amount	Deposit Date
1/24/19	\$51,737.05	10/11/19
4/24/19	\$50,281.07	
7/24/19	\$52,073.95	

Richmond City Auditor's Report #2020-13

Citywide

Special Revenue Funds

May 21, 2020

Recommendations:

4. *We recommend the Communications Director develop and implement formal procedures to ensure compliance with the PEG franchise agreements/Cable Ordinance.*
5. *We recommend the Communications Director work with the Budget Department to find and obtain legislative approval to appropriate \$1,229,840 from other, more appropriate funding sources, to recover the funds used for unallowable PEG expenditures.*
6. *We recommend the Communications Director ensure expenses which occurred subsequent to December 31, 2019 for website re-design and web services, and 31% of the production studio/office renovation cost be reclassified from or not charged to the PEG Special Revenue Fund account.*
7. *We recommend the Communications Director hold the website vendor accountable for firm implementation dates and product for the investment made in website development.*
8. *We recommend the Communications Director implement a monitoring process to ensure funds collected are complete and deposited in accordance with the Department of Finance's Cash Collections Policies and Procedures.*

Finding 4 – Affordable Housing Trust Fund

In 2012, the City invested \$1.5 Million in the form of a 20-year recoverable grant to Richmond Redevelopment and Housing Authority (RRHA) to support the redevelopment of the Dove Street area. Pursuant to a Cooperative Agreement between RRHA and the City of Richmond, RRHA is required to submit interest payments of \$14,000 to the City annually.

Expenses

During FY19, the expenditures charged to the Affordable Housing Special Revenue Fund account totaled \$876,788. The auditors reviewed all the expenditures to determine whether they were allowable expenses and noted no exceptions.

Richmond City Auditor's Report #2020-13

Citywide

Special Revenue Funds

May 21, 2020

Revenues

During FY19, City Council appropriated \$1 Million to the Affordable Housing Trust Special Revenue Fund. In addition to the Council appropriation, revenues of \$56,739 were recorded in the account in FY19. However, that total included a check for \$14,000 that had been voided. The check, which was dated January 24, 2018 was deposited over a year after its issuance date. Except for \$14,000, the revenues recorded in the account were applicable to prior years' interest revenues. In 2019, RRHA issued three checks to replace checks that were originally issued between 2015 and 2018. The untimely deposits for the replacement and other checks are depicted on the following table:

Check date	Amount	Deposit Date
1/24/18	\$14,000	2/15/19
1/16/19	\$14,000	
2/6/19	\$14,000	
3/20/19	\$14,000	4/18/19
3/20/19	\$739.20	

According to the Department of Finance's Cash Collections Policies and Procedures, "All organizational units in the City that accept cash receipts as a form of payment for goods or services, shall deposit cash receipts of \$100 or more within 2 business days."

Poor oversight over the staff responsible for the administration of the funds collected and staff turnover over this function impacted the untimely deposits. Untimely deposits can result in lost revenue and decrease in services provided by the City. Additionally, the risk of misappropriating funds and revenues going unnoticed increases when monitoring procedures are not in place.

Due to the weak internal controls in recording and monitoring revenues, a more comprehensive review of revenues will be conducted during FY2021.

Richmond City Auditor's Report #2020-13

Citywide

Special Revenue Funds

May 21, 2020

Recommendation:

- 9. We recommend the Director of the Housing and Community Development develop and implement a monitoring process to ensure funds collected are deposited in accordance with the Department of Finance's Cash Collections Policies and Procedures.*

Finding #5 – Law Library Special Revenue Fund

According to Code of Virginia §42.1-70, as a part of each civil action, localities can charge a fee of up to \$4 to be used to create and maintain a law library. The fee is to be collected by the Clerk of the Courts where the action is filed and remitted to the City's Financial Officer. In 1994 the City adopted Ordinance 94-42-52 to enact the State law. The fee then was \$2 and was increased per Ordinance 2012-110-113 to \$4 where it remains. The General and Circuit Courts submit the funds collected to Central Finance on a monthly basis via a check.

Expenses

During FY19, expenditures of \$358,000 were charged to the Law Library Special Revenue Fund account. The auditors reviewed all the expenditures and noted no exceptions.

Revenues

During FY19, the Finance Department received 24 payments from the General District and Circuit Courts (12 payments each) totaling \$239,317. The auditors reviewed the general ledger to validate the completeness of the funds received. 100% of the revenues received in FY19 were recorded in the Law Library Special Revenue Fund account.

Fund Balance

As of June 30, 2019 the Law Library was in a deficit of ***\$324,212.25***. The auditors noted the Finance Department did not code the revenues to the Law Library Special Revenue Fund from FY14 through FY17. A lump-sum of ***\$1,290,277.04*** in revenues were coded to the Fund in FY18 to reclassify the revenues received from FY14 through FY17.

Richmond City Auditor's Report #2020-13

Citywide

Special Revenue Funds

May 21, 2020

According to Library staff, they did not receive communication from Finance staff about when and how funds were received and as a result they were unaware of the total revenues received and the account's running balance. They also have not been trained on the reporting capabilities of RAPIDS. The auditors noted, the Library staff did not reconcile the account to reflect available funding. During FY19, the expenditures exceeded the revenues by ***\$118,180***.

Recommendations:

- 10. We recommend the Library Director work with the Finance Director to ensure Library staff are trained on the reporting capabilities of RAPIDS.*
- 11. We recommend the Library Director establish a reconciliation process for the Law Library Special Revenue Fund account.*
- 12. We recommend the Library Director develop a strategy to address overspending in the Law Library Special Revenue Fund account to ensure expenditures do not exceed the revenues.*
- 13. We recommend the Library Director work with the Budget Department to request legislative approval to appropriate funds to cover the June 30, 2019 deficit of \$324,212.25 for the Law Library Special Revenue Fund account.*

Finding #6 – Permits and Inspections Technology Renewal Fee

The Permitting and Inspections Technology Renewal Fund was adopted May 27, 2008. The Special Revenue Fund account was established to increase the permits and inspection fees to offset the costs of purchasing and maintaining a new land management tracking system. In addition, an initial investment was required by ordinance to be made into the Permitting and Inspections Technology Renewal Fund. 5% of these fees are required to be allocated to the Technology Renewal Special Revenue Fund account.

Expenses

During FY19, The Technology Renewal Fund account had 18 expenditures totaling \$310,822. The auditors reviewed all the expenditures to ensure they were allowable expenditures. The auditors noted 100% of the expenditures were allowable.

Richmond City Auditor's Report #2020-13

Citywide

Special Revenue Funds

May 21, 2020

Revenues

The auditors noted the 5% permit fee allocation to the account was under allocated by **\$47,388** during FY19. Additionally, Finance staff who keyed the journal entry in RAPIDS keyed one of the numbers incorrectly, which further understated the allocation by **\$2,000**. The under allocation was as follows:

	Revenues Reported	Actual Revenues	Under Reported Revenues	Under Allocated Amount
Total Revenues	\$8,972,567	\$9,920,318	(\$947,751)	
5% of Variance				\$47,388
Error				\$2,000
Total				\$49,388

The understatement was due to staff using the preliminary general ledger balances instead of the final revenues to calculate the allocation. Additionally, the Planning and Development Review Department (PDR) did not have written procedures to guide staff through the process. During a recent Permits and Inspections audit, we recommended for the PDR Director to implement a process to ensure proper allocation of funds to the Special Revenue Fund Account. This recommendation has not yet been implemented.

Recommendation:

- 14. We recommend the Director of Planning and Development Review submit an adjusting entry of \$49,387.53 to increase the Technology Renewal Special Fund account by the appropriate amount.*

Finding #7 – Special District Assessments

Property owners within the Downtown Special District pay additional taxes to assist funding a program to beautify and improve cleanliness and the feeling of safety downtown, which is managed by a third party vendor. The City provides funding annually to support the Program.

Richmond City Auditor's Report #2020-13

Citywide

Special Revenue Funds

May 21, 2020

Expenses

During FY19, the Special District Assessment account had disbursements of \$1,913,898 paid to the third party vendor. Additionally, payments of \$20,112 were issued to refund incorrect assessments. The auditors reviewed all the expenditures to ensure they were allowable expenditures and found no exceptions.

Revenues

In September 2019, staff from the Department of Economic and Community Development notified Finance staff that the projected revenues for the Special District were incorrect. Research by Finance staff revealed that over several years, rehabilitation exemptions had been erroneously applied against Special District charges. Rehabilitation exemptions should only be applied to the real estate tax charges, not the Special District account. The revenue understatement was approximately **\$557,895** as depicted on the following table:

Tax Year	No. of Accounts	Amount
2019	798	\$279,330.13
2018	755	\$276,970.32
2014	4	\$1,044.28
2013	2	\$550.01
Total		\$557,894.74

The revenues were understated due to a coding error. Staff were assigned specific accounts to correct the error and move the revenues to the Special District Assessments account. The Finance Department's operating procedures did not provide guidance for handling real estate rehabilitation exemptions. According to Finance management, a protocol was not in place. However, procedures have been developed and will be added to their Standard Operating Procedures.

Richmond City Auditor's Report #2020-13

Citywide

Special Revenue Funds

May 21, 2020

Recommendation:

- 15. We recommend the Program and Operations Manager for the Commissioner of Revenue in Finance update their Standard Operating Procedures to ensure real estate rehabilitation exemptions are applied correctly.***

Funds in Deficit

As noted earlier, seven special revenue funds were in deficit at the end of FY19. However, as of January 2020, the Delinquent Tax Sales and the Main Street Station Operating accounts had been corrected and were no longer in deficit. We also noted the Young Adult Services account was set up erroneously and will be closed as it did not exist. The Deficit for the Law Library account was previously discussed in this report and the remaining accounts that were in deficit as of June 30, 2019 are as follows:

Finding #8 – Rapid Transit Pulse Project

The Department of Economic and Community Development (DECD) was responsible for managing the Rapid Transit Pulse Project Special Revenue Fund account. As of June 30, 2019, the account had a deficit of ***\$119,639.32***. The fund was used for public outreach activities to offset the impact on local businesses affected by the Rapid Transit Pulse project. During FY20, this Fund was transferred to the Department of Public Works (DPW). However, activities for this project had ceased prior to the transfer.

The Government Finance Officers Association (GFOA) recommends reviewing and reconciling revenues and expenditures to ensure entries are accurate in the official reporting system to avoid errors or potential budgeted fund deficits.

According to DECD staff, a former employee did not reconcile the account and did not transfer funds to the account. Thereby, leaving it in a deficit.

Richmond City Auditor's Report #2020-13

Citywide

Special Revenue Funds

May 21, 2020

Recommendation:

- 16. We recommend the Director of Housing and Community Development ensure staff reconcile and close out the deficit in the Rapid Transit Pulse Project Special Revenue Fund account.***

Finding #9 – DJS Supervision Fees

The Department of Justice Services (DJS) collects Supervision Fees as part of their offender supervision services. These fees are recorded in the Supervision Fees Special Revenue Fund account. As of June 30, 2019, the account had a deficit of ***\$21,933.31***.

DJS management did not have oversight procedures in place to ensure funds deposited matched the revenues recorded in RAPIDS. The Supervision Fees account was not reconciled to ensure the accuracy of the available funds.

According to DJS management, upon researching the activities in the Supervision Fees Special Revenues Fund account, they noted the revenues recorded in RAPIDS were understated by ***\$1,744*** and ***\$2,395*** in FY16 and FY17, respectively. Additionally, they noted in FY14, the Finance Department transferred ***\$49,478.87*** to the General Fund without their knowledge.

DJS management corrected the account deficit balance prior to the conclusion of this audit.

Recommendation:

- 17. We recommend the Director of Justice Services develop and implement monitoring procedures to ensure the Supervision Fees Special Revenues Fund account is reconciled in a timely and consistent basis.***

Finding #10 - Public Library Foundation

The Richmond Public Library Department receives donations for purchasing books and library materials. These funds are recorded in their Library Foundation Special Revenues Fund account. As of June 30, 2019, the Fund had a deficit of ***\$25,047.27***.

Richmond City Auditor's Report #2020-13

Citywide

Special Revenue Funds

May 21, 2020

In FY15, staff from the Department of Finance erroneously posted revenues of \$33,500 to the Gifts to the Library Fund instead of the Library Foundation Fund account in RAPIDS. Library staff were aware the account balance in RAPIDS was incorrect but they did not know how to navigate the reporting capabilities in RAPIDS. Although the Library staff knew they had deposited \$33,500 for the Library Foundation account, they could not locate the deposit in RAPIDS and did not know how to run reports to find out where the revenues were posted.

Recommendation:

- 18. We recommend the Library Director work with the Finance Director to reclassify the erroneous posting of \$33,500 to the Library Foundation Special Revenue Fund account.***

Other Observations

Finding #11 Delinquent Tax Sales Special Revenue Fund

Pursuant to State Code, after the second year delinquency for a parcel, a locality may sell the property. The purpose of the sale is to collect delinquent taxes on such properties. The net sales proceeds after other distributions are recorded in a Delinquent Tax Sales Special Revenue Fund account.

The City Attorney's Office oversees the activities on this account. Staff rely on the State Code for guidance. However, the State Code is vague and left to interpretation in some areas. Without policies and procedures, knowledge may not be retained with turnover, resulting in unallowable expenditures. The City Attorney's Office is currently developing a Policy and Procedures manual to address the areas left to interpretation and give their staff guidance. This policy has not yet been finalized.

Richmond City Auditor's Report #2020-13

Citywide

Special Revenue Funds

May 21, 2020

Recommendation:

- 19. We recommend the City Attorney finalize the Policy and Procedures for the Delinquent Tax Sales Special Revenue Fund account, which should specifically include allowable expenditures.*

**APPENDIX A: Excess Funds Table
2020-13 Citywide - Special Revenue Funds Audit**

Department	Funds as of 6/30/2019	Count
DPW	\$8,620	1
ECD & HCD	\$72,385	1
Finance	\$293,086	3
Fire & EMS	\$11,681	2
Human Services	\$62,990	5
Justice Services	\$50,981	1
Library	\$11,788	2
Parks and Recreation	\$1,473,004	5
Port of Richmond	\$60	1
Social Services	\$37,635	1
Grand Total	\$2,022,230	22

**APPENDIX B: MANAGEMENT RESPONSE FORM
2020-13 Citywide - Special Revenue Funds Audit**

#	RECOMMENDATION	CONCUR Y/N	ACTION STEPS
1	We recommend the Chief Administrative Officer develop and implement formal policies and procedures to provide guidance on creating, monitoring and closing Special Revenue Fund accounts.	Y	The DCAO for Finance and Administration will work with the Budget and Finance Departments to provide this formal guidance to City agencies.
	TITLE OF RESPONSIBLE PERSON		TARGET DATE
	Deputy CAO for Finance and Administration		August 31, 2020
	IF IN PROGRESS, EXPLAIN ANY DELAYS		IF IMPLEMENTED, DETAILS OF IMPLEMENTATION
#	RECOMMENDATION	CONCUR Y/N	ACTION STEPS
2	We recommend the Director of Finance remove the identified accounts from the Special Revenue Fund accounts and move them to their respective cost centers in the Grants Module, General Fund or Enterprise Fund and work with the Budget Department to request any budget adjustments that may require legislative approval.	Y	Finance staff will work with Budget and Strategic Planning and the respective agencies with unspent special fund balances to direct those balances to a properly determined fund and cost center.
	TITLE OF RESPONSIBLE PERSON		TARGET DATE
	City Controller		August 31, 2020
	IF IN PROGRESS, EXPLAIN ANY DELAYS		IF IMPLEMENTED, DETAILS OF IMPLEMENTATION
#	RECOMMENDATION	CONCUR Y/N	ACTION STEPS
3	We recommend the Director of Finance assign a specific staff person to be responsible for follow-up of all material General Fund revenue variances at the end of each quarter.	Y	A specific Finance staff person will be identified and trained on the roles and responsibilities of general fund revenue forecasting and variance analysis.
	TITLE OF RESPONSIBLE PERSON		TARGET DATE
	Deputy Director of Finance		May 31, 2020
	IF IN PROGRESS, EXPLAIN ANY DELAYS		IF IMPLEMENTED, DETAILS OF IMPLEMENTATION
#	RECOMMENDATION	CONCUR Y/N	ACTION STEPS
4	We recommend the Communications Director develop and implement formal procedures to ensure compliance with the PEG franchise agreements/Cable Ordinance.	Y	The Communications Director will develop and implement a formal procedure to ensure compliance with the PEG franchise agreements/cable ordinance.
	TITLE OF RESPONSIBLE PERSON		TARGET DATE
	Communications Director		30-Jun-20
	IF IN PROGRESS, EXPLAIN ANY DELAYS		IF IMPLEMENTED, DETAILS OF IMPLEMENTATION
#	RECOMMENDATION	CONCUR Y/N	ACTION STEPS
5	We recommend the Communications Director work with the Budget Department to find and obtain legislative approval to appropriate \$1,229,840 from other, more appropriate funding sources, to recover the funds used for unallowable PEG expenditures.	Y	OPS and the Budget Director will work with Council to reappropriate funds.
	TITLE OF RESPONSIBLE PERSON		TARGET DATE
	Communications Director		30-Jun-20
	IF IN PROGRESS, EXPLAIN ANY DELAYS		IF IMPLEMENTED, DETAILS OF IMPLEMENTATION

**APPENDIX B: MANAGEMENT RESPONSE FORM
2020-13 Citywide - Special Revenue Funds Audit**

#	RECOMMENDATION	CONCUR Y/N	ACTION STEPS
6	We recommend the Communications Director ensure expenses which occurred subsequent to December 31, 2019 for website re-design and web services, and 31% of the production studio/office renovation cost be reclassified from or not charged to the PEG Special Revenue Fund account.	Y	The expenses will be reclassified and not charged to the PEG Special Revenue Account.
	TITLE OF RESPONSIBLE PERSON		TARGET DATE
	Senior Public Relations Manager		30-Jun-20
	IF IN PROGRESS, EXPLAIN ANY DELAYS		IF IMPLEMENTED, DETAILS OF IMPLEMENTATION
#	RECOMMENDATION	CONCUR Y/N	ACTION STEPS
7	We recommend the Communications Director hold the website vendor accountable for firm implementation dates and product for the investment made in website development.	Y	Accountability benchmarks for staged completion of work as stipulated in developer contract existed throughout the term of the agreement. Final product was formally accepted as completed by website project manager on May 11.
	TITLE OF RESPONSIBLE PERSON		TARGET DATE
	Communications Director		Complete
	IF IN PROGRESS, EXPLAIN ANY DELAYS		IF IMPLEMENTED, DETAILS OF IMPLEMENTATION
#	RECOMMENDATION	CONCUR Y/N	ACTION STEPS
8	We recommend the Communications Director implement a monitoring process to ensure funds collected are complete and deposited in accordance with the Department of Finance's Cash Collections Policies and Procedures.	Y	The Communications Director in collaboration with the Finance Director will develop an SOP regarding the collection and deposit of future PEG revenues.
	TITLE OF RESPONSIBLE PERSON		TARGET DATE
	Communications Director		30-Jun-20
	IF IN PROGRESS, EXPLAIN ANY DELAYS		IF IMPLEMENTED, DETAILS OF IMPLEMENTATION
#	RECOMMENDATION	CONCUR Y/N	ACTION STEPS
9	We recommend the Director of the Housing and Community Development develop and implement a monitoring process to ensure funds collected are deposited in accordance with the Department of Finance's Cash Collections Policies and Procedures.	Y	The Director of Housing and Community Development will create a Standard Operating Procedure (SOP) for the processing of all monies received by department staff to ensure that the collected funds are deposited in accordance with the Department of Finance's Cash Collections Policies and Procedures by the end of FY20 - June 30, 2020.
	TITLE OF RESPONSIBLE PERSON		TARGET DATE
	Director of Housing		30-Jun-20
	IF IN PROGRESS, EXPLAIN ANY DELAYS		IF IMPLEMENTED, DETAILS OF IMPLEMENTATION
			SOP

**APPENDIX B: MANAGEMENT RESPONSE FORM
2020-13 Citywide - Special Revenue Funds Audit**

#	RECOMMENDATION	CONCUR Y/N	ACTION STEPS
10	We recommend the Library Director work with the Finance Director to ensure Library staff are trained on the reporting capabilities of RAPIDS.	Y	Library Director will coordinate with Finance Director to train responsible library staff on RAPIDS Reports
	TITLE OF RESPONSIBLE PERSON		TARGET DATE
	Library Director		1-Sep-20
	IF IN PROGRESS, EXPLAIN ANY DELAYS		IF IMPLEMENTED, DETAILS OF IMPLEMENTATION
11	We recommend the Library Director establish a reconciliation process for the Law Library Special Revenue Fund account.	Y	Library Director will coordinate with Finance a monthly reconciliation process for Law Library Special Funds.
	TITLE OF RESPONSIBLE PERSON		TARGET DATE
	Library Director		1-Sep-20
	IF IN PROGRESS, EXPLAIN ANY DELAYS		IF IMPLEMENTED, DETAILS OF IMPLEMENTATION
12	We recommend the Library Director develop a strategy to address overspending in the Law Library Special Revenue Fund account to ensure expenditures do not exceed the revenues.	Y	Library Director will coordinate with Finance a monthly reconciliation process for Law Library Special Funds.
	TITLE OF RESPONSIBLE PERSON		TARGET DATE
	Library Director		1-Sep-20
	IF IN PROGRESS, EXPLAIN ANY DELAYS		IF IMPLEMENTED, DETAILS OF IMPLEMENTATION
13	We recommend the Library Director work with the Budget Department to request legislative approval to appropriate funds to cover the June 30, 2019 deficit of \$324,212.25 for the Law Library Special Revenue Fund account.	Y	Library and Budget have requested City Council appropriate funds via a reserve assignment from the General Fund to cover the June 30, 2019 deficit of \$324,212.25 for the Law Library Special Fund account.
	TITLE OF RESPONSIBLE PERSON		TARGET DATE
	Library Director		30-Jun-20
	IF IN PROGRESS, EXPLAIN ANY DELAYS		IF IMPLEMENTED, DETAILS OF IMPLEMENTATION
14	We recommend the Director of Planning and Development Review submit an adjusting entry of \$49,387.53 to increase the Technology Renewal Special Fund account by the appropriate amount.	Y	PDR will make the necessary adjustment entry and increase the Technology Renewal Special Fund account in the amount noted.
	TITLE OF RESPONSIBLE PERSON		TARGET DATE
	Director of Planning and Development Review		30-Jun-20
	IF IN PROGRESS, EXPLAIN ANY DELAYS		IF IMPLEMENTED, DETAILS OF IMPLEMENTATION

**APPENDIX B: MANAGEMENT RESPONSE FORM
2020-13 Citywide - Special Revenue Funds Audit**

#	RECOMMENDATION	CONCUR Y/N	ACTION STEPS
15	We recommend the Program and Operations Manager for the Commissioner of Revenue in Finance update their Standard Operating Procedures to ensure real estate rehabilitation exemptions are applied correctly.	Y	Standard Operating Procedures will be updated accordingly.
	TITLE OF RESPONSIBLE PERSON		TARGET DATE
	Program and Operations Manager for Commissioner of Revenue		May 31, 2020
	IF IN PROGRESS, EXPLAIN ANY DELAYS		IF IMPLEMENTED, DETAILS OF IMPLEMENTATION
#	RECOMMENDATION	CONCUR Y/N	ACTION STEPS
16	We recommend the Director of Housing and Community Development ensure staff reconcile and close out the deficit in the Rapid Transit Pulse Project Special Revenue Fund account.	Y	The staff of the Department of Housing and Community Development will reconcile and close out the deficit in the Rapid Transit Pulse Project Special Revenue Fund account on or before June 5, 2020.
	TITLE OF RESPONSIBLE PERSON		TARGET DATE
	Director of Housing/DCAO of ECD		5-Jun-20
	IF IN PROGRESS, EXPLAIN ANY DELAYS		IF IMPLEMENTED, DETAILS OF IMPLEMENTATION
			Reconcile and closeout of account
#	RECOMMENDATION	CONCUR Y/N	ACTION STEPS
17	We recommend the Director of Justice Services develop and implement monitoring procedures to ensure the Supervision Fees Special Revenues Fund account is reconciled in a timely and consistent basis.	Y	The Director of Justice Services accepts the recommendation and has already begun to implement internal controls to ensure the timely, accurate, and consistent reconciliation of Supervision Fees. In addition, DJS looks forward to working with the Department of Finance regarding efforts to ensure alignment between deposit amounts and amounts posted in the EIS report tool.
	TITLE OF RESPONSIBLE PERSON		TARGET DATE
	Director of Justice Services		30-Jun-20
	IF IN PROGRESS, EXPLAIN ANY DELAYS		IF IMPLEMENTED, DETAILS OF IMPLEMENTATION
	Standard accounting procedures and internal controls have been put in place as of March 26, 2020 to ensure proper management, oversight and accountability in the Financial Management Unit. Efforts are underway to review the accuracy of all the deposits made from July 1, 2019 - June 30, 2020.		
#	RECOMMENDATION	CONCUR Y/N	ACTION STEPS
18	We recommend the Library Director work with the Finance Director to reclassify the erroneous posting of \$33,500 to the Library Foundation Special Revenue Fund account.	Y	Library Director will coordinate with Finance to reclassify the erroneous posting of \$33,500 to the Library Foundation Special Revenue Fund.
	TITLE OF RESPONSIBLE PERSON		TARGET DATE
	Library Director		30-Jun-20
	IF IN PROGRESS, EXPLAIN ANY DELAYS		IF IMPLEMENTED, DETAILS OF IMPLEMENTATION

**APPENDIX B: MANAGEMENT RESPONSE FORM
2020-13 Citywide - Special Revenue Funds Audit**

#	RECOMMENDATION	CONCUR Y/N	ACTION STEPS
19	We recommend the City Attorney finalize the Policy and Procedures for the Delinquent Tax Sales Special Revenue Fund account, which should specifically include allowable expenditures.	Y	The Office of the City Attorney is in the process of updating its Tax Sale Program standard operating procedures to identify allowable expenditures.
	TITLE OF RESPONSIBLE PERSON		TARGET DATE
	City Attorney		30-Jun-20
	IF IN PROGRESS, EXPLAIN ANY DELAYS		IF IMPLEMENTED, DETAILS OF IMPLEMENTATION