



Richmond Office of the
CITY AUDITOR

OFFICIAL GOVERNMENT REPORT

Annual Follow-Up Progress Report 2014

Report Issued: March 11, 2014
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*Committed to increasing government efficiency, effectiveness
and accountability on behalf of the Citizens of Richmond.*

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City of Richmond
City Auditor

March 11, 2014

The Honorable Members of City Council
City of Richmond, Virginia

Subject: Annual Follow-Up Progress Report

The City Auditor's Office has completed the Annual Follow-Up Review. The objective was to determine whether (and to what extent) appropriate and timely corrective actions had been taken to implement outstanding audit recommendations. The Follow-Up Review recognizes the efforts made by City agencies to implement audit recommendations. This project was conducted in accordance with Generally Accepted Government Auditing Standards.

Background:

To help ensure the benefits of opportunities to improve accountability and operational efficiency of the City, the City Auditor's Office reviews the actions taken to implement recommendations made and concurred by management in prior audits. Auditors reviewed all the audit reports issued by the Office of the City Auditor that had open recommendations with an implementation date through December 31, 2013.

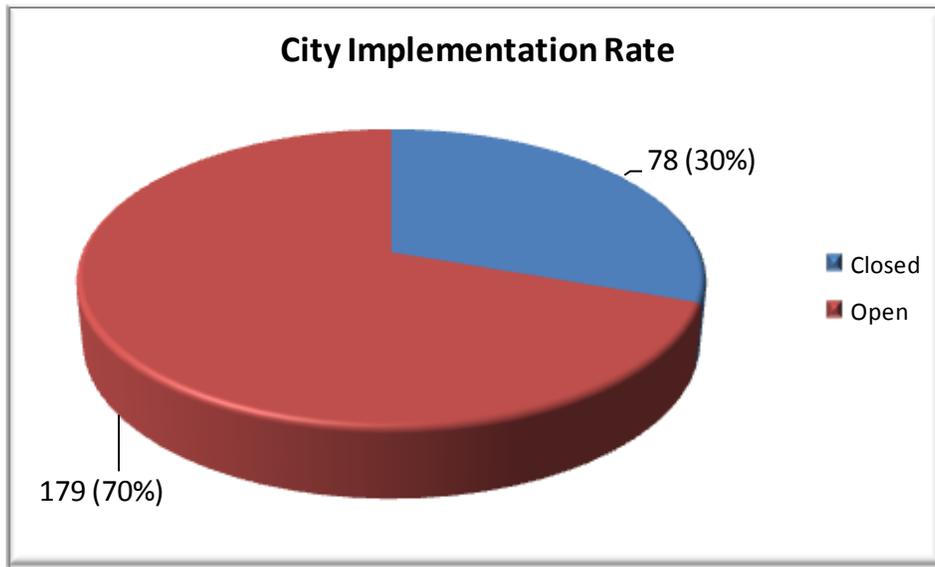
Objectives, Scope, and Methodology:

In accordance with the Annual Audit Plan for 2014, the City Auditor's Office has completed a review of the status of outstanding audit recommendations. The primary objective of this review was to evaluate the timeliness and adequacy of implementation of the recommendations made in the previous audits. During this review, auditors interviewed the management personnel associated with each recommendation and tested the results of the actions they had taken.

Implementation Status of Open Recommendations:

The auditors reviewed 283 outstanding recommendations (257 for the City and 26 for Richmond Public Schools). The results of our review indicate City management adequately implemented 75 recommendations and 3 recommendations were eliminated as they were deemed to be no longer applicable. Richmond Public Schools (RPS) did not provide any responses to the auditors' inquiries made to the Interim and the current superintendents. Therefore, the recommendations remain open.

The City's rate of implementation is as follows:



Conclusion:

During 2013, the City management implemented 30% of their recommendations. The implementation rate for RPS is not known as they did not respond to the auditor's requests. If you have any questions related to this report, please contact the City Auditor's Office.

Umesh Dalal

Umesh Dalal, CPA, CIA, CIG
City Auditor

Attachment 1: Summary of Results

Attachment 2: List of High Priority Recommendations

Attachment 3: List of Recommendations Not Concurred by Management (FY12 to Present)

Attachment 1 Summary of Results

Department/Agency	Report Number	Total	Open	Closed
Animal Care and Control:				
Richmond Animal Care and Control	2013-04	10	4	6
Finance:				
Tax Audit Unit	2004-03	1	0	1
BPOL	2006-13	3	3	0
Accounts Payable & Procurement	2008-04	5	5	0
Payroll – Finance and Human Resources	2010-04	12	10	2
Munis Project Management Review	2010-09	5	5	0
ICVerify System	2011-13	3	2	1
Fixed Assets	2012-07	2	2	0
Revenue Administration	2012-08	11	11	0
Risk Management	2014-01	10	5	5
Fire:				
Records Management System	2011-05	4	1	3
Information Technology:				
Payroll and actuary Systems	2012-03	3	1	2
Justice Services:				
Truancy and Diversion	2012-05	2	1	1
Justice Services	2013-08	22	17	5
Non-Departmental:				
Senior Connections	2013-05	1	0	1
Virginia Treatment Center for Children	2013-06	2	0	2
Virginia Supportive Housing	2013-07	1	0	1
Office of Minority Business:				
Minority Business Development	2013-01	10	10	0
Parks, Recreation & Community Facilities:				
Parks Maintenance	2011-07	11	8	3
Capital Improvement Projects	2011-12	2	2	0
Recreation	2012-13	12	12	0
Procurement:				
Vendor File	2004-02	1	1	0
Accounts Payable & Procurement	2008-04	7	6	1
Procurement Services	2013-02	3	3	0

Public Works:				
Fleet Services	2007-10	10	6	4
Grounds Maintenance	2009-06	3	2	1
Facilities Management	2011-08	3	2	
Roadway Maintenance	2012-04	16	11	5
Solid Waste Management	2012-11	10	4	6
Sidewalks	2013-11	6	3	3
Risk Management	2014-01	3	3	0
Richmond Retirement System:				
Payroll and Actuary System	2012-03	3	0	3
Retirement Sustainability	2013-03	5	1	4
Richmond Ambulance Authority:				
Ambulance Authority	2012-06	4	0	4
Community Development:				
Permits and Inspections	2010-03	8	8	0
Code Enforcement	2010-08	6	3	3
Police:				
Property and Evidence Room	2011-01	1	1	0
Operational Analysis	2011-02	5	3	2
Towing	2011-04	2	2	0
Pistol	2012-10	9	8	1
Social Services:				
Harmony System	2011-03	2	1	1
CSA and Foster Care	2011-11	7	3	4
Citywide Audits:				
Towing	2011-04	2	2	0
Grants Process	2010-05	4	3	1
Computer Purchases	2011-14	5	4	1
City and RPS:				
Accounts Payable and Procurement Consolidation	2009-07	1	0	1
Richmond Public Schools:				
General Operational Audit	2007-06	5	5	0
Accounts Payable & Procurement	2009-04	2	2	0
Information Technology	2009-05	19	19	0
Total Recommendations:		283	205	78

Attachment 2 List of High Priority Open Recommendations by Department/Agency

The Audit Committee has indicated a desire for the City Auditor to prioritize the outstanding recommendations and identify those having the most impact on City operations. As a result, the Auditor's Office has identified four risk areas which we believe have the most impact on current and future City operations. These four areas include:

- Financial (budgetary)
- Delivery of Citizen Services
- Public Relations
- Internal Controls

Considering these areas of priority, the City Auditor's Office has identified the following outstanding recommendations having the highest potential impact.

Recommendation: *Adhere to Policy 11-001, Delinquency Collection Policy and document detailed procedures for the collection of delinquent taxes and fees.*

Department: Finance – Revenue Administration

Issue Date: March 2006

Responsible Individual/Department: Finance Management

Financial Impact: \$10.9M in delinquent collections during FY12

Risk Area: Financial (budgetary)

Background: According to Policy 11-001 Delinquency Collection Policy, detailed procedures for the collection of delinquent taxes and fees are documented in the Comprehensive and Detailed Delinquency Collection Procedures Manual. However, the department did not follow their policy for collections. Additionally, the department did not have sufficient written procedures for the collection of delinquent taxes and fees for Business, Professional, and Occupation License Tax. The exact amount of receivables is not known at this time due to discrepancies in the tax audit process. However, these receivables could be substantial.

Recommendation: *Perform analysis of the City-wide fleet to identify: a. Actual need for the vehicle or equipment, b. Identify ideal specifications for each vehicle and equipment, c. Identify all vehicles and equipment whose ideal specifications exceed the actual need.*

Department: DPW

Issue Date: May 2007

Responsible Individual/Department.: Fleet

Financial Impact: At least \$1.75M in savings at the time of the audit

Risk Area: Financial (budgetary)

Background: Some departments (e.g. DPU, DSS) could acquire their own vehicles. The City purchased 70 vehicles to replace older vehicles. Instead of removing the older vehicles from fleet, the department decided to keep them. This resulted in an increase in repairs and maintenance. In some instances, eight and six cylinder vehicles were purchased when the need could be satisfied with a four cylinder vehicle. Anticipated annual savings is approximately \$900K for maintenance and fuel.

Recommendation: *Periodically review the underutilized vehicles and submit the results to the Chief Administrative Officer.*

Department: DPW

Issue Date: May 2007

Responsible Individual/Dept: DIT and Budget

Financial Impact: *Cannot be quantified at this time*

Risk Area: *Financial (budgetary) and Internal Control*

Background: Fleet was unable to use common criteria to evaluate adequacy of utilization: 1. they did not keep accurate records of mileage driven; and 2. they did not establish criteria for appropriate usage. Underutilized vehicles could be re-allocated (replacing current higher mileage vehicles) to meet other prevailing City transportation needs; thereby reducing replacement needs Citywide. Although, the exact financial impact cannot be computed at this time, it is anticipated to be substantial.

Recommendation: *Segregate duties between the buyers, the employees making vendor database changes, and the employees reviewing them.*

Department: Finance and Procurement Services

Issue Date: February 2008

Responsible Individual/Dept: None Identified

Financial Impact: *During the audit there was exposure of \$247M Citywide purchases*

Risk Area: *Internal Control and Financial (budgetary)*

Background: The audit found lack of supervisory review of vendor data input, changes and deletions. Staff can add, change and delete vendors without supporting documentation. This internal control weakness can contribute to fraudulent activity, such as establishing fictitious vendors. The financial impact of fraud could be substantial.

Recommendation: *Implement a pilot rental inspection program.*

Department: Department of Community Services

Issue Date: March 2010

Responsible Individual/Dept: Operations Manager

Financial Impact: *The audit identified between \$640,000 to one million, which will pay for the program*

Other Impact: *Ensures the health and safety of tenants living in 51% of all occupied units*

Risk Area: *Delivery of Citizen Services and Public Relations*

Background: This was identified as a possible solution to address urban decline and blight. Rental properties with absentee landlords were cited as a contributing factor to urban decline. Conducting routine periodic inspections is the most effective way of ensuring renter occupied housing is in compliance with minimum standards, regarding the health and safety of the public. Implementation of this recommendation could improve quality of life and assist in economic development.

Recommendation: *Work with the City's Real Estate Division to relocate the Property and Evidence unit to a more appropriate facility.*

Department: Richmond Police Department

Issue Date: July 2010

Responsible Individual/Dept: RPD Deputy Director of Finance

Other Impact: Health and Safety of employees and visitors is threatened and the deficiencies in the building could compromise evidence

Risk Area: Delivery of Citizen Services and Public Relations

Background: Unsafe and poor working conditions (e.g. asbestos or mold) exist for employees who work at the Public Safety Building. Poor working conditions can cause health hazards for employees; unsafe working conditions could expose the City to liability; and Police evidence can be comprised due to water leaks or excessive temperatures that can contribute in the contamination of evidence, which could severely affect the outcome of criminal court cases.

Recommendation: *The Richmond Police Department should implement additional differential response techniques, including the use of internet reporting for non-emergency, low-priority calls for service.*

Department: Richmond Police Department

Issue Date: July 2010

Responsible Individual/Dept: None Identified

Financial Impact: The audit identified approximately, savings of \$108,000

Risk Area: Financial (budgetary)

Background: Additional differential response techniques could be used to reduce the number of non-emergency and low priority calls handled by sworn officers. There is an expected annual cost savings of \$108,000 due to the reduction of two officer positions.

Recommendation: *Parks and Recreation should analyze the cost-effectiveness of winter projects.*

Department: Department of Recreation, Parks and Community Facilities

Issue Date: February 2011

Responsible Individual/Dept: Operations Manager

Financial Impact: During the audit there was potential loss of some productivity for 42 positions during winter months

Risk Areas: Financial (budgetary) and Delivery of Citizen Services

Background: Park operations activities are impacted by seasonal weather changes. The Department has some winter projects. However, management's evaluation of the effectiveness of staff's use for this purpose has been inadequate. Use of staff time during winter months needs to be evaluated for proper resource allocation, to ensure needs are met Citywide.

Recommendation: *Establish and adhere to a formal process outlining the approval requirements for granting, modifying and removing access to ICVerify.*

Department: Finance

Issue Date: June 2011

Responsible Individual/Dept: Finance and DIT Directors

Financial Impact: Potentially compromise the security of customers' credit card numbers on more than 15,000 transactions processed during the audit

Risk Areas: Internal Control, Public Relations and Financial (budgetary)

Background: ICVerify is a critical system to the Revenue Administration Division since it is used for processing customer credit card information and it holds the sensitive data. Management has not documented and communicated the process and associated roles and responsibilities for requesting and approving user access to the ICVerify System or the process and associated roles and responsibilities for terminating access to the ICVerify System. COBIT Best Practices state, "Address requesting, establishing, issuing, suspending, modifying and closing user accounts and related user privileges with a set of user account management procedures. Include an approval procedure outlining the data or system owner granting the access privileges." Lack of a formal process and procedures may expose the City to fraudulent activity and significant financial loss or public embarrassment.

Recommendation: *Develop formal policies and procedures to: a. monitor and approve lease payments for computers; and b. outline lease vs. buy IT equipment purchasing decisions.*

Department: Citywide

Issue Date: June 2011

Responsible Individual/Dept: CAO's Office/Procurement

Financial Impact: Cannot quantify

Risk Areas: Internal Control and Financial (budgetary)

Background: There are no policies or procedures to systematically decide between leasing and buying the computers. Due to lack of a systematic process for these decisions, there is a potential that the City could save a significant amount of dollars, if a more rational method was used for determining the most cost effective way to obtain needed computer equipment. The City has leased about 400 computers from a vendor. The Procurement Services Department could not produce an entire set of lease documents needed for the auditor's inspection. Therefore, it was not possible to verify if the payments made for these leases were in compliance with the lease agreements. Apparently, DIT, Finance and Procurement Services are not monitoring the leasing contract. Any overcharges due to errors or omissions may not be detected and corrected in a timely manner.

Recommendation: *Develop a strategy to improve the overall structural integrity and the surface quality of the roads for good ride quality.*

Department: DPW

Issue Date: November 2011

Responsible Individual/Dept: City Engineer

Financial Impact: \$276M in Funding Needs as of FY10

Risk Area: Citizen Services

Background: Sixty-six percent (66%) of the City's streets were identified as being in fair and poor conditions during the 2010 assessment. The condition assessment consists of contractors visually inspecting roads for frequency and severity of pavement distress from moving vehicles. This type of assessment is less reliable as it does not provide a true assessment of the structural integrity of the roadways. VDOT uses a more sophisticated and scientific process to assess roadway conditions. Having a strategy to effectively evaluate the surface quality could help the City identify all the segments of roadways that need repairs, maintenance or replacement.

Recommendation: *Develop estimates of total funding needed to address road improvement issues using:*

- a. accurate measurements;*
- b. reliable assessments of the road conditions; and*
- c. appropriate cost per unit for maintenance, rehabilitation and reconstruction activities.*

Department: DPW

Issue Date: November 2011

Responsible Individual/Dept: Paving Manager and Paving Engineer

Financial Impact: \$276M Funding Needs as of FY10

Risk Areas: Financial (budgetary) and Delivery of Citizen Services

Background: A disparity between funding needs and the budget for road improvements exists. DPW requested inadequate funding to address perceived need. Funding requests were based upon historical approved budgets. Funding requests only included maintenance procedures. In addition, the Department lacked a complete inventory of roads and reliable assessment of road conditions needed in order to adequately estimate funding needs. Funding needs as of FY2010 were estimated at \$276 million.

Recommendation: *With the help of the City Administration, forge an agreement between the Truancy Division and RPS that allows for sufficient truancy data to be shared.*

Department: Department of Justice Services

Issue Date: January 2012

Responsible Individual/Dept: Truancy Manager/CAO

Other Impact: *Truancy was determined to be a root cause of undesirable youth behavior.*

Working with RPS could have a significant impact in addressing truancy issues in the City

Risk Areas: Delivery of Citizen Services and Public Relations

Background: See Below

Recommendation: *Implement a more comprehensive truancy program in cooperation with the major stakeholders to address truant behavior.*

Department: Department of Justice Services

Issue Date: March 2013

Responsible Individual/Dept: Deputy Director I

Other Impact: See above

Risk Areas: Delivery of Citizen Services and Public Relations

Background: RPS lists students who have up to five (5) unexcused absences; however, the data may not include the students' schools, parents' names, home addresses, phone numbers, etc. With

better data, DJS can also respond to truancy cases more quickly and effectively. Research shows that truancy is the most significant risk factor for predicting 1st-time marijuana use and predicts 97% of first-time drug use. Progressively addressing and decreasing the occurrence of truancy will have a substantial current and future impact on the quality of life for Richmond citizens and families. Implementing these recommendations could improve behavior of vulnerable youth. This also may have impact on future public safety issues.

Recommendation: *Implement proper management practices to ensure efficiency and effectiveness in the Assessment, Collections, Tax and Compliance Audit, and Tax Enforcement Units. Specifically: a. Hold employees accountable by managing their productivity. b. Require Tax Audit, and Tax Enforcement Units to have a documented annual plan for their work. c. Analyze the risk of non-reporting and under-reporting of taxes to focus collection, audit and enforcement efforts to high risk accounts to maximize effectiveness. d. Include this analysis for all tax types.*

Department: *Department of Finance – Revenue Administration*

Issue Date: *April 2012*

Responsible Individual/Dept: *Director of Finance*

Financial Impact: *The accumulated delinquent account balance for personal property tax was approximately \$15 million*

Risk Areas: *Internal Control and Financial (budgetary)*

Background: Productivity of the Tax Enforcement Unit could not be determined due to disorganized documentation. The amount of revenue collected by the Tax Enforcement Unit could not be determined based upon available documentation. The Tax and Compliance Audit unit was inadequately managed with significantly low productivity and missed opportunities to generate substantial additional revenues. The Tax Enforcement and Tax and Compliance Units did not have formal annual work plans. The Finance Department's collection efforts are inadequate as collection consistently lags the levy. In the past six years, the City has an accumulated delinquent account balance of approximately \$15 million for personal property tax. As of report writing, the City had written off approximately 5.4 million in receivables for personal property tax. A significant risk of under-reporting or non-reporting of business personal property and meals taxes exists.

Recommendation: *Develop, implement and monitor policies and procedures to: a. Place DMV holds timely and consistently. b. Ensure compliance with State Code provisions related to charging the administrative fees for delinquent accounts. c. Address uploading DMV and DGIF uploads within predetermined timeframes.*

Department: *Department of Finance – Revenue Administration*

Issue Date: *April 2012*

Responsible Individual/Dept: *Director of Finance*

Financial Impact: *The City could have generated an additional \$1.3 million in FY2010*

Risk Areas: *Internal Control and Financial (budgetary)*

Background: DMV, at the request of the City, flags the accounts of delinquent taxpayers to put a hold on future renewal of their annual registration. The DMV registration holds are effective only when they are used consistently and timely. The City Auditor's staff found that 18 (36%) out of 50 delinquent accounts did not show DMV holds. The delinquencies on some of these accounts date

back to 2006. The Finance Department does not place holds until the account is delinquent for at least six months. The Finance staff could not provide an adequate explanation for waiting six months prior to placing DMV holds. It took the Finance Department an average of 94 days to upload the data received from DMV and DGIF into MUNIS. This can result in poor customer service and limit the City's ability to collect revenues that otherwise would be collected. The State Code of Virginia § 58.1-3958 affords localities the ability to charge an administrative fee to all delinquent accounts. However, the Finance Department did not begin charging this fee until 2011. According to the City Auditor's staff research, several localities, such as Henrico County, Norfolk, Virginia Beach and Hampton, are charging this fee. Charging this fee could help the City improve its cash flow. Based on the information provided by the Finance Department, the City could have generated an additional \$1.3 million in FY2010.

Recommendation: *Centralize the process of approving volunteer applications. Analyze the feasibility of issuing photo IDs for approved volunteers after background checks have been completed.*

Department: Department of Parks, Recreation and Community Facilities

Issue Date: June 2012

Responsible Individual/Dept: HR Administrative Services Manager and Recreation Program Coordinator

Other Impact: The Parks Department services children and elderly that are exposed to volunteers. A volunteer with an undesirable background could make the City vulnerable to legal liability.

Risk Area: Public Relations

Background: DPR did not consistently comply with background check policies, allowing individuals with inappropriate backgrounds access to children and the elderly can expose the City to unknown liabilities and negative publicity.

Recommendation: *Conduct a comprehensive legal analysis to evaluate the current program and make appropriate changes based on the results of the legal analysis to better enable the City to enforce contractual provisions related to MBE/ESB participation.*

Department: Office of Minority Business Development

Issue Date: August 2012

Responsible Individual/Dept: Director and Deputy Director

Other Impact: Currently, the City's OMBD program may not meet the legal test. Without establishing the validity of the City's program, the City may face legal challenges.

Risk Area: Public Relations

Background: The City cannot enforce adherence to minority participation, which the prime contractors pledge to receive City contracts. As such, certain prime contractors continually pledge minority participation but fail to demonstrate present or past good faith; however, they still receive City contracts. This practice does not treat contractors that honestly disclose their intentions not to use minority participation or those who honor their pledges fairly.

Recommendation: *Conduct a cost benefit analysis to determine the appropriateness of conducting a disparity study. If found beneficial, conduct a disparity study.*

Department: *Office of Minority Business Development*

Issue Date: *August 2012*

Responsible Individual/Dept: *Director and Deputy Director*

Financial Impact: *See above*

Risk Area: *Public Relations*

Background: Currently, OMBD is not able to ensure compliance with the MBE/ESB participation goals. This practice does not treat contractors that honestly disclose their intentions not to use minority participation or those who honor their pledges fairly. Repeat offenders failing to comply with pledged participation continue to get City business. There is a possibility of overhauling the current program after conducting a “disparity study.” The Tenth Circuit, in its 2003 decision, considered disparity studies as a tool available for governments to establish an affirmative action program that can endure legal scrutiny. However, according to the Administration’s representations to the City Auditor’s Office, a disparity study could cost up to \$400,000 to conduct. Without a disparity study, it would be difficult for the City to extend any benefits to minority vendors that are not offered to non minority vendors.

Recommendation: *Establish written procedures for monitoring small purchases and PD exemptions procured by the departments to assure compliance with the City policies.*

Department: *Department of Procurement Services*

Issue Date: *August 2012*

Responsible Individual/Dept: *Director and Sr. Level Managers*

Financial Impact: *During the audit period, small purchases totaling approximately \$75 million were exposed to this deficiency*

Risk Areas: *Internal Control and Financial (budgetary)*

Background: Small dollar purchases (\$50,000 or less) have been delegated to the city departments and agencies. These purchases are processed on departmental purchases (PDs). PDs are also used to purchase items which are exempted from competition. During the audit period, small purchases totaled approximately \$75 million. Inadequate monitoring and oversight is in place for small dollar purchases (\$50,000 or less) that have been delegated to city departments and agencies. PD exemptions are approved based upon exemption type cited on purchase orders, without supporting documentation. Competitive procurement requirements were circumvented by splitting purchases. Ninety-seven split purchases totaling approximately \$175,000 were identified during audit testing. Departments/agencies are required to solicit three quotes for purchases between \$5,001 and \$50,000. They are allowed to proceed with procurement even if two of the three vendors do not respond to the quote requests. Improving the process and procedures will help ensure proper and economical purchases.

Attachment 3 List of Recommendations Not Concurred by Management (FY12 to Present)

Audit Number	Item Number	Department	Audit Name	Recommendation	Comment
2012-08	1	Finance-Revenue Administration	Revenue Administration (Assessment, Collection, Tax and Compliance, Tax Enforcement)	Evaluate the reporting structure and make appropriate changes to manage the span of control of the Finance Director.	Finance does not believe that a problem has clearly been identified as well as the impact the alleged problem will have on operations.
2012-08	4	Finance-Revenue Administration	Revenue Administration (Assessment, Collection, Tax and Compliance, Tax Enforcement)	Employ more aggressive methods to maximize collection.	Finance does not concur that more aggressive methods should be taken, however, the following steps are being taken: Secure new contracts with outside collection agencies, [this has been accomplished] Send out more timely delinquent notices on all tax types prior to turning accounts over to outside collection agencies. Review the timeliness of VRW holds.
2012-08	10	Finance-Revenue Administration	Revenue Administration (Assessment, Collection, Tax and Compliance, Tax Enforcement)	Work with DIT to (b) Review the existing and the new data input into MUNIS to ensure the City is only assessing and billing for property that is garaged within City limits.	Finance validates information received from DMV against the Zip Code Directories. We are heavily reliant on information from DMV and the taxpayer and it is not always possible to detect inaccuracies in this information.
2012-08	12	Finance-Revenue Administration	Revenue Administration (Assessment, Collection, Tax and Compliance, Tax Enforcement)	Work with the City Administration to: (a) Conduct an adequacy analysis of MUNIS system for the Revenue Administration operations and its impact on the operational efficiencies, and (b) Consider replacing MUNIS in consultation with the City Administration after providing proper justification.	Finance is not in agreement with this recommendation. This recommendation will require further review by the appropriate stakeholders. Finance continues to make improvements and implement upgrades to the MUNIS system. We are not considering the replacement of the MUNIS system at this time.

Audit Number	Item Number	Department	Audit Name	Recommendation	Comment
2012-11	11	Public Works	Solid Waste Management	Revise the budgeting method to reflect actual practices of staffing. This would require eliminating positions that have been vacant for the past several years and appropriating additional funds for temporary staffing.	The operation is currently budgeted for the accurate number of personnel required to provide the service. The nature of the operation is such that a high turn-over rate of employees working within the operation prevails. It is necessary to maintain the positions. While we work to fill these positions, we employ temporary personnel to maintain the operation.
2012-13	2	Parks and Recreation & Community Facilities	Recreation Division	Provide services to seniors living on the south side of the City until a long-term solution to allow access to the seniors living on the south side can be developed.	Senior Services will be included as part of the internal Needs Assessment described above. However, in terms of the Auditor's recommendations regarding limited Southside senior services; currently the largest on-going senior program being offered by DPRCF is located on the south side of the City which is the aquatics program offered at the Swansboro Indoor Swimming Pool. The Audit Report refers to the Linwood Robinson Senior Center as "a north side center that cater's to the needs of the elderly population." The Linwood Robinson is not a basic senior services center. The center's population is comprised primarily of seniors with "special needs" who are no longer able to remain significantly independent. The Department's Senior Programming is geared primarily to the community's active senior population 55 & over and with programming provided through City Wide Programs and Events and a growing number of our Neighborhood Recreation Centers such as Bellemeade and Hickory Hill.
2012-13	12	Parks and Recreation & Community Facilities	Recreation Division	Update the existing agreement with the Enrichmond Foundation to: (a) Reflect current business practices; (b) Include a clause that gives DPR the right-to-audit the Foundation's accounting records as it relates to City fundraising activities; (c) Obtain written approval from the City Attorney's Office; and (d) Obtain the City's share of donations the same year they are received by the Foundation.	The Department of Parks, Recreation and Community Facilities Director will recommend to the Enrichmond Foundation Director and Board that the two organizations review and amend new and existing policies to reflect current business practices. New practices to consider include a policy establishing fund raising between the two organizations be separate & independent, which will establish an entirely separate financial relationship, eliminating the need for amending our current audit policy or have any revenue reconciliation requirements.

Audit Number	Item Number	Department	Audit Name	Recommendation	Comment
2013-02	4	Procurement	Procurement Services	Ensure that sealed bids and RFPs are appropriately secured.	<p>No because, our process for securing incoming Bid/RFP/RFQ packages is appropriate. (a) Discussion: Our process for ensuring Bid/RFP packages are properly secured is as follows: (1) All Bid/RFP packages when received are time-stamped, checked to ensure the packages are adequately secured according to the requirements stated in the bid document. (2) All Bid/RFP packages logged into the department on a "Bid Log Sheet" located within the department and if small enough are placed in a locked bid box. (a) Bid/RFP packages that are too large to fit in the locked bid box are taken to a secured area and locked in a room. The secured area requires a passkey to enter, a key to gain access to the room and this area is also monitored by a security camera. Note: The key for the bid box is locked in a separate area. (b) Discussion: Contract Specialist with key to bid room. The integrity and trust of the staff and supervisors is the cornerstone of public procurement. Annually, all members of the Department of Procurement Services are required to sign a "Confidentiality Statement and Conflict of Interest" form. Also, Ethics Training is provided to Procurement staff. Additionally, during the audit process, we attempted to gain clarity on the issue as described by the Auditor. Initially, the staff auditor who observed the condition informed us of one incident. We discovered through discussion with the staff auditor and DPS staff that the incident in question occurred after business hours, when the DPS suite is automatically locked. The staff auditor gained access from DPS Staff, and made the observation at that time. It was not until the exit meeting or the meeting before the exit meeting, that we were informed of the second incident that occurred on the proposed same day. We have no confirmation of this occurrence.</p>
2013-02	5	Procurement	Procurement Services	Review spending by commodity code annually in order to identify opportunities for entering into contracts for better pricing.	<p>It is evident that we are taking advantage of strategic sourcing/volume purchasing, since more 86% of the spend for the City is under contract. Examples: The condition description listed in this area leads one to believe that of the 14% decentralized spend; there is an opportunity to secure contracts. However, this is not accurate because the 14% includes non-departmental items such as (GRTC, Richmond Ambulance Authority, Richmond Behavioral Health and other nondepartmental transactions.) We need to consider a number of factors as we review decentralized/exempt items for strategic sourcing/volume purchasing opportunities; - analyze how to align the item with the overarching goals for the organization, - consider how the volume purchase item will impact the MBE/ESB business community and other relevant factors.</p>

Audit Number	Item Number	Department	Audit Name	Recommendation	Comment
2013-02	6	Procurement	Procurement Services	Enforce the policy related to conducting a fair market analysis, timeliness of processing emergency purchases, and posting the intent to award emergency purchases on the City's website.	No because, the current Emergency Policy guidelines are too stringent. We verified this as a result of benchmarking our Emergency Policy against other governmental entities. Our current practice of processing emergency procurement request is in alignment with other governmental agencies. Therefore, we are updating our emergency policy to codify industry best practice methods to ensure that emergency request are processed by securing reasonable backup documentation in reasonable timeframes. Going forward, we will document the file if we deviate from the current policy.
2014-01	10	Finance	Risk Management Operational Analysis	Report departmental performance measures to the Bureau for reporting to executive management and publishing on their webpage.	RM does not control the operating departments reporting. RM will request the cooperation of the departmental safety staff in providing feedback on their performance measures.
2014-01	12	Finance	Risk Management Operational Analysis	Require the City Safety Officer to complete safety inspections of all City facilities that are currently occupied and supported by the Bureau at least annually.	Although there is no OSHA requirement to inspect buildings. RM has an inspection program that is compliant with OSHA standards for locations. The frequency of inspections of buildings will be based on the type and use of the structure.
2014-01	13	Finance	Risk Management Operational Analysis	Require the Fire Department to conduct safety inspections of all Fire facilities.	The recommendation is outdated. The report covers FY12, as indicated within the report, the department self-recognized this need in FY13 and successfully implemented an inspection process. While the original goal was to have the program 'go live' in FY14, the department exceeded expectations and was able to implement the program mid-year FY13. During the audit, the auditor requested and was provided, with five separate inspections. The function is already in place and therefore, not an actionable recommendation, as we intend to continue the program annually.
2014-01	16	Finance	Risk Management Operational Analysis	Require the Bureau to provide support to the Sheriff's Office for safety and risk management matters.	RM supports and will continue to support the Sheriff in matters related to safety and risk management.

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2014-01	17	Finance	Risk Management Operational Analysis	Require all City departments to verify that driver's licenses of all the employees required to drive City vehicles are valid and current, as required by the Bureau of Fleet Services Citywide Policies and Procedures manual.	This is a DPW fleet policy and they are responsible for its enforcement.
2014-01	18	Finance	Risk Management Operational Analysis	Require all City departments to verify City employees' driving records to identify driving violations.	This is a DPW Fleet policy and they are responsible for its enforcement.
2014-01	20	Finance	Risk Management Operational Analysis	Consider civilianizing the 40 hour-a-week Lieutenant and Fire Captain positions in the EMS/Safety Unit.	Collectively the position of both Lieutenant and Captain address safety issues within a hot zone at emergency scenes. Accordingly, these responsibilities entail certification at a minimum of Firefighter II.

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2014-02	4	Richmond Public Schools	RPS-Payroll	Establish a system for recording and tracking compensatory time earned and used, which provides a documented history of activity.	<p>RPS payroll staff does not concur in this observation. An established recordkeeping and tracking of compensatory time earned and used system exists. Document history of activity exists in the employee management system (EMS). The department of finance made available, documented, approved compensatory time for the auditors to review, which is tracked by employee. The auditor requested an electronic file showing all employee compensatory time posted to the period in which it was earned by the employee. Compensatory time is documented at the site-level. A memo is sent to the payroll department authorizing the addition of compensatory time to an employee's leave balance. Due to system limitations and because compensatory time is not an accrued benefit, the current payroll system does not post compensatory time to the employee record in the period it is earned. Approved compensatory time is posted to the employee's record when it is received in the department of payroll (when it become known to payroll) and is added to the leave balance. An employee cannot code leave time as compensatory on the system if there is no compensatory leave balance available.</p> <p>Auditor's Comment: Currently, the system only shows the total compensatory hours taken and the balances. The system is not capable of showing the compensatory time history. In this situation, the completeness or accuracy of compensatory time cannot be verified.</p>

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2014-02	5	Richmond Public Schools	RPS-Payroll	Develop a written policy for submitting unclaimed property to the State that includes a compliance review by the CFO.	<p>RPS General Ledger Supervisor does not concur in this observation. The auditor confirms that RPS is in compliance with the due diligence process for unclaimed property. The auditor reviewed the support documentation including check copies where funds were submitted to the State for escheatment. The process of how outstanding payroll checks are handled is documented. The procedure for this function was available for review upon request however this procedure was not requested during the audit because the auditor had assumed escheatment was a function of payroll. Therefore when a copy of the procedure wasn't included in the payroll procedures manual, an assumption was made that a written policy did not exist. The process of submitting unclaimed property to the State is not a function of payroll but of the general ledger department. A copy of the written policy for submitting unclaimed property has been provided to the auditor. RPS follows policies for submitting unclaimed property to the state as prescribed by the state. As indicated in the report, five checks were withheld from escheatment because after contact from RPS, the employee indicated they would retrieve their funds but then failed to do so. The funds related to those five checks will be forwarded to the State with the next submission.</p> <p>Auditor's Comment: Auditors received unclaimed property procedures after the exit meeting. The procedures submitted do not address compliance reviews by management. In addition, it is not clear if these procedures existed during the audit period.</p>

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2014-03	3	Richmond Public Schools	RPS-Benefits	Negotiate contract language that allows RPS or their designee the ability to conduct a full scope claims audit, including CIGNA charges to RPS, through full and unrestricted access to all pertinent records.	<p>It is not standard practice in the industry to provide access to all claims. Please see the statement by Mercer which serves as the current health care consultant for COR and RPS (last paragraph in this section). Pursuant to the procurement rules and as stated in response to recommendation #1, COR and RPS have a legally binding contract with Cigna. The contract incorporates the terms of the Request For Proposal and the Contractor's Proposal. The Contractor's Proposal gives COR and RPS claim audit rights which are consistent with the industry standard. If significant claim errors are found in the claim audit, The COR and RPS have the right to pursue a reasonable resolution for the errors which may include a closer examination of areas of concern. The statement that Cigna did not allow the City Auditor to review claims because RPS had not signed the "audit clause" is inaccurate. COR and RPS have the right to conduct a claim audit and Cigna has never denied that right. Only by looking at the live, electronic claim file, the initial claim, the claim edits made by the claim system, the discount taken, the member liability and how it was calculated and subsequent adjustments to the claim for things such as coordination of benefits can the claim details be determined. To effectively conduct such an audit would require an auditor to visit the Cigna claims office in Scranton, PA and view the full electronic claim file. The City Auditor did not visit the claims office to view the full electronic file, rather requested static claim information. The health care industry has evolved to a level of complexity that a proper claim audit cannot be conducted remotely with isolated information. The statement that the claim information that exists in Cigna's data systems "belongs to RPS" is factually inaccurate. While the information relates to employees of RPS, RPS does not own the information. This is consistent with Cigna's responses in the Request For Proposal. (See Exhibit 2). Mercer Health & Benefits, which serves as the Health Care Consultant COR and RPS, provided the following statement: "It is standard practice for medical claim audit firms to audit a sampling of claims, from 200 -300 claims. Cigna's 225 appears to be on the low side; maximum claims allowed to be audited is up to 400. Mercer typically audits 200 for statistically valid audit. RPS may want to consider a statistical audit of 200 plus a review of exceptions from an electronic review. We suggest electronic reviews of all claims to check for duplicates, non-covered services, etc. It would be cost prohibitive to look at every claim. Mercer has done numerous tests that indicate increasing the sample size does not improve statistical validity. Mercer provided its sampling methodology to support</p>

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					<p>the statistical validity. [This document is proprietary and is available to auditors upon request] Mercer recommends that the COR and RPS hire a firm that specializes in health care claims auditing every two to three years to do a standard audit."</p> <p>Auditor's Comment: Auditing standard practice using sampling techniques support selecting representative sample from a population, which allows extrapolating results to entire population. This was not acceptable to CIGNA.</p>
2014-03	5	Richmond Public Schools	RPS-Benefits	Require CIGNA to directly pay providers for claim amounts that exceed stop loss limits from their own funds without drawing from the joint RPS/COR account.	<p>Based on the information provided by Mercer, which serves as the Health Care Consultant for COR and RPS, this is not industry practice. Cigna is acting consistently with industry standards by not providing immediate stop loss reimbursement, with the exception of single claims over \$250,000. In addition, according to Cigna, 93% of stop loss reimbursements are made within 2 days and 99% within 5 days. Mercer Health & Benefits, which serves as Health Care Consultant for COR and RPS, provided the following statement: "Of the four national claim administrators (Aetna, BC/BS, Cigna, United Healthcare), only one currently has the claim system support to pay claims that are above the stop loss limit with their own funds. This change would require a major change to their claim system and the other 3 administrators have not shown a willingness to undertake this major change. Once claims have been approved for coverage under the stop-loss and exceed the limit, claim administrators will typically reimburse employers via a credit to the claim wire requests on the next wire request".</p> <p>Auditor's Comment: Stop loss policy is an insurance policy and, therefore, CIGNA is responsible for paying for risk they assumed. It does not make sense that they pay for the risk they assumed using RPS funds and later reimburse RPS.</p>

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2014-03	6	Richmond Public Schools	RPS-Benefits	Require the Superintendent to negotiate contract language jointly with the City representatives that requires CIGNA to render monthly itemized billing statements for all charges prior to seeking payment for their fees.	<p>Based on the information provided by Mercer, which serves as Health Care Consultant for COR and RPS, this is not industry practice. Please see Mercer's statement (last paragraph in this section). COR and RPS is provided an accounting of all charges. Cigna provides itemized statements for administrative and stop loss fees on a monthly billing statement. Any additional charges, including claims are documented on the posted banking statements held by COR. Mercer Health & Benefits, which serves as the Health Care Consultant for COR and RPS, provided the following statement: "Cigna should provide monthly, quarterly or at least annually an accounting in support of all charges and capitation fees paid by RPS (and COR). It is not standard for large self funded employers to require substantiation and back-up prior to paying such fees as capitation fees, cost containment, health coaching, etc".</p> <p>Auditor's Comment: Recommendation is to identify the charges RPS is paying for. In absence of detailed billing statement, it is impossible for RPS to verify appropriateness of CIGNA's charges.</p>
2014-03	10	Richmond Public Schools	RPS-Benefits	Require CIGNA to furnish the monthly paid claims file to Risk Management.	<p>RPS is not a claims administrator. RPS would not gain any value in receiving a monthly detailed claims file on its employees because RPS does not have the expertise to interpret health claims information. Claims administration is the job of the health care administrator. If there is any concern about the accuracy of claims administration, periodic audits should be conducted by a professional health care claims auditing firm as recommended by Mercer, Health Care Consultant for COR and RPS. See the Mercer response in recommendation #3.</p> <p>Auditor's Comment: Although, RPS staff does not have expertise to evaluate detailed claims, it is possible to acquire such expertise from vendors. With \$30 million incurred by RPS in claims, it is prudent to periodically evaluate the appropriateness of payment of claims.</p>

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2014-03	11	Richmond Public Schools	RPS-Benefits	Require Risk Management to reconcile CIGNA's monthly paid claims file to the RPS payroll records.	<p>RPS currently audits the monthly payroll with the Cigna membership report to determine if any discrepancies exist. If discrepancies exist, adjustments are made and documentation is placed in the employees file. The City Auditor reviewed hundreds of eligibility records and performed an on-site audit of fifty paper files to determine if all supporting documentation regarding eligibility and adjustments were available and accurate. No errors were found and all documentation was available. Monthly paid claims do not correspond to payroll records at the employee level. In response to a request for clarification regarding the recommendation, RPS was informed the actual intent of this recommendation had to do with how RPS knows whether or not other companies claims are included or embedded within the COR and RPS claims. RPS requested a response from Cigna and Cigna provided the document called Cigna SSAE 16 which outlines the security and audit processes in place to monitor eligibility transactions in addition to Cigna's external audit processes. The Cigna SSAE 16 is a proprietary report on Cigna Healthcare's Description of its Administrative Services Only and Minimum Premium Claims Administration System and the Suitability of the Design and Operating Effectiveness of its Controls. This document is available for professional auditor view only if requested. To date, the City auditor has not requested a copy of this annual audit report. Benefits & Risk Management at RPS does not have the manpower or staff with expertise to audit what was actually intended by this recommendation.</p> <p>Auditor's Comment: RPS currently monitors enrollment/ membership in the plan. The recommendation requires monitoring to determine whether claims paid are for valid employees. The response does not address the recommendation.</p>

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2014-03	17	Richmond Public Schools	RPS-Benefits	The Board may consider requiring participation in case management services.	Employers can not mandate or require their employees to participate in disease management programs and employers can't terminate coverage for those employees that do not participate in disease management programs. Employers who do not offer full-time employees minimum essential health coverage will be subject to significant penalties in 2015. (Please see the statement from Mercer below) Mercer Health & Benefits, which serves as the Health Care Consultant for COR and RPS, provided the following statement: "Case management services are intended to assist members who are utilizing the health system to receive medically appropriate care and services. Similar to disease or condition management for those who have a chronic condition, case management is voluntary and may be refused. Some employers have offered incentives to encourage members to take advantage of these available services. With the 2014 individual mandate under the Affordable Care Act requiring individuals have health insurance covering essential health benefits, employers are not implementing mandates resulting in loss of coverage for these essential benefits. In 2015, employers who do not offer full-time employees minimum essential health coverage will be subject to significant penalties. RPS could consider rewarding or incenting participation and active engagement in these programs but may not require participation".