

Report on Internal Control

The City of Richmond, Virginia

June 30, 2015



**REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS
ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS REQUIRED BY *GOVERNMENT*
*AUDITING STANDARDS***

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The Honorable Members of City Council
The City of Richmond, Virginia

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Richmond, Virginia (the “City”) as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the City’s basic financial statements, and have issued our report thereon dated October 31, 2016.

Our report includes a reference to other auditors who audited the financial statements of each of the aggregate discretely presented component units and the Richmond Retirement System, as described in our report on the City’s financial statements. This report does not include the results of the other auditors’ testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal control over financial reporting

In planning and performing our audit of the financial statements, we considered the City’s internal control over financial reporting (“internal control”) to design audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of internal control. Accordingly, we do not express an opinion on the effectiveness of the City’s internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the schedule of findings and responses to this report, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies in the City’s internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies described in accompanying schedule of findings and responses as items 2016-01 through 2016-04 to be material weaknesses in the City's internal control.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and responses as items 2016-05 through 2016-07 to be significant deficiencies in the City's internal control.

Compliance and other matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters, described in the accompanying schedule of findings and responses as item 2016-08 that is required to be reported under *Government Auditing Standards*.

City's response to findings

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

Intended purpose

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this report is not suitable for any other purpose.



Houston, Texas
October 31, 2016

CITY OF RICHMOND, VIRGINIA

SCHEDULE OF FINDINGS AND RESPONSES

Year ended June 30, 2015

2016-01 – Accounting and Financial Reporting for Capital Assets – Material Weakness

Condition

The City received a qualified opinion on its governmental activities opinion unit in its fiscal year 2014 independent auditors' report on its June 30, 2014 audited financial statements. The opinion was qualified as management was unable to determine the total amount of governmental activities' capital assets, including construction in progress. During fiscal year 2015, management implemented a corrective action plan to analyze each individual construction project with a balance during fiscal year 2014. This action plan included reviewing all documentation supporting each project and determining whether the recorded project balance was fairly presented. As a result of implementing the corrective action plan, the City recorded a restatement of \$18,472,680 to correct the previously recorded governmental activities' capital assets balances.

Criteria

The Committee of Sponsoring Organizations internal control framework indicates that a system of internal control is expected to provide an organization with reasonable assurance that those objectives relating to external reporting and compliance with laws and regulations will be achieved. Reporting objectives pertain to the preparation of reports for use by organizations and stakeholders. Reporting objectives may relate to financial or non-financial reporting and to internal or external reporting. Internal reporting objectives are driven by internal requirements in response to a variety of potential needs such as the entity's strategic directions, operating plans, and performance metrics at various levels. External reporting objectives are driven primarily by regulations and/or standards established by regulators and standard-setting bodies.

Cause

The City has identified numerous project managers with the primary operational responsibility to monitor the progress on construction projects. However, communication between those with operational responsibility for the construction projects and those charged with financial reporting responsibilities are insufficient. Accordingly the City's capital assets policies and procedures were insufficiently detailed to ensure that the capital assets recorded in the City's financial statements are fairly stated.

Effect

The insufficiency of the City's capital assets policies and procedures increases the risk that a material error in recorded fixed asset balances may not be prevented and detected by employees in the normal course of performing their assigned functions.

Recommendation

The City should institute a quarterly review procedure where the operational project managers meet with Department of Finance personnel to ensure that the outstanding project balance recorded in the City's general ledger is properly supported by documentation contained in the project files maintained by project managers.

CITY OF RICHMOND, VIRGINIA

SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED

Year ended June 30, 2015

Management's Response

Management concurs with the recommendation. The City had limited staffing during the fiscal year, but the Finance Department received funding in the FY2017 budget to fully staff previously vacant positions. In addition, the Department of Finance will review, assess and update (if needed) the Project & Grants module in RAPIDS. General government employees will receive additional training on the use of Projects & Grants module for the reporting of Capital Assets.

2016-02 – Timeliness of Monthly and Annual Financial Reporting Process – Material Weakness

Condition

The preparation of the Comprehensive Annual Financial Report (CAFR) is a complex process requiring the coordination and cooperation of numerous personnel, including those from various component units. For the June 30, 2015 CAFR, the City provided multiple drafts of the CAFR during the course of the audit.

Through the execution of our audit testing, we determined that there were numerous routine monthly reconciliations that were not prepared timely. Certain reconciliations were not completed until after the end of the fiscal year as part of the annual financial reporting closing process conducted to prepare the CAFR. Examples of such routine monthly reconciliations which were not prepared timely include:

- Monthly cash account reconciliations
- Monthly investment account reconciliations
- Quarterly state disbursements report reconciliation
- Monthly real property tax receivable reconciliation
- Monthly personal property tax receivable reconciliation
- Monthly accounts payable/accrued liabilities reconciliation
- Monthly accrued wages reconciliation

Criteria

The Committee on Sponsoring Organizations of the Treadway Commission (COSO) Internal Control Integrated Framework guidance, Chapter 7 establishes the principle that an “organization selects and develops control activities that contribute to the mitigation of risks to the achievement of objectives to acceptable levels.” Furthermore, the guidance recommends “responsible personnel perform control activities in a timely manner as defined by the policies and procedures,” noting that “untimely procedures can reduce the usefulness of the control activity.”

Cause

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

CITY OF RICHMOND, VIRGINIA

SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED

Year ended June 30, 2015

Effect

Failure to perform routine reconciliations timely increases the risk that a material error in recorded balances may not be prevented and detected by employees in the normal course of performing their assigned functions. Further, the financial information provided to those charged with governance may not be accurate, timely or relevant.

Recommendation

We recommend that the Director of Finance develop a monthly financial reporting checklist that details all monthly reconciliations that should be prepared by City personnel, and reviewed and approved by Finance Department personnel. All policies and procedures governing those reconciliations should be updated to ensure that the processes result in timely and relevant information being provided to those charged with governance. Finally, we recommend that the Deputy Chief Administrative Officer (DCAO – Finance and Administration) require that the Director of Finance assert, quarterly, that all such reconciliations have been prepared, reviewed and approved.

Management's Response

Management concurs with the recommendations. The City had limited staffing during the fiscal year, but the Finance Department received funding in the FY2017 budget to fully staff previously vacant positions.

2016-03 – Processing of Routine Transactions – Material Weakness

Condition

We determined that there were several significant accounting processes where routine transactions were not recorded timely. Examples are as follows:

- The City maintains several parking facilities throughout the City and receives funds daily from each location for the fees paid by parkers. We observed that sometimes these parking revenues were recorded daily, while, at other times, two or more days' worth of transactions were recorded in batches. We further observed that the inconsistent recordation of parking revenues made it more difficult to reconcile parking receipts to cash and credit deposits made to the City's financial institutions.
- When tying the audited FY2014 CAFR balances to the opening balances in the FY2015 CAFR and trial balance, we noted several material variances. After inquiring, we determined that while the City did record FY2014 recommended audit adjustments to the final FY2014 CAFR, the City failed to record these audit adjustments to the general ledger.
- The City uses suspense accounts in certain circumstances to "hold" transactions which require further research. However, these accounts are not reconciled timely throughout the year.
- As previously discussed in finding 2016-01, fixed asset transactions are maintained by project managers at various City departments; however, such transactions are not reconciled timely to the detailed fixed asset records maintained by the Finance Department throughout the year.

CITY OF RICHMOND, VIRGINIA

SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED

Year ended June 30, 2015

Criteria

The Committee on Sponsoring Organizations of the Treadway Commission (COSO) Internal Control Integrated Framework guidance, Chapter 7 establishes the principle that an “organization selects and develops control activities that contribute to the mitigation of risks to the achievement of objectives to acceptable levels.” Furthermore, the guidance recommends “responsible personnel perform control activities in a timely manner as defined by the policies and procedures,” noting that “untimely procedures can reduce the usefulness of the control activity.

Cause

The City lacks sufficient monitoring controls to ensure that standard documented policies and procedures related to the recording of daily routine transactions are followed.

Effect

Failure to record routine transactions timely increases the risk that a material error in recorded balances may not be prevented and detected by employees in the normal course of performing their assigned functions. Further, the financial information provided to those charged with governance may not be accurate, timely or relevant.

Recommendation

We recommend that the City develop, document and implement policies and procedures to ensure transactions are recorded timely. The City should also train employees on the new policies and procedures. Finally, the City should institute monitoring controls to ensure that these routine transactions are initiated, processed and recorded timely.

Management’s Response

Management concurs with the recommendations. The City had limited staffing during the fiscal year, but the Finance Department received funding in the FY2017 budget to fully staff previously vacant positions.

2016-04 – Accounting for Non-Routine Transactions – Material Weakness

Condition

We determined that there were several significant non-routine transactions were not recorded properly or timely. Examples are as follows:

- The City maintains several parking facilities throughout the City and receives funds daily from each location for the fees paid by parkers. The City identified that these activities should be recorded in a separate enterprise fund; however, that fund was not established until well after the end of the fiscal year. Further, the City was initially unable to record completely the presentation and disclosure of the new fund in its draft CAFR.

CITY OF RICHMOND, VIRGINIA

SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED

Year ended June 30, 2015

- During fiscal year 2015, the City purchased from the Richmond Metropolitan Transit Authority the Diamond baseball stadium and associated land for \$10. The City failed to account for this transaction properly as it recorded the assets at the purchase price rather than at fair value as of the date of the transaction.
- The City refunded debt during the year as it was economically advantageous to do so. However, the City did not identify all of the proper disclosures that are associated with such a bond refunding in its draft CAFR.
- The City did not calculate capitalized interest on its construction work in progress during fiscal year 2015.

Criteria

The Committee on Sponsoring Organizations of the Treadway Commission (COSO) Internal Control Integrated Framework guidance, Chapter 7 establishes the principle that an “organization selects and develops control activities that contribute to the mitigation of risks to the achievement of objectives to acceptable levels.” Furthermore, the guidance recommends “responsible personnel perform control activities in a timely manner as defined by the policies and procedures,” noting that “untimely procedures can reduce the usefulness of the control activity.

Cause

There has been substantial turnover in the City’s Department of Finance over the last few fiscal years, resulting in a loss of institutional knowledge. Further, there are insufficient policies and procedures established by the Finance Department to identify such transaction initiated by other City departments so that those transactions can be processed and recorded timely. Finally, Department of Finance personnel lack adequate GASB training to ensure that they are familiar with the accounting for such unique transactions.

Effect

Failure to record non-routine transactions timely increases the risk that a material error in recorded balances may not be prevented and detected by employees in the normal course of performing their assigned functions. Further, the financial information provided to those charged with governance may not be accurate, timely or relevant.

Recommendation

We recommend that the City establish policies and procedures where Finance Department personnel make inquiries of key City personnel, such as the Chief Administrative Officer, City Attorney, and Department Directors at least quarterly to identify any non-routine transactions that may need to be recorded or disclosed in the financial statements.

Management’s Response

Management concurs with the recommendations. The City had limited staffing during the fiscal year, but the Finance Department received funding in the FY2017 budget to fully staff previously vacant positions.

CITY OF RICHMOND, VIRGINIA

SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED

Year ended June 30, 2015

2016-05 – Misapplication of GAAP- Significant Deficiency

Condition

As a result of various adjustments, it was noted that the City was not properly following certain generally accepted accounting principles. These matters are noted as follows:

- Generally accepted accounting principles defines liabilities as present obligations to sacrifice resources that the government has little or no discretion to avoid. Retainage payable represents a liability attributable to the acquisition, construction, or improvement of capital assets (in this case, construction in progress). During the course of the audit, it was noted that retainage payable was not being recorded. We recommend that the City recognize retainage payable on a prospective basis and include in its policies procedures to calculate retainage payable.
- GASB Statement No. 33, as amended, establishes accounting and financial reporting standards for nonexchange transactions. It identifies four classes of nonexchange transactions based on shared characteristics that affect the timing of recognition. One of the four classes of nonexchange transactions is government-mandated nonexchange transactions. Governments should recognize a receivable and revenue in connection with government-mandated nonexchange transactions often in the form of expenditure-driven grants when qualifying expenditures have been incurred. In governmental funds, revenue recognition must be deferred until amounts are available. It was noted for the City's Highway Planning and Construction grant, the City did not appropriately account for the grant activity when the qualifying expenditures of approximately \$4,700,000 were incurred during the fiscal year.
- The City has accounted for its Other Post Employment Benefit (OPEB) obligation as a long term liability at the government wide-government type activities level. However, the City did not record the government wide – business type activities and proprietary funds allocable portion of the OPEB obligation.

Criteria

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

Cause

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

Effect

Failure to record transactions in accordance with generally accepted accounting principles increases the risk that a material error in recorded balances may not be prevented and detected by employees in the normal course of performing their assigned functions. Further, the financial information provided to those charged with governance may not be accurate or relevant.

CITY OF RICHMOND, VIRGINIA

SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED

Year ended June 30, 2015

Recommendation

We recommend that the City establish a more thorough review process in addition to the establishment of written account analyses/process policies and procedures at all levels. Furthermore, we recommend that the City establish ongoing training for those individuals responsible for the accounting of these transactions as well as those departments required to provide information/details needed by the Finance Department to properly account for said transactions

Management's Response

Management concurs with the recommendation. The City had limited staffing during the fiscal year, but the Finance Department received funding in the FY2017 budget to fully staff previously vacant positions. In future years, the City will track and record those retainages that have not been paid at year end and record them as a liability, and Finance staff will work to properly segregate and report the aforementioned transactions, and also request additional actuary work in order to more specifically allocate OPEB obligations across funds.

2016-06 – Segregation of Duties - Journal Entry Recording – Significant Deficiency

Condition

It was noted that certain individuals within the accounting function with Super User status had the ability to prepare and post journal entries without a secondary approval which was not consistent with established policies.

Criteria

The City is required to establish and maintain a system of internal controls to ensure the financial transactions of the entity are appropriately accounted for.

Cause

The City lacked sufficient employee resources during the year to ensure the appropriate segregation of duties was maintained.

Effect

Failure to have a secondary approval of journal entries increases the risk of financial reporting errors or misappropriation of assets and does not allow for employees in the normal course of performing their assigned functions to prevent or detect errors.

Recommendation

We recommend that the City ensure that established policies are adhered to and enhance the policies to include provisions that ensure regardless of the staffing constraints that segregation of duties is always maintained. Additionally, consideration should be given to including features in the system that prevent the same user to prepare, post and approve an entry.

CITY OF RICHMOND, VIRGINIA

SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED

Year ended June 30, 2015

Management's Response

Management concurs with the recommendation. The City had limited staffing during the fiscal year, but the Finance Department received funding in the FY2017 budget to fully staff previously vacant positions. A number of full-time general accounting positions have been filled with qualified employees subsequent to June 30, 2015, which should further ensure that proper segregation of duties occurs on a regular basis throughout the year.

2016-07 – Information Technology Controls – Significant Deficiency

Condition

We determined that there were several areas where there are significant deficiencies in information technology controls. Examples are as follows:

- Security Administration Segregation of Duties - The City's Department of Information Technology (DIT) is unable to identify the functions associated with user responsibilities and their conflicting duties, and therefore is unable to adequately assess the appropriateness of security administrative access and the segregation of conflicting duties relevant to security administration, or the appropriateness of the activities performed by users with security administrative access.
- New User Segregation of Duties - The City's DIT is unable to identify functions associated with user responsibilities and their conflicting duties, and therefore is unable to adequately assess the appropriateness of access granted to new users and the segregation of conflicting duties.
- Transferred User Segregation of Duties - The City's DIT is unable to identify the functions associated with user responsibilities and their conflicting duties, and therefore is unable to adequately assess the appropriateness of access modifications for transferred users and the segregation of conflicting duties.
- Removal of Terminated User Access - The City does not remove access of terminated employees in a timely manner. We noted that 58 individuals terminated from the City retained inappropriate access to Oracle after termination.
- User Access Rights Review - The City does not perform a comprehensive review of user access rights to ensure the appropriateness of user access. Rather, it is the responsibility of each individual City agency to request an ad hoc review of user access.
- Program Management Segregation of Duties - Individuals within DIT also perform financial user duties. We noted that three individuals residing within DIT with systems developer or systems developer lead duties also perform multiple financial user duties.
- Application Authentication - The City has not documented a password management policy and related minimum system security requirements (i.e. password complexity, password expiration, user inactivity lockout, etc.). Based upon inspection of the RAPIDS password configuration settings, we determined that password complexity settings are not enforced.

CITY OF RICHMOND, VIRGINIA

SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED

Year ended June 30, 2015

Criteria

National Institute of Standards and Technology (NIST) Special Publication (SP) 800-53 Revision 4, "Recommended Security Controls for Federal Information Systems and Organizations", dated April 2013, page F-18, Section AC-5 (Separation of Duties) states, "The organization:

- a. Separates [Assignment: organization-defined duties of individuals];
- b. Documents separation of duties of individuals; and
- c. Defines information system access authorizations to support separation of duties.

Supplemental Guidance: Separation of duties addresses the potential for abuse of authorized privileges and helps to reduce the risk of malevolent activity without collusion. Separation of duties includes, for example: (i) dividing mission functions and information system support functions among different individuals and/or roles; (ii) conducting information system support functions with different individuals (e.g., system management, programming, configuration management, quality assurance and testing, and network security); and (iii) ensuring security personnel administering access control functions do not also administer audit functions.

National Institute of Standards and Technology (NIST) Special Publication (SP) 800-53 Revision 4 "Recommended Security Controls for Federal Information Systems and Organizations", dated April 2013, page F-18, Section AC-6 (Least Privilege) states, "The organization employs the principle of least privilege, allowing only authorized accesses for users (or processes acting on behalf of users) which are necessary to accomplish assigned tasks in accordance with organizational missions and business functions."

Supplemental Guidance: Organizations employ least privilege for specific duties and information systems. The principle of least privilege is also applied to information system processes, ensuring that the processes operate at privilege levels no higher than necessary to accomplish required organizational missions/business functions. Organizations consider the creation of additional processes, roles, and information system accounts as necessary, to achieve least privilege. Organizations also apply least privilege to the development, implementation, and operation of organizational information systems. Control Enhancement 5: The information system prevents non-privileged users from executing privileged functions to include disabling, circumventing, or altering implemented security safeguards/countermeasures. Supplemental Guidance: Privileged functions include, for example, establishing information system accounts, performing system integrity checks, or administering cryptographic key management activities. Non-privileged users are individuals that do not possess appropriate authorizations. Circumventing intrusion detection and prevention mechanisms or malicious code protection mechanisms are examples of privileged functions that require protection from non-privileged users.

Cause

The City does not determine the appropriateness of access granted on a comprehensive listing of all Oracle user responsibilities and their associate functions, but rather, this determination is based on judgement. The City stated that due to the overwhelming amount of user responsibilities and functions, it would not be feasible to create this listing. Further, the City does not have sufficient policies and procedures, including monitoring controls, to ensure adequate segregation of duties

CITY OF RICHMOND, VIRGINIA

SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED

Year ended June 30, 2015

Effect

Failure to ensure the segregation of conflicting duties can lead to personnel having excessive access privileges, which can potentially impact the integrity of data used in financial reporting. The lack of a formalized password management policy and minimum system security settings requirements can lead to unauthorized user gaining access to the system or user management being handled inconsistently. Thus, the effectiveness of passwords in protecting the system may be weakened.

Recommendation

We recommend the City implement formal procedures to periodically review user accounts for appropriateness of access. Users no longer requiring access should be removed, and access privileges outside of a user's assigned job responsibilities should be modified. The procedures and results from these review should be documented. We recommend that the City develop policies and procedures governing password management and minimum system security settings for the RAPIDS application. These security policies and procedures should incorporate guidance to cover password complexity settings, locking out of a session after a specified period of inactivity and locking an account after a predetermined number of invalid log-on attempts.

Management's Response

Management concurs with the recommendation. The City adopted ORACLE's standard password management and system security settings for the RAPIDS application. The adopted settings included procedures for complex password settings, locking out of a session after a specified period of inactivity and locking an account after a predetermined number of invalid log-on attempts. The City does not have design control over these elements as we would for a self-developed system. The Department of Information Technology will conduct a review of the current settings, to determine if there are options to match more closely these recommendations. To further assist with this effort, The City Administration contracted with Astyra Corporation to assist the City with reviewing existing access controls and making recommendations to ensure that conflicting/competing access is eliminated. That project is expected to be completed in January 2017 and alleviate the segregation of duty concerns.

2016-08 – Failure to Comply with the Single Audit Act- Material Noncompliance

Condition

The City of Richmond is required to obtain a "Single Audit" of its expenditures of federal awards as it expended greater than \$500,000 in federal awards each fiscal year. As of the date of this report, the City has not yet issued its required Single Audit.

Criteria

U. S. Office of Management and Budget Circular A-133, section 320 requires the following:

The audit shall be completed and the data collection form described in paragraph (b) of this section and reporting package described in paragraph (c) of this section shall be submitted within the earlier of 30 days after receipt of the auditor's report(s), or nine months after the end of the audit period, unless a longer period is agreed to in advance by the cognizant or oversight agency for audit.

CITY OF RICHMOND, VIRGINIA

SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED

Year ended June 30, 2015

Cause

The City has not developed sufficient policies and procedures to ensure that amounts reported on the schedule of expenditures of federal awards (SEFA) are properly reconciled to the general ledger and supported by appropriate documentation. Reconciliations of amounts reported to the federal government by the City for each of its federal programs to the general ledger were not prepared timely or accurately. The SEFA is required to be reconciled to the general ledger and audited by the independent auditor, and it is used as the basis for determining which major programs are to be audited.

Effect

The City is not in compliance with the Single Audit Act and OMB Circular A-133. Failure to submit the required Single Audit reporting package could result in additional scrutiny of reimbursable expenditures by federal awarding agencies and, in extreme cases, jeopardize continued participation in those programs.

Recommendation

We recommend that the City implement policies and procedures to ensure that federal grant programs reports submitted reconcile to the general ledger. This will ensure that the SEFA is complete and accurate, and it is available to the independent auditor to be used for major program selection.

Management's Response

Management concurs with the recommendation. The City had limited staffing during the fiscal year, but the Finance Department received funding in the FY2017 budget to fully staff previously vacant positions.