



CITY of RICHMOND
City Auditor's Office

DATE: November 29, 2022

TO: Lincoln Saunders
Chief Administrative Officer

FROM: Louis Lassiter *LL*
City Auditor

SUBJECT: Capital Improvement Plan – School Maintenance Funds Audit

The City Auditor's Office has completed the CIP School Maintenance Funds audit and the final report is attached.

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

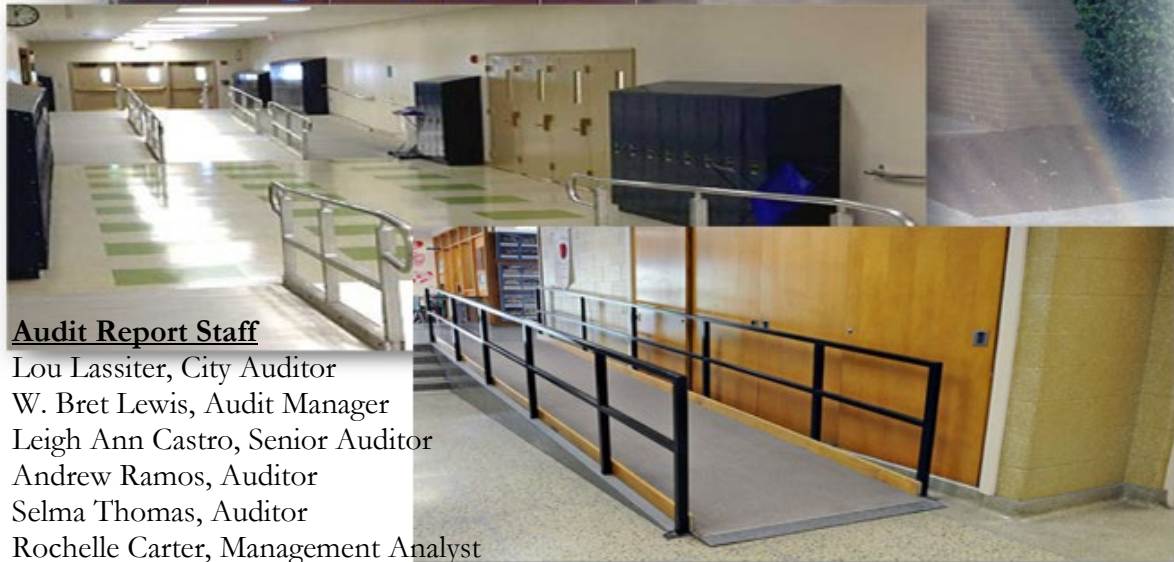
Attachment

cc: The Richmond Audit Committee
The Richmond City Council
Sabrina Joy-Hogg, DCAO of Administration & Finance
Wanda Payne, RPS Director of Finance

Intentionally left blank

City of
RICHMOND
Office of the City Auditor

Audit Report# 2023-06
Capital Improvement Plan (CIP)
School Maintenance Funds
November 29, 2022



Audit Report Staff

Lou Lassiter, City Auditor
W. Bret Lewis, Audit Manager
Leigh Ann Castro, Senior Auditor
Andrew Ramos, Auditor
Selma Thomas, Auditor
Rochelle Carter, Management Analyst

Executive Summary.....i
Background, Objective, Scope, Methodology.....1
Findings and Recommendations.....4
Management Responses.....Appendix A

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 FY2023 audit plan approved by the Audit Committee. The objective for this audit was to review the controls and CIP reconciliation for RPS school maintenance funds.

What We Recommend:

The Director of Finance:

- *Ensure entries are made in RAPIDS from the prior audit as well as those noted in this audit to correct RPS CIP account totals.*
- *Ensure RPS expenditures submitted for reimbursement from Capital Maintenance accounts are adequately supported and reviewed to ensure the expenditures qualify as capital expenditures.*
- *Ensure a reconciliation of RPS CIP project accounts in RAPIDS are reconciled to ensure entries in the accounts are accurate and appropriate.*

Capital Improvement Plan (CIP) School Maintenance Funds

Background

A portion of the City’s Capital Improvement Plan (CIP) funds are set aside for Richmond Public Schools (RPS). These funds are to be used for capital expenditures related to the maintenance of RPS capital assets. At the end of the prior audit performed in FY2019, the auditors calculated the total balances as of 6/30/2018 for the CIP funds to be as follows:

Name	School Capital Maintenance	School Capital Maintenance (Cash)	High School Athletic Facilities	Schools ADA Compliance	School Bus Lease
Grant #	500492	500840	500493	500495	500863
Total as of 6/30/2018	\$4,831,055	\$2,730,842	\$557,707	\$820,964	\$771,093

Each year City Council appropriates funds as needed within the budgeting process. Monthly, RPS will send a memo with all qualifying expenditures to the City’s Finance Department noting which funds are to be used. City Finance staff reviews the support for the expenditures and determines if they can be included as capital expenditures. Once approved, they are entered into RAPIDS within the corresponding account.

What Works Well

During the four years of the audit scope, RPS had five accounts for CIP that they maintained. In reviewing the requests, the auditor noted RPS submitted expenditures monthly when funds were spent, which was an improvement from the March 2019 audit.

The auditors reviewed over 700 school invoices for (FY19-FY22) and expenditures were properly supported for school related items.

Needs Improvement

Finding #1 – RPS CIP Reconciliation and Account Totals

The auditors performed a reconciliation of the five Richmond Public Schools (RPS) Capital Improvement Plan (CIP) project accounts.

- Entries recommended from the last audit to RPS CIP accounts were not performed
- The City’s review of submitted expenditures needs improvement as some non-capital expenditures were capitalized.
- Some entries within RAPIDS were incorrect.

Below is a listing of the variances between the current totals used by RPS and the City versus the total calculated by the auditors.

Balances as of 6/30/2022					
	School Capital Maintenance (500492)	School General Maintenance (500840)	High School Athletic Facilities (500493)	ADA (500495)	School Bus Leases/Purchase (500863)
RPS Total	1,231,571	1,429,485	84,004	2,965,029	0
Auditor Total	1,960,976	2,379,611	11,831	2,807,838	8,403
Variance	(729,405)	(950,126)	72,173	157,191	(8,403)

Management concurred with 3 of 3 recommendations. We appreciate the cooperation received from management and staff while conducting this audit.



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 objective.

BACKGROUND

A portion of the City's Capital Improvement Plan (CIP) funds are set aside for Richmond Public Schools (RPS). These funds are to be used for capital expenditures related to the maintenance of RPS capital assets. Per the City Finance Department's Guidelines for Capital Budgeting, below are definitions related to CIP:

"Capital project expenditures are made to purchase, improve, or extend the useful life of capital assets of the City."

"A "Capital Project" is any project funded by public monies, to build, restore, retain, purchase equipment, property, facilities, or other items, including buildings, park facilities, infrastructure, information technology, or other equipment to be used as a public asset, or for the public benefit. The expenditure of Capital Project funds creates or enhances a City owned capital asset."

"Capital Assets" include land, improvements to land and easements, buildings, building improvements, vehicles, machinery, equipment, and works of art, treasures, infrastructure, and all other tangible assets that are used in City operations and have a useful life beyond a year."

At the end of the prior audit performed in FY2019, the auditors calculated the total balances as of 6/30/2018 for the CIP funds to be as follows:

Richmond City Auditor's Report #2023-06
Capital Improvement Plan (CIP) School Maintenance Funds
 November 29, 2022

Name	School Capital Maintenance	School Capital Maintenance (Cash)	High School Athletic Facilities	Schools ADA Compliance	School Bus Lease
Grant #	500492	500840	500493	500495	500863
Total as of 6/30/2018	\$4,831,055	\$2,730,842	\$557,707	\$820,964	\$771,093

Each year City Council appropriates funds as needed within the budgeting process. If any additional funds are appropriated throughout the year or funds are transferred between projects, then the City's Finance Department will make the required entries as needed within RAPIDS (the City's Financial System of Record)

Monthly, RPS's Finance Department will run a query of checks to identify any expenditures that qualify as CIP maintenance funds. RPS then sends a memo with all of the expenditures to the City's Finance Department notating which funds are to be used. The City's Finance staff reviews the support for the expenditures and determines if they can be included as capital expenditures. Once approved, they are entered into RAPIDS within the corresponding account.

On a quarterly basis, the City's Office of Budget Strategic Planning (Budget Office) produces a report to City Council on the accounts within the CIP report, which includes RPS projects. RPS is provided with the information and any variances are discussed with the Budget Office. The Budget Office is not involved in decision making on what is approved or denied.

OBJECTIVE

The objective of this audit was to review the controls and CIP reconciliation for RPS school maintenance funds.

SCOPE

The four year period ending June 30, 2022 and the current operating environment.

METHODOLOGY

The Auditors performed the following procedures to complete this audit:

- Interviewed staff to understand the processes and procedures related to requesting reimbursements, their approval/denial, and the reconciliation process,
- Reviewed over 700 invoices submitted for reimbursement from FY19-FY22,
- Reviewed all journal entries for the five RPS CIP maintenance accounts from FY19-F22,
- Conducted 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 for the RPS CIP Accounts need improvement. Details of these findings are discussed throughout the report.

FINDINGS and RECOMMENDATIONS

What Works Well

Timely Reimbursement Requests and Support Documentation.

During the four years of the audit scope, RPS had five accounts for CIP that they maintained. In reviewing the requests, the auditor noted RPS submitted expenditures monthly when funds were spent, which was an improvement from the March 2019 audit. The auditors reviewed over 700 school invoices for (FY19-FY22) and expenditures were properly supported for school related items.

What Needs Improvement

Finding #1 – RPS CIP Reconciliation and Account Totals

Condition:

The auditors performed a reconciliation of the five Richmond Public Schools (RPS) Capital Improvement Plan (CIP) project accounts. The auditors used the last audit's June 30, 2018 amounts, reviewed entries made in RAPIDS, and reviewed all invoices submitted by RPS for reimbursement in the RPS CIP accounts. The following table represents the reconciliation performed by the auditors.

Richmond City Auditor's Report #2023-06
Capital Improvement Plan (CIP) School Maintenance Funds
 November 29, 2022

Project Name	School Capital Maintenance	School Capital Maintenance (Cash)	High School Athletic Facilities	Schools ADA Compliance	School Bus Lease	TOTALS
Award Number	500492	500840	500493	500495	500863	
Total Funds Available (Per End of last Audit)	4,831,055	2,730,842	557,707	820,964	771,093	9,711,661
Plus FY19 Appropriation	1,562,000	-	-	-	-	1,562,000
Plus/Less Amendments/Transfers	4,469,000	-	-	-	-	4,469,000
Less FY19 Expenditures	(2,583,082)	(2,081,919)	(59,256)	(65,090)	(762,690)	(5,552,037)
Plus FY20 Appropriation	19,000,000	-	-	-	-	19,000,000
Plus/Less Amendments/Transfers	-	-	-	-	-	-
Less FY20 Expenditures	(8,525,393)	(4,930)	(424,740)	(218,876)	-	(9,173,939)
Plus FY21 Appropriation	1,297,997	-	-	2,702,003	-	4,000,000
Plus/Less Amendments/Transfers	-	-	-	-	-	-
Less FY21 Expenditures	(12,391,931)	(84,597)	-	(402,578)	-	(12,879,106)
Plus FY22 Appropriation	-	2,100,000	-	-	-	2,100,000
Plus/Less Amendments/Transfers	-	-	-	-	-	-
Less FY22 Expenditures	(5,698,670)	(279,785)	(61,880)	(28,585)	-	(6,068,920)
REMAINING FUNDS PER AWARD	1,960,976	2,379,611	11,831	2,807,838	8,403	7,168,659

The following table notes the variance between the auditors' ending balance and the ending balance per RPS and the city's figures which are used in the adopted CIP plans.

Balances as of 6/30/2022					
	School Capital Maintenance (500492)	School General Maintenance (500840)	High School Athletic Facilities (500493)	ADA (500495)	School Bus Leases/Purchase (500863)
RPS Total	1,231,571	1,429,485	84,004	2,965,029	0
Auditor Total	1,960,976	2,379,611	11,831	2,807,838	8,403
Variance	(729,405)	(950,126)	72,173	157,191	(8,403)

The auditors noted some of the expenditures approved were not capital. Some examples are noted below:

- Walkie Talkies
- Moving/Hauling
- Cleaning of school
- Modular/HVAC rentals
- Online Mapping Software Fees

Richmond City Auditor's Report #2023-06
Capital Improvement Plan (CIP) School Maintenance Funds
November 29, 2022

Based on a review of RAPIDS, the following entries should be made to bring the RAPIDS accounts into agreement with the auditors' reconciliation.

Positive below need to be added to account total. Negatives should be subtracted

Project Name	School Capital Maintenance	School Capital Maintenance (Cash)	High School Athletic Facilities	Schools ADA Compliance	School Bus Lease	Fiscal year
Award Number	500492	500840	500493	500495	500863	
Description of Adjustment Needed Reason						
Counted Total appropriated instead of amount spent					8,402.60	FY19
Miskeyed Payroll for 500496 into 500495				1,227.70		FY20
ADA Ramp Install in 500492 instead of 500495	2,290.00			(2,290.00)		FY19
Approved Expenditures in 500492 Auditors did not agree as capital.	100,871.05					FY22
Incorrectly Removed from account 500840 and added to 500492	62,800.00	(62,800.00)				FY20
Approved Expenditures in 500840 Auditors did not agree as capital.		1,076,227.06				FY19-FY22
Rejected Expenditures in 500840 Auditors determined were capital		(72,297.56)				FY20-FY21
Athletics Expenditures in 500840 instead of 500493		61,880.00	(61,880.00)			Fy22
Approved Expenditures in wrong account (NOT CAPITAL) in 500493			105,398.18			FY20
Adjustment Total for account	165,961.05	1,003,009.50	43,518.18	(1,062.30)	8,402.60	

**These changes as well as the changes from the last audit do not equal the variance noted. Some items on the RPS CIP reconciliation were either entered into a wrong account or not reflected as having occurred within RAPIDS. Additionally, some items that occurred in RAPIDS should not have and were not included in RPS' reconciliation.*

Criteria:

City Council appropriates funds to specific awards based on needs and available funding. These funds are allotted to awards for specific purposes and they should not be commingled or used for non-conforming expenditures.

Per the City Finance Department's Guidelines for Capital Budgeting, "Capital project expenditures are made to purchase, improve, or extend the useful life of capital assets of the City."

Cause:

Entries recommended from the last audit to RPS CIP accounts were not performed and therefore causing the accounts to be inaccurate from the beginning. Below is a listing of those prior recommended adjustments, net of timing differences, that were not corrected.

Project	500492	500493	500495
Amount	573,361	(10,293)	(154,902)

The City's review of submitted expenditures needs improvement. Only a memo noting amounts and project numbers is submitted for approval of the funds. Recently, there has not been a review of submitted expenditures as everything submitted was approved without review.

Effect:

Inaccurate approval, rejection, and keying of expenditures caused the City's financial system (RAPIDS) to reflect inaccurate CIP balances. Therefore, figures used by the City's Office of Budget and Strategic Planning for the quarterly CIP reporting to City Council and the Adopted CIP budget were inaccurate. City Council and the City Administration rely on these figures to make financial decisions that could be based on inaccurate data.

Recommendations:

- 1. We recommend the Director of Finance ensure entries are made in RAPIDS from the prior audit as well as those noted in this audit to correct RPS CIP account totals.*
- 2. We recommend the Director of Finance ensure RPS expenditures submitted for reimbursement from Capital Maintenance accounts are adequately supported and reviewed to ensure the expenditures qualify as capital expenditures.*
- 3. We recommend the Director of Finance ensure a reconciliation of RPS CIP project accounts in RAPIDS are reconciled to ensure entries in the accounts are accurate and appropriate.*

APPENDIX A: MANAGEMENT RESPONSE FORM

2023-06 CIP School Maintenance Funds

#	RECOMMENDATION	CONCUR Y/N	ACTION STEPS
1	We recommend the Director of Finance ensure entries are made in RAPIDS from the prior audit as well as those noted in this audit to correct RPS CIP account totals.	Y	The Controller will work with necessary General Accounting staff to update RAPIDS to ensure RPS CIP account totals align with the result of the prior audit.
	TITLE OF RESPONSIBLE PERSON		TARGET DATE
	Controller		1-Jul-23
	IF IN PROGRESS, EXPLAIN ANY DELAYS		IF IMPLEMENTED, DETAILS OF IMPLEMENTATION
#	RECOMMENDATION	CONCUR Y/N	ACTION STEPS
2	We recommend the Director of Finance ensure RPS expenditures submitted for reimbursement from Capital Maintenance accounts are adequately supported and reviewed to ensure the expenditures qualify as capital expenditures.	Y	The Controller will work with necessary General Accounting and RPS staff to ensure that submitted RPS expenditures for reimbursement from the Capital Maintenance accounts are adequately supported and reviewed to ensure that expenditures qualify as capital expenditures.
	TITLE OF RESPONSIBLE PERSON		TARGET DATE
	Controller		1-Jul-23
	IF IN PROGRESS, EXPLAIN ANY DELAYS		IF IMPLEMENTED, DETAILS OF IMPLEMENTATION
#	RECOMMENDATION	CONCUR Y/N	ACTION STEPS
3	We recommend the Director of Finance ensure a reconciliation of RPS CIP project accounts in RAPIDS are reconciled to ensure entries in the accounts are accurate and appropriate.	Y	The Controller will work with necessary General Accounting staff to ensure reconciliation of RPS CIP project accounts in RAPIDS are reconciled to ensure entries in the accounts are accurate and appropriate.
	TITLE OF RESPONSIBLE PERSON		TARGET DATE
	Controller		1-Jul-23
	IF IN PROGRESS, EXPLAIN ANY DELAYS		IF IMPLEMENTED, DETAILS OF IMPLEMENTATION