



CITY OF RICHMOND
City Auditor's Office

DATE: February 23, 2023

TO: Lincoln Saunders
Chief Administrative Officer

FROM: Louis Lassiter *LL*
City Auditor

SUBJECT: DIT Chargebacks for Constitutional Officers audit

The City Auditor's Office has completed the DIT Chargebacks for Constitutional Officers audit and the final report is attached.

We would like to thank the DIT, Finance, and the Budget & Strategic Planning 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
Charles Todd, Director of Department of Information Technology
Sheila White, Director of Finance
Jason May, Director of Budget & Strategic Planning

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City of
RICHMOND
Office of the City Auditor

Audit Report# 2023-08
**DIT Chargebacks for
Constitutional Officers**
February 23, 2023



Audit Report Staff

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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 evaluate DIT's process for charging Constitutional Officers for services rendered.

What We Recommend:

The Director of Information Technology:

- *Bill Constitutional Officers for information technology services provided that are reimbursable, such as monthly telephone and internet access costs.*
- *Regularly review and update the full-time employees numbers used to calculate the Enterprise splits.*

The Director of Budget:

- *Work with the Constitutional Officers to build information technology and other allowable office expense costs into their annual budget requests to the State Compensation Board with the understanding the General Fund will cover previously agreed upon costs not reimbursed.*

DIT Chargebacks for Constitutional Officers

Background

The City's Department of Information Technology (DIT) is an internal service fund (ISF) that provides IT services and support to departments throughout the City, including Constitutional Officers. Services include personal computing, printing services, networks, file and data storage, application and software hosting, and mail services, among others. DIT's operating budget for FY2022 and FY2023 was \$28,056,284 and \$28,903,008, respectively. Total DIT expenditures for FY2022 as of January 6, 2023 were \$25,904,606. Constitutional Officers in the City of Richmond include the Treasurer, Sheriff, Commonwealth Attorney, Clerk of the Circuit Court, and the Director of Finance, in lieu of a Commissioner of Revenue. State code allows for certain expenses, including some IT expenses of Constitutional Officers, to be reimbursed from the State Compensation Board.

What Works Well

The Auditor reviewed 136 DIT service items, and the overall methodology used by DIT for allocating costs for services, support, and labor is reasonable. DIT is capable of allocating costs to the user agencies when necessary. Those costs that cannot be calculated for the user agency are prorated to all City agencies based on the number of full-time employees. This is one of the acceptable allocation methods provided by DIT's consulting agency.

Needs Improvement

Finding #1 – Billing and Reimbursement of DIT Expenses for Constitutional Officers

The Department of Information Technology Internal Service Fund does not currently bill the City's Constitutional Officers for services provided. The City pays these costs from the General Fund, although some services may be reimbursable by the State. As of December 5, 2022, DIT allocated approximately \$769,698 in potentially reimbursable costs to Constitutional Officers. (Note that this amount includes expenses for the entire Finance Department and Circuit Courts and not just the Constitutional Officers.)

Finding #2 – Basis for Internal Service Fund – Enterprise Splits

In FY2022, DIT still used the full-time employee counts from the 2017 Amended Biennial Fiscal Plan. When compared to the 2022 counts from the Adopted Annual Fiscal Plan for Fiscal Year 2022, some agencies had an increase in employees and others had a decrease. Additionally, four agencies included in FY2022 were not included in FY2017.

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

The City's Department of Information Technology (DIT) became an internal service fund (ISF) in FY2018. The ISF provides IT services and support to departments throughout the City of Richmond. These services include:

- Personal Computing
- Printing Services
- Mobile Workforce Enablement
- Communication and Collaboration
- Networks
- File and Data Storage (including backup and archiving)
- Application and Software Hosting
- Mail Services

Listed below are the eight funds where IT expenses are charged.

- | | | |
|---------------|-----------------------|-----------------|
| 1. Cemeteries | 4. Street Maintenance | 7. Retirement |
| 2. Fleet | 5. Utilities | 8. General Fund |
| 3. Parking | 6. Radio Shop | |

DIT's operating budget for FY2022 and FY2023 was \$28,056,284 and \$28,903,008, respectively.

Total DIT expenditures for FY2022 as of January 6, 2023 were \$25,904,607.

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Budgeting, Allocation & Tracking Methodology

Each year the DIT Director prepares the annual budget by estimating the costs of services that will be provided to City agencies by DIT, including payroll and labor costs. When possible, individual line item costs are calculated down to the user. Typical costs that can be calculated down to the user include computers, Microsoft Office licenses, Windows licenses, Telecom services, Xerox, cable TV, Adobe, and McAfee. Labor costs are estimated based on the previous year's use. These are the "budgeted" costs and are allocated to the appropriate user agency.

Items/services that are used by multiple agencies or cannot be tracked to a particular user are prorated based on the number of full-time employees provided in the 2017 Amended Biennial Fiscal Plan. These costs include items such as leases on the meter machines and mail trucks for the mail room. These are "enterprised" costs and are allocated across all agencies.

Direct charges such as print shop and mail room services are not included in the budgeted costs as they are directly billed to the user agency when services are rendered.

The DIT Administrative Services Manager allocates costs to the general fund and each of the other seven funds every 3 months for their portion of the budgeted costs (1/12th of their portion for each month).

Once the fiscal year has closed, the DIT Director compares actual expenses to budgeted costs by agency to determine any overage/shortage of funds budgeted. Although IT costs for Constitutional Officers are typically paid from the general fund, additional funds could be budgeted for IT Services/items directly in the Constitutional Officers' annual budgets.

Constitutional Officers

Included in DIT's expenses are support and services provided to the City's Constitutional Officers – the Commonwealth Attorney, Sheriff, Clerk of the Circuit Court, City Treasurer, and Director of Finance (in lieu of the Commissioner of Revenue). The Office of the Commissioner of Revenue was abolished by the City; however, per State code, the Director of Finance "shall exercise all the

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powers conferred and perform all the duties imposed by general law upon commissioners of the revenue..."

Each January, Constitutional Officers submit their fiscal year budget request in the State's Constitutional Officer Information Network (COIN) system. The Compensation Board then provides the approved budget estimate for each officer by May 1st. The City pays expenses on behalf of the Constitutional Officers and is reimbursed monthly by the Commonwealth for the Commonwealth's proportionate part of the cost. Each Constitutional Officer is responsible for submitting their budget requests, monthly certifications, and support. All certifications are approved by the Revenue Manager in the City's Finance Department in the COIN system.

The table below shows the FY2022 authorized budgets for Constitutional Officers from the State Compensation Board with amounts expended and the FY2023 authorized reimbursable budgets.

Constitutional Officer	FY22 Authorized Budget	* FY22 Total Amount Expended	Remaining Balance	FY23 Authorized Reimbursable Budget
Director of Finance	\$ 822,783	\$ 778,338	\$ 44,445	\$ 828,888
Commonwealth Attorney	\$ 3,255,965	\$ 3,253,295	\$ 2,670	\$ 3,274,314
City Treasurer	\$ 137,438	\$ 137,438	\$ 0	\$ 149,878
Sheriff	\$ 17,176,872	\$ 16,598,371	\$ 578,501	\$ 17,443,669
Clerk of Circuit Court	No information	No information	No information	\$ 2,128,217

** This represents the amount expended from the State Compensation Board as of 1/10/2023*

Authorized amounts are based on the position, salary, and other information that was provided at the time of the budget request. During the year, it is possible that positions change, become vacant, are removed, or other criteria change causing funds initially budgeted to no longer be available to the Constitutional Officers. This can cause there to be funds remaining from what was authorized.

The City is mainly being reimbursed for salaries and benefits for the Constitutional Officers and their staff. However, other expenses may be reimbursable, if approved by the State Compensation Board. These expenses can vary by Constitutional Officer as noted below.

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Director of Finance

The Compensation Board may reimburse the City for 50% of the budgeted amount for specific office expenses in addition to salaries and benefits of the Director of Finance and staff as noted below.

- Office supplies;
- Internet access costs;
- Stationary, postage;
- Printing;
- Data processing services;
- Telephone service;
- Repairs to office furniture and equipment; and
- Treasurers' Association dues

Sheriff

The Compensation Board may reimburse 100% of the budgeted amount for office expenses in addition to salaries and benefits for the Sheriff and staff as noted below.

- Office supplies;
- Postage;
- Telephone service;
- Maintenance and repairs to office furniture and equipment;
- Internet access costs, and
- Gasoline, tires, and batteries for vehicles

Treasurer

Charter section 20.10 states, "It shall be the duty of the city to provide suitable courtrooms for the courts of record of the city and suitable offices for the city treasurer and attorney for the Commonwealth." Virginia Code section 15.2-1636.14 requires that the Commonwealth be responsible for the "salary, expenses, and other allowances of any city treasurer who neither collects nor disburses local taxes or revenues".

The Compensation Board may reimburse 100% of office expenses in addition to salaries and benefits of any City Treasurer that does not collect or disburse local taxes or revenues as noted below:

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- Office supplies;
- Internet access costs;
- Stationary, postage;
- Printing;
- Data processing services;
- Telephone services;
- Repairs to office furniture and equipment; and
- Treasurers' Association dues (TAV)

Commonwealth Attorney

The Compensation Board may reimburse 100% of the budgeted amount for office expenses in addition to salaries and benefits for the Commonwealth Attorney and staff as noted below:

- Office supplies;
- Stationary and postage;
- Telephone or telegraph services;
- Maintenance and repairs to office furniture, appliances and equipment;
- Internet access costs;
- Data processing services;
- Printing; and
- Insurance premiums for burglary

Office equipment such as telephones, computers, modems, etc. for each of the Constitutional Officers above (Director of Finance, Sheriff, City Treasurer, and Commonwealth Attorney) may be reimbursable with prior approval from the State Compensation Board.

Circuit Court Clerk

According to Virginia Code section 15.2-1656, the City Council shall, at the City's expense, provide the Circuit Court Clerk with "equipment, electronic or other systems, and appliances as in their judgment may be reasonably necessary for the proper conduct of such offices". The Compensation Board may reimburse 100% of the budgeted amount for office expenses in addition to salaries and benefits of Circuit Court Clerks and staff as noted below:

- Membership dues;
- Internet access costs;
- Postage and mailbox rental;
- Copy machine rental;
- Microfilming expense; and
- Meetings/mileage

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OBJECTIVE

The objective of this audit was to evaluate DIT's process for charging Constitutional Officers for services rendered.

SCOPE

The scope of this audit included IT charges for Constitutional Officers for the 12 months ending June 30, 2022, and the current environment.

METHODOLOGY

The Auditors performed the following procedures to complete this audit:

- Interviewed staff to understand the processes and procedures related to DIT budgeting and cost allocation, and reimbursable expenses from the Virginia State Compensation Board;
- Reviewed the approved Constitutional Officers' budgets in other cities in the Commonwealth;
- Reviewed allocation methods for DIT costs for reasonableness; and
- 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

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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 need improvement for DIT expense billing to Constitutional Officers. Details of these findings are discussed throughout the report.

FINDINGS and RECOMMENDATIONS

What Works Well

Overall Cost Allocation Method for DIT Costs

Overall, the methodology used by DIT for allocating costs for services, support, and labor is reasonable. DIT is capable of calculating expenses down to the agency when necessary. The Auditor reviewed 136 item allocations, and all were deemed reasonable. The proration of costs that cannot be calculated down to the user agency or that benefits multiple agencies are allocated based on the number of full-time employees (FTEs) in that agency. This is one of the acceptable allocation methods provided by the City's consulting agency.

What Needs Improvement

Finding #1 – Billing and Reimbursement of DIT Expenses for Constitutional Officers

Condition:

The Department of Information Technology (DIT) Internal Service Fund does not currently bill the City's Constitutional Officers for IT services provided. The City pays these costs from the General

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fund although some of the services may be reimbursable by the State. In FY2022, the following DIT costs were related to Constitutional Officers:

FY 2022 DIT Allocations for Constitutional Officers as of December 5, 2022

DIT Category	Circuit Court*	Commonwealth's Attorney	Finance*	Sheriff	Treasurer	Grand Total
End User						
Computing	\$0	\$66,736	\$91,022	\$125,775	\$938	\$284,471
Communications	\$31,160	\$44,621	\$60,980	\$111,238	\$1,591	\$249,590
Hosting Services	\$0	\$0	\$200,579	\$0	\$0	\$200,579
Labor	\$8,671	\$26,326	\$218,036	\$95,858	\$1,295	\$350,186
Grand Total	\$39,831	\$137,683	\$570,617	\$332,871	\$3,824	\$1,084,826

*Note: Costs for Circuit Court and Finance include allocations for those entire departments, not only the Clerk of Circuit Court and Director of Finance.

**Note2: These are not the final FY2022 totals, as they do not include costs identified from Finance during year-end closing, such as adjustments and depreciation/amortization.

(Auditor Prepared)

- End User computing includes the costs of computers, computer leases, and computer peripherals, along with Adobe and some Microsoft programs, such as Office and Windows Desktop.
- Communications include monthly telecom and cable bills, telecom equipment, telecom software and support, telephone infrastructure, and Microsoft communication programs such as Exchange, Teams, Skype, and other communication items.
- Hosting Services include programs like Oracle, MUNIS, SQL, and various licenses such as DMS, among other hosting costs.
- Labor costs include personnel expenses, contractors, and charges for work.

Additionally, some costs are billed directly to user agencies at the time of service and not included in DIT's budget. These services are then paid using the General Fund. Print Services include the Enterprise Print Program, External Printing Services, paper and printing supplies, office supplies, and other printing costs. Mail Services include equipment rental, mail pre-sort, postage, and postal services. During FY2022, the following direct costs were charged to the Constitutional Officers:

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FY 2022 Direct DIT Costs for Constitutional Officers as of December 5, 2022

DIT Category	Circuit Court*	Commonwealth's Attorney	Finance*	Sheriff	Treasurer	Grand Total
Print Services	\$31,093	\$14,769	\$45,668	\$86,413	\$246	\$178,189
Mail Services	\$301	\$1,260	\$30,982	\$50,984	\$921	\$84,448
Grand Total	\$31,394	\$16,029	\$76,650	\$137,397	\$1,167	\$262,637

*Note: Costs for Circuit Court and Finance include allocations for entire departments not only the Clerk of Circuit Court and Director of Finance.

(Auditor Prepared)

Constitutional Officers may also be allocated funds from the General Fund for other IT services that may be reimbursable. Constitutional Officers in the City are typically only requesting reimbursements for salaries and benefits and are not requesting office expenses (where IT costs, excluding equipment would be included) in their annual budgets submitted to the State Compensation Board. It is possible for any vacancy savings to be transferred to the office expense or office equipment category. When an approved position remains vacant, a portion of the salary can go into vacancy savings until that position is filled. According to the State Compensation Board, only the Sheriff's Office currently has vacancy savings.

Not all of the DIT costs that were allocated or billed are allowed for reimbursement. The following table shows potentially reimbursable costs that were allocated or directly charged to the City's Constitutional Officers:

FY 2022 Potentially Reimbursable DIT Costs for Constitutional Officers as of December 5, 2022

DIT Category	Circuit Court*	Commonwealth's Attorney	Finance*	Sheriff	Treasurer	Grand Total
End User Computing	\$0	\$66,736	\$91,022	\$125,775	\$938	\$284,471
Communications	\$31,160	\$44,621	\$60,980	\$111,238	\$1,591	\$249,590
Print Services	\$31,093	\$14,769	\$45,668	\$86,413	\$246	\$178,189
Mail Services	\$301	\$1,260	\$30,982	\$50,984	\$921	\$84,448
Grand Total	\$62,554	\$127,386	\$228,652	\$374,410	\$3,696	\$796,698

*Note: Costs for Circuit Court and Finance include allocations for entire departments not only the Clerk of Circuit Court and Director of Finance.

(Auditor Prepared)

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The auditor also reviewed other cities' budgets from the State Compensation Board and noted that a few including the Commonwealth Attorney and Clerk of Circuit Court at Norfolk and the Drug Prosecutor for Hampton were approved for "Office Expenses" on their FY2023 approved budgets.

Criteria:

Virginia State Code states that every attorney of the Commonwealth, city and county treasurer and commissioner of revenue, and every sheriff shall file to the State Compensation Board, "a written request for the expense of his office, stating the amount of salaries requested, and itemizing each item of expense for which allowance is sought." Per State Code or Compensation Board policies, Constitutional Officers may request reimbursement for the following IT related expenses:

- Director Finance/Commissioner of Revenue, City Treasurer, and Commonwealth Attorney: internet access costs (line charges, ISP, locality service charges), printing, postage, data processing services, telephone services.
- Sheriff: postage, telephone service, and internet access costs.
- Clerk of Circuit Court: internet access costs, postage, copy machine rental, microfilming expense.

Budget requests for the upcoming fiscal year are due by February 1st. State law requires that when a Constitutional Officer purchase any of the allowable expenses that are contained in their current budget, invoices are paid by the City directly to the vendors, and the Commonwealth shall reimburse monthly for their proportionate share, provided it is "in conformity with and within the limits of allowances duly made and contained in the then current budget..."

Cause:

Constitutional Officers were either not aware that these expenses were potentially reimbursable or believe that no further funds can be received. The Sheriff's Office advised that they can and do request funding for office expenses be transferred from their vacancy savings.

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According to conversations with staff at the State Compensation Board, not all funds requested are automatically approved, and requests for office equipment and office expenses have rarely been approved in recent years.

Effect:

By not requesting reimbursement for allowable IT and other office expenses, the City is paying for expenses that can potentially be paid by the State. While many of these expenses ultimately may not be approved by the State, funds not requested cannot be approved.

Recommendations:

- 1. We recommend that the Director of the Department of Information Technology bill Constitutional Officers for information technology services provided that are reimbursable, such as monthly telephone and internet access costs.*
- 2. We recommend that the Director of Budget work with the Constitutional Officers to build information technology and other allowable office expense costs into their annual budget requests to the State Compensation Board with the understanding the General Fund will cover previously agreed upon costs not reimbursed.*

Finding #2 – Basis for Internal Service Fund – Enterprise Splits

Condition:

DIT items or services that are used by multiple agencies or cannot be tracked to a particular user/agency are prorated to all agencies based on the number of full-time employees. These are “enterprise” costs and are allocated across all agencies.

In FY2022, DIT still used the FTE counts from the 2017 Amended Biennial Fiscal Plan. The Auditor compared FTEs from FY2017 to FTEs from FY2022 and noted some agencies saw an increase in employees and other agencies saw a decrease from 2017. Additionally, four agencies and divisions

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included in FY2022 were not included in FY2017 – Housing and Community Development, Inspector General, Citizen Survey and Response, and the Bureau of Risk Management.

Criteria:

Using full-time employees as a method for proration is one of the accepted methodologies for allocating IT costs according to a study conducted by DIT's consultant. However, this should be periodically reviewed and updated.

Cause:

The number of full-time employees in FY2017 was the basis for the splits when the Information Technology Internal Service Fund was created in FY2018, and there have been no updates since then.

Effect:

Some agencies have a higher share of the costs than they should, while others are attributed less.

Recommendation:

- 3. We recommend that the Director of the Department of Information Technology regularly review and update the full-time employees numbers used to calculate the Enterprise splits.*

APPENDIX A: MANAGEMENT RESPONSE FORM

2023-08 DIT Chargebacks for Constitutional Officers audit

#	RECOMMENDATION	CONCUR Y/N	ACTION STEPS
1	We recommend that the Director of the Department of Information Technology bill Constitutional Officers for information technology services provided that are reimbursable, such as monthly telephone and internet access costs.	Y	Management will take actions to implement as recommended in FY25. Target date is set for plan to correspond with end of draft of FY25 Budget.
	TITLE OF RESPONSIBLE PERSON		TARGET DATE
	Director, Department of Information Technology		2/28/2024
	IF IN PROGRESS, EXPLAIN ANY DELAYS		IF IMPLEMENTED, DETAILS OF IMPLEMENTATION
#	RECOMMENDATION	CONCUR Y/N	ACTION STEPS
2	We recommend that the Director of Budget work with the Constitutional Officers to build information technology and other allowable office expense costs into their annual budget requests to the State Compensation Board, with the understanding the General Fund will cover previously agreed upon cost not reimbursed	Y	Management will take actions to implement as recommended in FY25. Target date is set for plan to correspond with end of draft of FY25 Budget.
	TITLE OF RESPONSIBLE PERSON		TARGET DATE
	Director, Department of Budget and Strategic Planning		2/28/2024
	IF IN PROGRESS, EXPLAIN ANY DELAYS		IF IMPLEMENTED, DETAILS OF IMPLEMENTATION
#	RECOMMENDATION	CONCUR Y/N	ACTION STEPS
3	We recommend that the Director of the Department of Information Technology regularly review and update the full-time employee numbers used to calculate the Enterprise splits.	Y	Management will take actions to implement as recommended in FY25. Target date is set for plan to correspond with end of draft of FY25 Budget.
	TITLE OF RESPONSIBLE PERSON		TARGET DATE
	Director, Department of Information Technology		2/28/2024
	IF IN PROGRESS, EXPLAIN ANY DELAYS		IF IMPLEMENTED, DETAILS OF IMPLEMENTATION