

# *Fiscal Year 2017-18 CAFR Briefing*

# *City of Petersburg* VIRGINIA

**Aretha R. Ferrell-Benavides, City Manager**  
**February 18, 2020**



# CAFR Presentation Agenda



- ❑ Introductions – Aretha R. Ferrell-Benavides, City Manager
- ❑ Pre-Audit and Process Overview- David Myers, VML/VACO Project Manager
- ❑ Financial Statement Overview – Patrice Elliott, Finance Director
- ❑ Audit Overview, David Foley, Robinson, Farmer, Cox and Associates
- ❑ Management Findings and Responses, Aretha Ferrell-Benavides and David Foley

# Executive, Finance and Audit Team



- ❑ **Aretha R. Ferrell-Benavides** City Manager
- ❑ **Lionel D. Lyons**, Deputy City Manager
- ❑ **Darnetta Tyus**, Deputy City Manager
- ❑ **Kenneth Miller**, Managing Director for Public Safety
- ❑ **Patrice S. Elliott**, **Director of Finance**, joined in March 2019, comes to the City with both public and private 25+ years of accounting and auditing experience.
- ❑ **Robert A. Floyd**, **Director of Budget and Procurement**, joined in August 2017 as Assistant Finance Director, later assumed the role of Director of Budget and Procurement. Mr. Floyd was the lead individual in the amending of the FY 2018 Budget and development of the FY 2019 and FY2020 Budgets.
- ❑ **Monte Evans**, **Manager of Billing and Collections**, transitioned from a financial management and budgeting consultant with the City to a permanent role overseeing billing, collections, customer services and financial management.
- ❑ **India Adams-Jacobs** , **Assistant to the City Manager** joined in May 2019, comes to the City with local government management experience in City Management and budgeting. Served as the internal liaison for the pre-audit and audit teams.
- ❑ **David Myers**, **Pre-Audit Project Manager** joined in June 2019, comes to the City with over 30 years of public service finance experience, with both local government and the schools. Mr. Myers originally implemented the City's financial system and has since served various localities in central Virginia (Petersburg, Hanover and Richmond).
  - Dan VanDoornik, Monte Evans, Angela Anderson, Alice Maitland, Lance Wolff and Tom Obenshain
- ❑ **David Foley**, **External Auditor (Robinson, Farmer, Cox Associates)** served as City's external auditor for FY17/18 and FY16/17 CAFR. RFCA has served as the City's auditors for the last ten years.

# Lesson Learned – Staff Turnover



- ❑ During the financial downturn contracting groups were hired city to find cost savings and efficiency options. However, some areas where there were cuts were to some critical staff positions were in the City's Finance and pre-audit functions.
- ❑ When the new fiscal year began in FY 17/18, there was 1FTE in the Finance department. All staff who were involved in the previous audit had either left as a result of the 10% pay cut, resigned or positions were eliminated for cost savings. This left a lasting effect on the department and created a huge loss in historical knowledge.
- ❑ ***As a result of this, we have focused on reinvesting in our Finance Department and Office of Billing Collections***

# Lesson Learned – Limited Collaboration

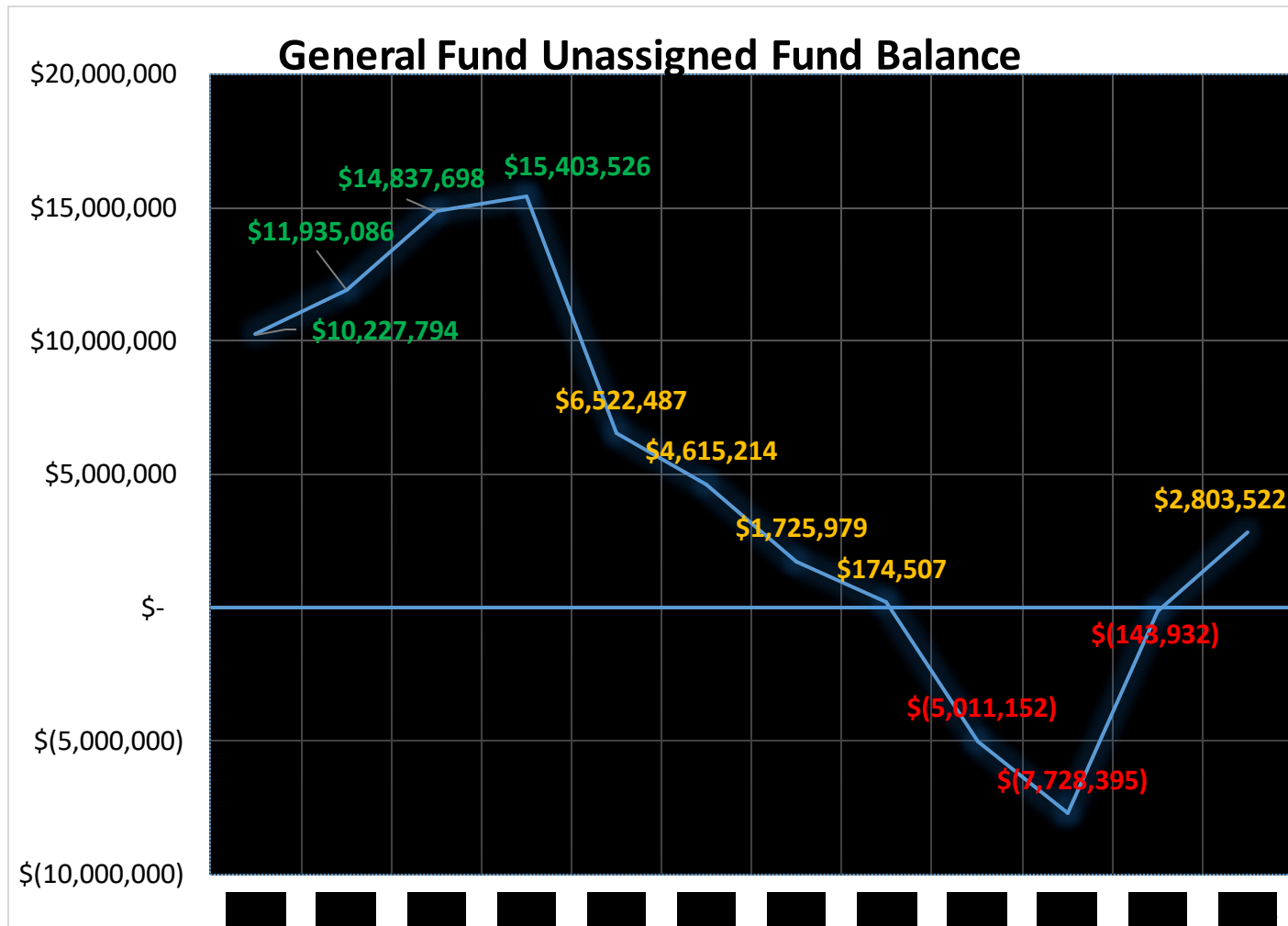


- ❑ During the beginning of the CAFR process, City staff recognized certain processes to ensure the City's readiness for an audit had not be completed.
- ❑ Due to the turnover in the Treasurer's Office, there were critical reconciliation processes that had not be followed on a monthly basis, causing delays in other operations.
- ❑ ***During this process, we have begun to reinforce the interdepartmental collaboration needed to complete our CAFR. Including ensuring cooperation with the Treasurer's Office and Finance Department to complete monthly reconciliation.***

# FUND BALANCE HISTORY



Year	Fund Balance
2007	\$10,227,794
2008	\$11,935,086
2009	\$14,837,698
2010	\$15,403,526
2011	\$6,522,487
2012	\$4,615,214
2013	\$1,725,979
2014	\$174,507
2015	(\$5,011,152)
2016	(\$7,728,395)
2017	(\$143,932)
2018	\$2,803,522





# Management Findings and Responses





## FINDING

### Criteria:

- The Utility Billing Subsidiary System should be reconciled to the general ledger on a monthly basis.

### Condition:

- The City was not reconciling the Utility Billing Subsidiary System to the General Ledger on a monthly basis.

### Cause:

- The City did not have anyone in the Utility Department that was reconciling the Utility Billing Subsidiary System to the general ledger on a monthly basis.

### Effect:

- There could be unexplained, undocumented material differences between the utility billing Subsidiary System and the General Ledger.

### Recommendation:

- We recommend the City implement procedures to ensure the Utility Billing Subsidiary System reconciles to the General Ledger and any differences noted during the reconciliation are documented and corrected.

## MANAGEMENT RESPONSE:

**We Concur:** *This is a function that falls under the Treasurer's Office. Although the Office of Billing and Collections was created in November of 2017, during the transition, reconciliation remained a function of the Treasurer's Office. Although the Council passed an Ordinance "19-ORD-23" on May 7, 2019 to transfer this function to the Collector of taxes, this effort was halted based legal action taken by the Treasurer to prevent transfer of the functions. The decision was made based on the inability of the Treasurer's Office to complete this task. During the interim, the City will seek a memorandum of understanding with the Office of the Treasurer to assume responsibility of this function. If agreed upon, the Department of Finance will assign staff to manage this process to ensure compliance and continuity of operations in the future. We will document and ensure that the general ledger is reconciled to the Utility Billing Subsystem and will report and resolve any discrepancies.*





# 2018-002 Material Weakness - Utility Billing Reconciliation System

## FINDING

### Criteria:

- The Utility Billing Subsidiary System has a reconciliation feature to aid in the reconciliation of the Utility Billing Subsidiary System to the general ledger.

### Condition:

- The Utility Billing Reconciliation System has not been interfaced properly for some time. The interface issues are related to the system's ability to reconcile the outstanding A/R amounts to what the system believes the accounting system should reflect.

### Cause:

- When the Utility Billing System was set up initially or after changes have been made to general ledger accounts, the interfaces of the Reconciliation System was not picking up all required general ledger accounts.

### Effect:

- As a result, the reconciliation module within the Utility Billing System had material differences throughout the year.

### Recommendation:

- We recommend the City correct the interfaces within the reconciliation module so that the reconciliation system is accurate.

## MANAGEMENT

## RESPONSE:

**We Do Not Concur:** *We are still unable to verify that a module exists within our current financial management system. Given the age of our system and its limited customization ability our Technology Department is unsure how to address this issue as no discussion of the issue has occurred with their team regarding the system issue. To address the issue the City will contact the system developer, BAI, to confirm the existence of the interface and potential use of the reconciliation module*



## FINDING

### Criteria:

- After the initial billing process has been completed and prior to the utility bills being finalized, sufficient edit checks should be run to minimize the amount of billing errors.

### Condition:

- During FY18, utility bills were processed and with substantial errors, whereby material adjustments were needed to correct the initial billings.

### Cause:

- Per conversations with City personnel, the presumed cause for this error was the City converted the measurement of usage to units measured in cubic feet as opposed to gallons and subsequently did not adjust rates within the utility system to the corresponding change in measurement. Sufficient edit checks were not generated prior to the utility bills being finalized, which may have prevented the material errors.

### Effect:

- This caused utility billing efforts to be delayed and bills were processed with substantial errors.

### Recommendation:

- We recommend the City implement procedures to ensure adequate edit checks are performed prior to finalizing the billings.

## MANAGEMENT RESPONSE:

**We Do Not Concur:** *Prior to the establishment in November 2017 of the Billing and Collection Office, the Utility Billing staff procedure was established that resulted in them executing a minimum of two edit reports prior to the mailing of customer bills. The first report was generated upon initial upload of field reading in the system. The second would occur prior to posting payments to residential accounts.*

*Since the transition to the new Office of Billing and Collections, staff has been able to address the root cause via a field audit of the system and verified the correct rate codes were updated in the system. In April 2018, the Technology Department corrected errors in over 130 accounts that made up the majority of the errors found. To continue to address the issues, the Finance Department will be working with the Utility Department to document procedures for new adding new accounts and editing existing accounts to minimize any human errors.*



# 2018-004 Material Weakness - Lack of Internal Controls over Adjustments to Customer Utility Accounts

## FINDING

### Criteria:

- Internal Controls should be in place over adjustments to customer utility accounts to prevent unauthorized write-offs to customer accounts.

### Condition:

- Based on our testing and pursuant to discussions with City personnel, for a majority of the fiscal year ending June 30, 2018, there were no internal controls in place over the adjustment of customer utility accounts.

### Cause:

- The City did not limit access to making adjustments to customer utility accounts only to those who are authorized to make adjustments.

### Effect:

- Unauthorized write-offs to customer accounts could occur.

### Recommendation:

- We recommend the City implement internal controls over adjustments to customer utility accounts to prevent unauthorized write-offs to customer accounts.

## MANAGEMENT RESPONSE:

**We Do Not Concur:** *Prior to the establishment in November 2017 of the Billing and Collections Office, the Utility Billing staff established a procedure following the last audit to address this issue. Public Utilities restricted access to the part of the system. A procedure was established that required management sign off on all adjustments that could only be made by the Billing Supervisor.*

*This process continued with the establishment of the Office of Billing and Collections and was further restricted as a part of the combined office.*



# 2018-005 Material Weakness- Lack of Documentation Over Adjustments to Utility Billings

## FINDING

### Criteria:

- Documentation should be retained to support adjustments made to utility bills throughout the year.

### Condition:

- During the fiscal year ending June 30, 2018, the City recorded material adjustments to utility bills, however, the City did not retain documentation supporting the purpose or reason adjustments were necessary.

### Cause:

- After utility readings are obtained, an edit report is generated to review bills prior to sending to the customers. Work orders are then created to address the potential errors. The work orders determine if an adjustment is necessary prior to printing the bill. However, the work orders were/are not being retained to support the conclusion to adjust the utility bills.

### Effect:

- There was no supporting documentation to substantiate material adjustments made to utility bills throughout the year.

### Recommendation:

- We recommend the City retain appropriate documentation to support and substantiate adjustments made to utility bills.

## MANAGEMENT RESPONSE:

**We Do Not Concur:** *Prior to the establishment in November 2017 of the Billing and Collections Office, the Utility Billing staff established a procedure to document adjustments. Any proposed adjustment was submitted in writing to the Manager for review. If the adjustment was approved, it would be signed by the manager and forwarded to the Billing Supervisor to make the adjustment. All adjustments, with signature forms, were bundled with edit documents for each billing cycle.*

*Following the creation of the Office of Billing and Collections the process continued.*



# 2018-006 Material Weakness - Insufficient Listing for Water and Sewer Customer Deposits

## FINDING

### Criteria:

- A detailed listing by customer should be retained to support water and sewer customer deposits recorded in the general ledger.

### Condition:

- It was noted during the audit that there was \$645,758 included in the water and sewer customer deposit listings that did not have any detail regarding which customers the deposits were for.

### Cause:

- The City did not retain a detailed listing to support a material amount of the water and sewer customer deposits recorded in the general ledger.

### Effect:

- The City had material water and sewer customer deposits recorded in the general ledger that was not supported by the appropriated detailed customer deposit listing.

### Recommendation:

- We recommend the City retain sufficient listings by customer to support all water and sewer customer deposits.

## MANAGEMENT RESPONSE:

**We Do Not Concur:** *This was previously presented as Finding "2016-06 Material Weakness: Insufficient Documentation for Water and Sewer Connection Charges". For the CAFR for the year ending June 30, 2017, this finding was listed as not present. In 2017-006 Material Weakness – Insufficient Listing for Water and Sewer Customer Deposit.*

*After reviewing the finding staff have determined that our current system does track deposits and a report can be generated from a query at any time. We are unsure of why this information was not previously provided but can be made available via the Technology Department.*



# 2018-007 Material Weakness - Reconciliation of Property Tax Delinquent Lists to General Ledger

## FINDING

### Criteria:

- Property tax delinquent lists should be reconciled to the general ledger on a monthly basis.

### Condition:

- During fiscal year 2018 the City was not reconciling the property tax delinquent lists to the taxes receivable accounts as reported in the general ledger on a monthly basis or at year-end.

### Cause:

- The Treasurer's Office was not reconciling the delinquent lists to the receivable accounts in Fund 999.

### Effect:

- As a result, material adjustments to the City's general ledger were necessary.

### Recommendation:

- We recommend the City reconcile property tax delinquent lists to the general ledger on a monthly basis and any differences be investigated and corrected.

## MANAGEMENT RESPONSE:

**We Concur:** *This is a function that falls under the Treasurer's Office. Although the Office of Billing and Collections was created in November of 2017 during the transition, reconciliation remained a function of the Treasurer's Office. Based in large part due to the inability, given the limited staff in the Treasurer's Office to complete and successfully manage the necessary financial and accounting function for the City. this task In January 2019, the Petersburg City Council requested a change to the City Charter to remove the financial functions from the Office of the Treasure and move them to the Collector of Taxes to be performed by the Finance Department. Unfortunately, the State did not pass the requested amendment. A second attempt to address the issued when the City Council passed Ordinance "19-ORD-23" on May 7, 2019, to transfer all financial functions to the Collector of taxes. This effort although deemed in line with the charter definition of the Collector of Taxes function, was halted based legal action taken by the Treasurer to prevent transfer of the functions.*

*During the interim the City will seek a memorandum of understanding with the Office of the Treasurer to assume responsibility of this function. If agreed upon the Department of Finance will assign staff to manage this process to ensure compliance and continuity of operations in the future. In the interim the Finance Department will produce a monthly and year-end report of delinquent property taxes for the Treasurer's Office to reconcile to Fund 999. The listing will be produced when accounts are 30 days delinquent and when new bills are generated.*





# 2018-008 Material Weakness - Insufficient Accounting and Financial Reporting Throughout the Fiscal Year

## Criteria:

- Accurate Accounting and Financial Reporting procedures should be in place throughout the year.

## Condition:

- During our audit we have observed the City's contracted audit preparation consultant was required to record a large number of adjustments at year-end. Moreover, it was necessary for the consultant to perform numerous reconciliations to prepare the City's accounting records for the audit and external reporting purposes. Many of the adjustments and reconciliations performed by the consultant should be conducted throughout the year as part of routine accounting and financial reporting procedures.

## Cause:

- The City finance department did not have adequate staff to ensure routine accounting and financial reporting procedures were done.

## Effect:

- The audit preparation consultants did not commence their duties for FY 18 until the end of June 2019. Therefore, the City's general ledger was not accurate or reliable for the entire fiscal year June 30, 2018.

## Recommendation:

- We recommend the City evaluate the Finance Department and develop procedures to aid in accounting and financial reporting for capital assets, long-term obligations, general property tax receivables, water and sewer receivables, other miscellaneous receivables, state and federal revenues and similar accounts that have required adjustments by the contracted consultant. We also recommend development of a monthly procedural checklist which would require a specified individual to perform reviews of budget-to-actual results for revenues and expenditures actual as well as monitoring the balance sheet accounts. By implementing procedures in the Finance Department by qualified Finance personnel the City would benefit from reliable financial data throughout the fiscal year in addition to reducing the number of adjustments required at year-end.

## MANAGEMENT RESPONSE:

**We Concur:** In July 2017 a new City Manager and Finance Director was hired. Prior to that time the Robert Bobb group was hired to conduct an organization assessment and as a result the new budget included an expanded Finance and Budget Team. Since that time the City has worked to recruit and retain critical staff with accounting expertise. In November of 2017 the Billing and Collection function was made part of this team and in January 2018 all Financial functions were placed under a Chief Financial/Operating Officer. In January 2018 a transition occurred in the Treasurer's Office with the election of a new official. Since staffing transition has resulted in a limited depth and expertise in the Office. As a result, the Petersburg City Council proposed a charter change to remove all financial functions from the Treasurer's Office to the Collector of Taxes via the Finance Office. This effort failed however on May 7, 2019 City Council has passed an Ordinance "19-ORD-23" on May 7, 2019 to transfer this function to the Collector of taxes, this effort was halted based legal action taken by the Treasurer to prevent transfer of the functions.

Given the continued challenges the City has worked to increase the number of positions in the Finance Department and Budget Office in order to ensure it is staffed with the appropriated competencies and adheres to best practices. During Fiscal Year 2017-2018 the total staff was increased to 11 with greater emphasis on accounting staff.

The Finance Department continues to focus on developing procedures to aid in accounting and financial reporting for capital assets, long-term obligations, general property tax receivables, water and sewer receivables, other miscellaneous receivables, state and federal revenues and similar accounts and incorporating the reconciliation and necessary adjustments throughout the year rather than at year end.

Throughout the fiscal year the City Budget and Procurement Department developed and presented to Council monthly budget-to-actual reports. The City has contracted the Internal Auditor function with an accounting firm who will be responsible to ensure that all the check-list items developed during the audit are conducted in a timely manner.





# 2018-009 Material Weakness- Material Audit Adjustments Proposed by the External Auditor

## FINDING

### Criteria:

- Per Statement on Auditing Standards 115, identification of a material adjustment to the financial statements that was not detected by the entity's internal controls indicates that a material weakness may exist.

### Condition:

- The financial statements required material adjustments by the Auditor to ensure such statements complied with Generally Accepted Accounting Principles (GAAP). Material audit adjustments were proposed to a multitude of accounts and financial statement groups including receivables, capital assets, debt and revenue and expenditure accounts to be in accordance with Generally Accepted Accounting Principles.

### Cause:

- The City failed to identify all year end accounting adjustments necessary for the financial statements to be prepared in accordance with current reporting standards.

### Effect:

- There is more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal controls over financial reporting.

### Recommendation:

- We recommend the City implement procedures to ensure the financial statements are materially correct in accordance with General Accepted Accounting Principles.

## MANAGEMENT RESPONSE:

*We concur: Finance has begun developing policies and procedures to ensure that the City of Petersburg's Financial Statements are in accordance with GAAP.*

# 2018-010 Material Weakness - Unrecorded Workforce Investment Act Federal Grant



## FINDING

### Criteria:

- All revenues and expenditures related to federal grants in which the City is listed as the Subrecipient should be recorded in the financial statements in accordance with Generally Accepted Accounting Principles.

### Condition:

- The City is the subrecipient of a federal Workforce Investment Act grant that has been passed-through from the Virginia Community College System. The City then has passed-through these grant funds to the Crater Regional Workforce Investment Board & Learn to Earn, Inc. The City did not record \$829,774 of grant revenue and pass-through expenditures in its financial statements in accordance with Generally Accepted Accounting Principles.

### Cause:

- The City does not request and drawdown grant funds from the Virginia Community College System. Instead the Crater Regional Workforce Investment Board & Learn to Earn, Inc. requests and is sent grant funds directly from the Virginia Community College System. As a result of this process, the City failed to recognize and record \$829,774 of grant revenues and pass-through expenditures for FY 18.

### Effect:

- Because of the adjustment, the financial statements and the Schedule of Expenditures of Federal Awards were materially misstated.

### Recommendation:

- We recommend the City implement procedures to ensure all federal grants in which the City is the subrecipient are identified and recorded in the financial statements and the schedule of expenditures of federal awards as required by Generally Accepted Accounting Principles.

## MANAGEMENT RESPONSE:

**We do not Concur:** *The City is not a pass-through recipient of the grant. Although, we are listed as a sub-grantee the funds remain in the Virginia Community College budget for draw-down as needed by the*

*Workforce Board. The City has however, taken a proactive role in oversight of the Workforce program per the request of the State of Virginia. During the fiscal year the City managed a forensic audit of the program and the funding and will take additional steps to oversee the funding associated with the program. We will work with the Virginia Community College System to determine the best way to address this issue moving forward. To address this issues Grants will be recorded accurately in the financial statements as well as in accordance with GAAP.*



## FINDING

### Criteria:

- Federal Revenues should be appropriately recorded in the financial statements.

### Condition:

- The Auditor proposed material adjustments to the City's recording of revenues received from federal sources – direct and pass-through federal revenues. The City had commingled and misclassified a multitude of federal revenues with state and/or local revenues within the accounting system.

### Cause:

- The City does not have adequate staff or resources to monitor the City's posting of federal grant revenues or prevent the City's Schedule of Expenditures of Federal Awards, which is presented in the City's CAFR, from being materially misstated.

### Effect:

- The City's Schedule of Expenditures of Federal Awards could be materially misstated.

### Recommendation:

- We recommend the City implement procedures to ensure the City's federal revenues are appropriately accounted for and reported. This includes maintaining a list of all federal grants received, the CFDA number for each federal grant, the amount expended for each federal grant, the amount received for each federal grant, and a review process ensuring that all federal revenues are accurately recorded in the general ledger.

## MANAGEMENT RESPONSE:

***We concur:** The City is in the process of developing and implementing procedures to ensure the City's Federal revenues are appropriately accounted for, including maintaining a list of all Federal grants received, the CFDA number for each Federal grant, the amount expended for each Federal grant, the amount received for each Federal grant, and a review process ensuring that all Federal revenues are accurately recorded in the general ledger.*

*Also, the City will identify staff resources to monitor the City's posting of Federal grant revenues in order to prevent the City's Schedule of Expenditures of Federal Awards from being materially misstated in the City's CAFR. This will be a joint effort across all City Departments and Finance.*



# 2018-012 Material Weakness - Internal Controls over Inventory

## FINDING

### Criteria:

- Internal controls over inventory should be in place to prevent misstatements in the financial statements and misappropriation of assets.

### Condition:

- Routinely, an inventory count/verification is requested of various departments by the Finance Department. The inventory sheets are remitted to the Finance Department. There was a lack of monitoring or review process over the data and information received as part of these requests from other departments.

### Cause:

- The City does not have sufficient internal controls over inventory to prevent misstatements in the financial statements and misappropriation of assets.

### Effect:

- More than a remote possibility of misstatement of financial statements and misappropriation of assets.

### Recommendation:

- We recommend an adequately trained and independent City staff member perform the inventory count/verification. Also staff personnel from the Finance Department monitor and review the process.

## MANAGEMENT RESPONSE:

**We concur:** *The City will take appropriate action to ensure an adequately trained and independent City staff member perform routine inventory count/verification. Also, staff personnel from the Finance Department should monitor and review the process.*

*Finance will develop a process and implement procedures that require an annual inventory for all City departments to follow. Also, each City Department will be required to document their own monthly and annual process for conducting inventory to include an independent verification by a City staff member not involved in the inventory process.*



# 2018-013 Material Weakness – Lack of Inventory Count/Accounting for Public Utility Inventory

## Criteria:

- Internal controls over inventory should be in place to prevent misstatements in the financial statements and misappropriation of assets.

## Condition:

- During FY 18 the City did not perform an inventory count at year end for its Public Utility Inventory, nor did the City provide any accounting for its Public Utility Inventory during the year.

## Cause:

- The City was not able to provide an accurate listing of inventory at year end for Public Utility Fund.

## Effect:

- Amounts reported as Inventory in the Public Utility Fund financial statements could not be supported by appropriate supporting documentation and was not reported accurately.

## Recommendation:

- We recommend the City ensure that an inventory count is performed at least at the end of the year and that a listing of inventory is tracked and accounted for during the year.

## MANAGEMENT RESPONSE:

*We concur: Finance will develop a process and implement procedures that require an annual inventory for all City departments to follow. Also, each City Department will be required to document their own monthly and annual process for conducting inventory to include an independent verification by a City staff member not involved in the inventory process.*



# 2018-014 Material Weakness - Lack of timely bank reconciliations performed during the year

## FINDING

### Criteria:

- Bank reconciliations should be completed for all bank and investment accounts on a monthly basis. The reconciliations should be completed in a timely manner after month end.

### Condition:

- During FY 18 the City did not complete bank reconciliations for all bank and investment accounts in a timely manner. For example, bank reconciliations for the month of June 18 were not completed until December 2018.

### Cause:

- The Treasurer's Office had staff turnover during FY 18 and did not prepare bank reconciliations on a monthly basis.

### Effect:

- More than a remote possibility of misstatement of financial statements and misappropriation of assets.

### Recommendation:

- We recommend the City ensure that an inventory count is performed at least at the end of the year and that a listing of inventory is tracked and accounted for during the year.

## MANAGEMENT RESPONSE:

**We concur:** *Although the primary responsibility rests in the Treasurer's Office, Finance will partner with the Treasurer's Office to review monthly bank reconciliations to ensure that they are completed accurately and timely.*



# 2018-015 Material Weakness - Posting of One-sided Journal Entries

## Criteria:

- All Journal Entries made should have corresponding debits and credits that balance within each entry.

## Condition:

- During FY 18 the City's finance department posted various one-sided journal entries. For example, a journal entry was posted that only included a debit of \$6,500,000 and did not have a corresponding credit to balance the entry.

## Cause:

- The City finance staff were posting one-sided journal entries and there was no sufficient review and approval process in place over Journal Entries.

## Effect:

- The City's Funds and financial statements were materially out of balance and required material adjustments to correct.

## Recommendation:

- We recommend the City ensure that one sided journal entries are not posted to the accounting system.

## MANAGEMENT RESPONSE:

**We concur:** *Finance will work with the Financial Systems vendor to ensure that the system is configured to not allow the posting of one-sided entries. A ticket will be logged to ensure that this will no longer be an issue.*





# 2018-016 Material Weakness - Posting of Journal Entries that do not balance within each fund

## Criteria:

- All Journal Entries made should have corresponding debits and credits that balance within each fund for each entry.

## Condition:

- During FY 18 the City's finance department posted various journal entries that did not balance within each fund. For example, a journal entry was posted that debited one fund and credited a different fund.

## Cause:

- The City finance staff were posting journal entries that did not balance within each fund and there was no sufficient review and approval process in place over Journal Entries.

## Effect:

- The City's Funds and financial statements were materially out of balance and required material adjustments to correct.

## Recommendation:

**We recommend the City ensure that all journal entries balance within each fund.**

## MANAGEMENT RESPONSE:

**We concur:** *Finance will work with the Financial System vendor to configure the system so that the Interfund accounts are correctly allocated depending on the GL account selected for posting. A ticket will be logged to ensure that this will no longer be an issue.*



# 2018-017 Material Weakness - Processing of Lockbox Receipts

## FINDING

### Criteria:

- All incoming receipts should be recorded and processed through the City's cash receipt system.

### Condition:

- During FY 18 the City was not able to appropriately record and process payments received through Lockbox.

### Cause:

- The City recently started accepting payments via lockbox. There were issues with the setup process which cause the City to not be able to appropriately record and process payments received through lockbox.

### Effect:

- The City's Financial Statements and subsidiary ledgers did not accurately reflect all payment received throughout the year.

### Recommendation:

- We recommend the City ensure all payments received are processed through the accounting system to ensure the accuracy of the financial statements and subsidiary ledgers.

## MANAGEMENT RESPONSE:

**We Concur:** *Billing and Collections will ensure that the lockbox is processed in a timely and accurate manner and will report the information as part of our daily reconciliation process. Policies and procedures will be drafted documenting this process.*



# 2018-018 Material Weakness - Lack of Monthly Financial Closing Procedures

## Criteria:

- Adequate monthly financial closing procedures should be in place and performed prior to performing the month end close.

## Condition:

- During FY 18 the City did not have adequate monthly financial closing procedures in place when performing the month end close. The City was closing each month in the accounting system before ensuring that all reconciliations had been performed, that all funds were in balance, and that all entries were appropriately made and included in the financial statements.

## Cause:

- The City did not have adequate monthly financial closing procedures in place when performing the month end close.

## Effect:

- The City's monthly Financial Statements were not in balance and were not accurate.

## Recommendation:

- We recommend the City develop a checklist of monthly procedures and reconciliations that are to be performed prior to closing each month in the accounting system. By implementing procedures in the Finance Department by qualified Finance personnel the City would benefit from reliable financial data through-out the fiscal year in addition to reducing the number of adjustments required at year-end.

## MANAGEMENT RESPONSE:

**We Concur:** *Finance has begun developing policies and procedures. A monthly checklist has been created to ensure that all primary functions of the Finance Department are being completed in a timely and accurate manner. This will be a joint effort between Finance, Billing and Collections, as well as, the Treasurer's Office as each Office plays a key role in making sure that information is posted correctly, and errors are corrected at month end in order for the month to be closed.*

# 2018-019 Compliance Finding - Prompt Payment of Bills by Localities



## FINDING

### Criteria:

- In accordance with Virginia Code Section 2.2-4352 Prompt Payment of Bills by Localities, local governments that acquire goods or services, or conducts any other type of contractual business with a nongovernmental, privately owned enterprise, shall promptly pay for the completed delivered goods or services by the required payment date. The required payment date is either the due date of the invoice or, if no due date is noted, not more than forty-five days after goods or services are received or not more than forty-five days after this invoice is rendered.

### Condition:

- As a result of the City's financial condition, there were many instances in which the City was not remitting payment to vendors for goods and services in a timely manner.

### Cause:

- The City's poor financial condition did not allow for the City to pay its vendors for goods and services in a timely manner.

### Effect:

- Late payment to vendors can lead to payment of late fees, interest and the potential for litigation

## MANAGEMENT RESPONSE:

*We do not Concur: Finance confirms that this issue has been addressed. Finance continues to process payments in accordance with the Prompt Pay Act.*



# 2018-020 Compliance Findings - Stormwater Revenue Bond

## FINDING

## MANAGEMENT RESPONSE:

**We do not Concur:**  
*Public Utilities confirms that this issue has been addressed, as this bond no longer exist.*

### Criteria:

- Bond proceeds should be expended for the purpose that was listed in the bond agreement.

### Condition:

- In August 2015 the City Issued \$3,000,000 of Stormwater Revenue Bonds to finance variance storm water system improvements and to pay for certain issuance costs of the 2015 Bond as described in the attached bond document. The document also states that the Issuer ("the City") does not expect to reimburse itself from the bond proceeds for any expenditures incurred prior to the bond closing date. These proceeds were recorded in Fund 380, Capital Project Fund. In August 2015 after bond closing, the bond closing agent deposited \$3,000,000 into a separate SunTrust account titled "FY16 Stormwater CIP." During the months of September 2015, November 2015 and February 2016, the total amount of \$2,939,938 was transferred out of the SunTrust CIP bank account into the City's operating bank account. Per the City's general ledger, only \$1,040,628 was recorded as stormwater project expenditures in Fund 380. There was also \$87,139.14 paid to Davenport and McGuire Woods for Issuance costs. As part of the audit we examined documentation supporting the transfers out of the Stormwater CIP Account (see attached for documentation). During the course of the audit procedures we noted an email dated September 10, 2015 from the Assistant Finance Director sent to the Finance Director that stated the following: "Recommend we transfer from SW account \$600k today to meet payroll." We also noted an email dated November 23, 2015 from the Assistant Finance Director to the Deputy Treasurer and with a copy of the email to the Finance Director which stated "Please transfer \$400,000 from the Storm Water account to the city concentration account. The plan is to transfer the funds back on December 1st after the state reimbursements post for Nov 30th." We noted that these funds were not transferred back into the Stormwater bank account during fiscal year 2016. Additionally, there were various emails requesting transfers from the Stormwater CIP bank account to the City concentration bank account that did not list the specific intent of the transfer out. Based on the correspondence found during the audit and audit procedures performed it appears the City utilized \$1,812,170.39 of the \$3,000,000 Stormwater Revenue Bonds for payroll and/or other City operating costs and not for the purpose and intent of the bond issuance. During FY 17, the City spent \$145,989 on approved Stormwater projects. During FY 18, the City spent \$0 on approved Stormwater projects.

### Cause:

- Due to the City's poor financial condition, the city decided to use bond proceeds to cover payroll and other operating costs.

### Effect:

- Violation of the Financing agreement could potentially lead to the revocation of the tax-exempt status of interest on the bond or could trigger an Event of Default.

### Recommendation:

- We recommend the City contact bond counsel to determine the consequences and required corrective action.



# 2018-021 Compliance Finding - Expenditures in Excess of Appropriations

## FINDING

### Criteria:

- Per the Code of Virginia, an expenditure should not be incurred until first an appropriation is made authorizing the expenditures.

### Condition:

- The City had expenditures in excess of appropriations for the following functions in the general fund:

Function	Expenditures in Excess of Appropriations
General Government Admin	\$ 401,214
Judicial Administration	\$ 139,577

### Cause:

- The City did not have procedures in place to monitor appropriations and expenditures.

### Effect:

- The City incurred expenditures without a corresponding appropriation authorizing the expenditure.

### Recommendation:

- We recommend the City implement procedures to ensure an appropriation is made prior to incurring the expenditure.

## MANAGEMENT RESPONSE:

**We Concur:** *The City has developed monthly reporting to City Council on budget performance to eliminate City Departments/Function expenditures exceeding appropriations. The City Manager confirms that the overall budget was not exceeded, and that the budget department does not budget on this level.*



## FINDING

### Criteria:

- Code of Virginia Section 63.2-300 requires all Counties and Cities to establish or be a part of a joint Social Services board.

### Condition:

- Through inquiry of the DSS Executive Director, the process of establishing a board was started in either FY2012 or FY2013 but was never implemented.

### Cause:

- The City did not establish the required Board.

### Effect:

- The City does not have a Social Services Board as required by the Code of Virginia.

### Recommendation:

- We recommend the City establish a Social Services Board and maintain minutes of the Board Meetings.

## MANAGEMENT

### RESPONSE:

**We do not Concur:** *The Social Services board was re-established by Council in May 2018.*





# 2018-023 Compliance Finding - Special Welfare Bank Account

## FINDING

### Criteria:

- Individuals/clients with sustained Special Welfare balance must be deposited in separate interest-bearing accounts.

### Condition:

- The Special Welfare bank account is not an interest bearing account.

### Cause:

- When the Special Welfare bank account was established, it was not set up as an interest bearing account.

### Effect:

- Individuals/clients with sustained Special Welfare balances are not earning interest as required.

### Recommendation:

- We recommend the City establish and interest-bearing account for Special Welfare.

## MANAGEMENT

### RESPONSE:

**We do not Concur:** *Although the primary responsibility rests within the Treasurer's Office. Social Services and Finance will partner with the Treasurer's Office to ensure that the account is an interest-bearing account.*



# 2018-024 Compliance Finding - Special Welfare Ledger

## FINDING

### Criteria:

- The Special Welfare ledger account maintained by the Department of Social Services should be reconciled with the Special Welfare bank statement maintained by the City's Treasurer Office.

### Condition:

- The Special Welfare ledger account maintained by the Department of Social Services does not reconcile with the Special Welfare bank statement maintained by the City's Treasurer Office.

### Cause:

- The City did not have procedures in place to reconcile the Special Welfare ledger and the Special Welfare bank account.

### Effect:

- Errors could occur without being detected in the Special Welfare Ledger or Special Welfare Bank Account.

### Recommendation:

- We recommend the Special Welfare ledger and Special Welfare bank account are reconciled on a monthly basis and that any discrepancies are investigated, documented, and corrected.

## MANAGEMENT RESPONSE:

**We Concur :** *The City will develop and implement procedures to ensure the Special Welfare ledger and Special Welfare bank account are reconciled on a monthly basis and all discrepancies are investigated, documented, and/or corrected.*



## FINDING

### Criteria:

- Local Departments of Social Services should have a documented Business Continuity Plan as required by the Virginia Department of Emergency Management

### Condition:

- The Department of Social Services did not have a documented Business Continuity Plan.

### Cause:

- The Department of Social Services did not have a documented Business Continuity Plan.

### Effect:

- The City is not in compliance with the Virginia Department of Emergency Management's requirement to have a Business Continuity Plan.

### Recommendation:

- We recommend the Department of Social Services develop a documented Business Continuity Plan in accordance with the Virginia Department of Emergency Management.

## MANAGEMENT RESPONSE:

**We Concur:** *Social Services will develop a documented Business Continuity Plan in accordance with the Virginia Department of Emergency Management.*



# 2018-026 Federal Award Finding – Subrecipient Monitoring:

## FINDING

### Program:

- Workforce Investment Act Cluster (CFDA 17.258/17.259/17.278 – Department of Labor)
- Federal Award Number: LWA 15-16-03      Year: 2017
- Federal Award Number: LWA 15-15-03      Year: 2016

### Criteria:

- Federal awards that are passed-through to a subrecipient are subject to Subrecipient Monitoring requirements under OMB Uniform Guidance. A pass-through entity is responsible for the following: Determining Subrecipient Eligibility, Award Identification, During-the-Award Monitoring, and ensuring that subrecipients expending \$750,000 or more in Federal Awards during the fiscal year have met the audit requirements of 2 CFR part 200, subpart F of Uniform Guidance.

### Condition:

- The City was not performing During-the-Award Monitoring of its subrecipients. Further, the City was not ensuring that its subrecipients were meeting the audit requirements of 2 CFR part 200, subpart F of Uniform Guidance.

### Context:

- The City passed-through Workforce Investment Grant funds to the Crater Regional Workforce Investment Board & Learn to Earn, Inc. The City was not monitoring the subrecipient's use of the Federal awards through reporting, site visits, regular contact or any other means to provide reasonable assurance that the subrecipient administers the federal awards in compliance with laws, regulations, and the provisions of the grant agreements and that performance goals were being met. Further, the City was not ensuring that the Crater Regional Workforce Investment Board & Learn to Earn, Inc. was meeting the audit requirements of 2 CFR part 200, Subpart F of the Uniform Guidance.

### Cause:

- City personnel were not aware of its subrecipient monitoring requirements.

### Effect:

- The City has not complied with its subrecipient monitoring requirements. Noncompliance could lead to loss of grant funds.
- Questioned Costs:            \$0

### Recommendation:

- We recommend the City implement procedures to ensure compliance with grant funds and the related grant awards.

## MANAGEMENT RESPONSE:

*We Concur: This will be a joint effort across all City Departments and Finance. Collectively, we will compile a team of individuals to develop a policy and procedure to ensure that Federal Grants are recorded accurately in the financial statements as well as in accordance with GAAP and that subrecipient monitoring is occurring where applicable.*



# 2018-027 Federal Award Finding – Allowable Activities

## FINDING

### Program:

- Child Nutrition Cluster (CFDA 10.553 & 10.555 – Department of Agriculture)
- Federal Award Number: 201817N109941 Year: 2018
- Federal Award Number: 201717N109941 Year: 2017
- Federal Award Number: 201616N109941 Year: 2016

### Criteria:

- Reimbursement of the Federal Awards is determined by applying the applicable number of meals served times the reimbursement rates.

### Condition:

- The School Board was not entering the correct number of meals served each month when completing the SNP Monthly Reimbursement by SNP Unit Report – (SNP017). There were some months in which the School Board over reported the number of meals served and some months in which the School Board under reported the number of meals served.

### Context:

- Out of 10 months tested, 3 months were under reimbursed and 2 months were over reimbursed. There were 5 instances in which the amount entered for number of meals served was incorrect.

### Cause:

- The School Board was not ensuring that the information entered into the month reimbursement request was accurate.

### Effect:

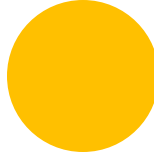
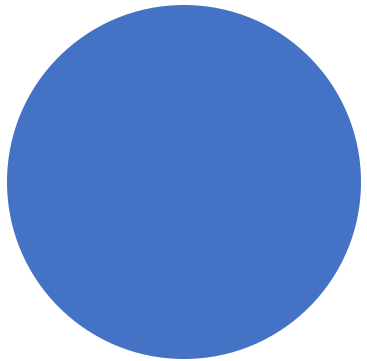
- The School Board was not complying with the grant requirements and was over reimbursed by \$8,567.12 during FY 18.
- Questioned Costs: \$8,567.12

### Recommendation:

- We recommend the School Board implement procedures to ensure compliance with grant funds and ensure that monthly reimbursement request are completed accurately.

## MANAGEMENT RESPONSE:

**We Concur:** *The Petersburg City Public Schools has been made aware of the inaccurate meal counting during FY18 resulting in the overpayment of federal funds in the amount of \$8,567.12. The school system agrees with the findings and the supervisor, school nutrition has been charged with implementing better monitoring and training for supervised staff, cafeteria managers, and staff members that are indirectly supervised, cafeteria workers, by the supervisor. Staff members from the Virginia Department of Education's Office of School Nutrition will be providing support to the supervisor to ensure meal counting is done properly and with fidelity at the school and division levels. Training of staff will take place no later than 30 business days along with the implementation of a better checks and balances systems to ensure the counting at the school level matches what is submitted for reimbursement.*



QUESTIONS?

