

Fiscal Year 2018-19 CAFR Briefing

City of Petersburg VIRGINIA

Aretha R. Ferrell-Benavides, City Manager
July 21, 2020



CAFR Presentation Agenda



- Introductions – Aretha R. Ferrell-Benavides, City Manager
- Pre-Audit and Process Overview- David Myers, Davenport & Company, Project Manager
- Financial Statement Overview – Patrice Elliott, Finance Director
- Audit Overview- David Foley, Robinson, Farmer, Cox and Associates (RFCA)
- 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 - Operations**
- **Darnetta Tyus, Deputy City Manager - Community Affairs**
- **Kenneth Miller, Deputy City Manager - 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.
- **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 Audit Manager 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).
 - Lance Wolff, Angela Anderson, Alice Maitland, Robert Frye and Tom Obenshain
- **David Foley, External Auditor (Robinson, Farmer, Cox & Associates)**, served as City's external auditor for FY17/18 and FY 18/19 CAFR. RFCA has served as the City's auditors since 2009.

NEW UNASSIGNED FUND BALANCE

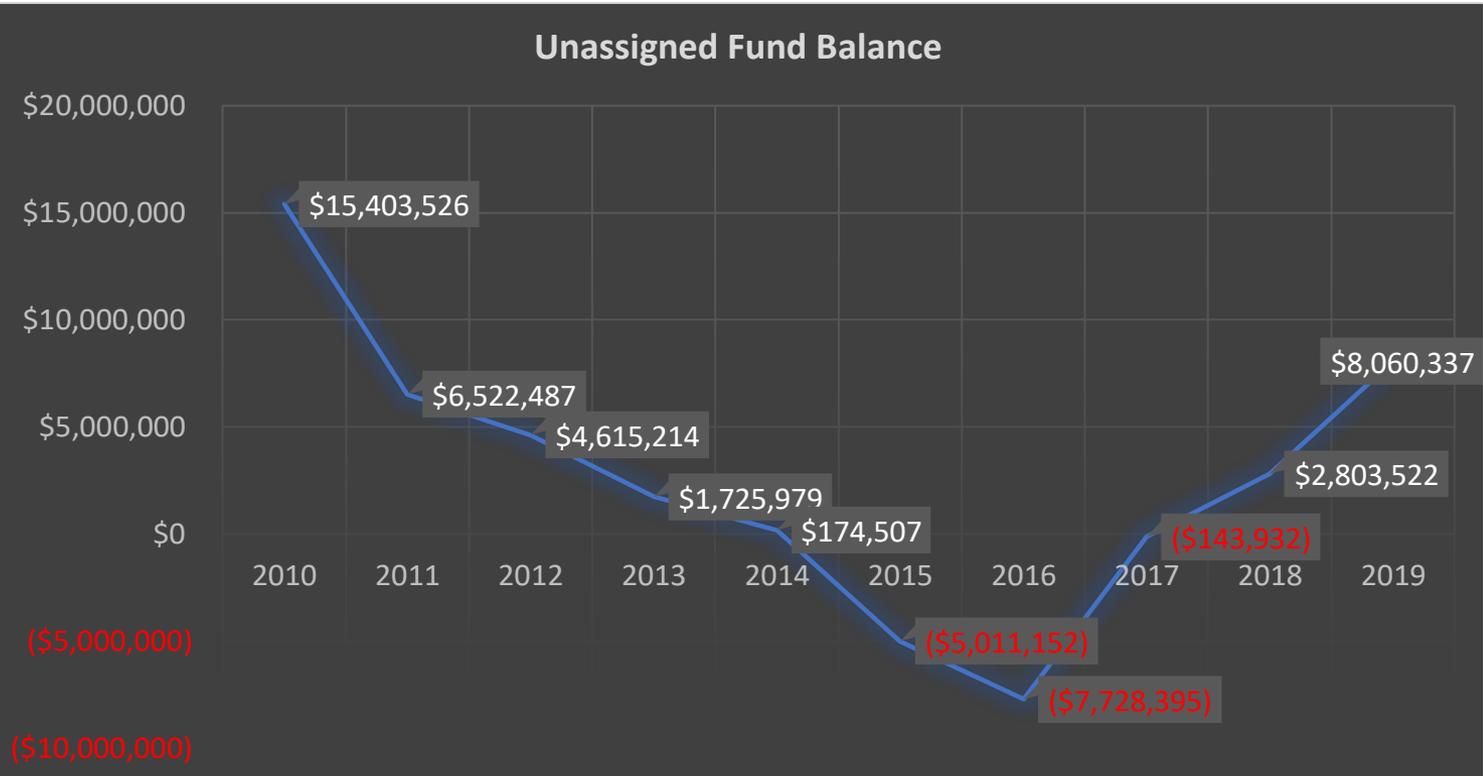
\$8,060,337

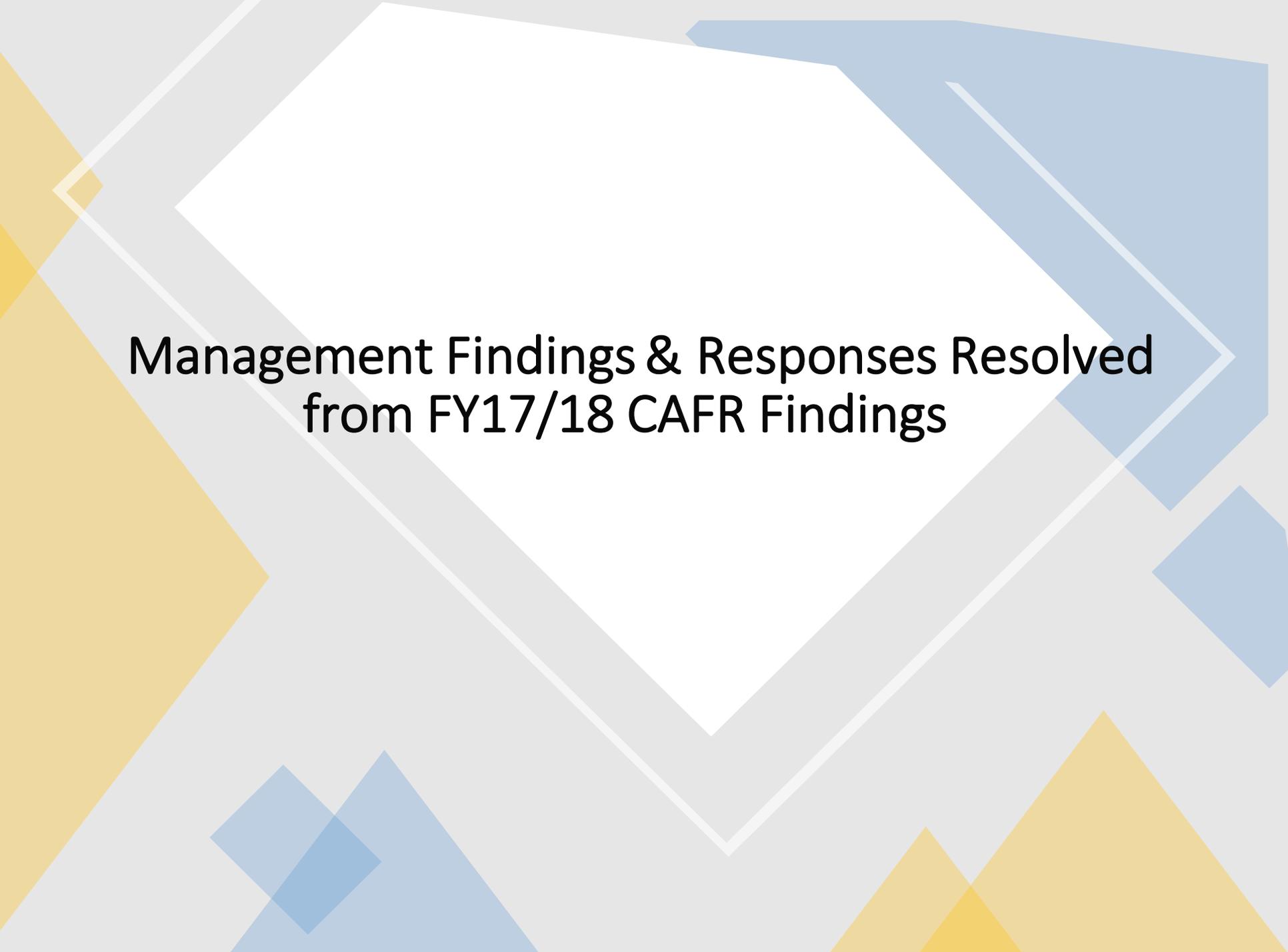


FUND BALANCE HISTORY



Year	Fund Balance
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
2019	\$8,060,337





Management Findings & Responses Resolved from FY17/18 CAFR Findings



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*



2018-012 Material Weakness - Internal Controls over Inventory (RESOLVED)

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 (RESOLVED)

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.*

2018-020 Compliance Findings - Stormwater Revenue Bond (RESOLVED)



FINDING

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.

MANAGEMENT RESPONSE:

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



2018-021 Compliance Finding - Expenditures in Excess of Appropriations (RESOLVED)

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.*



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.



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:

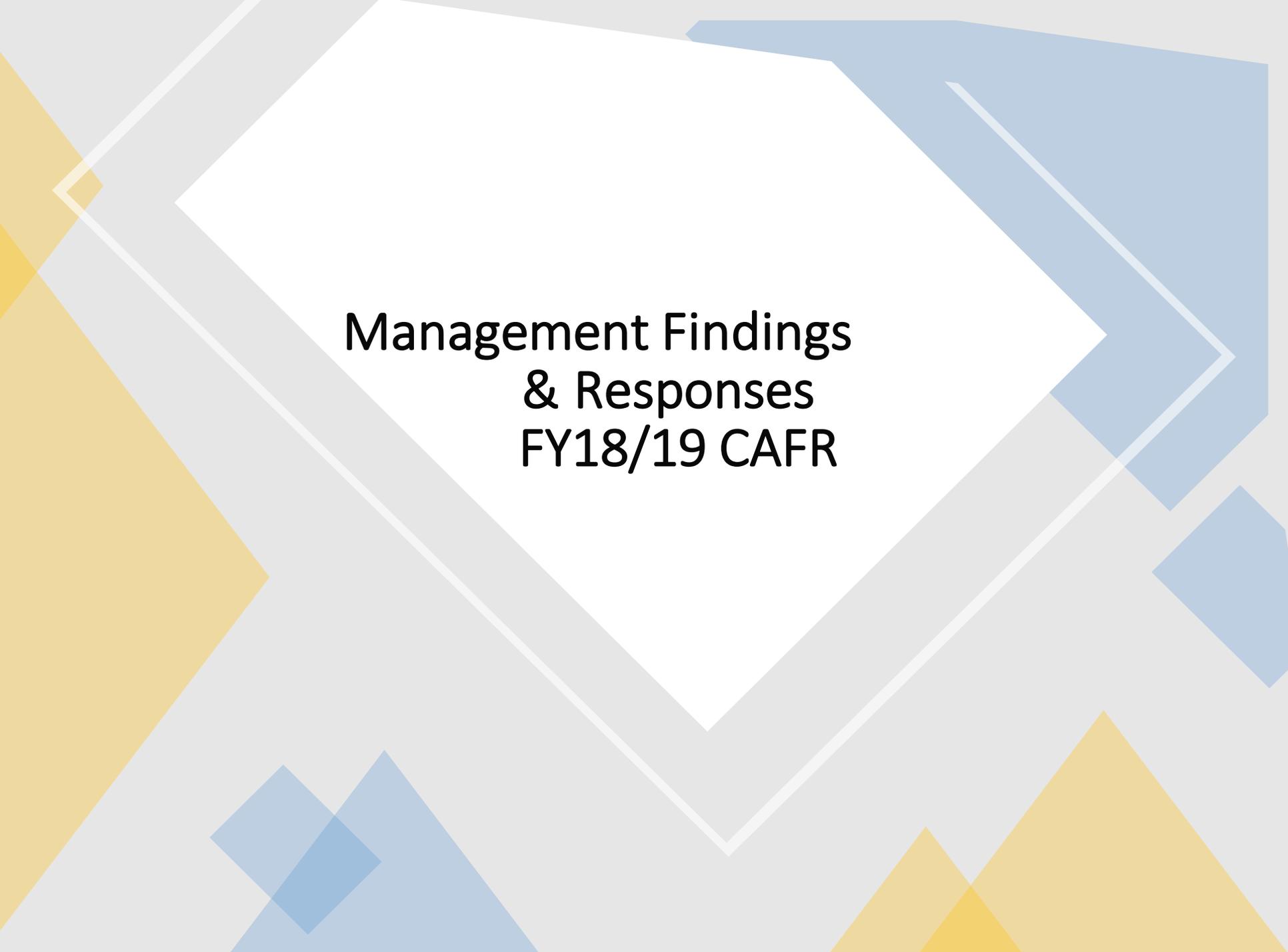
- The School Board was not complying with the grant requirements and was over reimbursed by \$8,567.12 during FY 18.
- Questioned Costs: \$8,567.12

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.*



**Management Findings
& Responses
FY18/19 CAFR**



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 who 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:

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 on 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 sought a memorandum of understanding with the Office of the Treasurer to assume responsibility of this function and executed a MOU on July 14, 2020. Billing and Collections has been provided BAI processes to ensure that the Utility Billing Subsidiary System reconciles to the General Ledger, reference BAI Document UT6008 and UT600.



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 FY19, utility bills were processed whereby material adjustments were needed to correct the initial billings

Cause: 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 Office of Billing and Collections 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. The Office of Billing and Collections has been provided BAI process to ensure that the Utility Billing Errors and Insufficient edits checks are performed prior to finalizing the billing. Reference BAI Document UT6015.



2019-003 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, 2019, 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 Office of Billing and Collections, 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.

The process continued with the establishment of the Office of Billing and Collections and was further restricted as a part of the combined office. Currently, Billing and Collections had implemented forms to prevent unauthorized write-offs to customer accounts. 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.



2019-004 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, 2019, 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 Office of Billing and Collections, the Utility Billing staff established a procedure to document adjustments. Billing and Collections has implemented forms to prevent unauthorized write-offs to customer accounts. If the adjustment was approved, it would be signed by the manager and forward to the Billing Supervisor to make the adjustment. All adjustments, with signature forms, were bundled with edit documents for each billing cycle.



2019-005 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 has determined that our current system does track deposits and a report can be generated from a query at any time. Billing and Collections generates report UT203 Summary Charges Report prior to the bill run monthly. The reports show monthly customer deposits summarized and detailed.



2019-006 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 2019 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. In January 2019, the Petersburg City Council requested a change to the City Charter to remove the financial functions from the Office of the Treasurer 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 issue was 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 sought a memorandum of understanding (MOU) with the Office of the Treasurer to assume responsibility of this function. As of July 14, 2020, a MOU was executed, and Billing and Collections will produce a monthly and year-end report of delinquent property taxes for the Treasury Department to reconcile to the Treasurer's Accountability Fund. The listing will be produced when accounts are 30 days delinquent and when new bills are generated. This process will be included in our policies and procedures.



2019-007 Material Weakness - Insufficient Accounting and Financial Reporting Throughout the Fiscal Year

FINDING

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 19 until the end of January 2020. Therefore, the City's general ledger was not accurate or reliable for the entire fiscal year June 30, 2019.

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 were 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 Collections function was made part of this team and in January 2018, all Financial functions were placed under a Chief Financial/Operating Office. In January 2018, a transition occurred in the Treasurer's Office with 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, City 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 on legal action taken by the Treasurer to prevent transfer of the functions.

Given the continued challenge 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 appropriate competencies and adheres to best practices. During Fiscal Year 2017-2018, the total staff was increase to 11 with greater emphasis on accounting staff.

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 development during the audit are conducted in a timely manner.

The Finance Department has drafted policies and procedures and a monthly checklist has been created to ensure that all primary functions of the Finance Department are being completed in a timely and accurate fashion to prevent this finding in the future.



2019-008 Material Weakness- Material Audit Adjustments Proposed by the External Auditor

FINDING

Criteria: 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 a reasonable possibility 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: The Finance Department has developed policies and procedure to ensure that the City of Petersburg's Financial Statements are in accordance with GAAP, and to prevent this finding in the future.



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 \$1,249,586 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 \$1,249,586 of grant revenues and pass-through expenditures for FY 19.

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 prior 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 issue Grants will be recorded accurately in the financial statements as well as in accordance with GAAP. The City currently only receives funding for salary reimbursement and the forensic audit reimbursement.

2019-010 Material Weakness - Material Reclassifications Proposed to Federal Revenues



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's Finance Department has drafted an overall City grant policy to ensure the City's Federal revenues are appropriately accounted for, including maintaining a list of all Federal grants received to include 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 to prevent findings like this in the future.

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.



2019-011 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 19 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 19 were not completed until May 2020.

Cause:

- The Treasurer's Office had staff turnover during FY 18 and did not prepare bank reconciliations on a monthly basis, which lead to the delay in reconciling the monthly bank statements.

Effect:

- There is a reasonable possibility of a material misstatement of financial statements and misappropriations 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:

Although the primary responsibility falls with the Office of the Treasurer, the Finance Department has begun to partner with the Treasurer's Office under the executed MOU to review monthly bank outstanding reconciliation items to ensure that they are completed, accurate and timely so that Finance is able to close the month and is aware of outstanding reconciling items when doing so.



2019-012 Material Weakness- Lack of reconciliation of cash reported in funds to cash in Fund 999

FINDING

Criteria:

- Cash reported in the individual funds of the city should be reconciled to cash reported in the Treasurers Accountability Fund (Fund 999). The reconciliations should be completed in a timely manner after month end.

Condition:

- During FY 19 the City did not reconcile the cash reported in each fund to total cash reported in Fund 999.

Cause:

- The amount of cash reported in the City's individual funds did not agree with total cash reported in Fund 999.

Effect:

- There is a reasonable possibility of a material misstatement of financial statements and misappropriations of assets.

Recommendation:

- We recommend the City reconcile cash reported in the funds to cash reported in Fund 999. We also recommend the City insure that whenever entries are made to fund cash, fund 999 is also adjusted by the same amount, and vice versa.

MANAGEMENT RESPONSE:

Although the primary responsibility falls with the Office of the Treasurer, the Finance Department has begun to partner with the Treasurer's Office under the executed MOU to review monthly bank outstanding reconciliation items to ensure that they are completed, accurate and timely so that Finance is able to close the month and is aware of outstanding reconciling items when doing so.



2019-013/14 Material Weakness - Posting of One-sided Journal Entries

FINDING

Criteria:

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

Condition:

- During FY 19 the City's finance department posted various one-sided journal entries. For example, a journal entry was posted that only included a credit of \$1,549,067.49 and did not have a corresponding debit 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: The Finance Department has worked with the Financial Systems vendor to log a ticket with the City's Financial System. And Query GLMONTH has been created to review all general ledger holding files and make sure that all entries net to \$0. This report is generated and reviewed monthly. Finance has also created Journal Entry templates to ensure that the entries that cross funds include entries for the Treasurer's Accountability Fund.



2019-015 Material Weakness - Posting of Journal Entries that do not balance within each fund

FINDING

Criteria:

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

Condition:

- During FY 19 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:

The Finance Department has worked with the Financial Systems vendor to log a ticket with the City's Financial System. A Query GLMONTH has been created to review all general ledger holding files and make sure that all entries net to \$0. This report is generated and reviewed monthly. Finance has also created Journal Entry templates to ensure that the entries that cross funds include entries for the Treasurer's Accountability Fund.



2019-016 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 19 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 theyear.

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:

The Office of Billing and Collections will ensure that the lockbox is processed on a timely and accurate basis and will report the information as part of our daily reconciliation process. Policies and procedures have been drafted documenting this process in accordance with the FY 17/18 CAFR Corrective Action Plan.



2019-017 Material Weakness - Lack of Monthly Financial Closing Procedures

FINDING

Criteria:

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

Condition:

- During FY 19 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:

Finance has drafted 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 fashion. Finance has also been working with the Treasurer's Office under the executed MOU to ensure that all General Demand Bank account debits have been posted to the GL. All entries that cannot be posted are considered reconciling items. This will continue to be a joint effort between Finance, Billing and Collections as well as the Treasurer's Office as they play a key role in making sure that information is posted correctly, and errors are corrected so that the month can be closed.



2019-018 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:

- We tested 40 individual disbursements as part of our random test of disbursements and 12 out of 40 disbursements tested contained invoices that were paid late.

Cause:

- The invoices were not processed before the due date of the invoice.

Effect:

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

Recommendation:

- We recommend the City pay its vendors in a timely manner.

MANAGEMENT RESPONSE:

Finance has drafted policies and procedures, as well as various accounts payable logs to ensure that vendors are being paid in a timely fashion when invoices are received in accordance with the Prompt Pay Act. Although the Finance Department continues to receive past due bills from other departments, the invoices are processed and paid upon receipt of our office.



2019-019 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 concur with the recommendation. The Department of Social Services and Finance will partner with the Treasurer's Office under the executed MOU to ensure that the account is an interest-bearing account. A new banking relationship is currently being established and once determined the account will be set to be designated as an interest-bearing account to comply with this finding.



2019-020 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 : We concur with the recommendation. Although the primary responsibility rests within the Office of the Treasurer, Social Services and Finance will partner with the Treasurer's Office under the executed MOU. 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.



2019-021 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 15-18-03 Year: 2018

Federal Award Number: LWA 15-17-03 Year: 2017

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: N/A

Recommendation:

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

MANAGEMENT RESPONSE:

The City has drafted an overall City grant policy to ensure the City's Federal revenues are appropriately accounted for, including maintaining a list of all Federal grants received to include the CFDA to prevent findings like this in the future.



2019-022 Federal Award Finding – Eligibility

FINDING

Program: Adoption Assistance (CFDA 93.659 – Department of Health and Human Services)

Federal Award Number: 93.659 Year: 2019

Criteria: Clients should only receive assistance until the qualify child reaches age 18 or 21 if the agency determines that the child has a mental or physical disability warranting the continuation of the assistance.

Condition: During FY 19, there were 2 adoption assistance cases in which assistance was still being provided even though the child reached the age limit.

Context: Out of 25 cases tested, 2 cases were receiving benefits when they were no longer eligible. One child received 3 months of assistance after reaching age 18. Another child received 12 months of benefits despite not being eligible the entire year.

Cause: The Department of Social services was not reviewing cases for eligibility and did not have a process in place to ensure payments ceased when the child become ineligible.

Effect: The Department provided assistance to families that were no longer eligible.

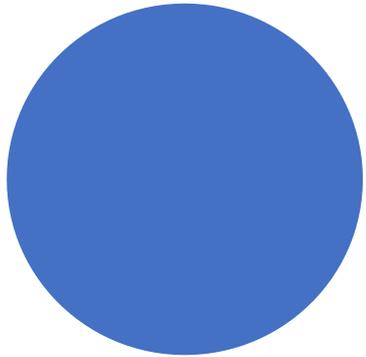
Questioned Costs: \$10,626

Recommendation:

We recommend the Department of Social Services put procedures in place to ensure assistance is only provided to eligible individuals.

MANAGEMENT RESPONSE:

The Department of Social Services has instituted an internal tracking system that will provide an alert to the adoption subsidy worker six (6) months prior to the youth's emancipation date. The alert will cause the worker to initiate a Family Services Notice of Action and Rights Appeals form to the family to establish criteria for continued funding of the individual, when warranted.



QUESTIONS?

