



CITY OF HOPEWELL

Hopewell, Virginia 23860

AGENDA

(804) 541-2249

www.hopewellva.gov

info@hopewellva.gov

rarrington@hopewellva.gov

CITY COUNCIL

Jasmine E. Gore, Mayor, Ward #4
Patience Bennett, Vice Mayor, Ward #7
Debbie Randolph, Councilor, Ward #1
Arlene Holloway, Councilor, Ward #2
John B. Partin, Jr., Councilor, Ward #3
Janice Denton, Councilor, Ward #5
Brenda S. Pelham, Councilor, Ward #6

John M. Altman, Jr., City Manager
Sandra. Robinson, City Attorney
Ronnieye L. Arrington, City Clerk

September 25, 2019

COUNCIL CHAMBERS
300 N MAIN ST. HOPEWELL VA

Special Meeting: 6:00 PM

OPEN SPECIAL MEETING

6:30 p.m. Call to order, roll call, and welcome to visitors

Special Business

SB-1 MUNIS Implementation

ISSUE: Verification of the City purchase of upgrades from Tyler for MUNIS, to include costs and implementation schedule. Additional requests include verifying external programs the City has, the purpose of the programs, and their costs.

MOTION: _____

Roll Call

SB-2 Director Reports Regarding CAFR Findings

ISSUE: Each Department mentioned in the CAFR findings is asked to report to Council as to updates made due to the findings (if any), steps taken to address findings, including personnel updates, training, etc.

MOTION: _____

Roll Call

SB-3 CSA/CPMT presentation of Updated Quality Improvement Plan (QIP)

ISSUE: CSA/CPMT was asked to update its QIP by the State and by Council. A copy of the updated QIP is requested.

MOTION: _____

Roll Call

SB-4 Beacon Theater Fund Update

ISSUE: During a recent Council meeting, issues were raised regarding the Beacon Theater and the requests from auditors for various records. An update is requested on the status of those requests.

MOTION: _____

Roll Call

SB-5 FY 2016 Auditor's Report

ISSUE: Discussion of audit findings for Fiscal Year 2016

MOTION: _____

Roll Call

SB-6 FY 2017 Auditor's Report

ISSUE: Discussion of audit findings for Fiscal Year 2017

MOTION: _____

Roll Call

Adjournment

AGENDA

SB-1



**CITY OF HOPEWELL
CITY COUNCIL ACTION FORM**

Strategic Operating Plan Vision Theme:

- Civic Engagement
- Culture & Recreation
- Economic Development
- Education
- Housing
- Safe & Healthy Environment
- None (Does not apply)

Order of Business:

- Consent Agenda
- Public Hearing
- Presentation-Boards/Commissions
- Unfinished Business
- Citizen/Councilor Request
- Regular Business
- Reports of Council Committees

Action:

- Approve and File
- Take Appropriate Action
- Receive & File (no motion required)
- Approve Ordinance 1st Reading
- Approve Ordinance 2nd Reading
- Set a Public Hearing
- Approve on Emergency Measure

COUNCIL AGENDA ITEM TITLE:

MUNIS Implementation

ISSUE: Verification of the City purchase of upgrades from Tyler for MUNIS, to include costs and implementation schedule. Additional requests include verifying external programs the City has, the purpose of the programs, and their costs.

RECOMMENDATION:

TIMING:

BACKGROUND: This is a Council request

ENCLOSED DOCUMENTS:

- None

STAFF:

FOR IN MEETING USE ONLY

MOTION: _____

Roll Call



MEMORANDUM

To: The Honorable City Council
 cc: Charles E. Dane, Assistant City Manager
 Concetta Manker, Director of Information Technologies
 From: John M. Altman, Jr., City Manager *JMA*
 Date: September 25, 2019
 Re: **MUNIS Implementation Update**

John M. Altman, Jr.
 City Manager

maltman@hopewellva.gov
 p: (804) 541-2243
 f: (804) 541-2248

300 North Main Street
 Suite 216
 Hopewell, VA 23860

www.hopewellva.gov

Per City Council request, the following is a summary of MUNIS implementation, the available modules, and 3rd Party vendor software used by the City. The total "turn-key" cost of implementation to date is \$719,791.61. The City budgets \$81,000 annually for license/maintenance fee.

MUNIS Module	Implementation Year	Comments
Financials	September 2014	
Tax	September 2016	
Business License	May 2016	
Real Estate	May 2016	
Permits	May 2016	
Incode	July 2016	Court Case Management
Payroll	July 2017	
Work Order	February 2019	Fuel Import Still Pending
TIMS	March 2019	

Department	3 rd Party Vendor Software	Comments
Police	TimeForce	Time & Attendance
HR	NEOGov	HR Software
Recreation & Parks	RecTrac	Recreation Management Software
Social Services	Thomas Brothers	
Treasurer	Paymentus EGTS	Credit Card Processing Old Tax System
Fire	Billing Bridge	EMS Cost Recovery
Public Works	Phoenix	Garage – Inventory/Workflow
Real Estate	ProVal	Real Estate Assessment Software
Water Renewal	PaperStream Swipe Clock	Document Management System Time & Attendance

If City Council has any additional questions, please do not hesitate to contact me.

SB-2



CITY OF HOPEWELL CITY COUNCIL ACTION FORM

Strategic Operating Plan Vision Theme:

- Civic Engagement
- Culture & Recreation
- Economic Development
- Education
- Housing
- Safe & Healthy Environment
- None (Does not apply)

Order of Business:

- Consent Agenda
- Public Hearing
- Presentation-Boards/Commissions
- Unfinished Business
- Citizen/Councilor Request
- Regular Business
- Reports of Council Committees

Action:

- Approve and File
- Take Appropriate Action
- Receive & File (no motion required)
- Approve Ordinance 1st Reading
- Approve Ordinance 2nd Reading
- Set a Public Hearing
- Approve on Emergency Measure

COUNCIL AGENDA ITEM TITLE:

Director Reports re CAFR Findings

ISSUE: Each Department mentioned in the CAFR findings is asked to report to Council as to updates made due to the findings (if any), steps taken to address findings, including personnel updates, training, etc.

RECOMMENDATION:

TIMING:

BACKGROUND: This is a Council request

ENCLOSED DOCUMENTS:

- None

STAFF:

FOR IN MEETING USE ONLY

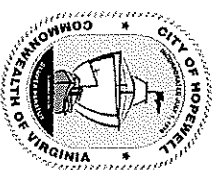
MOTION: _____

Roll Call

CAFER Findings Status Report

City Council Meeting

September 25, 2019



Material Weaknesses

2017-001: Material Weakness Due to Lack of Timely Reconciliations, Lack of Adequate Year End Close Procedures and Lack of Adequate Internal Controls over Budget Transfers

Condition/Context: During the fiscal year 2017 audit and financial reporting processes, multiple instances were identified where the complete and accurate recording of financial transactions within the general ledger did not occur

Repeat Findings: 2015-001, 2015-002, and 2016-001

Management Response:

- The City (Treasurer and Finance) and School Board (Finance) in conjunction with the CAFR team have coordinated joint efforts to improve the reconciliation process of cash and investments balances with financial institution to the general ledger for fiscal year 2018 and forward.
- The City (Finance, HRWTF, Public Works) in conjunction with the CAFR team have coordinated joint efforts to improve the reconciliation process of customer accounts receivable to the general ledger for fiscal year 2018 and forward.
- The City (Finance and Information Technology) implemented formal year-end close procedures for fiscal year 2018 and 2019. The MUNIS system successfully closed for fiscal year 2018 and 2019, as well as, opened successfully for fiscal years 2019 and 2020. Formal documentation of procedures is anticipated for completion by 4th quarter FY20.
- Budget transfers are reported to City Council by the City Manager on a monthly basis.

2017-002: Material Weakness Due to Material Audit Adjustments and Restatements

Condition/Context: Upon auditing the year-end balances of the City and School Board, there were instances of material adjustments identified, including entries to restate prior periods. An audit adjustment was identified to correct the School Board's cash balance.

Repeat Findings: 2015-001, 2015-002 and 2016-002

Management Response:

- The City (Finance) implemented September 2019 a diagnostic process for the purpose to identify the nature and occurrence of adjustments, as well as, establishing a cure or implementing measures to minimize adjustments.

2017-003: Material Weakness Due to Lack of Accurate Supporting Records (Disclaimer of Opinions)

Condition/Context: Upon auditing the year-end balances of the City, City personnel was unable to provide sufficient audit documentation to support the amounts recorded on the City's financial statements for its Business-Type Activities, including the Sewer Service Fund, Solid Waste Fund, Storm Water Fund and Beacon Theatre Fund.

Repeat Findings: 2015-001, 2015-002 and 2016-003

Management Response:

- The City (Finance, HRWTF, Public Works) in conjunction with the CAFR team as of August 2019 have coordinated joint efforts to improve securing billing and accounting records between the City and its customers.
- The City (Finance, City Manager) in an effort to produce Beacon FY18 financial statements (balance sheet and income statements) supportable documentation was requested from Beacon Management and Beacon's contracted accountant (accountant).
- Beacon Management through its accountant provided a pdf copy of the general ledger maintained by the accountant. Finance in conjunction with the CAFR Team performed a cursory review and identified disparities in the general ledger document provided.

2017-003: Material Weakness Due to Lack of Accurate Supporting Records (Disclaimer of Opinions) - continued

- Additional requests for documentation that would support the general ledger were made to Beacon Management and the accountant by the CAFR Team. Beacon Management responded but the documentation was not sufficient to support the Beacon's accountant general ledger amounts nor has the accountant provided any further supporting documents.
- As an alternate the CAFR Team to the extent available obtained data from other reliable sources to begin to create FY18 Beacon Theater financial statements. Those reliable sources are:
 - FY 2018 monthly bank statements from the BB&T and Suntrust accounts
 - Invoices to support many of the larger GL account balances
 - Mitchell Wiggins & Company LLP (CPAs) prepared 2018 income tax return to reconcile fixed assets and record depreciation expense
 - Point of Sale records to determine food and drink inventory sales, concert tickets and merchandise revenues
 - Artist audit reports, artist contracts, Tickets to Buy ticket sale reports, bank check ledgers to record concert revenues, amounts paid to artists and production/backstage personnel
 - The CAFR Team continues to communicate and obtain needed responses from Beacon Management in the effort to produce financial statements with supportable records.

2017-004: Material Weakness Due to Lack of Management Contract for Beacon Theatre

Condition/Context: City personnel and the Beacon Theatre third-party management company were unable to provide adequate supporting documentation to support the amounts reported in the financial statements as prepared by the third-party management company. Furthermore, City personnel was unable to provide a signed contract between the City and the third-party management company detailing the services to be provided and any fees associated with these services. It was noted that City oversight of Beacon Theatre's operations and subsequent recordation of this activity was not occurring on a routine and ongoing basis.

Repeat Finding: 2016-004

Management Response:

- On August 30, 2019 a fully executed contract by the former City Manager and Beacon Management Company was obtained and forward to Finance. The contract is being reviewed and evaluated.

2017-005: Material Weakness Due to Lack of Segregation of Duties and System Based Logical Access Controls

Condition/Context: The City implemented MUNIS in September 2014. It was noted that the City does not maintain proper segregation of duties over security, administration, and end user access to the financial application and database.

Repeat Finding: 2015-003 and 2016-007

Management Response:

- Completed. Security control log was implemented and is periodically reviewed by the IT Director.
- Completed. There is a yearly process to review MUNIS users' authorizations.
- Completed. Networking settings were changes to industry best practices.
- Completed. Finance implemented review procedures over journal entries and will continue to review and modify as necessary.

**2017-006: Material Weakness Due to Untimely Social Services
LASER Reconciliations to the General Ledger**

Condition/Context: During the fiscal year 2017 audit, it was determined the monthly LASER amounts were not being reconciled to the general ledger. The fiscal year ended 2017 LASER reconciliation was not completed until June 2018.

Repeat Finding: 2016-008

Management Response:

- Completed. Monthly reconciliation process in place as of June 30, 2018 subject to procedural adjustment based upon monitoring.

2017-007: Material Weakness Due to Lack of Debt Management Procedures

Condition/Context: The City has unspent bond proceeds invested in the Virginia State Non-Arbitrage Program (SNAP) and is not reconciling the SNAP investment accounts to capital project activity; therefore, drawdowns of the bond proceeds are not occurring timely. Capital expenditures incurred are initially being paid for using operating funds instead of immediately from corresponding bond proceeds.

Repeat Finding: 2016-009

Management Response:

- Completed. The City (Finance and Treasurer) implemented procedures September 2018; unspent bond proceeds in the amount of \$3.4M was drawn down and deposited to operating funds

2017-008: Material Weakness in Children's Services Act Allowability and Eligibility Procedures

Condition/Context: Of the 60 pool disbursement transactions selected for testing, the approved amount of the transaction exceeded the amount per Individual and Family Service Plan for five transactions. Pervasive to all transactions tested, purchase orders were not created or approved until after the date the service was provided. Known fraudulent activity occurred prior to fiscal year 2016, resulting in a special state review conducted on activity from 2013-2015 and a return of funds to the state.

Repeat Finding: 2016-010

Management Response:

- CPMT is in process updating the policies and procedures for CSA

Compliance Findings

2017-009: Untimely Social Services LASER Reconciliations to the General Ledger

Condition/Context: During the fiscal year 2017 audit, it was determined the monthly LASER amounts were not being reconciled to the general ledger. The fiscal year ended 2017 LASER reconciliation was not completed until June 2018.

Repeat Finding: 2016-008

Management Response:

- Completed. Monthly reconciliation process in place as of June 30, 2018 subject to procedural adjustment based upon monitoring.

2017-010: Commonwealth of Virginia Yearly Financial Reporting

Condition/Context: The City did not submit its audited financial report to the APA by the required date.

Repeat Finding: 2015-004 and 2016-016

Management Response:

- Two of the three prior fiscal year CAFRs FY16 and F17 are completed. Continued implementation of the City's remediation implementation plan to bring current Comprehensive Annual Financial Reports (CAFR) filings is in process.

2017-011: Children's Services Act Allowability and Eligibility Procedures

Condition/Context: Of the 60 pool disbursement transactions selected for testing, the approved amount of the transaction exceeded the amount per Individual and Family Service Plan for five transactions. Pervasive to all transactions tested, purchase orders were not created or approved until after the date the service was provided. Known fraudulent activity occurred prior to fiscal year 2016, resulting in a special state review conducted on activity from 2013-2015 and a return of funds to the state.

Repeat Finding: 2016-010

Management Response:

- CPMT is in process updating the policies and procedures for CSA

2017-012: Noncompliance with Debt Covenants

Condition/Context: The City did not provide audited or unaudited financial reports by the deadlines required by the debt covenants. Also, the City did not monitor debt service reserve accounts to ensure compliance with the requirements.

Repeat Finding: 2016-019

Management Response:

- Completed. The City (Finance) in conjunction with its financial advisors are monitoring all debt covenant requirements.

2017-013: Bank Not Identified as a Public Depository and Bank Accounts Not Identified as a Public Deposit

Condition/Context: Upon auditing cash, it was determined that one of the banks used by the City was not identified as a qualified public depository. Furthermore, three bank accounts containing public monies were not identified individually by the financial institution as public deposits.

Repeat Finding: 2016-020

Management Response:

- Completed. The City (Treasurer) is reviewing accounts to ensure compliance.

2017-014: Lack of Compliance with Sections 15.2-2506 and 58.1-3001 of the *Code of Virginia* in the City's Virginia Public Assistance Fund and Community Development Block Grant Fund

Condition/Context: Upon auditing the City's Virginia Public Assistance Fund's and Community Development Block Grant Fund's year-end expenditures compared to their final approved budget, expenditures exceeded the final appropriated budget by a material amount.

Repeat Finding: 2016-021

Management Response:

- Completed. The City (DSS, Development & Finance) is monitoring budgets for all funds throughout the year to ensure compliance.

SB-3



CITY OF HOPEWELL CITY COUNCIL ACTION FORM

Strategic Operating Plan Vision Theme:

- Civic Engagement
- Culture & Recreation
- Economic Development
- Education
- Housing
- Safe & Healthy Environment
- None (Does not apply)

Order of Business:

- Consent Agenda
- Public Hearing
- Presentation-Boards/Commissions
- Unfinished Business
- Citizen/Councilor Request
- Regular Business
- Reports of Council Committees

Action:

- Approve and File
- Take Appropriate Action
- Receive & File (no motion required)
- Approve Ordinance 1st Reading
- Approve Ordinance 2nd Reading
- Set a Public Hearing
- Approve on Emergency Measure

COUNCIL AGENDA ITEM TITLE:

CSA/CPMT presentation of Updated Quality Improvement Plan (QIP)

ISSUE: CSA/CPMT was asked to update its QIP by the State and by Council. A copy of the updated QIP is requested.

RECOMMENDATION:**TIMING:**

BACKGROUND: This is a Council request

ENCLOSED DOCUMENTS:

- None

STAFF:**FOR IN MEETING USE ONLY**

MOTION: _____

Roll Call

SB-4



CITY OF HOPEWELL CITY COUNCIL ACTION FORM

Strategic Operating Plan Vision Theme:

- Civic Engagement
- Culture & Recreation
- Economic Development
- Education
- Housing
- Safe & Healthy Environment
- None (Does not apply)

Order of Business:

- Consent Agenda
- Public Hearing
- Presentation-Boards/Commissions
- Unfinished Business
- Citizen/Councilor Request
- Regular Business
- Reports of Council Committees

Action:

- Approve and File
- Take Appropriate Action
- Receive & File (no motion required)
- Approve Ordinance 1st Reading
- Approve Ordinance 2nd Reading
- Set a Public Hearing
- Approve on Emergency Measure

COUNCIL AGENDA ITEM TITLE:

Beacon Theater Fund Update

ISSUE: During a recent Council meeting, issues were raised regarding the Beacon Theater and the requests from auditors for various records. An update is requested on the status of those requests.

RECOMMENDATION:**TIMING:**

BACKGROUND: This is a Council request

ENCLOSED DOCUMENTS:

- None

STAFF:**FOR IN MEETING USE ONLY**

MOTION: _____

Roll Call

SB-5



CITY OF HOPEWELL CITY COUNCIL ACTION FORM

Strategic Operating Plan Vision Theme:

- Civic Engagement
- Culture & Recreation
- Economic Development
- Education
- Housing
- Safe & Healthy Environment
- None (Does not apply)

Order of Business:

- Consent Agenda
- Public Hearing
- Presentation-Boards/Commissions
- Unfinished Business
- Citizen/Councilor Request
- Regular Business
- Reports of Council Committees

Action:

- Approve and File
- Take Appropriate Action
- Receive & File (no motion required)
- Approve Ordinance 1st Reading
- Approve Ordinance 2nd Reading
- Set a Public Hearing
- Approve on Emergency Measure

COUNCIL AGENDA ITEM TITLE:

Fiscal Year 2016 Auditors Report

ISSUE: Discussion of the audit findings

RECOMMENDATION:

TIMING:

BACKGROUND: This is a Council request

ENCLOSED DOCUMENTS:

- None

STAFF:

FOR IN MEETING USE ONLY

MOTION: _____

Roll Call



**INDEPENDENT AUDITOR'S REPORT ON
INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

To the Honorable Members of City Council
City of Hopewell, Virginia

We were engaged to audit, in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Specifications for Audits of Counties, Cities and Towns*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Hopewell, Virginia (City) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated June 10, 2019.

Internal Control over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control described in the accompanying Schedule of Findings and Responses as items 2017-001 through 2017-008 that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Responses as items 2017-009 through 2017-014.

The City's Responses to Findings

The City's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. The City's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

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

PBMares, LLP

Harrisonburg, Virginia
June 10, 2019

SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2016

Section I. FINANCIAL STATEMENT FINDINGS

A. Material Weaknesses in Internal Control

2016-001: Material Weakness Due to Lack of Timely Reconciliations and Lack of Adequate Year End Close Procedures

Criteria: In order to prepare financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP), accurate and complete general and subsidiary ledgers, along with supporting records, must be maintained to support the existence, completeness, accuracy, and valuation of all assets and liabilities, revenues, and expenditures/expenses to ensure an accurate presentation of the financial position and activity of the City of Hopewell, Virginia (City) for the fiscal year just ended. The efficient, effective, and timely preparation of the Comprehensive Annual Financial Report (CAFR) depends heavily on personnel from various City departments and the School Board and includes closing the City's and School Board's general ledgers, performing appropriate financial analyses and reconciliations of yearly activity, and accumulating the required data for reporting. In order to verify that the transactions are fairly presented, procedures must be in place and functioning effectively to ensure the financial information is complete, accurate, and in accordance with GAAP.

Condition/Context: During the fiscal year 2016 audit and financial reporting processes, multiple instances were identified where the complete and accurate recording of financial transactions within the general ledger did not occur including (but not limited to) the following:

- The City was unable to reconcile the City's cash and investments balances with financial institutions to the balance per the general ledger at June 30, 2016 until December 2017.
- The City has been unable to reconcile customer accounts receivable from the billing software to the balance per the general ledger for the Storm Water, Solid Waste, and Sewer Service funds.
- The City was unable to reconcile the City's property taxes receivables to the balance per the general ledger at June 30, 2016 until May 2018.
- Funding receipts from the Commonwealth of Virginia to the City had not been reconciled to the general ledger at June 30, 2016, to verify accuracy and completeness of the transactions, until May 2018.
- Other receivables, capital asset, accounts payable and other accrued liability balances were also not reconciled timely to subsidiary records.

Cause: During fiscal year 2016, the City's Finance Department lacked the required technical skills to analyze and reconcile the myriad of City transactions both timely and accurately. Internal control processes, including management oversight, were not in place to monitor related account activities to ensure the existence, completeness, accuracy, and valuation of all assets and liabilities, revenues, and expenditures/expenses in the City's CAFR.

Effect: The controls in place to close the year-end books, reconcile the balances, analyze the period transactions, and accumulate and assimilate such data into a timely, GAAP compliant financial report simply did not function, leading to the inefficient use of City Finance personnel and hours that would have been better served in other City Finance operations.

SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2016

Section I. FINANCIAL STATEMENT FINDINGS (Continued)

A. Material Weaknesses in Internal Control (Continued)

2016-001: Material Weakness Due to Lack of Timely Reconciliations and Lack of Adequate Year End Close Procedures (Continued)

Recommendation: The City should ensure finance staff have adequate technical skills or training to perform their accounting functions accurately and timely. We recommend increasing levels of oversight to ensure reconciliations are performed timely and formal year end close procedures are documented and followed to support the existence, completeness, accuracy and valuation of all assets and liabilities, revenues, and expenditures/expenses reported in the City's CAFR.

Repeat Findings: 2015-001 and 2015-002

Views of Responsible Officials: Management of the City and School Board agree with the Auditor's findings and recommendations.

2016-002: Material Weakness Due to Material Audit Adjustments and Restatements

Criteria: The year-end financial statements obtained from the City and School Board should be final and free of significant misstatements.

Condition/Context: Upon auditing the year-end balances of the City and School Board, there were instances of material adjustments identified, including entries to restate prior periods. Entries were required to restate prior periods for the following:

City:

Governmental Funds:

General Fund:

- Record liability to the Commonwealth of Virginia for disallowed amounts in the Children's Services Act Board in prior years (See Finding 2016-010)
- Correct error in due to the Community Development Block Grant
- Record prior year's School Board surplus due to City

Capital Projects Fund:

- Correct error in due from the Community Development Block Grant
- Correct recording of prior bond issuance costs
- Correct prior year cash balance
- Reclassify prior year advance as a contribution

Community Development Block Grant Fund:

- Correct prior year Federal receivable and due from other funds

Business-Type Activities:

Hopewell Regional Wastewater Treatment Facilities Fund (HRWTF)

- Correct prior year depreciation
- Record prior year retainage payable
- Correct prior year construction in progress

Sewer Service Fund:

- Correct prior year depreciation

Beacon Theatre Fund:

- Reclassify prior year advance as a contribution

SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2016

Section I. FINANCIAL STATEMENT FINDINGS (Continued)

A. Material Weaknesses in Internal Control (Continued)

2016-002: Material Weakness Due to Material Audit Adjustments and Restatements (Continued)

City: (Continued)

Governmental-Type Activities:

- Adjust the allocation of assets jointly owned by the City and School Board
- Record liability to the Commonwealth of Virginia for disallowed amounts in the Children's Services Act Board in prior years (See Finding 2016-010)
- Correct error in due to the Community Development Block Grant and Federal receivable
- Record prior year's School Board surplus due to City
- Reclassify prior year advance as a contribution
- Correct recording of prior bond issuance costs
- Correct prior year cash balance

School Board:

- See finding 2016-005
- Adjust the allocation of assets jointly-owned by the City and the Schools
- Correct beginning accumulated depreciation for assets that were improperly noted as fully depreciated as well as adjust depreciation expense during the year for these same assets
- Record prior year's School Board surplus due to City
- Correct prior year errors in grant reporting

Cause: There was lack of adequate accounting technical skills and insufficient review to ensure items noted above were accurately recorded.

Effect: As noted above, the effect of these transactions was to misstate prior and current year fund balances and net position of the City and the School Board. The necessary entries above were significant to the financial statements and were included as adjustments in order to more accurately represent the financial position of each of the above. Failure to not record the items noted above would be a departure from accounting principles generally accepted in the United States of America.

Recommendation: The City and School Board should ensure finance staff have adequate technical skills or training to perform their accounting functions accurately and timely. We recommend the City and the School Board increase levels of oversight over maintaining accurate account balances. We also recommend a thorough review of the general ledger and supporting schedules prior to the audit.

Repeat Findings: 2015-001 and 2015-002

Views of Responsible Officials: Management of the City and School Board agree with the Auditor's findings and recommendations.

SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2016

Section I. FINANCIAL STATEMENT FINDINGS (Continued)

A. Material Weaknesses in Internal Control (Continued)

2016-003: Material Weakness Due to Lack of Accurate Supporting Records (Disclaimer of Opinions)

Criteria: The year-end financial statements obtained from the City should be adequately supported by sufficient and appropriate audit documentation.

Condition/Context: Upon auditing the year-end balances of the City, City personnel was unable to provide sufficient audit documentation to support the amounts recorded on the City's financial statements for its Business-Type Activities, including the HRWTF, Sewer Service Fund, Solid Waste Fund, Storm Water Fund and Beacon Theatre Fund.

Cause: The policies and procedures surrounding the billing and accounting records for service charges, unbilled and unearned revenues, contributions and credit adjustments between the City and its customers for the HRWTF, Sewer Service Fund, Solid Waste Fund, and Storm Water Fund were not consistently and accurately applied. Additionally, the City's third-party collections agent for sewer service, solid waste and storm water charges and fees was unable to substantiate balances for accounts receivable and service charges and fees in the Sewer Service Fund, Solid Waste Fund and Storm Water Fund. There was also a lack of oversight and monitoring of the financial operations of these funds by the City.

The City has not provided necessary oversight or been active in the management of the Beacon Theatre. The Beacon Theatre has contracted with a third-party management company to handle day-to-day operations. The management company outsourced the bookkeeping to another third party. Neither the management company nor the third-party bookkeeping entity were able to provide sufficient, appropriate audit evidence after repeated requests to support the financial statement amounts.

Effect: The effect is unknown as there was insufficient audit evidence to form opinions. As a result, opinions were disclaimed for the funds noted above.

Recommendation: The City should ensure finance staff have adequate technical skills or training to perform their accounting functions accurately and timely. The City Finance Department and staff of the HRWTF, Sewer Service Fund, Solid Waste Fund, and Storm Water Fund should review and update existing policies and procedures over the billing and accounting functions of the HRWTF, Sewer Service Fund, Solid Waste Fund, Storm Water Fund, and Beacon Theatre Fund to ensure accurate reconciliations are performed timely between the general ledger, bank statements, and the third party bookkeeping entity for Beacon Theatre and third party collections agent for the Sewer Service Fund, Solid Waste Fund, and the Storm Water Fund. The City should also increase levels of oversight and monitoring over the financial activity of these funds as well.

Repeat Findings: 2015-001 and 2015-002

Views of Responsible Officials: Management of the City agrees with the Auditor's findings and recommendations.

SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2016

Section I. FINANCIAL STATEMENT FINDINGS (Continued)

A. Material Weaknesses in Internal Control (Continued)

2016-004: Material Weakness Due to Lack of Management Contract for Beacon Theatre

Criteria: The City should have signed contracts in place with all third-party management vendors. Additionally, the City should have policies and procedures in place to ensure routine oversight over these vendors is occurring.

Condition/Context: City personnel and the Beacon Theatre third-party management company were unable to provide adequate supporting documentation to support the amounts reported in the financial statements as prepared by the third-party management company. Furthermore, City personnel was unable to provide a current, signed contract between the City and the third-party management company detailing the services to be provided and any fees associated with these services. It was noted that City oversight of Beacon Theatre's operations and subsequent recordation of this activity was not occurring on a routine and ongoing basis.

Cause: Internal control processes were not in place to monitor, review and analyze transactions recorded outside of the City's normal financial applications. Additionally, City personnel did not retain contracts that would allow for routine oversight over third-party consultants.

Effect: The effect is unknown as there was insufficient audit evidence to form an opinion. As a result, an opinion was disclaimed for the Beacon Theatre Fund.

Recommendation: We recommend the City obtain a copy of the most recent contract between the City and the third-party management company. This contract should be reviewed and analyzed and the results of this analysis should be compared to the accounting records to ensure there are no monies due to the City. If the City is unable to locate a current contract, a new management contract should be executed. Additionally, we recommend the City establish a set of policies and procedures governing the City's oversight of Beacon Theatre's operations and the accurate recording of the financial activity on a recurring basis.

Repeat Finding: No

Views of Responsible Officials: Management of the City agrees with the Auditor's findings and recommendations.

2016-005: Material Weakness Due to School Federal Program Cutoff Errors

Criteria: According GAAP, "Recognition of assets and revenues should not be delayed pending completion of purely routine requirements, such as the filing of claims for allowable costs under a reimbursement program."

Condition/Context: The School Board recorded Federal program revenues for certain programs in a different fiscal year than the corresponding expenditures for the federal programs. The revenue and associated amounts that were due from other governments were not recorded until after the reimbursement request had been submitted.

SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2016

Section I. FINANCIAL STATEMENT FINDINGS (Continued)

A. Material Weaknesses in Internal Control (Continued)

2016-005: Material Weakness Due to School Federal Program Cutoff Errors (Continued)

Cause: Revenues and expenditures were not recorded in the same period for certain federal programs by the School Board.

Effect: A material restatement was made to prior year federal revenue and amounts due from other governments for \$2.1 million and a material adjustment was made to current year revenue and amounts due from other governments for \$1.9 million.

Recommendation: We recommend the School Board reconcile revenues and expenditures related to federal programs to ensure amounts are reported in the correct period and in accordance with GAAP.

Repeat Finding: No

Views of Responsible Officials: Management of the School Board agrees with the Auditor's findings and recommendations.

2016-006: Material Weakness Due to Community Development Block Grant Accounting Errors

Criteria: Revenues for the Community Development Block Grant should be recorded in the same period in which expenditures are incurred.

Condition/Context: The Community Development Block Grant program activity was not reconciled. Revenues and expenditures were recorded in different periods.

Cause: There was a lack of reconciliation and oversight for this grant program in order to ensure that revenues and expenditures were recorded in the same period.

Effect: Lack of reconciliation and oversight resulted in noncompliance with GAAP. A material audit adjustment was made to the current year and prior year balances were restated.

Recommendation: We recommend the City increase levels of oversight over the Community Development Block Grant and ensure accurate reconciliations are performed for program revenues and expenditures.

Repeat Finding: No

Views of Responsible Officials: Management of the City agrees with the Auditor's findings and recommendations.

SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2016

Section I. FINANCIAL STATEMENT FINDINGS (Continued)

A. Material Weaknesses in Internal Control (Continued)

2016-007: Material Weakness Due to Lack of Segregation of Duties and System Based Logical Access Controls

Criteria: Users with the ability to administer security to the financial applications should be segregated from users with the ability to administer the financial application's database and from those with end user capabilities to the financial applications. User access controls as well as system security should be monitored and evaluated on a periodic basis.

Condition/Context: The City implemented MUNIS in September 2014. It was noted that the City does not maintain proper segregation of duties over security, administration, and end user access to the financial application and database. Specifically, the City's Database Administrator has access to administer security within the MUNIS application, as well as being the administrator over the MUNIS database. Additionally, other end users of financial applications, including the Director of Finance, also have administrative permissions. These permissions could result in users having inappropriate access. It was noted that the City does not perform a periodic review of access privileges to the MUNIS application. Access privileges to the MUNIS application should be periodically reviewed by the users' management to verify that the level of access still accurately reflects the minimum level required for the user to perform their job function and accurately reflects an appropriate level of segregation of duties within logical access.

It was noted that the City's password and account lockout settings for the network do not match the settings defined within the City's Information Security Policy. Current settings include network password length of seven characters and an account lockout threshold of seven invalid attempts.

Cause: The implementation of new financial systems is a complex process and represents a material change to the system of internal control. After the initial implementation, system based roles and responsibilities require an evaluation to determine whether inherent conflicts exist within the system based roles and responsibilities and then whether system based roles and responsibilities are appropriately assigned to User Accounts based on the City's segregation of duties requirements and complimentary control elements in the City anti-fraud program of controls. The City has not re-evaluated its MUNIS system based roles and responsibilities for inherent conflicts and potential conflicts with assigned User Accounts and functional job responsibilities. Further, the City has not re-established periodic access review controls to ensure system based access continues to align with appropriate segregation of duties.

Effect: Without a thorough review of system based roles, responsibilities, and end user access, the City is subject to an increased exposure to unintended consequences in the form of error and fraud until the control environment matures on the MUNIS environment and controls are placed in service.

SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2016

Section I. FINANCIAL STATEMENT FINDINGS (Continued)

A. Material Weaknesses in Internal Control (Continued)

2016-007: Material Weakness Due to Lack of Segregation of Duties and System Based Logical Access Controls (Continued)

Recommendation: We recommend the City:

- A. Segregate users with the ability to administer security to the financial application from users with the ability to administer the financial application's database. In addition, the City should segregate access for users with the ability to administer security to the financial application from those with end user capabilities to the financial application. If access cannot be segregated, a mitigating control should be implemented to log all security changes made by the personnel and be periodically reviewed by an independent group.
- B. Perform scheduled periodic reviews of user access for the MUNIS application on an annual basis in order to identify unauthorized/inappropriate access based on job function, as well as to identify any terminated users who have remained active in the application. These reviews should be documented and changes identified during the access review should be processed in accordance with the access provisioning procedures.
- C. Revise the current network settings for password length and account lockout threshold to the industry best practices of eight characters in length and three invalid attempts, respectively.

Repeat Finding: 2015-003

Views of Responsible Officials: Management of the City agrees with the Auditor's findings and recommendations.

2016-008: Material Weakness Due to Untimely Social Services LASER Reconciliations to the General Ledger

Criteria: According to the *Specifications for Audits of Counties, Cities and Towns*, issued by the Auditor of Public Accounts (APA) of the Commonwealth of Virginia, Chapters 3-15 Social Services section entitled *General Ledger Reconciliation*, "amounts reported in LASER must be reconciled monthly to be in compliance with Section 3.60, LASER Expenditure Reconciliation and Certification, of the *LDSS Finance Guidelines Manual for Local Departments of Social Service*."

Condition/Context: During the fiscal year 2016 audit, it was determined the monthly LASER amounts were not being reconciled to the general ledger. The fiscal year ended 2016 LASER reconciliation was not completed until June 2018.

Cause: Lack of monthly reconciliations and monitoring of compliance.

Effect: Noncompliance with reconciliation requirements resulted in errors in recording transactions and in lack of reimbursement of certain eligible expenses resulting in a loss of state revenue.

SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2016

Section I. FINANCIAL STATEMENT FINDINGS (Continued)

A. Material Weaknesses in Internal Control (Continued)

2016-008: Material Weakness Due to Untimely Social Services LASER Reconciliations to the General Ledger (Continued)

Recommendation: We recommend the City and Department of Social Services implement procedures to ensure compliance with the specifications of the APA and perform timely LASER reconciliations to the general ledger.

Repeat Finding: No

Views of Responsible Officials: Management of the City agrees with the Auditor's findings and recommendations.

2016-009: Material Weakness Due to Lack of Debt Management Procedures

Criteria: Debt management procedures should exist to ensure capital expenditures associated with debt agreements are paid from the debt proceeds and not operating funds. The procedures should include steps to monitor compliance with all debt covenants.

Condition/Context: The City has unspent bond proceeds invested in the Virginia State Non-Arbitrage Program (SNAP) and is not reconciling the SNAP investment accounts to capital project activity; therefore, drawdowns of the bond proceeds are not occurring timely. Capital expenditures incurred are initially being paid for using operating funds instead of immediately from corresponding bond proceeds.

Cause: Lack of reconciliations and debt management procedures.

Effect: Capital expenditures are being paid from operating funds instead of from associated bond proceeds and debt covenants have not be complied with.

Recommendation: We recommend the City implement debt management procedures, reconcile bond proceeds to capital expenditure activity.

Repeat Finding: No

Views of Responsible Officials: Management of the City agrees with the Auditor's findings and recommendations.

SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2016

Section I. FINANCIAL STATEMENT FINDINGS (Continued)

A. Material Weaknesses in Internal Control (Continued)

2016-010: Material Weakness in Children's Services Act Allowability and Eligibility Procedures

Criteria: Pool disbursement transactions must be supported by a written contract or service agreement. They must be provided to a specific eligible youth or family (and include a child-specific unit price if contracts or purchase orders cover services for more than one youth). Disbursements must also be made as authorized by Community Policy Management Team policies and procedures, which must be consistent with the *Code of Virginia* statutes and the CSA Policy Manual.

Condition/Context: Of the 60 pool disbursement transactions selected for testing, no Individual and Family Service Plan could be located for 16 clients and, therefore, no documentation of mandated or non-mandated determination was maintained. Pervasive to all transactions tested, purchase orders were not created or approved until after the date the service was provided. Known fraudulent activity occurred prior to fiscal year 2016, resulting in a special state review conducted on activity from 2013-2015.

Cause: Lack of oversight and monitoring of the CSA program requirements.

Effect: A weak internal control environment lacking required supporting documentation has the potential to result in improper and/or fraudulent expenses. As a result of both the special state review and litigation related to the fraudulent activity, the City was required to pay the Commonwealth of Virginia \$1,457,221 due to violations of Virginia law and CSA policy.

Recommendation: All purchases need to be reviewed for proper procurement procedures prior to committing funds. Required documentation should be maintained for all case files to support the mandated or non-mandated determination and plan of service. Increased levels of oversight and monitoring should occur to ensure compliance with Virginia law and CSA policy.

Repeat Finding: No

Views of Responsible Officials: Management of the City agrees with the Auditor's findings and recommendations.

SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2016

Section I. FINANCIAL STATEMENT FINDINGS (Continued)

A. Material Weaknesses in Internal Control (Continued)

2016-011: Material Weakness Related to School Board's Preparation of Schedule of Expenditures of Federal Awards

Criteria: Recipients of federal awards are required to track and maintain a complete and accurate accounting of expenditures associated with federal awards. These expenditures are required to be summarized and presented within the Schedule of Expenditures of Federal Awards (Schedule).

Condition/Context: During fieldwork, we were not provided a complete and accurate Schedule. The School Board's Schedule was incorrectly based on revenues, not expenditures. This resulted in the Schedule for the School Board having material errors in the presentation of federal expenditures for fiscal year 2016.

Cause: There was a lack of knowledge of how to prepare an accurate Schedule. Revenues and expenditures were not recorded in the same period for certain federal programs.

Effect: School Board's Schedule was materially misstated.

Recommendation: We recommend the School Board reconcile revenues and expenditures related to federal programs to ensure amounts are reported in the correct period. The Schedule should be reviewed to ensure all expenditures reported are accurate and complete for the period.

Repeat Finding: No

Views of Responsible Officials: Management of the School Board agrees with the Auditor's findings and recommendations.

SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2016

Section I. FINANCIAL STATEMENT FINDINGS (Continued)

B. Significant Deficiency

2016-012: Significant Deficiency Due to Lack of Supporting Documentation of Note Receivable

Criteria: Notes receivable should be supported by adequate documentation, including signed agreements between the parties involved.

Condition/Context: Upon auditing notes receivable recorded by the Sewer Service Fund, the Sewer Service Fund staff were unable to provide a written, signed agreement between the two affected parties, detailing terms and conditions.

Cause: Inadequate policies and procedures are in place regarding the retention and filing of these types of documents.

Effect: Without a signed, written agreement between the two parties, collection of payments on this note could be unenforceable if the payee were to stop making scheduled payments. This could result in forfeiture of a significant amount of money for the Sewer Service Fund.

Recommendation: We recommend the City and Sewer Service Fund establish policies and procedures addressing the retention and filing of legal agreements and address the lack of a signed agreement with the Sewer Service Fund.

Repeat Finding: No

Views of Responsible Officials: Management of the City agrees with the Auditor's findings and recommendations.

SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2016

Section I. FINANCIAL STATEMENT FINDINGS (Continued)

C. Compliance Findings

2016-013: Untimely Social Services LASER Reconciliations to the General Ledger

See finding 2016-008.

2016-014: Lack of Social Services Annual Review of Computer Access

Criteria: According to the *Specifications for Audits of Counties, Cities and Towns*, issued by the APA of the Commonwealth of Virginia, Chapter 3-15 Social Services section entitled *Annual Review of Access*, "Each LSO should be annually reviewing all employees' access to each application with employees' supervisors to ensure that the access is properly aligned with job responsibilities."

Condition/Context: In testing the annual review of computer access of six employees, it was determined computer access was reviewed only when employees needed access changes and not on an annual basis as required.

Cause: Lack of knowledge of compliance requirement.

Effect: Noncompliance with regulations may result in employees retaining inappropriate user access.

Recommendation: We recommend all employees' access be reviewed annually in order to ensure compliance with this requirement.

Repeat Finding: No

Views of Responsible Officials: Management of the City agrees with the Auditor's findings and recommendations.

2016-015: Interest Not Credited to Special Welfare Participants' Accounts on a Monthly Basis

Criteria: According to the *Specifications for Audits of Counties, Cities and Towns*, issued by the APA of the Commonwealth of Virginia, Chapter 3-15 Social Services section entitled *Child Welfare Trust Accounts*, special welfare account receipts should be credited accurately and timely to the special welfare account, and interest should be properly credited to the account when earned.

Condition/Context: In testing the receipts and disbursements for three special welfare participants, it was noted that interest was not properly credited to participant balances when earned.

Cause: The Department of Social Services does not receive the bank statements from the Treasurer soon enough to timely credit the interest when earned. For example, the July 2015 bank statement was received by the Department of Social Services in July 2016.

SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2016

Section I. FINANCIAL STATEMENT FINDINGS (Continued)

C. Compliance Findings (Continued)

2016-015: Interest Not Credited to Special Welfare Participants' Accounts on a Monthly Basis (Continued)

Effect: Noncompliance with this requirement could result in sanctions.

Recommendation: We recommend the Treasurer of the City provide the Department of Social Services bank statements monthly in order for interest to be properly credited when earned for special welfare accounts.

Repeat Finding: No

Views of Responsible Officials: Management of the City agrees with the Auditor's findings and recommendations.

2016-016: Commonwealth of Virginia Yearly Financial Reporting

Criteria: According to Section 15.2-2510 of the *Code of Virginia*, local governments must submit their audited financial report to the Commonwealth of Virginia's APA by November 30 of each year.

Condition/Context: The City did not submit its audited financial report to the APA by the required date.

Cause: The City lacked the appropriate internal controls necessary to close the year end books, reconcile account balances, analyze the period transactions, and assimilate and accumulate such data into a timely, GAAP compliant financial report.

Effect: Noncompliance with the Commonwealth's requirements may result in sanctions.

Recommendation: The City should implement corrective action aimed at enhancing internal controls to ensure that financial reporting is made in accordance with Section 15.2-2510 of the *Code of Virginia*.

Repeat Finding: This is a repeat of finding 2015-004.

Views of Responsible Officials: Management of the City agrees with the Auditor's findings and recommendations.

SCHEDULE OF FINDINGS AND RESPONSES

Year Ended June 30, 2016

Section I. FINANCIAL STATEMENT FINDINGS (Continued)

C. Compliance Findings (Continued)

2016-017: Children's Services Act Allowability and Eligibility Procedures

See finding 2016-010.

2016-018: Conflicts of Interest

Criteria: According to the *Specifications for Audits of Counties, Cities and Towns*, issued by the APA of the Commonwealth of Virginia, Chapter 3-5 section entitled *Conflicts of Interest*, "The State and Local Government Conflicts of Interest Act is contained in Chapter 31 (Section 2.2-3100 et. seq.) of Title 2.2 of the *Code of Virginia*. The Act requires local government officials to file a statement of economic interests with the office of the Virginia Conflict of Interest and Ethics Advisory Council semiannually by December 15 for the preceding six-month period ending October 31 and by June 15 for the preceding six-month period ending April 30. The Act sets out the format of this statement, which involves extensive disclosure of personal financial interests that may cause conflicts."

Condition/Context: Three of the required statements of economic interests were not submitted.

Cause: Lack of due diligence and oversight to comply with the requirement noted above.

Effect: Noncompliance with this requirement could result in undisclosed personal financial interests that may cause conflicts.

Recommendation: We recommend increased levels of oversight to ensure the applicable local government officials file the required statements by the semiannual deadlines noted above.

Repeat Finding: No

Views of Responsible Officials: Management of the City agrees with the Auditor's findings and recommendations.

2016-019: Noncompliance with Debt Covenants

Criteria: The Series 2015 General Obligation Public Improvement Bond, Series 2015A General Obligation Public Improvement Bond, Series 2010 Sewer System Revenue Bond, Series 2011A Sewer System Revenue Refunding Bond and the Series 2011B Sewer System Revenue Bond require the City to submit audited financial reports to the purchaser within 270 days of the fiscal year end and, if not available, the City is required to provide unaudited financial statements at that time. The Series 2011 General Obligation School Bond and the Series 2010 General Obligation School Bond require the City to submit annual reports to the purchaser no later than twelve months after the fiscal year end. The Series 2011 General Obligation School Bond requires the City to submit audited financial statements to the purchaser on or before March 31 following the end of the City's fiscal year. The Series 2014 Taxable Sewer System Revenue Bond, Series 2011 General Obligation Public Improvement and Refunding Bonds and Series 2010 Sewer System Revenue Bonds require debt service reserves.

SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2016

Section I. FINANCIAL STATEMENT FINDINGS (Continued)

C. Compliance Findings (Continued)

2016-019: Noncompliance with Debt Covenants (Continued)

Condition/Context: The City did not provide audited or unaudited financial reports by the deadlines required by the debt covenants. Also, the City did not monitor debt service reserve accounts to ensure compliance with the requirements.

Cause: Lack of debt management procedures, oversight and monitoring of debt covenants.

Effect: Noncompliance with debt covenants could result in the debt being called.

Recommendation: We recommend increased levels of oversight and monitoring of all debt covenant requirements.

Repeat Finding: No

Views of Responsible Officials: Management of the City agrees with the Auditor's findings and recommendations.

2016-020: Bank Not Identified as a Public Depository and Bank Accounts Not Identified as a Public Deposit

Criteria: The *Code of Virginia* contains various requirements designed to safeguard state and local funds. Deposits must be secured in accordance with the Virginia Security for Public Deposits Act. The Act requires governments to use bank and financial institutions that meet specific collateralization requirements. Treasurers must ensure the qualified depository identifies the account(s) as public deposits.

Condition/Context: Upon auditing cash, it was determined that one of the banks used by the City was not identified as a qualified public depository. Furthermore, three bank accounts containing public monies were not identified individually by the financial institution as public deposits.

Cause: Lack of knowledge about the compliance requirements noted above.

Effect: The City is not in compliance with the *Code of Virginia*.

Recommendation: We recommend the Treasurer of the City review all of their accounts and ensure that accounts containing public deposits are properly marked as such. Additionally, the Treasurer of the City should determine with financial institutions that all of the City's public deposits are secured and ensure the financial institutions are included on the Department of the Treasury's listing of qualified depositories.

Repeat Finding: No

Views of Responsible Officials: Management of the City agrees with the Auditor's findings and recommendations.

SCHEDULE OF FINDINGS AND RESPONSES

Year Ended June 30, 2016

Section I. FINANCIAL STATEMENT FINDINGS (Continued)

C. Compliance Findings (Continued)

2016-021: Lack of Compliance with Sections 15.2-2506 and 58.1-3001 of the *Code of Virginia* in the City's Virginia Public Assistance Fund

Criteria: No money may be paid out for any expenditure unless and until the governing body has made an appropriation for the expenditure (Sections 15.2-2506 and 58.1-3001 of the *Code of Virginia*).

Condition/Context: Upon auditing the City's Virginia Public Assistance Fund's year-end expenditures compared to their final approved budget, expenditures exceeded the final appropriated budget by a material amount.

Cause: There was a lack of budget monitoring throughout the year to ensure that sufficient appropriations were made for the City's Virginia Public Assistance Fund expenditures.

Effect: The City has not complied with Sections 15.2-2506 and 58.1-3001 of the *Code of Virginia* and has made disbursements in the Virginia Public Assistance Fund in excess of appropriations.

Recommendation: We recommend the City monitor the budget for all funds more closely throughout the year to ensure compliance with the *Code of Virginia*.

Views of Responsible Officials: Management of the City agrees with the Auditor's findings and recommendations.

SB-6



CITY OF HOPEWELL CITY COUNCIL ACTION FORM

Strategic Operating Plan Vision Theme:

- Civic Engagement
- Culture & Recreation
- Economic Development
- Education
- Housing
- Safe & Healthy Environment
- None (Does not apply)

Order of Business:

- Consent Agenda
- Public Hearing
- Presentation-Boards/Commissions
- Unfinished Business
- Citizen/Councilor Request
- Regular Business
- Reports of Council Committees

Action:

- Approve and File
- Take Appropriate Action
- Receive & File (no motion required)
- Approve Ordinance 1st Reading
- Approve Ordinance 2nd Reading
- Set a Public Hearing
- Approve on Emergency Measure

COUNCIL AGENDA ITEM TITLE:

Fiscal Year 2017 Auditors Report

ISSUE: Discussion of the audit findings

RECOMMENDATION:

TIMING:

BACKGROUND: This is a Council request

ENCLOSED DOCUMENTS:

- None

STAFF:

FOR IN MEETING USE ONLY

MOTION: _____

Roll Call

SUMMARY:

Y N

- Councilor Debbie Randolph, Ward #1
- Councilor Arlene Holloway, Ward #2
- Councilor John B. Partin, Ward #3
- Mayor Jasmine Gore, Ward #4

Y N

- Councilor Janice Denton, Ward #5
- Councilor Brenda Pelham, Ward #6
- Vice Mayor Patience Bennett, Ward #7

SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2017

Section I. FINANCIAL STATEMENT FINDINGS**A. Material Weaknesses in Internal Control****2017-001: Material Weakness Due to Lack of Timely Reconciliations, Lack of Adequate Year End Close Procedures and Lack of Adequate Internal Controls over Budget Transfers**

Criteria: In order to prepare financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP), accurate and complete general and subsidiary ledgers, along with supporting records, must be maintained to support the existence, completeness, accuracy, and valuation of all assets and liabilities, revenues, and expenditures/expenses to ensure an accurate presentation of the financial position and activity of the City of Hopewell, Virginia (City) for the fiscal year just ended. The efficient, effective, and timely preparation of the Comprehensive Annual Financial Report (CAFR) depends heavily on personnel from various City departments and the School Board and includes closing the City's and School Board's general ledgers, performing appropriate financial analyses and reconciliations of yearly activity, and accumulating the required data for reporting. In order to verify that the transactions are fairly presented, procedures must be in place and functioning effectively to ensure the financial information is complete, accurate, and in accordance with GAAP. Also, budget transfers should be properly supported and approved in accordance with City policy.

Condition/Context: During the fiscal year 2017 audit and financial reporting processes, multiple instances were identified where the complete and accurate recording of financial transactions within the general ledger did not occur including (but not limited to) the following:

- The City and School Board were unable to reconcile the City and School Board's cash and investments balances with financial institutions to the balance per the general ledger at June 30, 2017 until December 2017.
- The City has been unable to reconcile customer accounts receivable from the billing software to the balance per the general ledger for the Storm Water, Solid Waste, and Sewer Service funds.
- The City was unable to reconcile the City's property taxes receivables to the balance per the general ledger at June 30, 2017 until May 2018.
- Funding receipts from the Commonwealth of Virginia to the City was not reconciled to the general ledger at June 30, 2017, to verify accuracy and completeness of the transactions, until May 2018.
- Other receivables, capital asset, accounts payable and other accrued liability balances were also not reconciled timely to subsidiary records.
- Over 50 journal entries were made to the trial balance provided for audit.
- Budget transfers sampled for testing lacked adequate support and approval in accordance with City policy.
- Financial information was not accumulated to allow for required CAFR disclosure in accordance with GAAP, specifically significant contractual commitments.

Cause: During fiscal year 2017, the City's Finance Department lacked the required technical skills to analyze and reconcile the myriad of City transactions both timely and accurately. Internal control processes, including management oversight, were not in place to monitor related account activities, including budget transfers, to ensure the existence, completeness, accuracy, valuation, and disclosure of all assets and liabilities, revenues, and expenditures/expenses in the City's CAFR.

SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2017

Section I. FINANCIAL STATEMENT FINDINGS (Continued)

A. Material Weaknesses in Internal Control (Continued)

2017-001: Material Weakness Due to Lack of Timely Reconciliations, Lack of Adequate Year End Close Procedures and Lack of Adequate Internal Controls over Budget Transfers (Continued)

Effect: The controls in place to close the year-end books, reconcile the balances, analyze the period transactions, and accumulate and assimilate such data into a timely, GAAP compliant financial report simply did not function, leading to the inefficient use of City Finance personnel and hours that would have been better served in other City Finance operations. Additionally, budget transfers which lacked documented approval and adequate support in accordance with City policy appear to have occurred.

Recommendation: The City should ensure finance staff have adequate technical skills or training to perform their accounting functions accurately and timely. We recommend increasing levels of oversight over budget transfers and to ensure reconciliations are performed timely and formal year end close procedures are documented and followed to support the existence, completeness, accuracy, valuation, and disclosure of all assets and liabilities, revenues, expenditures/expenses, and significant contractual commitments reported in the City's CAFR.

Repeat Findings: 2015-001, 2015-002, and 2016-001

Views of Responsible Officials: Management of the City agrees with the Auditor's findings and recommendations.

2017-002: Material Weakness Due to Material Audit Adjustments and Restatements

Criteria: The year-end financial statements obtained from the City and School Board should be final and free of significant misstatements.

Condition/Context: Upon auditing the year-end balances of the City and School Board, there were instances of material adjustments identified, including entries to restate prior periods. An audit adjustment was identified to correct the School Board's cash balance. Entries were also required to restate prior periods for the following:

City:

Business-Type Activities:

Hopewell Regional Wastewater Treatment Facilities Fund (HRWTF)

- Correct prior year accounts receivable and revenue

Sewer Service Fund:

- Correct prior year accounts receivable and revenue

Solid Waste Fund:

- Correct prior year accounts receivable and revenue

Storm Water Fund:

- Correct prior year accounts receivable and revenue

Cause: There was lack of adequate accounting technical skills and insufficient review to ensure items noted above were accurately recorded.

SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2017

Section I. FINANCIAL STATEMENT FINDINGS (Continued)

A. Material Weaknesses in Internal Control (Continued)

2017-002: Material Weakness Due to Material Audit Adjustments and Restatements (Continued)

Effect: As noted above, the effect of these transactions was to misstate prior and current year net position of the City. The necessary entries above were significant to the financial statements and were included as adjustments in order to more accurately represent the financial position of each of the above. Failure to not record the items noted above would be a departure from accounting principles generally accepted in the United States of America.

Recommendation: The City and School Board should ensure finance staff have adequate technical skills or training to perform their accounting functions accurately and timely. We recommend the City and School Board increase levels of oversight over maintaining accurate account balances.

Repeat Findings: 2015-001, 2015-002 and 2016-002

Views of Responsible Officials: Management of the City agree with the Auditor's findings and recommendations.

2017-003: Material Weakness Due to Lack of Accurate Supporting Records (Disclaimer of Opinions)

Criteria: The year-end financial statements obtained from the City should be adequately supported by sufficient and appropriate audit documentation.

Condition/Context: Upon auditing the year-end balances of the City, City personnel was unable to provide sufficient audit documentation to support the amounts recorded on the City's financial statements for its Business-Type Activities, including the Sewer Service Fund, Solid Waste Fund, Storm Water Fund and Beacon Theatre Fund.

Cause: The policies and procedures surrounding the billing and accounting records for service charges, unbilled and unearned revenues, contributions and credit adjustments between the City and its customers for the Sewer Service Fund, Solid Waste Fund, and Storm Water Fund were not consistently and accurately applied. Additionally, the City's third-party collections agent for sewer service, solid waste and storm water charges and fees was unable to substantiate balances for accounts receivable and service charges and fees in the Sewer Service Fund, Solid Waste Fund and Storm Water Fund. There was also a lack of oversight and monitoring of the financial operations of these funds by the City.

The City has not provided necessary oversight or been active in the management of the Beacon Theatre. The Beacon Theatre has contracted with a third-party management company to handle day-to-day operations. The management company outsourced the bookkeeping to another third party. Neither the management company nor the third-party bookkeeping entity were able to provide sufficient, appropriate audit evidence after repeated requests to support the financial statement amounts.

Effect: The effect is unknown as there was insufficient audit evidence to form opinions. As a result, opinions were disclaimed for the funds noted above.

SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2017

Section I. FINANCIAL STATEMENT FINDINGS (Continued)

A. Material Weaknesses in Internal Control (Continued)

2017-003: Material Weakness Due to Lack of Accurate Supporting Records (Disclaimer of Opinions) (Continued)

Recommendation: The City should ensure finance staff have adequate technical skills or training to perform their accounting functions accurately and timely. The City Finance Department and staff of the Sewer Service Fund, Solid Waste Fund, and Storm Water Fund should review and update existing policies and procedures over the billing and accounting functions of the Sewer Service Fund, Solid Waste Fund, Storm Water Fund, and Beacon Theatre Fund to ensure accurate reconciliations are performed timely between the general ledger, bank statements, and the third party bookkeeping entity for Beacon Theatre and third party collections agent for the Sewer Service Fund, Solid Waste Fund, and the Storm Water Fund. The City should also increase levels of oversight and monitoring over the financial activity of these funds as well.

Repeat Findings: 2015-001, 2015-002 and 2016-003

Views of Responsible Officials: Management of the City agrees with the Auditor's findings and recommendations.

2017-004: Material Weakness Due to Lack of Management Contract for Beacon Theatre

Criteria: The City should have signed contracts in place with all third-party management vendors. Additionally, the City should have policies and procedures in place to ensure routine oversight over these vendors is occurring.

Condition/Context: City personnel and the Beacon Theatre third-party management company were unable to provide adequate supporting documentation to support the amounts reported in the financial statements as prepared by the third-party management company. Furthermore, City personnel was unable to provide a signed contract between the City and the third-party management company detailing the services to be provided and any fees associated with these services. It was noted that City oversight of Beacon Theatre's operations and subsequent recordation of this activity was not occurring on a routine and ongoing basis.

Cause: Internal control processes were not in place to monitor, review and analyze transactions recorded outside of the City's normal financial applications. Additionally, City personnel did not retain contracts that would allow for routine oversight over third-party consultants.

Effect: The effect is unknown as there was insufficient audit evidence to form an opinion. As a result, an opinion was disclaimed for the Beacon Theatre Fund.

SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2017

Section I. FINANCIAL STATEMENT FINDINGS (Continued)

A. Material Weaknesses in Internal Control (Continued)

2017-004: Material Weakness Due to Lack of Management Contract for Beacon Theatre (Continued)

Recommendation: We recommend the City obtain a copy of the most recent contract between the City and the third-party management company. This contract should be reviewed and analyzed and the results of this analysis should be compared to the accounting records to ensure there are no monies due to the City. If the City is unable to locate a current contract, a new management contract should be executed. Additionally, we recommend the City establish a set of policies and procedures governing the City's oversight of Beacon Theatre's operations and the accurate recording of the financial activity on a recurring basis.

Repeat Finding: 2016-004

Views of Responsible Officials: Management of the City agrees with the Auditor's findings and recommendations.

2017-005: Material Weakness Due to Lack of Segregation of Duties and System Based Logical Access Controls

Criteria: Users with the ability to administer security to the financial applications should be segregated from users with the ability to administer the financial application's database and from those with end user capabilities to the financial applications. User access controls as well as system security should be monitored and evaluated on a periodic basis.

Condition/Context: The City implemented MUNIS in September 2014. It was noted that the City does not maintain proper segregation of duties over security, administration, and end user access to the financial application and database. Specifically, the City's Database Administrator has access to administer security within the MUNIS application, as well as being the administrator over the MUNIS database. Additionally, other end users of financial applications, including the Director of Finance, also have administrative permissions. These permissions could result in users having inappropriate access. It was noted that the City does not perform a periodic review of access privileges to the MUNIS application. Access privileges to the MUNIS application should be periodically reviewed by the users' management to verify that the level of access still accurately reflects the minimum level required for the user to perform their job function and accurately reflects an appropriate level of segregation of duties within logical access.

It was noted that the City's password and account lockout settings for the network do not match the settings defined within the City's Information Security Policy. Current settings include network password length of seven characters and an account lockout threshold of seven invalid attempts.

Additionally, based on a selection of journal entries that were tested, we noted a lack of segregation of duties over journal entry initiation, approval and posting.

SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2017

Section I. FINANCIAL STATEMENT FINDINGS (Continued)

A. Material Weaknesses in Internal Control (Continued)

2017-005: Material Weakness Due to Lack of Segregation of Duties and System Based Logical Access Controls (Continued)

Cause: The implementation of new financial systems is a complex process and represents a material change to the system of internal control. After the initial implementation, system based roles and responsibilities require an evaluation to determine whether inherent conflicts exist within the system based roles and responsibilities and then whether system based roles and responsibilities are appropriately assigned to User Accounts based on the City's segregation of duties requirements and complimentary control elements in the City anti-fraud program of controls. The City has not re-evaluated its MUNIS system based roles and responsibilities for inherent conflicts and potential conflicts with assigned User Accounts and functional job responsibilities. Further, the City has not re-established periodic access review controls to ensure system based access continues to align with appropriate segregation of duties. Also, the City lacks adequate internal control over journal entries.

Effect: Without a thorough review of journal entries and system based roles, responsibilities, and end user access, the City is subject to an increased exposure to unintended consequences in the form of error and fraud until the control environment matures on the MUNIS environment and controls are placed in service.

Recommendation: We recommend the City:

- A. Segregate users with the ability to administer security to the financial application from users with the ability to administer the financial application's database. In addition, the City should segregate access for users with the ability to administer security to the financial application from those with end user capabilities to the financial application. If access cannot be segregated, a mitigating control should be implemented to log all security changes made by the personnel and be periodically reviewed by an independent group.
- B. Perform scheduled periodic reviews of user access for the MUNIS application on an annual basis in order to identify unauthorized/inappropriate access based on job function, as well as to identify any terminated users who have remained active in the application. These reviews should be documented and changes identified during the access review should be processed in accordance with the access provisioning procedures.
- C. Revise the current network settings for password length and account lockout threshold to the industry best practices of eight characters in length and three invalid attempts, respectively.
- D. Review procedures over journal entries and modify as necessary to ensure adequate segregation of duties.

Repeat Finding: 2015-003 and 2016-007

Views of Responsible Officials: Management of the City agrees with the Auditor's findings and recommendations.

SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2017

Section I. FINANCIAL STATEMENT FINDINGS (Continued)

A. Material Weaknesses in Internal Control (Continued)

2017-006: Material Weakness Due to Untimely Social Services LASER Reconciliations to the General Ledger

Criteria: According to the *Specifications for Audits of Counties, Cities and Towns*, issued by the Auditor of Public Accounts (APA) of the Commonwealth of Virginia, Chapters 3-15 Social Services section entitled *General Ledger Reconciliation*, "amounts reported in LASER must be reconciled monthly to be in compliance with Section 3.60, LASER Expenditure Reconciliation and Certification, of the *LDSS Finance Guidelines Manual for Local Departments of Social Service*."

Condition/Context: During the fiscal year 2017 audit, it was determined the monthly LASER amounts were not being reconciled to the general ledger. The fiscal year ended 2017 LASER reconciliation was not completed until June 2018.

Cause: Lack of monthly reconciliations and monitoring of compliance.

Effect: Noncompliance with reconciliation requirements resulted in errors in recording transactions and in lack of reimbursement of certain eligible expenses resulting in a loss of state revenue.

Recommendation: We recommend the City and Department of Social Services implement procedures to ensure compliance with the specifications of the APA and perform timely LASER reconciliations to the general ledger.

Repeat Finding: 2016-008

Views of Responsible Officials: Management of the City agrees with the Auditor's findings and recommendations.

2017-007: Material Weakness Due to Lack of Debt Management Procedures

Criteria: Debt management procedures should exist to ensure capital expenditures associated with debt agreements are paid from the debt proceeds and not operating funds. The procedures should include steps to monitor compliance with all debt covenants.

Condition/Context: The City has unspent bond proceeds invested in the Virginia State Non-Arbitrage Program (SNAP) and is not reconciling the SNAP investment accounts to capital project activity; therefore, drawdowns of the bond proceeds are not occurring timely. Capital expenditures incurred are initially being paid for using operating funds instead of immediately from corresponding bond proceeds.

Cause: Lack of reconciliations and debt management procedures.

Effect: Capital expenditures are being paid from operating funds instead of from associated bond proceeds and debt covenants have not be complied with.

SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2017

Section I. FINANCIAL STATEMENT FINDINGS (Continued)

A. Material Weaknesses in Internal Control (Continued)

2017-007: Material Weakness Due to Lack of Debt Management Procedures (Continued)

Recommendation: We recommend the City implement debt management procedures, reconcile bond proceeds to capital expenditure activity.

Repeat Finding: 2016-009

Views of Responsible Officials: Management of the City agrees with the Auditor's findings and recommendations.

2017-008: Material Weakness in Children's Services Act Allowability and Eligibility Procedures

Criteria: Pool disbursement transactions must be supported by a written contract or service agreement. They must be provided to a specific eligible youth or family (and include a child-specific unit price if contracts or purchase orders cover services for more than one youth). Disbursements must also be made as authorized by Community Policy Management Team policies and procedures, which must be consistent with the *Code of Virginia* statutes and the CSA Policy Manual.

Condition/Context: Of the 60 pool disbursement transactions selected for testing, the approved amount of the transaction exceeded the amount per Individual and Family Service Plan for five transactions. Pervasive to all transactions tested, purchase orders were not created or approved until after the date the service was provided. Known fraudulent activity occurred prior to fiscal year 2016, resulting in a special state review conducted on activity from 2013-2015 and a return of funds to the state.

Cause: Lack of oversight and monitoring of the CSA program requirements.

Effect: A weak internal control environment lacking required supporting documentation and lack of adequate review has the potential to result in improper and/or fraudulent expenses. As a result of both the special state review and litigation related to the fraudulent activity, the City was required to pay the Commonwealth of Virginia \$1,457,221 due to violations of Virginia law and CSA policy.

Recommendation: All purchases need to be reviewed for proper procurement procedures prior to committing funds. Increased levels of oversight, review, and monitoring should occur to ensure compliance with Virginia law and CSA policy.

Repeat Finding: 2016-010

Views of Responsible Officials: Management of the City agrees with the Auditor's findings and recommendations.

SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2017

Section I. FINANCIAL STATEMENT FINDINGS (Continued)

B. Compliance Findings

2017-009: Untimely Social Services LASER Reconciliations to the General Ledger

See finding 2017-006.

2017-010: Commonwealth of Virginia Yearly Financial Reporting

Criteria: According to Section 15.2-2510 of the *Code of Virginia*, local governments must submit their audited financial report to the Commonwealth of Virginia's APA by November 30 of each year.

Condition/Context: The City did not submit its audited financial report to the APA by the required date.

Cause: The City lacked the appropriate internal controls necessary to close the year end books, reconcile account balances, analyze the period transactions, and assimilate and accumulate such data into a timely, GAAP compliant financial report.

Effect: Noncompliance with the Commonwealth's requirements may result in sanctions.

Recommendation: The City should implement corrective action aimed at enhancing internal controls to ensure that financial reporting is made in accordance with Section 15.2-2510 of the *Code of Virginia*.

Repeat Finding: This is a repeat of finding 2015-004 and 2016-016.

Views of Responsible Officials: Management of the City agrees with the Auditor's findings and recommendations.

2017-011: Children's Services Act Allowability and Eligibility Procedures

See finding 2017-008.

2017-012: Noncompliance with Debt Covenants

Criteria: The Series 2015 General Obligation Public Improvement Bond, Series 2015A General Obligation Public Improvement Bond, Series 2010 Sewer System Revenue Bond, Series 2011A Sewer System Revenue Refunding Bond and the Series 2011B Sewer System Revenue Bond require the City to submit audited financial reports to the purchaser within 270 days of the fiscal year end and, if not available, the City is required to provide unaudited financial statements at that time. The Series 2011 General Obligation School Bond and the Series 2010 General Obligation School Bond require the City to submit annual reports to the purchaser no later than twelve months after the fiscal year end. The Series 2011 General Obligation School Bond requires the City to submit audited financial statements to the purchaser on or before March 31 following the end of the City's fiscal year. The Series 2014 Taxable Sewer System Revenue Bond, Series 2011 General Obligation Public Improvement and Refunding Bonds and Series 2010 Sewer System Revenue Bonds require debt service reserves.

SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2017

Section I. FINANCIAL STATEMENT FINDINGS (Continued)

B. Compliance Findings (Continued)

2017-012: Noncompliance with Debt Covenants (Continued)

Condition/Context: The City did not provide audited or unaudited financial reports by the deadlines required by the debt covenants. Also, the City did not monitor debt service reserve accounts to ensure compliance with the requirements.

Cause: Lack of debt management procedures, oversight and monitoring of debt covenants.

Effect: Noncompliance with debt covenants could result in the debt being called.

Recommendation: We recommend increased levels of oversight and monitoring of all debt covenant requirements.

Repeat Finding: 2016-019

Views of Responsible Officials: Management of the City agrees with the Auditor's findings and recommendations.

2017-013: Bank Not Identified as a Public Depository and Bank Accounts Not Identified as a Public Deposit

Criteria: The *Code of Virginia* contains various requirements designed to safeguard state and local funds. Deposits must be secured in accordance with the Virginia Security for Public Deposits Act. The Act requires governments to use bank and financial institutions that meet specific collateralization requirements. Treasurers must ensure the qualified depository identifies the account(s) as public deposits.

Condition/Context: Upon auditing cash, it was determined that one of the banks used by the City was not identified as a qualified public depository. Furthermore, three bank accounts containing public monies were not identified individually by the financial institution as public deposits.

Cause: Lack of knowledge about the compliance requirements noted above.

Effect: The City is not in compliance with the *Code of Virginia*.

Recommendation: We recommend the Treasurer of the City review all of their accounts and ensure that accounts containing public deposits are properly marked as such. Additionally, the Treasurer of the City should determine with financial institutions that all of the City's public deposits are secured and ensure the financial institutions are included on the Department of the Treasury's listing of qualified depositories.

Repeat Finding: 2016-020

Views of Responsible Officials: Management of the City agrees with the Auditor's findings and recommendations.

SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2017

Section I. FINANCIAL STATEMENT FINDINGS (Continued)

B. Compliance Findings (Continued)

2017-014: Lack of Compliance with Sections 15.2-2506 and 58.1-3001 of the *Code of Virginia* in the City's Virginia Public Assistance Fund and Community Development Block Grant Fund

Criteria: No money may be paid out for any expenditure unless and until the governing body has made an appropriation for the expenditure (Sections 15.2-2506 and 58.1-3001 of the *Code of Virginia*).

Condition/Context: Upon auditing the City's Virginia Public Assistance Fund's and Community Development Block Grant Fund's year-end expenditures compared to their final approved budget, expenditures exceeded the final appropriated budget by a material amount.

Cause: There was a lack of budget monitoring throughout the year to ensure that sufficient appropriations were made for the City's Virginia Public Assistance Fund and Community Development Block Grant Fund expenditures.

Effect: The City has not complied with Sections 15.2-2506 and 58.1-3001 of the *Code of Virginia* and has made disbursements in the Virginia Public Assistance Fund and Community Development Block Grant Fund in excess of appropriations.

Recommendation: We recommend the City monitor the budget for all funds more closely throughout the year to ensure compliance with the *Code of Virginia*.

Repeat Finding: 2016-021

Views of Responsible Officials: Management of the City agrees with the Auditor's findings and recommendations.

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