



Richmond City Council

The Voice of the People

Richmond, Virginia

Office of the Inspector General

January 11, 2021

Mr. Lincoln Saunders
Chief Administrative Officer
City of Richmond

The Office of the Inspector General (OIG), with the assistance of the Office of the City Auditor, has completed an investigation within the Department of Finance. This report presents the results of the investigation.

Allegation

The Office of the Inspector General received an anonymous complaint alleging the leadership of the Finance Department has been falsifying two cash accounts, the Concentration Account and Disbursement Account. These accounts have not been reconciled since FY2017 and have been presented to the external auditors as reconciled accounts. Specifically, MUNIS transactions are not being reconciled against the General Ledger and the bank. The most recent year-end Concentration Account Reconciliation Report for FY2020 lists a cumulative unreconciled difference from fiscal years 2017-2020 totaling \$14,957,724.55. These amounts are being used as a plug to make the General Ledger and the bank statement balance. The General Ledger is most likely overstated and the amount of cash on hand that is reported to the administration and City Council is incorrect. The Director of Finance was notified by the complainant of this issue, but still approved the FY20 year-end report.

Legal and City Policy Requirements

- 1) In accordance with the Code of Virginia §15.2-2511.2, the Inspector General is required to investigate all allegations of fraud, waste and abuse.
- 2) Department of Finance Policy 2-030 Responsibility for the Internal Accounting and Administrative Controls.

Background

The Concentration Account is the main account through which city funds flow. MUNIS revenue transactions are batched in groups and automatically transferred to RAPIDS, making reconciliations of the account time consuming. The year-end balance in this account is used as part of the Annual Comprehensive Financial Report. This report is prepared by the Department of Finance and reviewed by the city contracted external auditor.

The Concentration Account Reconciliation Reports are reported monthly with the June report being the year-end report for the fiscal year. These reports were requested for FY16-FY21. The Finance Department was able to provide the FY18 year-end report from June 30, 2018 and all reports from FY19-FY21. These reports were reviewed.

The FY18 year-end report was not signed or dated by an approver. It listed \$4,381,799.05 in reconciling items from FY17. The amount entered into the report is unreconciled.

FY19 year-end report listed FY18 adjusted reconciling items adjusted in FY19 as \$4,286,409.18 and FY19 reconciling items \$10,697,743.81 for a total of \$14,984,152.99. The report was approved by a Deputy Director. The amount entered into the report is unreconciled.

FY20 year-end report listed adjusted reconciling items from FY17-FY19 as \$14,957,724.55. This report was approved by the Director who was Deputy Director at that time. For the FY20 each monthly report listed the monthly variance for MUNIS transactions as unreconciled ledger vs bank. The amount entered into the report is unreconciled.

The review of the dates these reports were prepared and reviewed show that they are not being done on a monthly basis.

The Assistant Controller, Controller and Director of Finance were interviewed.

The Assistant Controller confirmed that the MUNIS transactions were not being reconciled from the General Ledger to the bank. He/she did not know who or when the decision was made to stop reconciling this part of the account, but thought it was because of the difficulty in reconciling MUNIS and the lack of personnel. He/she did believe that the cash balance was most likely overstated to an unknown amount.

The Controller also confirmed that the MUNIS transactions were not being reconciled from the General Ledger to the bank. He/she did not know who or when the decision was made to stop reconciling this part of the account and also thought it was because of the difficulty with MUNIS and the lack of personnel. He/she did believe the cash balance was most likely overstated.

The Director was asked why he/she approved and signed the FY20 year-end report with unreconciled entries and said that he/she was new to the city and relied upon her staff and the audited financial report from the external auditors. In regards to the FY20 year-end report with unreconciled entries, the Director said that, knowing what they now know, he/she probably would not have signed the report. The Director said that as he/she looked into the reconciliation issue, he/she realized there was a problem and tasked a manager with getting the reconciliation back on track, but that manager left the city. The task got behind because of a lack of personnel and the issue came to the forefront with the letter of complaint that was sent to the Mayor's Office. The Director has been able to hire two new employees recently to work on this issue. When asked

if he/she thought the cash balance was overstated, he/she said he/she could not say without reconciling, which they are currently working towards.

The manager for the current external auditor was interviewed. This company has performed the external audit for FY16-21, a different company performed the audit for FY15. The company had limited notes other than the reconciling from amounts from previous years were reviewed with city personnel and were under materiality thresholds. The earliest notes said it the amounts were related to utility payments.

The external audit reports were reviewed for FY15-FY20.

The FY15 audit (from previous external auditor) cited a material weakness, routine monthly reconciliations were not being prepared in a timely manner, including monthly cash account reconciliations. These reports were not being prepared until after the close of the fiscal year to prepare for the Comprehensive Annual Financial Report. The effect noted was, "Failure to perform routine reconciliations timely increases the risk that a material error in recorded balances may not be prevented and detected by employees in the normal course of performing their assigned functions. Further, the financial information provided to those charged with governance may not be accurate, timely or relevant." The recommendation was for the Director of Finance to report quarterly to the DCAO that the monthly reconciliations have been prepared, reviewed and approved. Management concurred with this recommendation.

The FY16 audit (from current auditor) cites the same material weakness for lack of timely reconciliations. It recommends accounts be reconciled monthly and the management concurred.

The FY17 audit cites the FY2016 material weakness for reconciliation and notes the problem still exists. The recommendation was for monthly reconciliations and the management concurred.

The FY18-FY20 audit reports do not make any finding regarding reconciliation of cash accounts.

Department of Finance policy 2-030, Responsibility for Internal Accounting and Administrative Controls. Section V. 5. states, *"Department Directors are responsible for ensuring that policies and procedures are established to protect the assets of the departments, including cash collections and fixed assets. Policies and procedures include monthly reconciliations, physical inventories, and business continuity plans."* This monthly reconciliation policy meets Generally Accepted Accounting Principles (GAAP).

The Department of Finance has completed a reconciliation of the FY21 Concentration account and found the difference between the bank and the General Ledger to be \$14,100,957.76. Timing variances of \$166,544.71 and \$2,153,453.64 in duplicate tax sales postings were identified with an overstatement of \$12,114,048.43 which the department recommends recording a journal entry to restate the Concentration Account in the General Ledger.

The disbursement account is used by Accounts Payables Division of the Finance Department for payments from the city. This account was reviewed and found to be in compliance.

The manager for the external auditor made a presentation to the Audit Committee in December 2021 regarding the audit results of the City's Annual Comprehensive Financial Report. The manager informed the committee the Audit Report would contain a material weakness finding related to the correction and restatement of the Concentration Account balance. A committee member asked the manager why this error was not detected as a regular part of the previous audits. The manager said that the reconciling items were below the materiality thresholds for the audit and that they were reviewed with management and they had provided documentation, statements and assurances that they were appropriate transactions, however it appears they were given some inaccurate information. Referring to the accuracy of the transactions, the manager said, "But it looks like some of the transaction support wasn't valid. In hindsight, looking back at it, it wasn't accurate basically," and "It turns out, it looks like they weren't. There may have been some bad statements in the past made by some of the folks that handled the reconciliations." This prompted the committee member to ask if they received inaccurate information from City employees and the manager replied, "They weren't fully forthcoming with what they represented to us, that they were appropriate transactions, but yes."

The external audit manager was interviewed again to identify the documentation, statements and assurances made by City employees and which employees made them. The external audit manager was not able to provide any specific documentation, statements, assurances or names of City employees.

Findings

The allegation that the Department of Finance has not reconciled the Concentration Account since FY17 is substantiated. The oldest record that could be obtained was the year-end report for FY18 which uses unreconciled FY17 amounts. Unreconciled amounts are then reported in FY19-FY21. Department of Finance policy and GAAP require timely monthly reconciliations at a minimum. There has not been a complete reconciliation of the Concentration Account in any of the records reviewed. External audit reports cite material weaknesses in FY15-FY17 regarding the timely reconciliation of cash accounts. The Department of Finance was not reconciling accounts until after the end of the fiscal year in preparation for the Comprehensive Annual Financial Report. This was not noted in FY18-21 reports, but was found that although in these years, they were reported earlier, they have not been reported monthly and timely. Through FY17 the city had been late reporting the Comprehensive Annual Financial Report to the state. The change in reconciliations of the Concentration Account coincides with the city reporting the Comprehensive Annual Financial Report to the state on time.

Three year-end Concentration Account Reconciliation reports with unreconciled entries were available for review, FY18, FY19 and FY20. FY 21 has not been completed. FY18 did not have an approval signature. FY19 was signed as approved by a Deputy Director (former employee) and FY20 was signed as approved by the Director. Department of

Finance policy 2-030, Responsibility for Internal Accounting and Administrative Controls. Section V. 5. states, *"Department Directors are responsible for ensuring that policies and procedures are established to protect the assets of the departments, including cash collections and fixed assets. Policies and procedures include monthly reconciliations, physical inventories, and business continuity plans."* This policy is in compliance with GAAP related to the reconciliation of governmental cash accounts. This policy says that it is responsibility of Department Directors to set policies and procedures to ensure, among other requirements, that monthly reconciliations are performed. Since only partial reconciliations of the Concentration Account are being performed, each Director of Finance at the time the reconciliations were not being conducted would be in violation of this policy and GAAP.

Recommendations

The Department of Finance complete reconciliations of the Concentration Account at least on a monthly basis and in a timely manner.

Complete reconciliations for prior fiscal years to identify the source(s) of the overstated cash amounts.

Appropriate disciplinary action taken for the violation of Department of Finance policy 2-030, Responsibility for Internal Accounting and Administrative Controls. Section V. 5. states, *"Department Directors are responsible for ensuring that policies and procedures are established to protect the assets of the departments, including cash collections and fixed assets. Policies and procedures include monthly reconciliations, physical inventories, and business continuity plans."*

Point of contact for this report can be reached at extension 1840.

Submitted,



James Osuna
Inspector General

CC: Honorable Members of City Council
Ms. Sabrina Joy-Hogg, DCAO Finance and Administration
Mr. Lou Lassiter, City Auditor

CITY OF RICHMOND
WACHOVIA CONCENTRATION ACCOUNT RECONCILIATION
GENERAL FUND 0100 ACCOUNT 10001
BANK ACCOUNT #2079900437388
June 30, 2020

Balance Per Statement		\$ 54,378,354.80
Add	Deposits In Transit	
	Other	
Subtract		
	Checks Issued Not Cleared	
	Other	
Other		
	Bank Error	
	Other	
Balance		\$ 54,378,354.80
Difference (from G/L)		(0.00)

Previous Month Reconciled Ending Balance (Bank Statement)

Reconciliation Process	
1	Download Bank Statement from Wells Fargo
2	Record ending balance of bank statement on worksheet
3	Run Fund Analysis for fiscal period using XL Connect
4	Run Trial Balance for fiscal period using XL Connect
5	Record the beginning balance of the account from the trial balance
6	Using the Fund Analysis report, filter on the current
7	period and filter on posting dates w/in current period
8	Record the net balance for the current period on the Fund Analysis report after formatting per instructions above on the bank rec worksheet
9	To calculate the reconciling items for the period, subtract the G/L debits and credits (Fund Analysis Report) from the deposits and withdrawals recorded on the bank statement for the current period only
10	Listed the reconciling items for the Bank Statement and General Ledger on the worksheet

Reconciling Items for Bank Statement

To Add:

To Subtract:

Ending Balance Per General Ledger (Trial Balance)		\$ 89,384,112.73
Add	YTD Munis Unreconciled Transaction Activities	\$ 5,576,848.38
	Current ledger transaction activities (net) Adjustment(s)	(5,624,881.76)
		\$ (48,033.38)
Subtract		
	Jun-18 reconciling items (net amount) refer to attached sched Adjustment(s)	(14,957,724.55)
		(14,957,724.55)
Other(s)		\$ -
G/L Balance (Ending)		\$ 54,378,354.80

Previous Month Ending Balance (General Ledger) - Before Reconciled Items

Ending Balance for Current Period per TB

Current Period Activity

Activity Posted to Period After Close for Current Period

	Reconciling Item	Posted After Close	Remaining Balance
Debits	(48,033.38)		
Credits	14,957,724.55		
Net Total	(15,005,757.93)	-	-

	Other
	Other
	Other
	Other
	Other

Reconciling Items for General Ledger

To Add:

To Subtract:

City of Richmond
Wells Fargo
CONCENTRATION ACCOUNT
ACCOUNT #20000017426
RAPIDS Account - 10001
June 30, 2020

Balance per Bank Statement

Add:

Ref
A

\$ 54,378,354.80

Deduct:

Reconciled Bank Statement Balance

General Ledger Book Balance

Add:

\$ 54,378,354.80

\$ 69,384,112.73

POSTED to GL/Notes
Prior Year reconciling items- FY2018
Beginning Balance

(4,286,409.18)

(11,045,713.75)

Prior Year reconciling items- FY2019
AJE in Feb-20 ledger

5,986.87

368,411.51

(14,957,724.55)

6,229,873.79

757,528.92

(29,341.73)

(2,409,776.76)

2,180,674.46

10,121,914.89

(10,903,575.53)

2,500,577.38

(3,332,260.40)

(480,560.81)

15,471,678.57

(14,822,840.87)

(196,930.94)

289,887.41

5,576,848.38

(5,054,122.83)

Jul-20 bank statement (FY21)

Manual A 148422458890 10603660

Manual 480246 01-JUL-2020 14:37:17

TJF 2019A GO Pub Principal Imp 19 GL 10001 (deposit in transit)
12 Jun 20 Concentration Bank Recon (VA) 09082020
Reconciliation June 2020

Order 15711

Manual 483055 10-JUL-2020 11:48:31

10.00

(542,505,88)

Manual A 151862459031 10945860

(101.41)

(13,508.34)

(13,508.34)

00004631 1 000004768 1 000000000

(14,653.30)

(15,005,757.93)

ASTORIA

Total Reductions

54,378,354.80

09-08-2020

02/02/2020

9/11/2020

Source: Jun 2020 Bank Statement, Jun-20 Account Analysis (10001) and Concentration Bank Recon - Jun 2019

