

City of Richmond

Richmond, California

Single Audit Report

For the year ended June 30, 2021

City of Richmond Single Audit Report

Table of Contents

	<u>Page</u>
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	1
Report on Compliance for Each Major Federal Program and on Internal Control over Compliance in Accordance with the Uniform Guidance And on the Schedule of Expenditures of Federal Awards	3
Schedule of Expenditures of Federal Awards	7
Notes to Schedule of Expenditures of Federal Awards.....	11
Schedule of Findings and Questioned Costs	12

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**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**

INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and Members of City Council
of the City of Richmond
Richmond, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Richmond, California (City), as of and for the year ended June 30, 2021, and the related notes to the financial statements. We were engaged to audit the financial statements of the discretely presented component units as of and for the year ended June 30, 2021. These financial statements collectively comprise the City's basic financial statements, and have issued our report thereon dated December 31, 2021.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph 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. However, as described in the accompanying schedule of findings and questioned costs, we did identify certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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 that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2020-001 to be material weaknesses.

To the Honorable Mayor and Members of City Council
of the City of Richmond
Richmond, California
Page 2

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. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2020-002 to be significant deficiencies.

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 financial statements. 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 no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

City Response to Findings

The City's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Badawi & Associates, CPAs
Berkeley, California
May 9, 2022



**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH THE UNIFORM
GUIDANCE AND ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and Members of City Council
of the City of Richmond
Richmond, California

Report on Compliance for Each Major Federal Program

We have audited the City of Richmond, California (City)'s compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have direct and material effect on each of the City's major federal programs for the year ended June 30, 2021. City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

The City's basic financial statements include the operations of the Richmond Housing Authority, the federal awards expenses of which is not included in the City's schedule of expenditures of federal awards during the year ended June 30, 2021. Our audit, described below, did not include the operations of Richmond Housing Authority because the federal awards expended by this entity are subject to a separate Single Audit.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance 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 audit requirements of Title 2 U.S. *code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City's compliance.

To the Honorable Mayor and Members of City Council
of the City of Richmond
Richmond, California
Page 4

Basis for Qualified Opinion on ALN 97.036-Disaster Grants-Public Assistance

As described in the accompanying schedule of findings and questioned costs, the City did not comply with requirements regarding ALN 97.036 Disaster Grants-Public Assistance as described in finding numbers SA2021-001 for Reporting. Compliance with such requirements is necessary, in our opinion, for the City to comply with the requirements applicable to that program.

Qualified Opinion on ALN 97.036-Disaster Grants-Public Assistance

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on ALN 97.036-Disaster Grants-Public Assistance for the year ended June 30, 2021.

Unmodified Opinion on Each of the Other Major Federal Programs

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its other major federal programs identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs for the year ended June 30, 2021.

Report on Internal Control Over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we did identify certain deficiencies in internal control over compliance, described in the accompanying schedule of findings and questioned costs as items SA2021-001, that we consider to be significant deficiencies.

The City's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The City's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City, as of and for the year ended June 30, 2021, and the related notes to the financial statements. We were engaged to audit the financial statements of the discretely presented component units as of and for the year ended June 30, 2021. These financial statements collectively comprise the City's basic financial statements. We issued our report thereon dated December 31, 2021, which contained unmodified opinions on the governmental activities, General Fund, Community Development and Loan Programs Special Revenue Fund, Port of Richmond Fund, Municipal Sewer Fund and aggregated remaining funds, and disclaimer opinions on the business-type activities, Richmond Housing Authority Enterprise Fund, and the aggregate discretely presented component units. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

To the Honorable Mayor and Members of City Council
of the City of Richmond
Richmond, California
Page 6

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in black ink that reads "Badawi & Associates". The signature is written in a cursive, flowing style.

Badawi & Associates, CPAs
Berkeley, California
May 9, 2022, except for the schedule of expenditures
of federal awards on pages 7 to 9, which are as of December 31, 2021

City of Richmond
Schedule of Expenditures of Federal Awards
For the year ended June 30, 2021

Grantor Agency and Grant Title	Federal Catalog Number	State/Other Pass-through Number	FY 2021 Program Expenditures
U.S. Department of Defense			
Direct Program:			
Community Base Reuse Plans, Project Grant/Cooperative Agreement			
Naval Fuel Depot Point Molate Pollution Remediation	12.612		\$ 211,836
Total U.S. Department of Defense			211,836
U.S. Department of Housing and Urban Development:			
CDBG Entitlement Grants Cluster			
Direct Programs:			
Community Development Block Grant	14.218		4,412
		CDBG Entitlement Grants Cluster Total	4,412
Total U.S. Department of Housing and Urban Development			4,412
U.S. Department of Justice			
Pass-through from CA-Office of Emergency Services:			
Violence Against Women Formula Grants	16.588	ST20037830	128,323
Pass-through from CA-Department of Justice:			
Public Safety Partnership and Community Policing Grants			
Community Policing Development Program	16.710	2016-CK-WX-K016	40,094
COPS Peer Support Enhancement	16.710	2019MHWXK001	30,000
		Program Subtotal	70,094
Direct Program:			
Coronavirus Emergency Supplemental Funding	16.034	2020-VD-BX-1694	158,780
Pass-through from Contra Costa County:			
Edward Byrne Memorial Justice Assistance Grant 2016	16.738		47,778
Edward Byrne Memorial Justice Assistance Grant 2018	16.738		14,272
		Program Subtotal	62,050
Total U.S. Department of Justice			419,247

City of Richmond
Schedule of Expenditures of Federal Awards
For the year ended June 30, 2021

Grantor Agency and Grant Title	Federal Catalog Number	State/Other Pass-through Number	FY 2021 Program Expenditures
U.S. Department of Labor			
Workforce Innovation and Opportunity Act (WIOA) Cluster			
Pass-through from California Employment & Training Administration:			
WIOA - Adult program			
Workforce Accelerator 8.0	17.258	AA011024	79,596
English Language Learners- 1153	17.258	ELL SFP PY 20-21	150,258
English Language Learners-1226	17.258	ELL SFP PY 21-23	3,267
Veterans Hire (VEAP)	17.258	VEAP SFP PY 2018-19	131,711
WIOA - Adult program	17.258	K491036-201/202	308,911
		Program Subtotal	673,743
WIOA Youth	17.259	K9111039/ AA011024/ AA111024-301/302	380,824
WIOA Dislocated Worker Formula Grants			
COVID-19 Project Hire	17.278	AA011024	493,932
COVID-19 Supportive Service English Language Learners	17.278	AA011024	133,492
WIOA Dislocated Worker	17.278	K491036-501/502	204,179
WIOA Rapid Response	17.278	K491036-540/541	118,027
Rapid Response Layoff Aversion	17.278	K594779-292/293	27,931
WIA/WIOA Dislocated Worker Rapid Reponse	17.278	1233	1,377
		Program Subtotal	978,939
Workforce Innovation and Opportunity Act (WIOA) Cluster Total			2,033,506
Pass-through from California Employment & Training Administration			
COVID-19 Employment Recovery NDWG	17.277	AA011024-1194	168,349
Pass-through from California Employment & Training Administration			
Youth Build 2020	17.274	YB-34247-19-60-A-6	295,916
Total U.S. Department of Labor			2,497,771
U.S. Department of Transportation			
Pass-through from CA-Department of Transportation			
Highway Planning & Construction			
Yellow Brick Road	20.205	ATPL-5137(049)	2,466
Bridge Preventive Maintenance	20.205		6,132
Castro Ranch Road Rehabilitation	20.205	STPLR-7500(235)	1,249,031
		Program Subtotal	1,257,629
Pass-through from CA-Office of Traffic Safety			
Selective Traffic Safety Program 608	20.608	PT20115	2,018
Selective Traffic Safety Program 608	20.608	PT21040	97,121
		Program Subtotal	99,139

See accompanying Notes to Schedule of Expenditures of Federal Awards

City of Richmond
Schedule of Expenditures of Federal Awards
For the year ended June 30, 2021

Grantor Agency and Grant Title	Federal Catalog Number	State/Other Pass-through Number	FY 2021 Program Expenditures
U.S. Department of Transportation, continued			
Pass-through from CA-Office of Traffic Safety			
Traffic Records Improvement	20.616	TR21018	6,534
Pass-through from CA-Office of Traffic Safety			
Selective Traffic Enforcement Program	20.600	PT21040	10,357
Total U.S. Department of Transportation			1,373,659
U.S. Institute of Museum and Library Services			
Direct Program:			
CENIC Broadband	45.310	40-8622	15,463
Family Literacy Program for Families	45.310	5312	27,314
Total U.S. Institute of Museum and Library Services			42,777
U.S. Environmental Protection Agency			
Direct Program			
Brownfields Job Training Cooperative Agreements			
Environmental Workforce Development and Job Training	66.815		80,068
Brownfield Assessment and Clean-up Cooperation Agreement			
Brownfield Assessment and Clean-up Cooperation Agreement	66.818		81,955
Brownfield Revolving Loan Fund	66.818		99,698
		Program Subtotal	181,653
Total U.S. Environmental Protection Agency			261,721
U.S. Department of Education			
Pass-through from California Department of Rehabilitation			
State Vocational Rehabilitation Services Program	84.126a	STEPS 2020	75,024
Total U.S. Department of Education			75,024
U.S. Department of Treasury			
Pass-through from State of California			
Emergency OP/COVID-19 - CARES ACT	21.019	N/A	1,082,717
Total U.S. Department of Education			1,082,717
U.S. Department of Homeland Security			
Pass-through for CA-Office of Emergency Services			
Via Verde Emergency Repairs	97.036	FEMA-4308-DR-CA	1,085,871
Total U.S. Department of Education			1,085,871
			\$ 7,055,035

See accompanying Notes to Schedule of Expenditures of Federal Awards

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City of Richmond
Single Audit Report
Notes to Schedule of Expenditures of Federal Awards
For the year ended June 30, 2021

1. REPORTING ENTITY

The financial reporting entity, as defined by Governmental Accounting Standards Board (GASB), consists of the primary government, which is the City of Richmond (City), organizations for which the primary government is financially accountable, and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The Schedule of Expenditure of Federal Awards (the Schedule) includes expenditures of federal awards for the City and its component units as disclosed in the notes to the Basic Financial Statements, except for federal awards of the Richmond Housing Authority. Federal awards expended by this entity, if any, are excluded from the Schedule and are subject to a separate Single Audit.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

Funds received under the various grant programs have been recorded within the general, special revenue, capital projects, and enterprise funds of the City. The City utilizes the modified accrual basis of accounting for the general, special revenue, and capital project funds. The accrual basis of accounting is used for the enterprise fund. The accompanying Schedule of Expenditures of Federal Awards (Schedule) is presented in accordance with the requirements of the *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

Schedule of Expenditures of Federal Awards

The accompanying Schedule presents the activity of all Federal financial assistance programs of the City. Federal financial assistance received directly from Federal agencies as well as Federal financial assistance passed through the State of California and other agencies are included in the Schedule. The Schedule of Expenditures of Federal Awards was prepared from only the accounts of various grant programs and, therefore, does not present the financial position or results of operations of the City.

3. INDIRECT COSTS

The City did not elect to use the 10% de minimis indirect cost rate.

City of Richmond
Single Audit Report
Schedule of Findings and Questioned Costs
For the year ended June 30, 2021

Section I - Summary of Auditors' Results

Financial Statements

Types of auditors' report issued: Modified

Internal control over financial reporting:

- Material weakness(es) identified? Yes
- Significant deficiency(ies) identified? Yes

Any noncompliance material to the financial statements noted: No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? No
- Significant deficiency(ies) identified? Yes

Types of auditors' report issued on compliance for major programs: Modified

Any audit findings disclosed that are required to be reported in accordance with section 200.516(a): Yes

Identification of major programs:

Assistance Listing Numbers	Name of Federal Program or Cluster	Expenditures
20.205	Highway Planning and Construction	\$ 1,257,629
21.019	Coronavirus Relief Fund	1,082,717
97.036	Disaster Grants-Public Assistance	1,085,871
Total Expenditures of All Major Federal Programs		\$ 3,426,217
Total Expenditures of Federal Awards		\$ 7,055,035
Percentage of Total Expenditures of Federal Awards		48.6%

Dollar threshold used to distinguish between type A and type B program: \$750,000

Auditee qualified as low-risk auditee under section 200.520? No

City of Richmond
Single Audit Report
Schedule of Findings and Questioned Costs, Continued
For the year ended June 30, 2021

Section II –Current Year Findings

A. Current Year Findings – Financial Statement Audit

2021-001 General Fund Financial Position (Material Weakness)

Criteria:

The City’s general fund should maintain adequate fund balance reserve to meet required operating obligations. GFOA recommends that General purpose local governments, regardless of size, at a minimum should maintain unrestricted budgetary fund balance in their general fund of no less than two months of regular general fund operating expenditures.

Condition:

The City’s unrestricted fund balance in the General Fund was \$34,714,304, which can only cover less than 3 months expenditures in General Fund that was very close to the recommended minimum level. The ability of the City to meet required operating obligations is dependent on the City’s ability to develop and implement a plan that will successfully increase cash flows.

Cause:

The City has either overspend its budget in the past or the budget was not balanced which depleted available fund balance.

Context and Effect:

Deficiency in fund balances may require significant cost cutting measures to reach a budget that will recoup the fund balance as well as provide the necessary revenues and financing for continued operations of the City.

Recommendation:

We recommend the City continue to analyze all potential cost cutting measures and revenue sources, and review options to establish a budget plan for the General Fund to recoup the fund balance as well as provide continued financing for City operations.

Management Response:

The City is constantly looking at measures to increase revenues. In November 2018, Richmond voters approved Measure H, which increased the real estate transfer tax for properties with a sales price of over \$1 million from 0.7 percent to 1.25 percent for sales prices below \$3 million, 2.5 percent for sales prices between \$3 million and \$10 million, and 3.0 percent for sales prices over \$10 million. This tiered structure has generated for the City of Richmond additional new revenue of more than \$20 million since it went into effect on December 28, 2018.

City of Richmond
Single Audit Report
Schedule of Findings and Questioned Costs, Continued
For the year ended June 30, 2021

Section II –Current Year Findings, Continued

A. Current Year Findings – Financial Statement Audit, Continued

Additionally, Richmond voters approved Measure U, which changed the methodology for calculating business tax from that based on number of employees to gross receipts. This is expected to both bring in millions more per year and includes an inflation-linked escalator. As gross receipts are expected to increase with inflation, so are the taxes collected.

The City is making progress in achieving the goal of having the City’s reserve policy of 15% per policy by reducing or even eliminating various negative fund balances.

2021-002 Completeness of Accrued Liabilities (Significant Deficiency)

Criteria:

Expenditures/expenses should be recognized in the accounting period in which the liability is incurred.

Condition:

During our review of the unprocessed invoices folder, we found the City had around \$3.2M unprocessed invoices that were for goods or services provided during fy2021 and those invoices were not properly accrued back to fy2021.

Cause:

The City doesn’t have a proper process in place to capture all the accruals, especially when invoices are received later than the cutoff date. The delay in submission of the invoices from departments also contributes to the failure to capture the accruals timely.

Context and Effect:

Failure to capture all liabilities can lead the financial statements to be materially misstated.

Recommendation:

We recommend the City to implement internal controls to capture material accruals for which the invoices received after cutoff date and recognize the liabilities properly.

Management Response:

The Finance Department is working with all the departments and vendors to ensure that invoices are submitted and processed in a timely manner. One step is reminding the departments that vendors are required to remit all invoices directly to Finance Department, so the invoices are more easily tracked and processed more efficiently. Additionally, Accounts Payable staff is tracking any receivables received after the accrual cutoff date and analyzing to see if they are material for adjusting journal entry.

City of Richmond
Single Audit Report
Schedule of Findings and Questioned Costs, Continued
For the year ended June 30, 2021

B. Current Year Findings and Questioned Costs – Major Federal Award Program Audit

SA2021-001: Failure to Maintain Proper Documentation

Assistance Listing Numbers: 97.036

Assistance Listing Title: Disaster Grants – Public Assistance

Name of Federal Agency: U.S. Department of Homeland Security

Federal Award Identification Number: FEMA-4308-DR-CA

Name of pass-through Entity: California Office of Emergency Services

Criteria:

The grant requires the filing of quarterly progress reports on all open large projects within 30 days after the end of each calendar quarter.

Condition:

The City was unable to show proof of the timely submission of the selected quarterly progress reports.

Cause:

The City doesn't have internal control in place to ensure the timely submission of the reports. Since the project manager, who was the only person involved in the reporting process, left the City, the City was unable to locate any proof of the timely submission of the reports.

Context and Effect:

We can't verify if the City is in compliance with the reporting requirements for the grant.

Recommendation:

The City should implement controls to ensure all required reports are submitted timely and maintain documentation of the submission.

Management Response:

All City departments are required to submit grant reimbursements requests to the Grant Helpdesk when it is completed. The Finance Department is in progress to hire an additional employee to support the budget division. This employee will be responsible for monitoring grant submissions, so timely reminders can be sent out and proper escalation steps can be taken if no response or information is submitted by deadlines.

City of Richmond
Single Audit Report
Schedule of Findings and Questioned Costs, Continued
For the year ended June 30, 2021

Section III- Prior Year Findings

A. Prior Year Findings - Financial Statement Audit

2020-001 General Fund Financial Position (Material Weakness)

Criteria:

The City's general fund should maintain adequate fund balance reserve to meet required operating obligations. GFOA recommends that General purpose local governments, regardless of size, at a minimum should maintain unrestricted budgetary fund balance in their general fund of no less than two months of regular general fund operating expenditures.

Condition:

The City's unrestricted fund balance in the General Fund was \$21,940,238, which can only cover less than 2 months expenditures in General Fund. The ability of the City to meet required operating obligations is dependent on the City's ability to develop and implement a plan that will successfully increase cash flows.

Cause:

The City has either overspend its budget in the past or the budget was not balanced which depleted available fund balance.

Context and Effect:

Deficiency in fund balances may require significant cost cutting measures to reach a budget that will recoup the fund balance as well as provide the necessary revenues and financing for continued operations of the City.

Recommendation:

We recommend the City continue to analyze all potential cost cutting measures and revenue sources, and review options to establish a budget plan for the General Fund to recoup the fund balance as well as provide continued financing for City operations.

Current Status:

See current year finding.

City of Richmond
Single Audit Report
Schedule of Findings and Questioned Costs, Continued
For the year ended June 30, 2021

Section III- Prior Year Findings, Continued

A. Prior Year Findings - Financial Statement Audit, Continued

2020-002 Completeness of Accrued Liabilities (Significant Deficiency)

Criteria:

Expenditures/expenses should be recognized in the accounting period in which the liability is incurred.

Condition:

During our expenditures testing for fiscal year 2020, we noted around \$6 million in invoices were for services or goods provided in fiscal year 2019 but were not captured and recognized appropriately in fiscal year 2019. Among the \$6 million, \$5.3 million were capitalized expenditures/expenses.

Cause:

The City doesn't have a proper process in place to capture all the accruals, especially when invoices are received later than the cutoff date. The delay in submission of the invoices from departments also contributes to the failure to capture the accruals timely.

In addition, the misleading instruction on the AP approval email template, "All invoices received after August 16, 2019 will be paid from FY2019/2020", might also cause the failure in capturing all accruals.

Context and Effect:

Failure to capture all liabilities can lead the financial statements to be materially misstated.

Recommendation:

We recommend the City to implement internal controls to capture material accruals for which the invoices received after cutoff date and recognize the liabilities properly.

Current Status:

See current year finding.

City of Richmond
Single Audit Report
Schedule of Findings and Questioned Costs, Continued
For the year ended June 30, 2021

Section III- Prior Year Findings, Continued

B. Prior Year Findings and Questioned Costs - Major Federal Award Program Audit

No findings and questioned costs in the current year.