

CITY OF PORTSMOUTH, VIRGINIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2009

1. SUMMARY OF AUDITORS' RESULTS

- (a) The type of report issued on the basic financial statements: **Unqualified opinions**
- (b) Significant deficiencies in internal control were disclosed by the audit of the financial statements: **Yes**

Material weaknesses: **Yes**
- (c) Noncompliance which is material to the basic financial statements: **Yes**
- (d) Significant deficiencies in internal control over major programs: **Yes**

Material weaknesses: **No**
- (e) The type of report issued on compliance for major programs: **Unqualified opinion**
- (f) Any audit findings which are required to be reported under Section .510(a) of OMB Circular A-133: **Yes**
- (f) Major Programs:
 - Community Development Block Grants (CFDA No. 14.218)
 - Supplemental Nutritional Assistance Program (CFDA No. 10.551/10.561)
 - Block Grant for Prevention and Treatment of Substance Abuse (CFDA No. 93.959)
 - ARRA -State Fiscal Stabilization Fund (CFDA No. 84.397)
 - Home Investment Partnership Program (CFDA No. 14.239)
 - Special Education Grants (CFDA No. 84.027/84.173)
 - Title I Grants to Local Educational Agencies (CFDA No. 84.010)
 - Impact Aid (CFDA No. 84.041)
 - Child Nutrition Cluster (CFDA No. 10.553/10.555/10.556/10.559)
- (h) The dollar threshold used to distinguish between Type A and Type B program: **\$1,114,609**
- (i) The auditee qualified as a low-risk auditee: **No**

CITY OF PORTSMOUTH, VIRGINIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)

Year Ended June 30, 2009

2. FINDINGS RELATING TO THE FINANCIAL STATEMENTS WHICH ARE REQUIRED TO BE REPORTED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

2009-1 Internal Control over Financial Reporting

Criteria:

Proper interperiod cutoff should be determined to ensure all accounts payable and expenditures are recorded in the appropriate period.

Condition:

While performing our audit procedures to test the valuation of accounts payable, we determined there were invoices received after year end that should have been accrued as accounts payable as of June 30, 2009. Conversely, invoices which had been previously paid were still included in the accounts payable balance at June 30, 2009.

Cause:

A couple of invoices were not properly accrued as accounts payable as of June 30, 2009 because they were received several weeks after the fiscal year end. In addition, several invoices were still recorded in the accounts payable balance because the cash wires that occurred to pay for them were not recorded in the accounting system.

Effect:

Accounts payable and cash were overstated and expenses were understated in the June 30, 2009 financial statements.

Recommendation:

We recommend the Finance Department develop a formal system of review during the closing process to ensure all transactions are posted to the correct period. This will allow the City to identify all items that should be recorded and included in the financial statements.

Management Response:

Finance Management concurs with the finding. Fiscal year 2009 was the second year of system implementation. During fiscal year end Finance processed approximately 5,000 transactions from which the above mentioned errors were found. The errors made represents less than 1% of the total number of transactions processed during fiscal year-end. The Finance Department will continue to carefully review all invoices received subsequent to year end and wire transfers made to ensure that payments are posted in the correct accounting period.

2009-2 Internal Control over Financial Reporting

Criteria:

Bank reconciliations should be performed monthly throughout the year.

Condition:

While performing our audit procedures to test the accuracy of cash balances, we determined that bank reconciliations were not prepared during the year for the Public Utilities account.

Cause:

The bank reconciliations were previously prepared by an employee who is no longer employed by the City and the responsibility was not properly transferred to another employee.

Effect:

The cash balances were not reconciled at June 30, 2009.

Recommendation:

We recommend the Finance Department develop a formal system of review to ensure Public Utilities bank reconciliations are being performed.

Management Response:

Finance management concurs with the finding. To ensure that bank reconciliations are performed regularly and timely, the Finance Department will start preparing the bank reconciliations for the Department of Public Utilities.

2009-3 Internal Control over Financial Reporting

Criteria:

Generally accepted accounting principles require that receivables be reviewed for collectibility and a provision be made for uncollectible amounts.

Condition:

The year end closing process at the School Board did not identify all uncollectible amounts.

Cause:

The School Board has made staffing changes and has been correcting the controls and accounting over accounts receivable.

Effect:

Accounts receivable without an adequate provision for uncollectible amounts results in an overstatement of assets and revenues in the financial statements.

Recommendation:

We recommend the School Board periodically review the schedule of accounts receivable, make all collection efforts, and make provision for uncollectible amounts.

Management Response:

The School Board will provide for doubtful accounts, We will make all collection efforts for continuing grants i.e. authorized transfer to the new grant year. Eligible expenditures will be moved to the new grant year reducing uncollectible amounts. There will be a one time transfer of funds as a recovery of accounts receivable.

The School Board will periodically analyze estimated revenues and actual expenditures in subsequent years, We will also use Munis functionality of budget checks for one time and continuing grants.

2009-4 Internal Control Over Budget and Spending

Criteria:

The Codes of the Commonwealth of Virginia and the City of Portsmouth require that the School Board not expend amounts that are not appropriated.

Condition:

For the year ended June 30, 2009, the School Board expended approximately \$2,400,000 of funds that were available to them but were in excess of their appropriation for the General Fund.

Cause:

The School Board did not adequately budget for their miscellaneous revenue and did not request a supplemental appropriation when these revenues exceeded budgeted amounts.

Effect:

The School Board is not in compliance with State and City Codes.

Recommendation:

We recommend the School Board implement a plan to more effectively budget their miscellaneous revenue, monitor compliance with the budget and request supplemental appropriations if necessary.

Management Response:

The School Board will review the following:

1. VDOE final entitlements based on March ADM, and
2. Realized miscellaneous revenue by March 30

3. FINDINGS AND QUESTIONED COSTS FOR MAJOR FEDERAL AWARDS PROGRAMS

2009 -5 Record-keeping in the Constitutional Officers' Information Network system for the State Stabilization Fund reimbursements

Criteria:

Localities and regional jails must maintain documentation that individuals paid under the State Stabilization Fund program did work or were entitled to payment as required by the Compensation Board. This information must be entered into the Constitutional Officers' Information Network (COIN) system to obtain reimbursement.

Condition:

While performing our audit procedures to ensure compliance with the State Stabilization Fund program requirements, we noted one instance of an employee who was terminated during the month but was not removed from the COIN system until the following month.

Amount of Questioned Costs:

Approximately \$1,000 of unallowable reimbursements were received.

Effect:

The City was reimbursed for one week of an employee's salary who had been terminated.

Cause:

This resulted from an oversight by the employee who removes terminated employees from the system.

Recommendation:

We recommend that the Sheriff's department work with the Finance department to implement procedures so this will not occur in the future.

Views of responsible officials and planned corrective actions:

The Sheriff's Office concur with the finding: The Sheriff's office will implement processes and procedures for a formal review process to ensure that such errors will not occur in the future.

2009-6 – Recordkeeping for Local Inmate Data System report

Criteria:

Localities and regional jails must maintain documentation of the number of state inmates recorded in the Local Inmate Data System (LIDS) as required by the Compensation Board.

Condition:

While performing our audit procedures to ensure compliance with the State Stabilization Fund requirements, the Sheriff's department could not produce documentation supporting the number of inmates which was submitted through the LIDS system for reimbursement.

Amount of Questioned Costs:

We were unable to determine a dollar amount, if any, associated with this finding.

Effect:

Information submitted for reimbursement could not be verified; therefore, reimbursement amounts may be incorrect.

Recommendation:

We recommend that the Sheriff's department maintain detailed records of information submitted through the LIDS system for inmate reimbursement.

Views of responsible officials and planned corrective actions:

The Sheriff's Office does not concur with the finding. The process applied by the LIDS Technician is in compliance with the State Compensation Board Guidelines. The State Compensation Board has nothing in writing that requires the LIDS Technician to reconcile what inmates are inputted in our Jail Management System to what is inputted in the LIDS System. The State Compensation Board performs LIDS Audits regularly and the Sheriff's Office has always received an excellent rating with the State Compensation Board.

2009-7 Subrecipient Monitoring for Community Development Block Grant (CDBG)

Criteria:

Before disbursing any CDBG funds to a subrecipient, the recipient shall sign a written agreement with the subrecipient. The agreement shall include provisions concerning: the statement of work, records and reports, program income and uniform administrative requirements (24 CFR section 570.503).

Condition:

While performing our audit procedures to ensure compliance with the CDBG program, we noted that there was no signed agreement between the City and the subrecipient using these funds.

Amount of Questioned Costs:

We were unable to determine a dollar amount, if any, associated with this finding.

Effect:

The City does not have an agreement with the subrecipient ensuring proper use of the CDBG funds.

Cause:

The City was working with the subrecipient on the agreement, but it was never signed.

Recommendation:

We recommend that the City draw up a thorough agreement that addresses the proper provisions and obtain the subrecipient's signature.

Views of responsible officials and planned corrective actions:

Finance management concurs with the finding. There is a formal signed agreement in place for fiscal year 2010. In addition, the City has established a formal subrecipient monitoring program.

4.FINDINGS AND QUESTIONED COSTS FOR STATE COMPLIANCE

2009-8 Department of Social Services System Controls

Criteria:

Anti-Virus software must be active and virus definition files must be current on all personal computers and servers.

Condition:

While performing our audit procedures to ensure compliance with the Social Services section 3-15 of the *Specifications for Audits of Counties, Cities and Towns*, we determined that anti-virus software was not on, and virus definition files were not current on all personal computers and servers.

Cause:

Procedures were not in place to ensure that anti-virus software was on and that virus definition files were current on all personal computers and servers.

Effect:

The City of Portsmouth's Social Services Department is not in compliance with section 3-15 of the *Specifications for Audits of Counties, Cities and Towns*.

Recommendation:

We recommend a procedure be put in place to ensure that anti-virus software is on all personal computers and servers and that the virus definition files are current.

Management Response:

We concur with the finding. We are currently using the State's automated system for this procedure with their parameters. All enabling or disabling is done at the State level.

5.FINDINGS AND QUESTIONED COSTS FOR STATE COMPLIANCE

2009-9 Department of Social Services LASER reconciliations

Criteria:

The Virginia Department of Social Services reimburses local governments for the state and federal shares of expenses using the Locality Automated System for Expenditure Reimbursement (LASER). Amounts reported in LASER must be periodically reconciled to the local government's general ledger.

Condition:

While performing our audit procedures to ensure compliance with the Social Services section 3-15 of the *Specifications for Audits of Counties, Cities and Towns*, we noted that LASER reports were not being properly reconciled to the City's general ledger.

Cause:

The reconciliations of the LASER reports were being done by different individuals over the past year, including a temporary employee resulting in many being completed incorrectly.

Effect:

The City of Portsmouth's Social Services Department is not in compliance with section 3-15 of the

Specifications for Audits of Counties, Cities and Towns.

Recommendation:

We recommend that reconciliations between the LASER reports and the City's general ledger be performed on a regular basis and be reviewed for accuracy in order to meet the requirements of section 3-15 of the *Specifications for Audits of Counties, Cities and Towns*.

Management Response:

We concur with the findings. The Finance Unit complies with the State directive that reconciliations be performed monthly. In FY 09, several vacancies and extended sick leave left the unit understaffed and without the knowledge base necessary to perform the Laser reconciliations in a consistent manner. The department has acquired an Accounting Manager and an Accounting Coordinator to fill vacant positions. The Laser certification process has become the Accounting Coordinator's chief responsibility. The City management hired a consultant to examine the unit's reimbursement processes including the Laser Reconciliation Process and we are implementing some of his recommendations to strengthen the process.

2009-10 Sheriff Work Release Procedures

Criteria:

In accordance with chapter 5 of the *Virginia Sheriff's Accounting Manual*, the Sheriff must always deposit with the local Treasurer or Director of Finance the fees collected for work release inmate care and custody and the home/electronic incarceration program to cover the cost of equipment rental. The Sheriff should never deposit these fees into the Sheriff's official bank account.

Condition:

While performing our audit procedures to ensure compliance with the Sheriff's Internal Controls section 2-8 of the *Specifications for Audits of Counties, Cities and Towns*, which references the requirements set forth in the *Virginia Sheriff's Accounting Manual*, we noted that fees collected from work release participant were not being remitted to the Treasurer. The funds were being deposited to and disbursed from the Sheriff's office without going through the Treasurer or the City's procurement and accounts payable offices.

Cause:

The Sheriff's office was not aware of the requirement as set for the in chapter 5 of the *Virginia Sheriff's Accounting Manual*.

Effect:

The City of Portsmouth's Sheriff's Department is not in compliance with section 2-8 of the *Specifications for Audits of Counties, Cities and Towns*.

Recommendation:

We recommend that the fees collected from the work release participants be remitted to the City Treasurer as required per the *Virginia Sheriff's Accounting Manual*.

Management Response:

The Sheriff's Office concur with the finding: The Sheriff's office will implement processes and procedures for a formal review process to ensure that such errors will not occur in the future.