



ROBINSON, FARMER, COX ASSOCIATES, PLLC

Certified Public Accountants

Date: January 9, 2023

Memorandum To: Western Tidewater Regional Jail Authority

From: Robinson, Farmer, Cox Associates

Regarding: Audit for year ended June 30, 2022

In planning and performing our audit of the financial statements of Western Tidewater Regional Jail Authority for the year ended June 30, 2022, we considered the Authority's internal control structure to plan our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit, we noted certain matters involving the internal control structure and other operational matters that are presented for your consideration. This letter does not affect our report dated January 9, 2023 on the financial statements of the Authority. Our comments and recommendations, all of which have been discussed with appropriate members of management, are intended to improve the internal control structure or result in other operating efficiencies. We will be pleased to discuss these comments in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

General Ledger Activity

Management has continued to improve the financial statement preparation process. Most year-end accrual adjustments were identified and recorded by the Fiscal Officer and the consultant. However, the Authority's financial statements required adjustments by the auditor to ensure compliance with generally accepted accounting principles (GAAP). Accruals such as capital assets (leased assets), accumulated depreciation, and OPEB liabilities and related deferred outflows and inflows were adjusted with proposed audit entries, although the adjustments were not as extensive as in prior audits. In addition, several reclassifications were made between assets and liabilities (i.e., reclassification of net pension asset from negative liability balance) and revenues and expenses (i.e., ARPA funding passed through the State).

We recommend that the Fiscal Officer continue to work with the consultant and review and apply the annual adjustments proposed by the auditor in preparing the general ledger for financial statement purposes.

Bank Reconciliations and Consultant Oversight of Financial Activity

In fiscal year 2022, there was a transition to a new contracted consultant (CPA) paired with the Fiscal Officer being out on medical leave during audit preparation. In recent years, the contracted CPA has been an important component of the Authority's internal control process providing an oversight role for financial activity with a focus on year-end audit preparation. Formal signoffs evidencing review and approval of bank reconciliations have not been made. Instead, informal reviews were done with inquiries made by the consultant as needed. Due to the lack of segregation of duties, especially in times of extended medical leave by the Fiscal Officer, we recommend that monthly formal oversight services be provided by the contracted CPA for monthly financial activity to include formal reviews of subsidiary account reconciliations. This will allow for timely feedback and resolution of any issues that arise.

Leases

GASB 87, a new accounting standard on leases, required implementation during the year. The new standard specifies that all leases are financings, and those meeting certain criteria must be recorded as an asset and corresponding liability. Assets leased to other parties (such as the magistrate's office, when renewed) must also be reviewed for potential reporting under GASB 87, which could result in the recording of lease receivables and deferred inflows of resources.

Lease contracts were not reviewed and analyzed prior to audit fieldwork, but the contracted CPA provided schedules and calculations after audit fieldwork. The calculated balances were recorded with audit adjustments based on the consultant's schedules. We recommend that audit preparation include a review of lease contracts and recording of appropriate adjustments prior to audit fieldwork going forward. It is very common for an entity of this nature to enter into lease agreements for various equipment. Each of those contracts will need to be reviewed to determine whether GASB 87 reporting requirements apply. Management will also need to determine if separate excel schedules will continue to be maintained for these types of assets or whether they will be added to the fixed asset system.

In fiscal year 2023, GASB 96 will require implementation and we recommend that management and the consultant prepare to analyze subscription-based information technology arrangements for appropriate reporting, the requirements of which are very similar to lease reporting requirements. These arrangements include cloud-based accounting (Office 365) and ERP Systems.

Fringe Benefits

In addition to offering onsite gym equipment for employee use, the Authority pays for a portion of YMCA fees. This benefit is not currently taxed and included in employee wages. According to IRS regulations, the value of an employee's use of an on-premises gym or other athletic facility operated by the employer can be excluded from an employee's wages if substantially all use of the facility during the calendar year is by the employees, their spouses, and their dependent children. The exclusion does not apply to any athletic facility if access to the facility is made available to the general public through the sale of memberships, the rental of the facility, or a similar arrangement.