CITY OF STAUNTON, VIRGINIA AND
CITY OF STAUNTON PUBLIC SCHOOLS

COMMENTS ON INTERNAL CONTROL AND OTHER SUGGESTIONS FOR YOUR CONSIDERATION

June 30, 2019

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BROWNEDWARDS
certified public accountants

INDEPENDENT AUDITOR'S REPORT ON COMMENTS AND SUGGESTIONS

To the Honorable Members of the
City Council and School Board
City of Staunton, Virginia

In planning and performing our audit of 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 Staunton, Virginia as of and for the year ended June 30, 2019, in accordance with auditing standards generally accepted in the United States of America, we considered its internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements and to comply with any other applicable standards, such as *Government Auditing Standards* and the regulations set forth in the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we do not express an opinion on the effectiveness of the entity's internal control.

Our consideration of internal control was for the limited purpose described in the first 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 were not identified. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls.

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. 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.

If material weaknesses or significant deficiencies were identified during our procedures, they are appropriately designated as such in this report. Additional information on material weaknesses or significant deficiencies and compliance and other matters is included in the ***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*** which should be read in conjunction with this report.

Your Success is Our Focus

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Additionally, during our audit, we may have become aware of certain other matters that provide opportunities for improving your financial reporting system and/or operating efficiency. Such comments and suggestions regarding these matters, if any, are also included in the attached report, but are not designated as a material weakness or significant deficiency. Since our audit is not designed to include a detail review of all systems and procedures, these comments should not be considered as being all-inclusive of areas where improvements might be achieved. We also have included information on accounting and other matters that we believe is important enough to merit consideration by management and those charged with governance. It is our hope that our suggestions will be taken in the constructive light in which they are offered.

We have already discussed these comments and suggestions with management, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

This communication is intended solely for the information and use of the City of Staunton, Virginia, management, and the appropriate state and federal regulatory agencies and is not intended to be, and should not be, used by anyone other than these specified parties.

Brown, Edwards & Company, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

Harrisonburg, Virginia
November 25, 2019

CITY OF STAUNTON, VIRGINIA AND
CITY OF STAUNTON PUBLIC SCHOOLS

COMMENTS AND SUGGESTIONS

PROCUREMENT POLICY

During fiscal year 2019, the sections of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) covering procurement became effective after a three-year grace period on the implementation date. The Uniform Guidance requires entities to have written policies and procedures in place covering many types of procurement situations, including conflicts of interest, avoidance of geographical preferences, bidding thresholds, value engineering, and others. While many of the requirements are covered in the City's existing written policies, we noted a few areas that were not included. We recommend that the City update policies to cover these areas as well so procurement policies are fully compliant with the Uniform Guidance. Those areas that should be included and/or revised were:

1. Policy to avoid acquisition of unnecessary or duplicative items.
2. Procedures for use of value engineering clauses.
3. Policy that prohibits use of geographical preferences in the evaluation of bids and proposals.
4. Written procedures to comply with Section 6002 of the Solid Waste Disposal Act.
5. Written policies to ensure that all required clauses from Appendix II of the Uniform Guidance are included in all contracts for which federal funds will be used for all or part of the contract.

Some of these items are currently addressed in practice by the City, however, the Uniform Guidance requires written policies and procedures, so we recommend that all items be documented in a written policy document.

Management's Response: *The Finance Department is currently reviewing and updating the written procurement policy to ensure compliance with Federal Government Uniform Guidance. We have updated our current purchase order terms and conditions to include the required clauses from Appendix II of the guidance, which ensures that the Appendix II clauses are included in all necessary federal contracts.*

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PRIOR YEAR COMMENTS AND SUGGESTIONS

RELIANCE ON COMPENSATING CONTROLS

In an ideal system of internal controls, no individual would perform more than one duty in connection with any transaction or series of transactions. In particular, no one individual should have access to both physical assets and the related accounting records. This is because such access may allow errors or fraud to occur and remain undetected or concealed.

Areas where in the past we identified a lack of segregation of duties included the accounts payable function, payroll function, bank reconciliation, journal entries, and authorized check signors. The City's finance department has responded to these concerns by implementing certain *compensating controls,* which, although they do not remove the original control deficiency, they mitigate the risk that a fraudulent transaction could occur and remain undetected. These compensating controls at the City consist of reviews of certain reports by the Assistant Director of Finance, Treasurer, and Director of Finance.

Because of these compensating controls, in our judgment these deficiencies do not constitute a material weakness or significant deficiency. Even so, management should note that these controls are effective only if applied regularly with vigilance. Also, as described in our report on these comments, our responsibility is to report control deficiencies that we note in performing our audits; other undetected control deficiencies may exist elsewhere.

Current Status: *Comment is still applicable.*

CITY OF STAUNTON, VIRGINIA AND
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ACCOUNTING AND OTHER MATTERS
June 30, 2019

In this section, we would like to make you aware of certain confirmed and potential changes that are on the horizon that may affect your financial reporting and audit.

The GASB issued **Statement No. 84**, *Fiduciary Activities* in January 2017. This Statement establishes standards of accounting and financial reporting for fiduciary activities. The requirements of this Statement are effective for periods beginning after December 15, 2018.

The GASB issued **Statement No. 87**, *Leases* in June 2017. This Statement establishes standards of accounting and financial reporting for leases by lessees and lessors. The requirements of this Statement are effective for periods beginning after December 15, 2019.

The GASB issued **Statement No. 90**, *Majority Equity Interests, an amendment of GASB Statements No. 14 and No. 61* in August 2018. This Statement improves the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and improves the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value.

For all other holdings of a majority equity interest in a legally separate organization, a government should report the legally separate organization as a component unit, and the government or fund that holds the equity interest should report an asset related to the majority equity interest using the equity method. This Statement establishes that ownership of a majority equity interest in a legally separate organization results in the government being financially accountable for the legally separate organization and, therefore, the government should report that organization as a component unit.

This Statement also requires that a component unit in which a government has a 100 percent equity interest account for its assets, deferred outflows of resources, liabilities, and deferred inflows of resources at acquisition value at the date the government acquired a 100 percent equity interest in the component unit. Transactions presented in flows statements of the component unit in that circumstance should include only transactions that occurred subsequent to the acquisition.

The requirements of this Statement are effective for periods beginning after December 15, 2018.The requirements should be applied retroactively, except for the provisions related to (1) reporting a majority equity interest in a component unit and (2) reporting a component unit if the government acquires a 100 percent equity interest. Those provisions should be applied on a prospective basis.

The GASB issued **Statement No. 91**, *Conduit Debt Obligations* in May 2019. This Statement provides a single method of reporting conduit debt obligations by issuers and eliminates diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. The requirements of this Statement are effective for periods beginning after December 15, 2020.