

INDEPENDENT AUDITOR'S REPORT ON COMMENTS AND SUGGESTIONS

Honorable Members of City Council and School Board
City of Falls Church, 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 Falls Church, Virginia as of and for the year ended June 30, 2022, 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.

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 Falls Church, 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
December 8, 2022

CITY OF FALLS CHURCH, VIRGINIA

CURRENT YEAR COMMENTS AND SUGGESTIONS

EMPLOYEE SYSTEM ACCESS TERMINATION - CITY

While gaining an understanding of information technology internal controls, we discovered there was a lack of procedures regarding terminating employees. Specifically, it appears that the City's Information Technology department is not always timely informed of terminations, allowing employee access for an undetermined amount of time. Furthermore, there appears to be a lack of review of the process to determine if deactivation occurred timely. We recommend implementing a formal termination policy by considering the Commonwealth's security policy for state agencies. For example, Section PS-4 of the Commonwealth's Information Security Standard, SEC 501, requires that organizations should "disable information system access within 24-hours of employment termination."

ACCURACY OF PENSION AND OPEB CENSUS DATA – SCHOOLS

The City and Schools provide employee benefits such as pension and retiree health insurance. These benefits are reflected as significant liabilities to the City and Schools, the basis of which relies on accurate employee data. We noted that the Schools have had recurring errors within the census data used by the plan actuary to develop liability estimates. There appears to be a specific issue with the census data roll-forward. We recommend the Schools implement processes and controls to ensure that complete and accurate information is reported to the plan actuary regarding census data. On an annual basis, management should obtain the census data file submitted by the plan to the actuary and determine whether the census data is complete and accurate. In evaluating the census data file, the Schools may compare the information to underlying payroll and human resource records.

CITY OF FALLS CHURCH, VIRGINIA

PRIOR YEAR COMMENTS AND SUGGESTIONS

RECONCILIATION TO GENERAL LEDGER– CITY

During the current year, we noted that the business, professional, and occupational license accounts receivable subledger did not reconcile to the general ledger. While the issue likely occurred due to employee turnover during the year, there appears to be no regular reconciliation to detect or correct such an error until year-end adjustments are performed. We recommend preparing periodic reconciliations between subledgers and the general ledger throughout the year.

Current Status: *No longer applicable.*

CONTRACTOR PERFORMANCE REVIEW – EDA

During review of the Economic Development Authority’s (“EDA”) bank reconciliation, we noted several checks received in June that were not deposited into the bank account until August 2021. Although the City’s Finance Department is performing limited procedures on the Shirley Street Apartment bank reconciliation, the property managers have been contracted to account for activity and prepare bank reconciliations. It appears that financial controls and responsibilities have not been adequately established between the City and EDA over the property managers’ financial reporting. We recommend that Finance continue to reconcile cash receipts per the Shirley Street bank statement to the financial report provided by the property managers. During the process, any unusual activity should be communicated to the EDA for investigation. Additionally, the EDA should perform regular review of activity and include analytics such as comparing collections to occupancy rates, and communicate with the property managers to resolve concerns.

Current Status: *No longer applicable.*

TIMELY BANK RECONCILIATIONS – CITY

During the current year, we noted that bank reconciliations of the main checking account for two months tested were not fully reconciled timely due to issues identified during the reconciliation process. The bank reconciliation process is identifying monthly transactions that are recorded inaccurately and delaying the full completion of the reconciliation. Timely reconciliations are necessary to ensure unreconciled or unusual items, errors, or other matters noted are detected and addressed by a supervisory individual in a timely manner. Due to the number of errors identified, the reconciliations are taking months to complete.

Current Status: *While procedures performed during FY22 indicated bank account reconciliations were reconciled and reviewed timely, an instance of an investment reconciliation prepared December 21, 2021 was not reviewed until January 25, 2022. The comment is still applicable for the current year.*

CITY OF FALLS CHURCH, VIRGINIA

PRIOR YEAR COMMENTS AND SUGGESTIONS (Continued)

SEGREGATION OF DUTIES - SCHOOLS

One of the more important aspects of any internal control structure is the segregation of duties. 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. Such access may allow errors or irregularities to occur and either not be detected or concealed. In particular, we recommend the following:

- The School Payroll Specialist and Assistant Superintendent for Finance and Operations have the ability to make payroll master file changes and process payroll. The risk is that unauthorized changes could be made to the payroll master file. We recommend that the ability to make changes be limited to an individual, such as the accounts payable clerk who does not have access to process payroll. An alternative would be to run an audit report of all changes made to the payroll master file. This report should be reviewed on a timely basis by an individual independent of the payroll process for any unauthorized changes.

Current Status: Still applicable for the current year.

CAPITAL ASSETS EXISTENCE – CITY AND SCHOOLS

Currently, neither the City nor Schools have procedures in place to verify that capital assets exist and are in their possession. The risk is that items have been disposed of but not removed from the listing. We recommend that a capital asset list be sent to each department on an annual basis for the department head to verify the existence of all items.

Current Status: Still applicable for the current year.

WRITE-OFFS, ADJUSTMENTS, AND ABATEMENTS - CITY

Currently, the City does not have a policy for write-offs, adjustments, and abatements including delinquent accounts. The risk is that write-offs, adjustments, and abatements will occur without appropriate authorization or that the allowance for doubtful accounts will continue to increase. We recommend that a policy be implemented and significant write-offs, adjustments, and abatements be reviewed and approved.

Current Status: Comment is still applicable for abatements and tax write-offs.