To the Board of Directors
Valley Community Services Board
Staunton, Virginia

In connection with our audit of the financial statements of the Valley Community Services Board (VCSB) for the year ended June 30, 2019, we have the following comments and suggestions for your consideration.

Bank Reconciliations

There was an unreconciled variance of $1,200 between the balance per the bank and the balance per the general ledger for one checking account. Lack of accurate and complete reconciliation increases the susceptibility of cash to errors or misappropriation. We recommend all cash accounts be reconciled to the bank statements and any necessary entries made before the close of the next month.

Status of Previous Management Advice

In our letter dated December 18, 2018, we recommended the following comments which have been partially implemented or have not yet been implemented:

Accounts Receivable

Some customer payment on accounts were incorrectly applied to the current portion of accounts receivable rather than being applied directly to actual invoices due. The total balance for each of the customers is correct; however, the old invoices are still present on the accounts receivable listing. This has the effect of misstating the accounts receivable aging and has the potential to affect the bad debt allowance calculation. We recommend reviewing past due invoices on the accounts receivable listing to ensure customer payments have been correctly applied.

Policies and Procedures

During internal control walkthroughs, it was noted that VCSB has not reviewed many policies and procedures in several years. We recommend all policies and procedures should be reviewed at least annually and updated as needed.

Self-Insurance Activity

This is the first full year VCSB has been self-insured for health claims. Now that a full year of self-insurance activity is available for evaluation, consider reporting self-insurance revenues and expenditures in an internal service fund if the savings become significant to track separately from regular operating activities.

Documentation of Approval

During our walkthroughs, we noted approval was not consistently documented for journal entries. Such approval should be formally documented to ensure the approval and review internal control procedures have been performed.

We noted there were still instances in the current year where the independent formal approval was not documented. We recommend VCSB continue to be diligent in performing the formal reviews of journal entries and ensure independent approval is formally documented.

Review of Liability Forms

During our walkthroughs, we noted procedures in place to determine a customer's financial eligibility, which include completing a liability form. The customer's financial information is entered into the form, and an Engagement Specialist will complete the income qualification to determine if the customer is eligible to receive services at no cost or at a sliding payment scale.

Currently, there is no formal review of liability forms or billing adjustments to customer accounts receivable. Customers can be set with a zero or specific dollar liability for services, and there is no secondary review of the forms to ensure accuracy. We recommend someone independent of entering the liabilities review the forms for accuracy on a periodic basis in order to identify inaccurate adjustments.

New GASB Pronouncements

At June 30, 2019, the Governmental Accounting Standards Board (GASB) had issued several statements not yet implemented by VCSB. The statements which might impact VCSB are as follows:

GASB Statement No. 87, *Leases*

The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. A lease is defined as a contract that conveys control of the right to use another entity's nonfinancial asset as specified in the contract for a period of time in an exchange or exchange-like transaction. Examples of nonfinancial assets include buildings, land, vehicles, and equipment. Any contract that meets this definition should be accounted for under the leases guidance, unless specifically excluded in this Statement.

The requirements of Statement No. 87 are effective for financial statements for fiscal years beginning after December 15, 2019.

GASB Statement No. 90, *Majority Equity Interests – An Amendment of GASB Statements No. 14 and No. 61*

The primary objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve 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 the 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 reporting periods beginning after December 15, 2018.

Statement No. 91, *Conduit Debt Obligations*

The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issues, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2020.

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This report is intended solely for the information and use of management, the Board of Directors and others within VCSB. It is not intended to be and should not be used by anyone other than these specified parties.

If you have any questions concerning any of these items or if we can be of further assistance, please contact us. We thank you for the opportunity to conduct your audit for the year ended June 30, 2019 and express our appreciation to everyone for their cooperation during this engagement.

PBMares, LLP

Harrisonburg, Virginia
November 13, 2019