

ROBINSON, FARMER, COX ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

A PROFESSIONAL LIMITED LIABILITY COMPANY

Date: June 4, 2019

Memorandum To: Maury Service Authority

From: Robinson, Farmer, Cox Associates

Regarding: Audit for year ended June 30, 2018

In planning and performing our audit of the financial statements of Maury Service Authority for the year ended June 30, 2018, 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 June 4, 2019 on the financial statements of Maury Service 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.

Formal Policies and Procedures

Finding

The Authority ended their contract with the City of Lexington to operate the water and wastewater treatment plants at the conclusion of fiscal year 2016. The Authority assumed the employees who work at the facilities that were previously City employees and is now responsible for the operation of its own facilities. However, the Authority is still following some of the existing policies from the City of Lexington. Until June 2018, there was no formal documentation at the Authority regarding Fair Labor Standards Act (FLSA) status for individual employees. There was also no formal reconciliation process in place for petty cash until late in the fiscal year. The general practice for credit cards with missing receipts is for the Administrative Secretary to contact the employee responsible for the purchase to request documents. If they are unable to provide documentation, the Administrative Secretary or employee documents the vendor and employee making the purchase.

Recommendation

We recommend that the Authority establish formal written policies covering over areas such as personnel, procurement and purchasing, capital assets, credit card usage, travel reimbursement and petty cash. In addition, a whistleblower policy should be created. Payments to board members should be reported on W-2s versus 1099s per IRS regulations. Management should consider establishing periodic replenishment procedures for petty cash to maintain a routine balance. In the rare instance that credit card receipts are missing, the employee should submit a statement describing what was purchased. However, every effort should be made to maintain receipts to support the appropriateness of business expenses.

Recording of Accruals

Finding

As a result of the transition mentioned above, several audit adjustments were necessary during audit fieldwork to adjust or record accrual balances in accordance with generally accepted accounting principles.

Recommendation

We recommend that accrual activity be recorded prior to audit fieldwork to limit the auditor's involvement in recording adjusting journal entries and making significant adjustments to the general ledger. These include items such as accounts receivable, prepaid expenses, interfund balances, capital asset additions and disposals and depreciation, accounts payable, accrued interest payable, accrued leave, accrued payroll, etc. The audit preparation process should include a review of general ledger activity and identification of capital asset additions and disposals. Capital asset activity occurring during the year should be reflected on the depreciation schedule and general ledger presented for audit. Prior to the fiscal year 2019 audit, the depreciation schedule should be reviewed in detail to ensure it is complete and all items are still in use at the facility.

Bank Reconciliations

Finding

Two bank accounts did not reconcile to the general ledger when presented for audit. Although bank reconciliations were prepared, the reconciled balances did not agree to the amounts on the general ledger.

For the water account bank reconciliation, an Anthem bill in the amount of \$4,273.70 was entered with a date of 7/1/18, although it had cleared the bank on 6/22/18. A payment from 2017 in the amount of \$400 that cleared the bank on 7/6/17 was not entered in QuickBooks. And, interest for June 2018 in the amount of \$43.31 reflected on the bank statement on 6/29/18 was entered into QuickBooks with a date of 8/31/18.

For the wastewater bank account reconciliation, interest income for July 2018 through October 2018 totaling \$169.46 was entered into QuickBooks with dates for the year 2000. These items were reflected as deposits in transit on the June 2018 bank reconciliation. In addition, a \$1,000 payment to Your IT Dept that cleared the bank on 6/29/18 was entered into QuickBooks with a date of 7/1/18.

Our test of invoices also revealed that transactions are sometimes recorded with the date processed by the bank instead of the dates checks were written. For example, a check dated 10/16/17 was recorded in QuickBooks with a date of 10/25/17, the date it cleared the bank.

Recommendation

We recommend that entries into QuickBooks be reviewed for accuracy (date, amount, account, etc.) prior to being recorded. Invoices should be entered and dated when processed and not upon receipt of the bank statement. In addition, bank reconciliations should be reviewed for accuracy with deposits in transit and outstanding items being researched, as appropriate. The bank reconciliation should be reviewed (with formal signoffs) by someone independent of the preparer.

QuickBooks Account Postings

Finding

The water and sewer funds should balance individually. Several payments throughout the year are allocated between the two funds. A review of the detailed general ledger showed numerous instances in which activity was recorded across funds. For instance, a check may have been recorded in the water bank account while the expense account was in the sewer fund.

Recommendation

General ledger postings in QuickBooks should be reviewed for accuracy (date, amount, account, etc.) prior to being recorded. In addition, interfund balances (due to and due from amounts within the individual funds) should be reviewed and reconciled each month. This account represents items paid from one fund that are actual expenses of the other fund. The monthly reports presented to the board are being relied on for financial decisions, so it is imperative that individual transactions are recorded in the correct fund and account.

Late Fees

Finding

The July 10, 2018 MasterCard statement included \$25.00 in late fees and \$25.40 in interest charges. The Code of Virginia §2.2-4352 requires that every agency of local government that acquires goods or services or conducts any other type of contractual business with a nongovernmental, privately owned enterprise, shall promptly pay for the completed delivered goods or services by the required payment date.

Recommendation

We recommend that all bills be paid on or before due dates to avoid unnecessary fees and service charges.

Payroll Processing and Reconciliation

Finding

Payroll expenses are not consistently recorded in the appropriate accounts. Employer portions of third-party benefit payments are posted to the wages accounts. Also, certain benefits or withholdings were not properly taxed in accordance with IRS regulations. For example, Federal Unemployment Taxes (FUTA) and SUI taxes were paid; however, the Authority is not subject to these taxes. Also, certain VRS contributions are exempt from social security and medicare tax, but these taxes were withheld.

Recommendation

We recommend management consider creating additional general ledger accounts (or subaccounts) to separately track ICMA-RC and other relevant expenses. This will help with reconciling payroll to VRS reporting, 941s, etc. The pension and OPEB standards require certain items to be reclassified from expense accounts to deferred outflows of resources and it would be easier to identify and adjust these items if they were recorded in their own account. In addition, the list of employee deductions should be reviewed to ensure they are correctly treated as pre-tax or post-tax items.

Virginia Retirement System (VRS) Processing and Reconciliation

Finding

As reported in the separate VRS attestation report, there were several deviations related to VRS compliance:

- Throughout the year, the Authority did not have reconciliation procedures in place and did not reconcile the payroll system to the information in myVRS Navigator.
- The Authority has no formal process for verifying records are free from error when input in myVRS Navigator. However, census data testing revealed no errors.
- In examining payment submission dates, it was found that one month was paid one day after the due date (an improvement of 7 instances being paid late in the prior fiscal year).

Recommendation

VRS regulations should be reviewed and transactions processed accordingly. In addition, monthly reconciliation procedures should be implemented to ensure activity is properly reported to VRS and recorded in the general ledger.

GASB Pronouncements

Finding

The Authority is required to record its net pension asset, deferred outflows of resources, and deferred inflows of resources in accordance with GASB 68 and similar items for the net OPEB liability as required by GASB 75. This information is reported in actuarial valuations provided by VRS. The VRS website includes financial reporting guidance for employers. The auditor proposed journal entries to record this information upon implementation of the standards for fiscal year 2018.

Recommendation

We recommend management and the third-party accountant become familiar with these governmental standards in order to prepare the necessary adjustments going forward.