

# **TOWN OF FRONT ROYAL, VIRGINIA**

## **COMPLIANCE REPORT**

**FOR THE YEAR ENDED JUNE 30, 2023**

# TOWN OF FRONT ROYAL, VIRGINIA

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**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**

To the Honorable Mayor and Members of Town Council  
Town of Front Royal, Virginia

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Front Royal, Virginia (the "Town"), as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements, and have issued our report thereon dated December 28, 2023.

**Report on Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Town's 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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control.

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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section 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. We identified certain deficiencies in internal control, described in the accompanying schedule of findings and question costs as item 2023-001, which we consider to be a material weakness and item 2023-002, which we consider to be a significant deficiency.

## **Report on Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Town's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## **Town of Front Royal, Virginia's Response to Findings**

*Government Auditing Standards* requires the auditor to perform limited procedures on the Town's response to the findings identified in our audit and described in the accompanying schedule of findings and questioned costs. The Town's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

## **Purpose of This Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in dark ink, reading "UHY LLP". The letters are stylized and cursive.

Salisbury, Maryland  
December 28, 2023

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM  
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

To the Honorable Mayor and Members of Town Council  
Town of Front Royal, Virginia

**Report on Compliance for Each Major Federal Program**

***Opinion on Each Major Federal Program***

We have audited the Town of Front Royal, Virginia's (the "Town") compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of the Town's major federal programs for the year ended June 30, 2023. The Town's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, The Town complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2023.

***Basis for Opinion on Each Major Federal Program***

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the Town's and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the Town's compliance with the compliance requirements referred to above.

***Responsibilities of Management for Compliance***

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the Town's federal programs.

### ***Auditor's Responsibilities for the Audit of Compliance***

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Town's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards* and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the Town's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the Town's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the Town's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

## **Report on Internal Control over Compliance**

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

## **Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance**

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town, as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements. We issued our report thereon dated December 28, 2023, which contained unmodified opinions on those financial statements. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.



Salisbury, Maryland  
December 28, 2023

**TOWN OF FRONT ROYAL, VIRGINIA**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**Year Ended June 30, 2023**

Description	Federal Assistance Listing Number	Grant Number	Federal Expenditures	Expenditures to Subrecipients
<b><u>U.S Department of Justice</u></b>				
<i>Passed through the Virginia Department of Criminal Justice Services</i>				
Local Law Enforcement Block Grant	16.738	15PBJA-21-GG-00258-MUMU	\$ 2,276	\$ -
<b>Total Edward Byrne Memorial Justice Assistance Grant Program</b>			<b>2,276</b>	<b>-</b>
<b>Total U.S. Department of Justice</b>			<b>2,276</b>	<b>-</b>
<b><u>U.S. Department of Transportation</u></b>				
<i>Passed through the Virginia Department of Motor Vehicles</i>				
Selective Enforcement - Speed	20.600	BSC-2023-53047-23047	5,204	-
<b>Total Highway Safety Cluster</b>			<b>5,204</b>	<b>-</b>
<i>Passed through the Virginia Department of Motor Vehicles</i>				
Selective Enforcement - Alcohol	20.607	ENF-AL-2023-53044-23044	9,383	-
<b>Total Alcohol Open Container Requirements</b>			<b>9,383</b>	<b>-</b>
<b>Total U.S. Department of Transportation</b>			<b>14,587</b>	<b>-</b>
<b><u>U.S Department of the Treasury</u></b>				
<i>Passed through the Commonwealth of Virginia</i>				
Coronavirus State and Local Fiscal Recovery Funds	21.027	VA0074	3,694,126	-
<b>Total Coronavirus State and Local Fiscal Recovery Funds</b>			<b>3,694,126</b>	<b>-</b>
<b>Total U.S. Department of the Treasury</b>			<b>3,694,126</b>	<b>-</b>
<b>Total Federal Awards</b>			<b>\$ 3,710,989</b>	<b>\$ -</b>



**TOWN OF FRONT ROYAL, VIRGINIA**  
**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**Year Ended June 30, 2023**

**NOTE 1 – BASIS OF PRESENTATION**

The accompanying schedule of expenditures of federal awards includes the federal award activity of the Town of Front Royal, Virginia (the "Town") under programs of the federal government for the year ended June 30, 2023. The information in this schedule is presented in accordance with the requirements of Title 2, U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements of Federal Awards (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Town, some amounts presented in the Schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. Depending on the federal award date, these expenditures are recognized following the cost principles contained in the Uniform Guidance and/or OMB Circular A-87, Cost Principles for State, Local, and Indian Tribal Governments, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

**NOTE 3 – INDIRECT COST RATE**

The Town has not elected to use the 10 percent de minimis indirect cost rate as allowed under the Uniform Guidance.

**TOWN OF FRONT ROYAL, VIRGINIA**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**Year Ended June 30, 2023**

**A. SUMMARY OF AUDITORS' RESULTS**

1. The auditors' report expresses an unmodified opinion on the financial statements of the Town of Front Royal, Virginia (the "Town").
2. One material weakness and one significant deficiency relating to the audit of the financial statements are reported in the Independent Auditors' 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*.
3. No instances of noncompliance material to the financial statements of the Town which would be required to be reported in accordance with *Government Auditing Standards* were disclosed during the audit.
4. No significant deficiencies or material weaknesses relating to the audit of the major federal award programs are reported in the Independent Auditors' Report on Compliance For Each Major Federal Program; Report on Internal Control Over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance.
5. The auditors' report on compliance for the major federal award programs for the Town expresses an unmodified opinion on all major federal programs.
6. No findings required to be reported in accordance with 2 CFR Section 200.516(a) are reported in Part C of this Schedule.
7. The programs tested as major programs include:  
  
Coronavirus State and Local Fiscal Recovery Funds  
Federal Assistance Listing #21.027
8. The threshold for distinguishing Types A and B programs was \$750,000.
9. The Town was determined to be a low-risk auditee.

**B. FINDINGS – FINANCIAL STATEMENT AUDIT**

Yes – see below.

**C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT**

None.

**TOWN OF FRONT ROYAL, VIRGINIA**  
**SCHEDULE OF FINDINGS AND QUESITONED COSTS**  
**Year Ended June 30, 2023**

**Material Weakness**

Finding Number 2023-001 – Financial Close and Financial Reporting

*Criteria:* Accounting policies and procedures should be properly designed to ensure complete financial close and accurate financial reporting.

*Condition:* Accounting records are not being recorded in accordance with generally accepted accounting principles (“GAAP”). Areas that included significant adjusting entries included fixed assets, accounts payable, unearned revenues, GASB 87 and GASB 96 items, other-post employment benefits, and unearned revenues.

*Cause:* The lack of a complete financial close resulted in large adjusting journal entries being prepared during the audit process.

*Effect:* During our audit, significant prior period and current period adjusting entries were prepared.

*Recommendation:* We recommend designing and implementing accounting policies and procedures that include, when possible, the following:

- Account reconciliations that are complete – no account left behind.
- Account reconciliations should be accurate.
- Account reconciliations should be completed and reviewed by management in a timely manner.
- Account reconciliations should support the appropriate accounting principles.
- Account reconciliations should be constantly reviewed and approved.

Additionally, we also recommend engaging the use of outside consultants or specialists when entering into accounting transactions outside the scope of the normal course of business.

*Identification of Repeat Finding:* This is a first year finding.

*Views of Responsible Officials:* The Town will review its accounting policies and procedures to ensure a complete financial close and accurate financial reporting.

**TOWN OF FRONT ROYAL, VIRGINIA**  
**SCHEDULE OF FINDINGS AND QUESITONED COSTS**  
**Year Ended June 30, 2023**

**Significant Deficiency**

Finding Number 2023-002 – Segregation of Duties Surrounding Payroll

*Criteria:* Proper segregation of duties in regard to payroll should be in place to strengthen internal controls to provide reasonable assurance that a material misstatement to the financial statements is prevented or detected in a timely basis and to prevent misappropriation of assets.

*Condition:* During our review of internal control surrounding payroll, we noted a lack of segregation of duties in which one individual processes payroll with no formal secondary review of the payroll register. Additionally, changes to sensitive employee data (e.g., addresses, wages, SSN, etc.) are not formally reviewed by someone other than the individual inputting them into the system.

*Cause:* The lack of appropriately designed internal control systems has produced conflicts regarding assigned duties in relation to payroll.

*Effect:* Segregation of duties issues does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, the misappropriation of assets and/or errors on a timely basis.

*Recommendation:* We recommend that the Town implement a secondary review of the payroll register each period before the payroll is finalized. This will assist in the detection and correction of any errors, unauthorized changes, or unauthorized payouts in the payroll run. It is important to note that review controls do not eliminate all risk when segregation of duties conflicts exist, and management and those charged with governance need to be aware of such risks.

*Identification of Repeat Finding:* This is a first year finding.

*Views of Responsible Officials:* The Town will review its internal controls surrounding payroll and implement procedures to help reduce risk.