

TOWN OF PURCELLVILLE, VIRGINIA

**COMMENTS ON INTERNAL CONTROL AND
OTHER SUGGESTIONS FOR YOUR
CONSIDERATION**

June 30, 2023

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INDEPENDENT AUDITOR'S REPORT ON COMMENTS AND SUGGESTIONS

To the Honorable Members of the Town Council
Town of Purcellville, Virginia

In planning and performing our audit of the financial statements of the governmental activities, the business-type activities, and each major fund of the Town of Purcellville, Virginia as of and for the year ended June 30, 2023, 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 opinions on the financial statements and to comply with any other applicable standards, such as *Government Auditing Standards*, 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.

The entity's responses to our recommendations are included in this report. The responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

This communication is intended solely for the information and use of the Town Council and management and is not intended to be, and should not be, used by anyone other than those specified parties.

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

CERTIFIED PUBLIC ACCOUNTANTS

Harrisonburg, Virginia
December 8, 2023

TOWN OF PURCELLVILLE, VIRGINIA

COMMENTS AND SUGGESTIONS

PERSONNEL MANUAL

The Town's personnel manual was last updated in 2005 though there have been memos and amendments since that time. A comprehensive and up-to-date personnel manual can help communicate, and encourage adherence to, Town policies; prevent possible confusion or misunderstandings among personnel; and provide a measure of liability protection to the Town in case of employee legal challenges of Town actions.

Management's Response:

A comprehensive update to the personnel manual has been contracted and is underway. A first draft has been completed and is currently being reviewed. The manual will be completed and adopted by the end of Fiscal Year 24.

CONFLICT OF INTEREST

The State and Local Government Conflict of Interests Act is contained in Chapter 31 of Title 2.2 of the Code of Virginia (§2.2-3100 et. seq.). The Act is designed to assure that the judgment of public employees is not compromised or affected by inappropriate conflicts. The Act prohibits local government officers or employees from participating in certain transactions in which they or their family members have a material financial interest. The Act absolutely prohibits other activities such as accepting bribes. All relationships material or not should be disclosed on the conflict of interest form. Relationships which may appear to be immaterial may not appear to be appropriate and could potentially create an unintended conflict of interest for the Town. We noted two forms were submitted late out of thirty-three forms.

Management's Response

For all employees required to file annually per the Town's ordinance 14-11-01, the Town Manager's Office will issue a letter reinforcing the deadline and specifying administrative penalties as authorized by the Town Manager, for failure to submit per the statutory deadline.

For committee, commission, and board members, currently a similar letter is issued indicating that a failure to file according to Commonwealth statute would result in reporting this failure to the Office of the Commonwealth's Attorney. The Town will be writing a new policy that would also recommend dismissal from their appointed position for failure to file.

REVENUE

The Town's annual utility debt service will increase significantly beginning in FY25 following the period of debt restructure where principle payments were deferred. The Town will need to increase utility user rates to cover the increased costs. Furthermore, reliance on General Fund taxes or resources is not recommended as enterprise funds are intended to be self-supporting.

Management's Response:

The Town will continue to partner with our Utility Rate Consultant to determine rates necessary to cover cost of service in order to preserve the fiscal health and viability of the utility enterprise funds.

TOWN OF PURCELLVILLE, VIRGINIA
COMMENTS AND SUGGESTIONS (Continued)

BEST PRACTICES:

As the Town receives significant federal funding as a result of the COVID-19 pandemic, we want to emphasize some best practices. While nothing specific was noted in the audit, these are areas which apply to town officials, including those employed by the town and those serving in elected positions on behalf of the Town.

PROCUREMENT

The Virginia Public Procurement Act, located in Chapter 43 (§2.2-4300 et. seq.) of Title 2.2 of the Code of Virginia, contains state law on the procurement of goods and services. The Act, which was designed to maximize competition, applies to all local governments and constitutional officers. The Town has adopted such policies and procedures for compliance with both Federal and state requirements. Some key requirements of the act include:

- Request For Proposals for projects greater than \$30,000.
- Notification/Publication of RFPs through local newspapers and through the Town's website.
- Requirement of at least three vendor bids.
- Review of the bids received, ranked and documentation of the reason for the vendor selected.
- Documentation of the bids and the RFP should be retained.

Concerning federal awards, the Uniform Guidance requires the implementation of changes to organizations' policies and procedures by July 1, 2018. As a result, the Town will need to update their procurement policies to meet the requirements outlined in 2 CFR 200.317 through 200.326 in the Uniform Guidance.

Management's Response:

The Town is adding a section to our Procurement Policy that notates, "When procurement of property and services is under a Federal award, the Town will comply with 2 CFR 200.317 through 200.326 in the Uniform Guidance section of the Federal Acquisition Regulations." The updated Procurement Policy will be administratively adopted in fiscal year 2024. It was delayed due to Town Manager turnover.

INFORMATION TECHNOLOGY

Best practices related to information technology have been communicated to management separately as this information is considered proprietary.

Management's Response

IT developed a basic backup and disaster recovery policy. In the near future, the Town plans to complete an emergency response plan that would also include a comprehensive disaster recovery plan.

TOWN OF PURCELLVILLE, VIRGINIA

ACCOUNTING AND OTHER MATTERS

NEW GASB PRONOUNCEMENTS

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. 99, Omnibus 2022** in April 2022. The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing (1) practice issues that have been identified during implementation and application of certain GASB Statements and (2) accounting and financial reporting for financial guarantees. The practice issues addressed by this Statement are as follows:

- Classification and reporting of derivative instruments within the scope of Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, that do not meet the definition of either an investment derivative instrument or a hedging derivative instrument.
- Extension of the period during which the London Interbank Offered Rate (LIBOR) is considered an appropriate benchmark interest rate for the qualitative evaluation of the effectiveness of an interest rate swap that hedges the interest rate risk of taxable debt.
- Accounting for the distribution of benefits as part of the Supplemental Nutrition Assistance Program (SNAP).
- Disclosures related to nonmonetary transactions.
- Pledges of future revenues when resources are not received by the pledging government.
- Clarification of provisions in Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, as amended, related to the focus of the government-wide financial statements.
- Terminology updates related to certain provisions of Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*.
- Terminology used in Statement 53 to refer to resource flows statements.

The requirements related to extension of the use of LIBOR, accounting for SNAP distributions, disclosures of nonmonetary transactions, pledges of future revenues by pledging governments, clarification of certain provisions in Statement 34, as amended, and terminology updates related to Statement 53 and Statement 63 are effective upon issuance. The requirements related to financial guarantees and the classification and reporting of derivative instruments within the scope of Statement 53 are effective for fiscal years beginning after June 15, 2023, and all reporting periods thereafter.

The GASB issued **Statement No. 100, Accounting Changes and Error Corrections** in June 2022. The primary objective of this Statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability.

TOWN OF PURCELLVILLE, VIRGINIA

ACCOUNTING AND OTHER MATTERS (Continued)

This Statement defines accounting changes as changes in accounting principles, changes in accounting estimates, and changes to or within the financial reporting entity and describes the transactions or other events that constitute those changes. As part of those descriptions, for (1) certain changes in accounting principles and (2) certain changes in accounting estimates that result from a change in measurement methodology, a new principle or methodology should be justified on the basis that it is preferable to the principle or methodology used before the change. That preferability should be based on the qualitative characteristics of financial reporting—understandability, reliability, relevance, timeliness, consistency, and comparability. This Statement also addresses corrections of errors in previously issued financial statements.

This Statement prescribes the accounting and financial reporting for (1) each type of accounting change and (2) error corrections. This Statement requires that (a) changes in accounting principles and error corrections be reported retroactively by restating prior periods, (b) changes to or within the financial reporting entity be reported by adjusting beginning balances of the current period, and (c) changes in accounting estimates be reported prospectively by recognizing the change in the current period. The requirements of this Statement for changes in accounting principles apply to the implementation of a new pronouncement in the absence of specific transition provisions in the new pronouncement. This Statement also requires that the aggregate number of adjustments to and restatements of beginning net position, fund balance, or fund net position, as applicable, be displayed by reporting unit in the financial statements.

This Statement requires disclosure in notes to financial statements of descriptive information about accounting changes and error corrections, such as their nature. In addition, information about the quantitative effects on beginning balances of each accounting change and error correction should be disclosed by reporting unit in a tabular format to reconcile beginning balances as previously reported to beginning balances as restated.

Furthermore, this Statement addresses how information that is affected by a change in accounting principle or error correction should be presented in required supplementary information (RSI) and supplementary information (SI). For periods that are earlier than those included in the basic financial statements, information presented in RSI or SI should be restated for error corrections, if practicable, but not for changes in accounting principles.

The requirements of this Statement are effective for accounting changes and error corrections made in fiscal years beginning after June 15, 2023, and all reporting periods thereafter. Earlier application is encouraged.

The GASB issued **Statement No. 101, *Compensated Absences*** in June 2022. The objective of this Statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures. This Statement requires that liabilities for compensated absences be recognized for (1) leave that has not been used and (2) leave that has been used but not yet paid in cash or settled through noncash means. A liability should be recognized for leave that has not been used if (a) the leave is attributable to services already rendered, (b) the leave accumulates, and (c) the leave is more likely than not to be used for time off or otherwise paid in cash or settled through noncash means. Leave is attributable to services already rendered when an employee has performed the services required to earn the leave.

TOWN OF PURCELLVILLE, VIRGINIA

ACCOUNTING AND OTHER MATTERS (Continued)

Leave that accumulates is carried forward from the reporting period in which it is earned to a future reporting period during which it may be used for time off or otherwise paid or settled. In estimating the leave that is more likely than not to be used or otherwise paid or settled, a government should consider relevant factors such as employment policies related to compensated absences and historical information about the use or payment of compensated absences. However, leave that is more likely than not to be settled through conversion to defined benefit postemployment benefits should not be included in a liability for compensated absences.

This Statement requires that a liability for certain types of compensated absences—including parental leave, military leave, and jury duty leave—not be recognized until the leave commences. This Statement also requires that a liability for specific types of compensated absences not be recognized until the leave is used.

This Statement also establishes guidance for measuring a liability for leave that has not been used, generally using an employee's pay rate as of the date of the financial statements. A liability for leave that has been used but not yet paid or settled should be measured at the amount of the cash payment or noncash settlement to be made. Certain salary-related payments that are directly and incrementally associated with payments for leave also should be included in the measurement of the liabilities.

With respect to financial statements prepared using the current financial resources measurement focus, this Statement requires that expenditures be recognized for the amount that normally would be liquidated with expendable available financial resources.

The requirements of this Statement are effective for fiscal years beginning after December 15, 2023, and all reporting periods thereafter. Earlier application is encouraged.

TOWN OF PURCELLVILLE, VIRGINIA

ACCOUNTING AND OTHER MATTERS (Continued)

CURRENT GASB PROJECTS

GASB currently has a variety of projects in process. Some of these projects are discussed below.

Conceptual Framework – Recognition. The project’s objective is to develop recognition criteria for *whether* information should be reported in state and local governmental financial statements and *when* that information should be reported. This project ultimately will lead to a Concepts Statement on recognition of elements of financial statements. This project has been removed from the technical plan.

Financial Reporting Model. The objective of this project is to make improvements to the financial reporting model, including Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*, and other reporting model-related pronouncements (Statements No. 35, *Basic Financial Statements – and Management’s Discussion and Analysis – for Public Colleges and Universities*, No. 37, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments: Omnibus*, No. 41, *Budgetary Comparison Schedules – Perspective Differences*, and No. 46, *Net Assets Restricted by Enabling Legislation, and Interpretation No. 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*). The objective of these improvements would be to enhance the effectiveness of the model in providing information that is essential for decision-making and enhance the ability to assess a government’s accounting and address certain application issues, based upon the results of the pre-agenda research on the financial reporting model. The project is currently in exposure draft re-deliberations period.

Revenue and Expense Recognition. The objective of this project is to develop a comprehensive application model for the classification, recognition, and measurement of revenues and expenses. The purpose for developing a comprehensive model is (1) to improve the information regarding revenues and expenses that users need to make decisions and assess accountability, (2) to provide guidance regarding exchange and exchange-like transactions that have not been specifically addressed, (3) to evaluate revenue and expense recognition in the context of the conceptual framework, and (4) to address application issues identified in practice, based upon the results of the pre-agenda research on revenue for exchange and exchange-like transactions. The project is currently in the preliminary views re-deliberations period.

Going Concern Uncertainties and Severe Financial Stress. The objective of this project is to address issues related to disclosures regarding going concern uncertainties and severe financial stress. The project will consider (1) improvements to existing guidance for going concern considerations to address diversity in practice and clarify the circumstances under which disclosure is appropriate, (2) developing a definition of severe financial stress and criteria for identifying when governments should disclose their exposure to severe financial stress, and (3) what information about a government’s exposure to severe financial stress is necessary to disclose.

Infrastructure Assets. The objective of this project is to address issues related to accounting and financial reporting for infrastructure assets. The project would evaluate standards-setting options related to reporting infrastructure assets to make information (1) more comparable across governments and more consistent over time, (2) more useful for making decisions and assessing government accountability, (3) more relevant to assessments of a government’s economic condition, and (4) better reflect the capacity of those assets to provide service and how that capacity may change over time. This project is currently in the initial deliberations period.