



ROBINSON, FARMER, COX ASSOCIATES, PLLC
Certified Public Accountants

DATE: December 16, 2019

MEMORANDUM TO: Jay Scudder, Manager
City of Buena Vista, Virginia

FROM: Robinson, Farmer, Cox Associates

In planning and performing our audit of the financial statements of the City of Buena Vista, Virginia for the year ended June 30, 2019, we considered the City's internal controls to plan our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal controls.

However, during our audit, we noted certain matters involving the internal controls and other operational matters that are presented for your consideration. This letter does not affect our report dated December 16, 2019, on the financial statements of the City of Buena Vista, Virginia. Our comments and recommendations, all of which have been discussed with appropriate members of management, are intended to improve the internal controls 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.

RECOMMENDATIONS FROM THE PRIOR YEAR STILL APPLICABLE:

Collection of Water and Sewer Receivables

In reviewing the aging of water and sewer receivables, we noted numerous delinquent accounts that had been inactive for several years. The allowance for uncollectible water and sewer receivables amounted to approximately 54% of billed water and sewer accounts receivable at June 30, 2019. It is our recommendation that the City consider addressing collection efforts for these delinquent accounts and write off accounts that are no longer collectible.

Water and Sewer Revenue

The City utilizes a separate software module for water and sewer billing that does not interface with the City's general ledger software, thus the monthly billing must be manually posted to the City's ledger. During fiscal year 2019, the City made adjustments on a monthly basis to true up monthly utility revenues; discussions with management revealed the cause of the variance to be timing issues. In order to strengthen internal controls over the water and sewer billing and collection process, it is our recommendation that the City continue to work to gain an understanding of the differences. Management should be diligent in its review and oversight of this process.

Loan Receivable

It was noted that the City issued a \$15,000 loan to a local business owner on September 20, 2016 from its Community Development Block Grant funds. Payments on this loan began November 29, 2016 but only 3 payments were made. As of June 30, 2019, the City had not received payment in almost 2 years. We recommend that the City consider enhancing collection efforts on this delinquent loan.

School Health Insurance Fund

The School Board has established a self-insurance plan for its employees, which is accounted for as an Internal Service fund in the City's Comprehensive Annual Financial Report (CAFR). Both amounts withheld from employee paychecks, as well as employer contributions, are deposited into a separate bank account established solely to manage these deposits and pay employee insurance claims. Employer contributions are expensed in the School Operating Fund. At June 30, 2019, the health insurance bank account maintained a reconciled balance of \$133,736. However, no activity or accounts related to this health insurance plan, other than the employer contribution expenses, are recorded in the City's general ledger. We recommend that the City establish a separate fund to record the transactions related to the activity of the school health insurance plan. Additionally, a monthly reconciliation should be performed between the health insurance expenses in the School Operating Fund and the deposits to the health insurance bank account. This reconciliation should provide a summary of the deposits to the health insurance account by type (i.e., Employer HSA contribution, Employee HSA contribution, Employer health contribution, Retiree health contribution, etc.).

CURRENT YEAR RECOMMENDATIONS:

Unclaimed Property

During our audit of cash, it was discovered that, as of June 30, 2019, there were several checks totaling approximately \$18,485 that had been outstanding for a period greater than one year. Of this amount, \$2,564 had been outstanding for more than five years. Per Virginia Code Section 55-210.2:1, property is presumed abandoned when it is held in the ordinary course of business for a period exceeding five years and should be reported with the Virginia Treasury in accordance with Virginia Code Section 55-210.12. We recommend the City review its outstanding check listing at the end of each fiscal year to ensure compliance with Virginia law.

Budget Planning, Review, and Oversight

During our audit, we observed that expenditures exceeded the final budget by \$2,369,835 in the general fund, which resulted in a net change in fund balance of (\$890,772). Continued expenditures at this level without an immediate and sustainable increase in the current level of revenue could very likely place the City in a net deficit situation within two to three years. Therefore, we strongly recommend the following changes:

- Management should immediately undertake a thorough review and comparison of the budget to current actual FY20 revenues and expense
- Management should make any necessary revisions to the budget to minimize any negative financial consequences in the current year
- Total budgeted expenditures should then be based on the total estimated revenue less a certain margin to add to fund balance at year-end or at a minimum to break-even for the year
- The FY20 budgeted expenditures should be based on actual amounts expensed in FY19, which will result in the development of a more accurate and realistic budget
- The budget should be revised for any new or unforeseen expenditures throughout the year
- Management should develop and implement a formal process of comparing the periodic budget to actual revenue and expenditures throughout the year

Fund Balance

The City utilized fund balance to fund fiscal year 2019 expenditures, resulting in a reduction of fund balance in the amount of \$890,772. The City's general fund, fund balance has decreased by \$890,772, \$359,899, and \$178,413 in fiscal years 2019, 2018, and 2017, respectively. Current year assigned fund balance reported in the general fund is just 10% of fiscal year 2019 general fund expenditures. If the City continued operating at a deficit, fund balance could be extinguished completely within the next few years. We strongly recommend that the budget process be more closely reviewed regarding areas where cost savings can occur, and revenues may be increased.

Uniform Guidance Policies and Procedures

The Office of Management and Budget (OMB) issued new guidance on Administrative Requirements, Cost Principles, and Audit Requirements for Federal awards. The new Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Financial Awards (The "Super Circular", or "Uniform Guidance") requires some major policy reforms which are required to be implemented by all entities receiving federal funding effective January 1, 2018 for entities with a December 31 fiscal year end and July 1, 2018 for entities with a June 30th fiscal year end. These policy reforms should be implemented as soon as possible in order to avoid noncompliance with the terms and conditions of current federal awards and the direct and material compliance requirements for federal awards. The following sections of the Uniform Guidance require nonfederal entities that receive federal awards to establish written policies, procedures, or standards of conduct:

- Conflict of Interest (§200.112)
- Financial Management (§200.302)
- Payment (§200.305)
- General Procurement Standards (§200.318)
- Competition (§200.319)
- Methods of Procurement to be Followed (§200.320)
- Compensation – Personal Services (§200.430)
- Compensation – Fringe Benefits (§200.431)
- Relocation Costs of Employees (§200.464)
- Travel Costs (§200.474)

In order to ensure that your policies and procedures meet these new requirements, we recommend that you review the new requirements in detail and revise your current policies, as necessary. These updated policies should be applied by all components of the County that receive federal awards.

Upcoming Pronouncements

Statement No. 84, Fiduciary Activities, establishes criteria for identifying fiduciary activities of all state and local governments for accounting and financial reporting purposes and how those activities should be reported. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018.

Statement No. 87, Leases, requires 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. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019.

Statement No. 89, Accounting for Interest Cost Incurred Before the End of a Construction Period, provides guidance for reporting capital assets and the cost of borrowing for a reporting period and simplifies accounting for interest cost incurred before the end of a construction period. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019

Statement No. 90, Majority Equity Interests – An Amendment of GASB Statements No. 14 and No. 61, provides guidance for reporting a government's majority equity interest in a legally separate organization and for reporting financial statement information for certain component units. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018.

Statement No. 91, Conduit Debt Obligations, provides a single method of reporting conduit debt obligations by issuers and eliminates diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. The requirements of this Statement are effective for reporting periods beginning after December 15, 2020.