

**COUNTY OF NEW KENT, VIRGINIA AND
NEW KENT COUNTY PUBLIC SCHOOLS**

**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

Members of the Board of Supervisors, the School Board
and the Economic Development Authority Board
County of New Kent, Virginia

In planning and performing our audit of the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the County of New Kent, Virginia and the New Kent County Public Schools (the "County") 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 the County's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in circumstances for the purpose of expressing our opinion on the financial statements and to comply with any other applicable standards, such as *Government Auditing Standards* and 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.

This communication is intended solely for the information and use of the Board of Supervisors, the School Board, management, and state and federal regulatory agencies 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 15, 2023

COMMENTS AND SUGGESTIONS

BANK RECONCILIATIONS

Monthly bank account reconciliations are the primary internal control procedure relating to the County's cash accounts. During 2023, bank account reconciliations were prepared, however, the accounts were not completely reconciled. As of June 30, 2023, there was an unreconciled amount of \$7,201 in the regular checking account. Although this amount may appear not to be material to the overall financial position of the County, it may obscure significant but offsetting items (such as bank errors or improperly recorded transactions) that would be a cause for investigation if the items were apparent. Also, if small differences are not reconciled monthly, over time, they can build up to a significant amount that will be difficult to reconcile. Unreconciled amounts should be investigated and not be allowed to be carried over from month to month.

CASH ENTRIES – SIGNIFICANT DEFICIENCY

During the audit we made two significant entries to cash and investments. The first entry accrued interest for approximately \$257,000. The second entry backed out an outstanding check that should not have been a reconciling item for approximately \$1,730,300. All accounts should be reconciled between the bank balance and the general ledger to ensure all transactions are properly reflected. Additionally, all reconciling items should be scrutinized to ensure they are proper reconciling items, with the concept of pooled cash kept in mind.

PRIOR YEAR COMMENTS AND SUGGESTIONS

COMMONWEALTH OF VIRGINIA DISCLOSURE STATEMENTS – COUNTY

We noted four individuals did not file statements of economic interest by the February 1st deadline as set forth by the Code of Virginia. We recommend taking steps to ensure these statements are filed by all required individuals in a timely manner.

Current Year Status: *Still applicable.*

CONTROLS AROUND FEDERAL PROGRAM REPORTING - SCHOOLS

During our testing of the Child Nutrition Federal program, we noted that the School's typical controls with respect to reviews surrounding reporting requirements were not followed. All reporting should be reviewed prior to submission by someone other than the preparer and such review should be documented. We recommend that all reporting requirements for Federal funds go through a review process to ensure accuracy and completeness of the report prior to submission.

Current Year Status: *Appears to be resolved in 2023.*

SEGREGATE ACCOUNTS RECEIVABLE DUTIES

An appropriate system of internal control provides for a proper segregation of the accounting functions. The County does not have the proper segregation of duties over cash receipts and accounts receivable. For example, the same person accepts cash receipts and enters them in the system. This person also has the ability to perform write-offs and void receipts. Proper segregation is not always possible in a small organization, but limited segregation to the extent possible can and should be implemented to reduce the risk of errors or fraud. We recommend that management review the current assignment of accounting functions. Where possible, duties should be segregated to reduce the risk of errors or fraud.

Current Year Status: *There are still segregation of duties concerns with utility billing as the same employee prepares bills, collects payments, posts receipts and can perform adjustments. We recommend that approval of adjustments occur within Munis.*

SPREADSHEET CONTROLS – EDA AND CAPITAL ASSETS

Most institutions are using spreadsheets, to various degrees, to help accumulate, summarize, and reconcile various accounts and processes within the organization. Some of these processes have a direct impact on financial reporting, while others serve as controls to assure timely and accurate reconciliations or to help monitor other processes and results. However, spreadsheet controls are often one of the most overlooked controls in the financial reporting and control process.

Many studies have shown that the majority of spreadsheets have at least some errors, and many cases of significant spreadsheet errors have appeared that have led to material subsequent adjustments. These errors may come from user error, design flaws, viruses, or malicious software. Most organizations don't have policies for development of significant spreadsheet applications with review or lock down, and controls are being left to individual departments or employees without any formal review of the process or the output.

PRIOR YEAR COMMENTS AND SUGGESTIONS (Continued)

SPREADSHEET CONTROLS – EDA AND CAPITAL ASSETS (Continued)

EDA: Financial information for the EDA is currently only maintained in spreadsheets. As the EDA will be utilized more in the coming fiscal years, we recommend additional financial oversight.

Capital Assets: Capital asset additions are currently tracked and maintained in spreadsheets. The County has several capital projects underway which significantly increases the volume of transactions. We recommend utilizing features and reports within the Munis Capital Asset module to better track capital asset additions for the County, Schools, and Water and Sewer.

Current Year Status: *Comment is still applicable as of June 30, 2023. The County's Finance Department is currently working on setting up the EDA in Munis which should be effective in 2024.*

OUTSTANDING CHECKS

During our review of bank reconciliations for the school activity funds, we noted several checks were over one year old. We recommend that the Schools implement a policy for unclaimed property for the school activity funds.

Current Year Status: *Appears to be resolved for the Schools and County as of June 30, 2023.*

BUDGET TO ACTUAL COMPARISONS - COUNTY

During our review of budgetary reporting controls, we noted that budget-to-actual comparison statements were not being provided to the Board of Supervisors throughout fiscal year 2021, 2022 or 2023. A budget-to-actual comparison is an important tool used for on-going monitoring of the government's departments. As such, we recommend completing budget-to-actual comparison statements and providing them to management and the Board of Supervisors in a timely manner for their review.

Current Year Status: *The comment is still applicable for fiscal year 2023.*

ONE ACCOUNTING SYSTEM

During our review of journal entries, we noted that one entry did not go through the appropriate review process in Munis. This was because the funds were originally recorded in Bright, moved to Munis, and then transferred to the Schools. Because of the use of two systems and the need to record additional entries, there was miscommunication on whether the entry to move from Bright to Munis was the County's responsibility or the School's responsibility. To avoid similar instances such as this, we recommend that the County merges all of their departments into one system instead of using two. This will cut down on the number of required entries and help eliminate confusion and inconsistencies between the two systems.

Current Year Status: *While no specific errors were noted in 2023, we will continue to recommend using one system instead of two especially because Bright is getting harder to sustain from an IT perspective.*

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.

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 amount 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.

ACCOUNTING AND OTHER MATTERS (Continued)

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. 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.

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. This 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. This 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. This project is currently in the initial deliberations period.

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.