



ROBINSON, FARMER, COX ASSOCIATES, PLLC
Certified Public Accountants

Date: April 19, 2021

Memorandum To: Maury Service Authority

From: Robinson, Farmer, Cox Associates

Regarding: Audit for year ended June 30, 2020

In planning and performing our audit of the financial statements of Maury Service Authority for the year ended June 30, 2020, 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 April 19, 2021 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 (Repeat Comment)

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 and only new hires had forms on file at the time of audit fieldwork. 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. 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.

Bank Reconciliations (Repeat Comment)

Finding

The June 2020 Wastewater operations bank reconciliation included outstanding items that resulted from posting errors in the general ledger. Although several corrections were made to the bank reconciliations and general ledger prior to audit fieldwork, this account balance was overstated by \$6,766.20. The remaining reconciling items on the June 2020 reconciliation should have been researched and corrected, as appropriate.

Recommendation

We recommend that bank reconciliations be prepared in a timely manner and reviewed for accuracy with deposits in transit and outstanding items being researched, as appropriate. Bank reconciliations should be reviewed (with formal signoffs) by someone independent of the preparer and corrections made to the general ledger in a timely manner.

QuickBooks Account Postings - Interfund Activity (Repeat Comment)

Finding

The water and wastewater funds should balance individually. Several payments throughout the year are allocated between the two funds. A review of the detailed general ledger showed 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 wastewater fund. The interfund balances were brought into balance prior to the audit with journal entries recorded by the consultant.

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 in a timely manner.

QuickBooks Account Postings - Transaction Identification

Finding

Debit and Epay transactions are not routinely given a unique identifying number on invoices or in the accounting system, although the Epay transactions are assigned identifying numbers by the bank. For example, many QuickBooks payments include 1827pos as the identifying number. It is difficult to track activity, and this leaves a poor audit trail.

Recommendation

We recommend that each transaction have a unique number, similar to individual check numbers being recorded in the accounting system. This number should be documented on invoices to support that payments have been made and recorded in the GL.

Timely QuickBooks Account Posting and Payment of Invoices

Finding

It appears that invoices are entered into the accounting system as of the date they clear the bank instead of being entered on the date processed. For example, a check dated 7/30/19 was recorded in QuickBooks with a date of 8/6/19, the same date it cleared the bank statement.

In addition, several invoices were paid late (after due dates) during the fiscal year, in some cases resulting in the payment of late fees and finance charges.

Recommendation

Invoices should be entered into QuickBooks upon receipt or when accounts payable transactions are processed. Payments should be recorded in the system simultaneously as checks are written. This will allow management to monitor cash balances, accounting for transactions that may not have cleared the bank yet as opposed to recording activity when bank statements are received or reconciled.

We also recommend that management implement a policy for timely review and processing of payments to avoid paying unnecessary fees.

Filing of 1099s

Finding

The Internal Revenue Service (IRS) requires employers to file 1099s annually for certain payments made to vendors during the calendar year. QuickBooks has a feature for tracking payments made to vendors to facilitate the annual reporting requirements. Upon inquiry, management was unable to determine whether all required 1099s were filed during calendar year 2019 or provide the related documentation.

Recommendation

We recommend management review the IRS guidelines to ensure compliance with filing requirements. Upon conclusion of our audit work, links to the IRS employer's tax guide to fringe benefits and instructions for Forms 1099-MISC and 1099-NEC were provided to management. We also recommend that management retain copies of the forms filed along with supporting documentation on file.

Virginia Retirement System (VRS) Processing and Reconciliation (Repeat Comment)

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 formal documented reconciliation procedures in place and did not reconcile the payroll system to the information in myVRS Navigator.
- VRS deductions are not being withheld in accordance with VRS policies. Of the five employees tested, VRS withholdings exceeded the amount due to VRS for two employees. The withholdings were \$92.14 and \$149.40 higher than they should have been.

Recommendation

VRS regulations should be reviewed, and transactions processed accordingly. In addition, monthly reconciliation procedures should be implemented and documented to ensure activity is properly reported to VRS and recorded in the general ledger. Reconciliation procedures, when properly implemented, will assist in identifying errors in withholding. Reimbursements for any excess VRS withholdings should be made to employees.

Filing of 941s

Finding

The June 2020 form 941 filed with the Internal Revenue Service (IRS) included Families First Coronavirus Response Act (FFCRA) credits in the amount of \$2,909.96. According to IRS guidance, government employers are not eligible for the credit for qualified sick and family leave wages; however, government employers are not liable for the employer share of the social security tax on the qualified sick leave wages paid to employees.

Recommendation

We recommend management review the IRS filings and subsequent payment history to determine if amended 941s should be filed or any other action is necessary.

Advertisement of Statement of Financial Condition

Finding

Section 30-140 of the Code of Virginia requires a summary statement of financial condition to be published in a newspaper of general circulation in the locality of the entity. This statement should include at a minimum total assets, liabilities, and net position; total revenues, expenses, and other sources or uses; and the change in net position. This advertisement was not done for fiscal year 2019.

Recommendation

We recommend the Authority advertise the statement of financial condition as required by the Code of Virginia.