



Bedford Regional Water Authority

Comments on Internal Control
and Other Suggestions for your
Consideration

June 30, 2024

Bedford Regional Water Authority

Contents

Independent Auditor's Report on Comments and Other Suggestions	1
Current Year Comments and Suggestions.....	3
Summary of the Status of Prior Year Comments and Suggestions	4
Accounting and Other Matters	7

Independent Auditor's Report on Comments and Other Suggestions

To the Board of Directors
Bedford Regional Water Authority
Bedford, Virginia

In planning and performing our audit of the financial statements of the Bedford Regional Water Authority (the "Authority") as of and for the year ended June 30, 2024, in accordance with auditing standards generally accepted in the United States of America, we considered the Authority'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 opinion on the financial statements and to comply with *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 Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

Our consideration of internal control was for the limited purpose described in the preceding 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 the 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. However, as presented in this letter, we identified a certain deficiency in internal control that we consider to be a material weakness.

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 Authority'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 Board, management, and the appropriate state and federal regulatory agencies and is not intended to be, and should not be, used by anyone other than these specified parties.

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

CERTIFIED PUBLIC ACCOUNTANTS

Roanoke, Virginia
November 22, 2024

Bedford Regional Water Authority

Current Year Comments and Suggestions

June 30, 2024

VPPA Compliance

VPPA requires that a public notice of the Invitation to Bid (ITB) must be made at least 10 days prior to the date set for receipt of bids. The Authority's ITB was opened on 2/29/2024 and was closed on 3/8/2024 for a particular project. This only allowed for 9 days of bidding and did not meet VPPA's 10-day requirements.

Management's Response: Management is working on adding this language to future contracts.

Developer Prepayments

At times, developers may prepay capital recovery fees in advance of construction; they may also dedicate valuable assets to the Authority in exchange for a comparable level of capital recovery fee credits. These prepayments allow developers to expedite a project by providing funding that the Authority may not have allocated for the project. The prepayment credits are only recognized by the Authority as revenue when the underlying connection is made, and the credit is redeemed by the developer in lieu of paying the capital recovery fee.

This unearned revenue, by nature, represents assets of the developer that should be returned if unused. By holding these prepaid fees, it is the Authority's responsibility to maintain accurate records of the unused prepayments as well as copies of all agreements supporting the intended usage of these prepayments; one of the best locations to keep such records would be in the accounting system as part of the general ledger. Without appropriate recordkeeping or reconciliation of these balances on an ongoing basis, the Authority risks using these funds for operational purposes, which is not in accordance with the contractual obligation between the Authority and the developer. If activity ceases or becomes stagnant, the Authority should consult with legal counsel on the appropriate action to take, whether that be contacting the developer to encourage the use of the credits, returning the unused amounts to the developer, or making the unused credits null and void by recognizing them as revenue.

Management's Response: Management agrees that there needs to be accurate reporting of remaining balances. Letters will be sent to developers on an annual basis, reminding them of the balance of credits remaining to redeem.

Recognition of Revenues

The Authority regularly utilizes federal award funding to cover costs associated with construction projects. The funding for these projects is received as reimbursements for costs incurred and expended by the Authority. Due to the lag between project costs and when reimbursements are received, the Authority sometimes receives funds after fiscal year end to cover project costs that occurred during the fiscal year. At the end of the current fiscal year, the Authority did not recognize revenues or a receivable for project costs occurring in June 2024 that was not reimbursed until July 2024.

Management's Response: For future reimbursements, we will post to the proper year.

Bedford Regional Water Authority

Summary of the Status of Prior Year Comments and Suggestions

June 30, 2024

Segregation of Duties (Material Weakness)

A properly designed and implemented system of internal control assists in preventing and detecting errors in financial reporting and fraud. A fundamental concept of internal control is the separation of duties. The basic premise of this concept is that no one employee should have access to both physical assets and the related accounting records, or to all phases of a transaction, including authorization. Such access may allow errors or irregularities to occur and either not be detected or be concealed. Due to the limited size of the Authority's accounting staff, a proper separation of duties has not been established and maintained. While we realize that any internal control system must be cost effective, steps should be taken to eliminate performance of conflicting duties where possible, such as the following:

- Due to staff size, only three individuals are entering information into the Great Plains accounting system. This reduces the effectiveness of system controls with Great Plains as rights within the software are not able to maintain segregation of duties.
- The Executive Director has the ability to approve purchase orders/vendor invoices, edit the master file, prepare checks for expenditures, and has check signing authority.
- Journal entries are not reviewed. We recommend that all journal entries be reviewed by someone other than the preparer prior to entry in the general ledger. While review of the periodic financials may detect erroneous entries, reviewing entries prior to entry would reduce the reliance on detection controls and reduce the inherent risk that offsetting erroneous or fraudulent entries are not apparent when aggregated in the monthly financials.

Current Year Status: Condition still present.

Management's Response: Management understands this concern, however, the current staff size limits the separation of duties in regards to these functions. Management has separated these functions as much as possible given the current staff size limits. Some actions taken by management to reduce the Authority's exposure to risk are as follows. The Customer Service Supervisor reconciles the daily bank deposits to the subsidiary ledger and then it is reviewed by the Customer Service Manager. This helps to identify any problems during the month instead of waiting until the end of the month when the bank statement is received. The Financial Manager records all cash entries. The Director of Finance reviews the entries from the subsidiary ledger and enters the journal entry for Great Plains. The Financial Manager then prepares the Bank Reconciliation, and the Director of Finance reviews.

The Authority hired a full-time Accounting Technician to handle invoice processing and other financial tasks. This position processes all invoices and prepares the checks for mailing. The Financial Manager reviews the invoices and posts them to the General Ledger. The Director of Finance prints the checks for the Technician to mail. The Executive Director is an authorized check signer and reviews the invoices and supporting documentation prior to returning the checks to the Accounting Technician to mail. If there are any questions regarding payments being made they are addressed at this time, but the other duties are performed by the Finance department.

Purchasing Policies and Procedures

We recommend the Authority consider using purchase order software, preferably one integrated with its current accounts payable software. Purchase orders communicate the terms and conditions of purchases which may reduce the likelihood of vendor disputes. Additionally, purchase orders provide a means for controlling and authorizing purchases within the organization and help provide a formal means for complying with purchasing policies. We also suggest the Authority update its purchasing policies and procedures to include the use of purchase orders.

Current Year Status: Condition still present.

Management's Response: Due to staffing constraints, purchase orders have not been implemented.

Bedford Regional Water Authority

Summary of the Status of Prior Year Comments and Suggestions

June 30, 2024

Capital Assets

Capital assets are not tagged or labeled with unique identification. Assets are typically tagged or labeled in order to accurately account for those capital assets and also help to ensure the completeness of the capital asset registers. We recommend policies and procedures be written about the tagging or labeling of capital assets with unique identification tags and its proper recording in the capital asset ledgers.

Current Year Status: Condition still present.

Management's Response: Due to staffing constraints, asset tags have not been affixed to individual assets.

Timeliness of Reconciliation Review (Material Weakness)

In our review of two out of twelve bank reconciliations, we noted that one was not reviewed timely. Upon further review, we noted that all other subsequent bank reconciliations had also not been reviewed. Timely reviews are one of the most important internal controls to promptly detect and recognize potential errors or other problems. This could mitigate the risk of errors or problems progressing and provide more accurate reports for management decisions. Also, it is generally easier and less time-consuming to review accounts while transactions are fresh in mind. As limited staffing can contribute to delays of performing reconciliations, we recommend that a schedule of completing reconciliation reviews on a set time frame is implemented and adhered to.

Current Year Status: We noted review of bank reconciliations in the current year are being performed, however they were not reviewed in a timely manner. Condition still present.

Management's Response: Management recognizes the importance of timely reviews and will develop a procedure to correct this in the current fiscal year.

VPPA Compliance

VPPA requires that the bid proposal for contracts of \$200,000 or more for construction of water, sewer lines, and pumping stations, must include the option for the contractor to use an escrow account procedure for retainage. We noted during examination of one contract that it did not meet these requirements. We recommend future bid proposals and construction contracts include the option for the contractor to use an escrow account procedure for retainage.

Current Year Status: Condition still present.

Management's Response: Management is working on adding this language to future contracts.

Accounts Receivable Year-End Reconciliation

We noted the Authority did not reconcile year-end water and sewer accounts receivable balances reported in the general ledger to the underlying year-end subledgers and accrued accounts receivable. Historically, an audit adjustment is needed to adjust the general ledger to agree with the underlying supporting documentation and subledgers. We recommend the Authority perform a reconciliation at year-end to ensure accounts receivable balances are properly stated at year-end.

Current Year Status: Condition still present.

Management's Response: A plan is in the process of being developed.

Bedford Regional Water Authority
Summary of the Status of Prior Year Comments and Suggestions
June 30, 2024

Inventory

We noted the Authority was not able to reconcile year-end inventory reported in the general ledger. This is due in part to implementing a new inventory software system and falling behind in reconciling physical inventory on hand to balances reported in the general ledger. We recommend the Authority come up with processes and procedures to properly track and maintain accurate inventory balances throughout the year.

Current Year Status: Condition still present.

Management's Response: A plan is in the process of being developed.

Bedford Regional Water Authority

Accounting and Other Matters

June 30, 2024

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. 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.

The GASB issued **Statement No. 102, *Certain Risk Disclosures*** in December 2023. State and local governments face a variety of risks that could negatively affect the level of service they provide or their ability to meet obligations as they come due. Although governments are required to disclose information about their exposure to some of those risks, essential information about other risks that are prevalent among state and local governments is not routinely disclosed because it is not explicitly required. The objective of this Statement is to provide users of government financial statements with essential information about risks related to a government's vulnerabilities due to certain concentrations or constraints.

This Statement defines a concentration as a lack of diversity related to an aspect of a significant inflow of resources or outflow of resources. A constraint is a limitation imposed on a government by an external party or by formal action of the

Bedford Regional Water Authority

Accounting and Other Matters

June 30, 2024

government's highest level of decision-making authority. Concentrations and constraints may limit a government's ability to acquire resources or control spending.

This Statement requires a government to assess whether a concentration or constraint makes the primary government reporting unit or other reporting units that report a liability for revenue debt vulnerable to the risk of a substantial impact. Additionally, this Statement requires a government to assess whether an event or events associated with a concentration or constraint that could cause the substantial impact have occurred, have begun to occur, or are more likely than not to begin to occur within 12 months of the date the financial statements are issued.

If a government determines that those criteria for disclosure have been met for a concentration or constraint, it should disclose information in notes to financial statements in sufficient detail to enable users of financial statements to understand the nature of the circumstances disclosed and the government's vulnerability to the risk of a substantial impact. The disclosure should include descriptions of the following:

The concentration or constraint.

Each event associated with the concentration or constraint that could cause a substantial impact if the event had occurred or had begun to occur prior to the issuance of the financial statements.

Actions taken by the government prior to the issuance of the financial statements to mitigate the risk.

The requirements of this Statement are effective for fiscal years beginning after June 15, 2024, and all reporting periods thereafter. Earlier application is encouraged.

The GASB issued **Statement No. 103, Financial Reporting Model Improvements** in April 2024. The objective of this Statement is to improve key components of the financial reporting model to enhance its effectiveness in providing information that is essential for decision making and assessing a government's accountability. This Statement also addresses certain application issues.

Management's Discussion and Analysis: This Statement continues the requirement that the basic financial statements be preceded by management's discussion and analysis (MD&A), which is presented as required supplementary information (RSI). MD&A provides an objective and easily readable analysis of the government's financial activities based on currently known facts, decisions, or conditions and presents comparisons between the current year and the prior year. This Statement requires that the information presented in MD&A be limited to the related topics discussed in five sections: (1) Overview of the Financial Statements, (2) Financial Summary, (3) Detailed Analyses, (4) Significant Capital Asset and Long-Term Financing Activity, and (5) Currently Known Facts, Decisions, or Conditions. Furthermore, this Statement stresses that the detailed analyses should explain why balances and results of operations changed rather than simply presenting the amounts or percentages by which they changed. This Statement emphasizes that the analysis provided in MD&A should avoid unnecessary duplication by not repeating explanations that may be relevant to multiple sections and that "boilerplate" discussions should be avoided by presenting only the most relevant information, focused on the primary government. In addition, this Statement continues the requirement that information included in MD&A distinguish between that of the primary government and its discretely presented component units.

Unusual or Infrequent Items: This Statement describes unusual or infrequent items as transactions and other events that are either unusual in nature or infrequent in occurrence. Furthermore, governments are required to display the inflows and outflows related to each unusual or infrequent item separately as the last presented flow(s) of resources prior to the net change in resource flows in the government-wide, governmental fund, and proprietary fund statements of resource flows.

Bedford Regional Water Authority

Accounting and Other Matters

June 30, 2024

Presentation of the Proprietary Fund Statement of Revenues, Expenses, and Changes in Fund Net Position: This Statement requires that the proprietary fund statement of revenues, expenses, and changes in fund net position continue to distinguish between operating and nonoperating revenues and expenses. Operating revenues and expenses are defined as revenues and expenses other than nonoperating revenues and expenses. Nonoperating revenues and expenses are defined as (1) subsidies received and provided, (2) contributions to permanent and term endowments, (3) revenues and expenses related to financing, (4) resources from the disposal of capital assets and inventory, and (5) investment income and expenses.

In addition to the subtotals currently required in a proprietary fund statement of revenues, expenses, and changes in fund net position, this Statement requires that a subtotal for operating income (loss) and noncapital subsidies be presented before reporting other nonoperating revenues and expenses. Subsidies are defined as (1) resources received from another party or fund (a) for which the proprietary fund does not provide goods and services to the other party or fund and (b) that directly or indirectly keep the proprietary fund's current or future fees and charges lower than they would be otherwise, (2) resources provided to another party or fund (a) for which the other party or fund does not provide goods and services to the proprietary fund and (b) that are recoverable through the proprietary fund's current or future pricing policies, and (3) all other transfers.

Major Component Unit Information: This Statement requires governments to present each major component unit separately in the reporting entity's statement of net position and statement of activities if it does not reduce the readability of the statements. If the readability of those statements would be reduced, combining statements of major component units should be presented after the fund financial statements.

Budgetary Comparison Information: This Statement requires governments to present budgetary comparison information using a single method of communication—RSI. Governments also are required to present (1) variances between original and final budget amounts and (2) variances between final budget and actual amounts. An explanation of significant variances is required to be presented in notes to RSI.

The requirements of this Statement are effective for fiscal years beginning after June 15, 2025, and all reporting periods thereafter. Earlier application is encouraged.

Current GASB Projects

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

Classification of Nonfinancial Assets. The objective of this project would be to reconsider the existing classification of nonfinancial assets and other related sub-classifications (for example, capital assets or intangible assets) to ensure that (1) assets are classified in a way that provides the most relevant financial information and (2) the definitions of the classifications are understandable and appropriate to meeting financial reporting objectives. The project also will consider how any classification changes would affect financial statement presentation and disclosure of nonfinancial assets. The project will not, however, reexamine recognition or measurement of nonfinancial assets. This project is currently in exposure draft 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.

Bedford Regional Water Authority

Accounting and Other Matters

June 30, 2024

Implementation Guidance Update – 2025. The objective of this project is to update implementation guidance for additional issues that come to the attention of the staff. This project will result in the issuance of an Implementation Guide when sufficient need exists for new or improved guidance and the Board does not object to its issuance. All updates are incorporated into the Codification of Governmental Accounting and Financial Reporting Standards and the Comprehensive Implementation Guide, as appropriate. This project is currently in the initial proposals 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.

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.

Subsequent Events. The objective of this project is to improve the accounting and financial reporting for subsequent events. The project will reexamine existing requirements related to subsequent events in Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards*, to address issues related to (1) confusion about and challenges associated with applying the existing standards, (2) inconsistency in practice in the information provided about subsequent events, and (3) the usefulness of the information provided about subsequent events. This project is currently in the initial deliberations period toward an Exposure Draft.