



ROBINSON, FARMER, COX ASSOCIATES, PLLC

Certified Public Accountants

Date: November 22, 2024

Memorandum to: Shawn Utt, County Administrator
Smyth County, Virginia

From: Robinson, Farmer, Cox Associates

Regarding: Audit Recommendations

In planning and performing our audit of the financial statements of the County of Smyth, Virginia for the year ended June 30, 2024, we considered the County's internal control structure to plan our auditing procedures for the purpose of expressing our opinions 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. 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. Please note: **The audited financial statements contain findings in the schedule of findings and questioned costs and should be reviewed in conjunction with the comments below.**

School Board Recommendations

School Construction Grant Funds

In accordance with Code section 22.1-175.5, a separate account should be established for school construction fund awards and any interest on such funds shall be used in accordance with the grant award. Currently, the school construction funds are in the pooled cash account. We recommend that a separate bank account or separate fund in the ledger be established to ensure that amounts are appropriately segregated and tracked for expenditure in accordance with the Code.

County Recommendations

RD Compliance

On April 13, 2018, we received a copy of a letter sent from Rural Development to the County requesting that the County separate the water and sewer systems into separate funds for the audit report. We performed this allocation in the audit process for fiscal year 2024; however, we recommend the County separate the funds in their accounting records.

SPDA Confirmation

Effective July 1, 2023, an amended version of the Security for Public Deposits (SPDA) regulations became effective wherein bank account balances held by the Organization must be confirmed quarterly with the State Department of Treasury. Several accounts were not included in the quarterly confirmations performed during the year; however, we were able to verify that the accounts are listed as accounts holding public funds with the State Treasury. We recommend that management ensure that all accounts are included in the quarterly confirmation going forward.

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EMS Billings Revenue

Total collections per AMB billing do not agree to the ledger. It is unclear whether the difference relates to unapplied ACH payments received directly at the County or if the unrecorded EMS Collections bank account should be included in the reconciliation. We recommend that management implement a reconciliation process wherein amounts per AMB are reconciled monthly to the ledger and any differences are investigated. This will help ensure appropriate reporting throughout the year as well as at year end.

Purchase Orders

Per inquiry, purchase orders are not required for all purchases but there is not an established threshold over which purchase orders would be required. We recommend that management review its procurement and small purchasing policy and consider adding a dollar threshold over which purchase orders will be required. If certain types of purchases do not require purchase orders (i.e., routine, monthly bills) we recommend that a policy and process be established for same.

Fire Program Funds

Documentation should be obtained and reviewed from the local fire departments that receive pass-through Fire Program Funds. Same should be reviewed and used for the annual report that is filed. Documentation should be maintained for audit purposes to verify amounts reported and to ensure compliance of expenditures under the program. We were unable to locate sufficient documentation for an expenditure of \$11,532 that was used to payoff a loan balance per inquiry.

Pooled Cash Balances

Historically, Fund 501 has had a negative pooled cash balance in the ledger. As of June 30, 2024, Fund 501 has a pooled cash balance of \$(2,909,251.62) per the detailed ledger. During the audit preparation, the consultant appropriately adjusted the total through transfers so that a negative pooled cash balance is not reported in accordance with GAAP. We noted that the adjustment to transfer funds from the General Fund to correct negative pooled cash balances is needed to ensure compliance with VRA rate covenants. We recommend that management approve and post a transfer to true-up the pooled cash balances and monitor same routinely. If negative pooled cash continues, management may need to consider a rate study to ensure that water and sewer fees are appropriate to cover expenses for same.

Procurement Procedures

During review, we noted that the engagement letter for financial advisory services for the VPFP 2024A bond issuance during the year appears to be dated June 30, 2014 with an addendum dated March 26, 2024. We recommend that financial advisory services be procured to ensure compliance with the Virginia Public Procurement Act requirements.

Water and Sewer Sales Revenue

An analysis over water and sewer billings is performed annually as part of the audit process wherein billed amounts are compared to revenues for reasonableness of reporting. In the current year, EDI payments from the state for a lead service line appear to have been posted to the water and sewer payment lines, making it difficult to perform the analysis as accurately has been performed in the past. State and federal revenues should be posted to their own accounts and only payments on water and sewer bills should be posted to the payments lines going forward. Additionally, we recommend that a reconciliation be performed monthly to ensure that water and sewer payments appear accurate. The reconciliation can use either a cash payment report from the water and sewer billing system or receivable, billed, and adjustment reports to recalculate cash payments compared to the trial balance.

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Opioid Documentation

During the year, the County agreed to be the fiscal agent for an opioid COOP grant. As part of that responsibility, annual reporting is required. The County submitted the annual report, but the detail of expenditures provided to the OAA did not reconcile to the total reported. The documentation did not include a payable that has been recorded to reconcile nor did it include a detail of match funds for other entities included in the COOP. We recommend that management review the report and related documentation to ensure that a detail of expenditures for all amounts reported is submitted and reconciles to the report at the time of submission.

Unspent Bond and Loan Proceeds

We noted that bank accounts holding unspent bond proceeds from an issuance in the prior year have yet to be drawn down for project use. We recommend that funds be utilized for their intended purpose and drawn down in a timely manner, particularly if the issuance are subject to arbitrage.

Department of Social Services Recommendations

Special Welfare Account

Currently the Social Services Department holds funds in their special welfare fund that are not held for specific children. The *Code of Virginia, 1950 as amended section 63.2-230* specifically allows local agencies to accept and expend certain funds on behalf of children placed by or entrusted to the local board when no guardian is appointed. It appears that the local agency has deposited additional funds, such as general contributions (i.e. Disaster relief, United Way funds, admin account, rides program) to the special welfare fund. In general, we feel that contributions to the Social Services Department are subject to appropriation by the Board of Supervisors prior to expenditure. As such, we recommend that the Department review the sources and uses of these funds and establish a fund for the receipt and expenditure of non-fiduciary monies. The expenditure of such funds would be subject to an appropriation by the Board of Supervisors.

CSA Service Contracts

We were unable to locate service contracts for vendors selected for testing. Based on inquiry, there was turnover in the department and the contracts were either not obtained or could not be located. We recommend that procedures be put in place to ensure that service contracts are obtained and available for audit going forward.

County and School Board Recommendations

Capitalization Thresholds

We recommend that a formal capitalization policy be established to include right-to-use intangible asset thresholds by types of assets to assist in evaluating leased assets and SBITA's for inclusion in the financial statements with the implementation of GASBs No. 87 and GASBs No. 96. The policy might also consider a separate capitalization threshold for group purchases to be utilized for inclusion in the financial statements.

Internal Contributions

The contribution to the School Board from the County did not balance on the client provided trial balances. We recommend that the contribution be balanced throughout the year and at year-end to ensure appropriate reporting.

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