

ROBINSON, FARMER, COX ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

A PROFESSIONAL LIMITED LIABILITY COMPANY

DATE: November 28, 2018

MEMORANDUM TO: Todd Day, Manager
The Town of Tazewell, Virginia

FROM: Robinson, Farmer, Cox Associates

REGARDING: Audit Recommendations

In planning and performing our audit of the Town of Tazewell, Virginia, for the year ended June 30, 2018, we considered the Town of Tazewell, Virginia'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. 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.

Certain findings are presented in the bound financial report and they are not duplicated herein. We refer readers to pages 94-98 of the financial report for those findings.

Accounting reports:

Most accounting systems utilize batches to process billings and daily collections in the general ledger. In general terms, batches are posted in total to the general ledger instead of posting each transaction that occurred. For example: In batch accounting, monthly totals for water and sewer billings are posted to the general ledger instead of posting each bill separately to the general ledger. The totals posted to the general ledger can be traced to billing reports to validate same. The Town's accounting system is not set up as a batch system and as a result detailed system reports can take hours to run and are too voluminous to print. We were able to run a general ledger (to pdf) for the period of July 1, 2017 through May 23, 2018 and the report was 31,776 pages long. Unfortunately, the pdf was not searchable and given the size of the file, we were unable to convert the pdf to a searchable format. We recommend that the Town contact their software vendor to determine if batch accounting is an option with their current system.

Highway Maintenance Reporting to the Virginia Department of Transportation (VDOT):

Annually, the Town reports funds spend on local streets to VDOT. VDOT uses this report to validate that highway monies provided by VDOT have been spent appropriately. During our review of the report submitted to VDOT, we noted the following:

- Overhead charges allocated to the program should be based on total overhead charges identified by the Town times VDOT direct expenditures divided by total Town expenditures. We noted that overhead allocated to the program was the percent of overhead expenditures as compared to total expenditures times overhead expenditures. Accordingly, overhead related to the program was understated by approximately \$65,000 based on our calculations.
- We noted that direct employee costs allocated to the highway maintenance program did not include health insurance costs for employees. Accordingly, the Town underreported expenditures to VDOT for the program.

We noted that total program expenditures reported to VDOT exceeded funds allocated to the Town. As such, there is no monetary penalty for the Town related to underreporting expenditures; however, the Town should review their current reporting practices and improve the accuracy of reports submitted in the future.

Reconciliations:

The Town does not prepare reconciliations of billings to collections and resulting receivable balances. We strongly recommend that the Town begin preparing reconciliations of billed revenues to collections and receivable balances in a manner similar to the example below:

Beginning accounts receivable listing (from a detailed customer balance report)
Plus
Billing for the month (from billing reports)
Less
Collections for the month (from cash collection reports and the general ledger)
Should equal
The ending of the month accounts receivable listing (from a detailed customer balance report)

The Town should have reconciliations performed for all major billed activities including; taxes, water and sewer revenue, and EMS billings. These reconciliations should be performed by someone independent of the collection function and any significant errors or variances should be documented and explained.

Accounting Control Totals:

The Town has control totals in their accounting ledger; however, the balances reported in same do not agree with subsidiary ledgers. Control totals are used to track asset and liability balances. At any point in time, control totals should agree with underlying documentation. For example: The amount listed on the balance sheet as "accounts receivable – EMS" should agree with the detailed customer receivable balance report from the EMS billing system. In conjunction with the reconciliations recommended in the prior recommendation, the Town should develop controls to ensure asset and liability balances reported in the trial balance agree with underlying documentation.

Void Transaction Reports:

Whenever a transaction is voided, we recommend that someone independent of the collection process review the transaction to determine the reason same was voided. It is our understanding that the Town's software cannot produce a void transaction report. We recommend that the Town inquire of their software vendor of their ability to produce a report that shows voided transactions and that such report be reviewed periodically (at a minimum monthly).

State and Federal Aid Reconciliation:

The audit identified several revenue reclassifications related to the state and federal revenues based on a publicly available confirmation from the State Auditor. Many times when state and federal revenues are received it is difficult to determine the source of funding based on documentation provided from the Commonwealth; however, the State produces a quarterly report that provides guidance on the type and source of revenue provided to each locality in the State. We recommend that the Town begin reconciling their books to these confirmations and reclassify revenue as appropriate in the future.

Modified Accrual vs. Full Accrual Reporting:

The Town's **general fund** as presented for audit contained full accrual balances (capital asset balances, pension liabilities and outstanding debt balances). We noted that these balances had not been updated for activity that occurred during the fiscal year. The Town is required to present the general fund on the modified accrual basis (also known as the modified cash basis) of accounting as well as the full accrual basis of accounting for financial reporting purposes. Most localities maintain their books on the modified accrual basis of accounting and then provide schedules in support of adjustments to the books necessary to convert same to the full accrual basis of accounting. As the Town is not updating full accrual entries, we recommend that the Town convert their books to the modified accrual basis of accounting for local financial reporting purposes.

LGIP Investment Account:

During our audit, we noted that the beginning of the year balance and the end of the year balance reported in the books for the LGIP account was incorrect resulting in recommended adjustments to the books. All bank account and investment account statements should be reconciled to the book monthly and adjusted as necessary to report the appropriate balance(s).

Interfund Payables:

The Town (at the beginning and end of the fiscal year) carried interfund obligations (due to/from funds) on the books. These amounts arise when one funds does not have sufficient resources to cover fund obligations or when cash from one fund is used to cover expenses of another fund. In general terms, these amounts should only be considered interfund obligations (loans) when the fund(s) receiving the loan has the ability to repay same and a timeframe for repayment. We recommended that the Town forgive these interfund obligations and in the future treat these transactions as transfers. For financial reporting purposes to comply with current standards, the interfund obligations have been restated and treated as transfers.

IDA Accounting:

The Town has an Industrial Development Authority (IDA) that holds certain assets (land and buildings) as well as a bank account. Financial activity for the IDA was initially reported in the general fund for the year ending June 30, 2018. We recommend that the Town create a separate fund for the IDA and begin reporting their activity in a manner similar to the water and sewer funds (full accrual).

Capital Asset Listings:

The auditor recommended adjustments to the Town's capital asset listings, which included the removal of assets transferred to third parties and the IDA. The auditor also identified adjustments to asset additions and depreciation expense. In the future, we recommend that the Town reconcile additions to expenditures (taking into account year-end adjustments) and we recommend that the Town perform an inventory of assets annually to ensure all assets are properly reflected in the listings.

Statements of Economic Interest (SOEI) Forms:

During our review of SOEI forms, we noted that some officials did not answer all applicable questions on the form(s) resulting in incomplete submittals. We recommend that staff begin reviewing all forms for completeness and return forms that are partially completed to the applicable official for completion.

Bank Reconciliations:

There is no indication of review on bank reconciliations. We recommend that someone independent of the reconciliation process review the bank reconciliations monthly and compare the balance(s) on same to the books. To document same, the reviewing individual should initial each bank reconciliation.

In addition, we noted that the bank reconciliation for the main checking account for June 30, 2018 was dated September 10, 2018. We recommend that bank reconciliations be completed within 20 days of each month's close in the future.

Allowance for Doubtful Accounts:

Receivable balances should periodically be reviewed and an allowance should be updated for those accounts the Town believes are unlikely to be collected. The Town did not update allowance accounts during current year; however, the auditor recommended adjustments to same for presentation in the financial report based on aging reports to the extent available. In the future, the Town should (at least annually) update the allowance for doubtful accounts in the financial records.

Outstanding Checks:

During our review of bank reconciliations, we noted checks that had been outstanding in excess of 1 year. We recommend that the Town follow-up on outstanding checks and turn same over to the State's Unclaimed Property Division, as necessary.

Monthly and Annual Closing Process:

Several of the items noted above can be corrected by developing a monthly and annual closing process (checklist) for staff and management to follow. We recommend that staff develop a closing process checklist to use in the future.