

**County of Montgomery, Virginia,
County of Montgomery Public
Schools, the Montgomery County
Economic Development Authority,
and the Montgomery
County Public Service
Authority**

**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

Honorable Members of the Board of Supervisors
Honorable Members of the School Board
Honorable Members of the Economic
Development Authority Board
Honorable Members of the Public Service Authority Board
County of Montgomery, Virginia
Christiansburg, Virginia

In planning and performing our audit of the financial statements of the governmental activities, the aggregate discretely presented component units, and each major fund, of the County of Montgomery, Virginia, Montgomery County Public Schools, the Montgomery County Economic Development Authority ("EDA"), and the Montgomery County Public Service Authority ("PSA"), collectively hereafter referred to as 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 its 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 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 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. A review of the status of our prior year comments and suggestions is included on pages 3-5.

The County'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 Boards, 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, S. L. P.

CERTIFIED PUBLIC ACCOUNTANTS

Roanoke, Virginia
December 13, 2023

SUMMARY OF THE STATUS OF PRIOR YEAR COMMENTS AND OTHER SUGGESTIONS

SEGREGATION OF DUTIES (Material Weakness)

One of the more important aspects of any internal control is segregation of duties. In an ideal system of internal controls, no individual would perform more than one duty in connection with any transaction or series of transactions. In particular, no one individual should have access to both physical assets and the related accounting records. Such access may allow errors or irregularities to occur and either not be detected or concealed.

Specifically, we noted the following conditions and have provided recommendations to specifically address these conditions.

County, Economic Development Authority, and Public Service Authority

- Bank reconciliations for the Public Service Authority and Economic Development Authority are performed by someone who has the ability to make cash disbursements. We recommend that someone with no cash related responsibilities perform bank reconciliations.
- Individuals who perform accounts payable functions including entering vouchers have responsibilities related to general accounting, purchasing, and receiving. We recommend that personnel in the payables function be independent of the general ledger functions. This should also include restrictions on vendor setup and maintenance in the system.
- The person charged with payroll processing also has the ability to distribute payroll checks and unclaimed payroll checks and W-2s are returned to this employee. We recommend that someone independent of payroll processing distribute the checks, retain custody of unclaimed paychecks, and W-2s that are returned or unclaimed.
- The person who processes payroll also has access to modify personnel information. We recommend that this ability be removed from the person processing payroll or that all changes performed by this person be reviewed and authorized by a responsible official.
- A payroll system master file change log is not reviewed. We recommend that a payroll system master file change log be reviewed regularly by a person with no access to change payroll information, in addition continued review of known changes to payroll information.
- The accounts receivable subsidiary ledger for the Public Service Authority is maintained by someone who has both access to cash and the collection functions and the general ledger control accounts. Additionally, the billing functions for the Public Service Authority are also handled by someone who also has responsibility for collections. We recommend that these functions be segregated so that the billing, cash collections, and ledger maintenance be handled by independent individuals.
- Capital asset ledgers are maintained by individuals who perform purchasing functions. We recommend that asset ledgers be maintained by individuals independent of the purchasing function.

Current Status: *Condition still present.*

Management's Response: *Management has segregated duties as much as possible based on current staffing levels. Management believes the cost to provide staff required to completely mitigate this comment exceeds the benefit.*

**SUMMARY OF THE STATUS OF
PRIOR YEAR COMMENTS AND OTHER SUGGESTIONS
(Continued)**

SEGREGATION OF DUTIES (Material Weakness) (Continued)

School Board

- No one outside of payroll reviews the payroll in detail once it is processed. We recommend that someone outside of payroll perform a detail review of payroll once it is processed.

Current Status: *Condition cleared in the current year.*

- A payroll system master file change log is not printed or reviewed. We recommend that a master file change log be printed and reviewed.

Current Status: *Condition still present.*

Management's Response: *Management has segregated duties as much as possible and payroll will continue to initiate changes through Human Resources as management continues to work on mitigating this issue.*

- Checks are being returned to the payable clerk for mailing after signatures are applied. We recommend that checks be stuffed and mailed by someone with no responsibilities for accounts payable functions.

Current Status: *Condition cleared in the current year.*

- During our testing of payroll and VRS expenditures, we noted one instance of an employee receiving VRS benefits after their termination date. We recommend that processes and procedures be in place to ensure that VRS status and any related employee benefits be updated immediately following any terminations.

Current Status: *Condition cleared in the current year.*

Public Service Authority

REVIEW OF FINANCIAL INFORMATION AND DOCUMENTATION

During testing, instances of inadequate supporting documentation or inadequate review of supporting documentation were noted. These instances and our recommendations are summarized below:

- Penalty adjustments for water and waste water customers are not reviewed by management which could result in inappropriate or erroneous adjustments being applied to customer accounts. We recommend that management review penalty adjustments and document this review with a signature and date.

Current Status: *Condition cleared in the current year.*

**SUMMARY OF THE STATUS OF
PRIOR YEAR COMMENTS AND OTHER SUGGESTIONS
(Continued)**

INFORMATION TECHNOLOGY COMMENT:

**INFORMATION TECHNOLOGY (IT) RISK AND CONTINUITY MANAGEMENT – COUNTY/
SCHOOLS / ECONOMIC DEVELOPMENT AUTHORITY/PUBLIC SERVICE AUTHORITY**

The County and the Schools continue to address deficiencies in their Information Technology Risk and Continuity Management Program in accordance with the Security Standard. The County and the Schools are in the process of updating their IT Risk and Continuity Management documentation, but it remains inconsistent. The details of these control weaknesses have been communicated to management in a separate document marked FOIAE under Section 2/2-3705.2 of the *Code of Virginia* due to its sensitivity of security controls.

ACCOUNTING AND OTHER MATTERS

June 30, 2023

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.

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.

ACCOUNTING AND OTHER MATTERS
June 30, 2023
(Continued)

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 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.

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.

ACCOUNTING AND OTHER MATTERS

June 30, 2023

(Continued)

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

June 30, 2023

(Continued)

CURRENT GASB PROJECTS

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