

INDEPENDENT AUDITOR'S REPORT ON COMMENTS AND SUGGESTIONS

To the Honorable Members of the Town Council
Town of Vinton, Virginia
Vinton, Virginia

In planning and performing our audit of the financial statements of the governmental activities, the business-type activities, and each major fund of the Town of Vinton, Virginia (the "Town") as of and for the year ended June 30, 2022, 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 the 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 first 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. However, as presented in this letter, we identified a certain deficiency in internal controls 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. A review of the status of our prior year comments and suggestions is included on pages 4 and 5.

The Town'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 Council, 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
October 30, 2023

COMMENTS AND SUGGESTIONS

Audit Adjustments (Material Weakness)

During the audit, we noted that several year-end adjustments were required to ensure that the financial statements were prepared in accordance with accounting principles generally accepted in the United States of America.

The adjustments related to debt, receivables, deferred revenue, and capital assets are as follows:

- Regarding governmental activities long-term debt, it appears that the roll forward was not reviewed before year-end entries were made, resulting in additional adjustments to long-term debt ending balances.
- Regarding the business-type activities long-term debt, principal payments were recorded as an expense rather than a reduction to long-term debt, resulting in additional adjustments to these accounts.
- Regarding governmental activities and business-type activities accrued interest, amortization schedules were not reviewed before entries were made, resulting in additional adjustments to these accounts.
- Regarding governmental activities, intergovernmental receivables, tax receivables, and deferred revenue were not reconciled and adjustment at yearend.
- Regarding governmental activities and business-type activities capital assets, roll forward workbook and depreciation schedules were not reviewed before entries were made, resulting in additional adjustments.

We recommend establishing procedures in which qualified supervisors review year-end work papers and reconciliations that feed into the final trial balance and financial statement reporting.

Management's Response: *Management agrees that procedures need to be established for year-end review work papers and reconciliation.*

Education and Training

During our audit, it became apparent that the Finance Department employees involved in the year-end audit preparation would benefit from additional education and training in generally accepted accounting principles. Training serves several functions:

- It is vital to employees' understanding of their job requirements:
- It enables new employees to master the learning curve:
- It provides a sense of belonging and value for an employee:
- It can foster team spirit; and
- It is evidence of the Town's commitment to development the skill-set of its employees.

Because of these benefits, we recommend that training be expanded to include all Finance Department employees. Since the Town may operate under budget constraints, a cost-effective way to stretch training dollars is to have employees who are sent to outside specialized training seminars also hold onsite training sessions for the other employees. In addition, we would be happy to provide some basic governmental accounting course for a nominal amount. As a side benefit, by having those employees hold on-site training sessions, concepts learned are reinforced, thus increasing knowledge retention.

Management's Response: *Management agrees to additional training of new staff.*

COMMENTS AND SUGGESTIONS
(Continued)

Schedule of Expenditures and Federal Awards

During the audit, we noted that the Town does not have a written internal control policy with regard to federal awards. The Schedule of Expenditures and Federal Awards (SEFA) was prepared without supervisor review, resulting in several auditor corrections. We recommend that management develop and implement written internal control policies.

Management's Response: *Management agrees that written internal control policies should be established with regard to federal awards.*

PRIOR YEAR COMMENTS AND SUGGESTIONS

SEGREGATION OF DUTIES (Current and Prior Year Material Weakness)

Internal controls are designed to safeguard assets and detect losses from employee dishonesty or error. A fundamental concept in a good system of internal control is the segregation of duties. Although the size of the Town's accounting staff prohibits complete adherence to this concept, we believe that the following practices could be implemented to improve existing internal control without impairing efficiency:

- Mail should be opened by an employee not responsible for accounting, such as the Town Clerk. Cash receipts could be recorded and the deposit prepared by this person. The cash receipts journal, supplemented by remittance advice, could be forwarded to the accounting staff for postings to the general ledger and detail customer accounts.
- Customer complaints, returned checks, disputed items, and other such matters should be investigated by someone who is independent of preparing daily cash receipts and preparing deposits.
- Checks and remittance advice should be placed into envelopes and mailed by someone with no other accounting responsibilities.
- Water and sewer billing should be independent of the accounts receivable function.

Current Year Status: *Conditions are still present.*

Management Response: *Management indicated that mail being sorted and delivered to the Treasurer's Office by the Town Clerk may be an option, but will not be receipted and deposited by the Town Clerk. Customer complaints, returned checks, and disputed items being investigated by someone independent of preparing daily cash receipts is limited by the small staff in the Treasurer's Office. Checks and remittance advice for accounts payable items are reviewed before mailing by two individuals signing for the checks. With the limited staffing and the job responsibilities within the office, all staff members have accounting responsibilities. Water and Sewer billings are reviewed by the Treasurer. A lock has been placed into the system where the four individuals that have check signing responsibilities are required to authorize the accounts payable before the Financial Analyst can proceed to print checks. Checks have electronic signatures on them but still require a two person sign-off on a control sheet verifying check numbers and check dates. Delegation of responsibilities within the Finance department is limited by the staffing. Management will segregate these functions as much as possible, and implement system controls to the extent possible with the ERP Software Upgrade.*

We noted that the Finance Staff has the ability to edit the master vendor file. Although there are compensating controls in place such as the review and purging of the vendor listing yearly, the review of vendors names during the check preparation process by multiple finance employees, and budget to actual variances, we recommend someone independent of the accounts payable function review the master vendor list periodically for new vendors added and also changes to vendor addresses. This review should include a verification of the vendor's validity. Additionally there should be a standard operating procedure in place to document the review.

Current Year Status: *Conditions are still present.*

Management's Response: *Management agrees that a change in who opens the mail can be transferred to the Town Clerk's office, but the receipt and deposit by the Town Clerk are not permitted. Any customer complaints, return checks, or disputed items that need to be investigated by someone independent of preparing daily cash receipts are limited by the small staff of the Treasurer's Office. We have ERP (current) system controls in place that limit staff responsibilities within the office and locks that do not allow certain individuals from moving forward in the check printing process prior to supervisor approval. Management will work towards segregating duties among the limited Finance Staff. These segregations will continue in the new ERP system conversion.*

PRIOR YEAR COMMENTS AND SUGGESTIONS
(Continued)

CAPITAL ASSETS

During our review of capital assets, we noticed that the Town did not include all additions to Construction in Progress that should have been capitalized as of June 30, 2021. We recommend that the Town implement procedures to ensure all invoices that should be capitalized at year end are captured appropriately.

Current Status: *Condition still present.*

Management's Response: *The ERP software is put in place during fiscal year 2024. The new system will allow potential capital asset journal entries or accounts payable checks to be flagged and imported for review in the capital asset module.*

During our review of capital assets, we noticed that the Town did not include certain assets placed into service last year on the depreciation schedule to be depreciated. We recommend that the Town implement procedures to ensure all assets are captured appropriately on the depreciation schedule.

Current Status: *Condition still present. Similar instances of depreciation schedule not reflecting assets placed into service were identified during current year audit.*

Management's Response: *The conversion of the ERP system was postponed to fiscal year 2023 and therefore would still be present. Management believes that once the ERP software is put in place a lot of the inconsistencies will no longer be present and any missed assets that need to be capitalized will be predetermined. In addition, the transfer of 90% of the Utility assets will also reduce continued inconsistencies.*

ACCOUNTING AND OTHER MATTERS

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 (Continued)

NEW GASB PRONOUNCEMENTS (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.

ACCOUNTING AND OTHER MATTERS (Continued)

NEW GASB PRONOUNCEMENTS (Continued)

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.

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 is currently in exposure draft re-deliberations period.

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. Additionally, infrastructure assets have been added to the agenda.