

ROBINSON, FARMER, COX ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

A PROFESSIONAL LIMITED LIABILITY COMPANY

DATE: November 30, 2017

MEMORANDUM TO: Jay Scudder, Manager
City of Buena Vista, Virginia

FROM: Robinson, Farmer, Cox Associates

In planning and performing our audit of the financial statements of the City of Buena Vista, Virginia for the year ended June 30, 2017, we considered the City's internal controls to plan our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal controls.

However, during our audit, we noted certain matters involving the internal controls and other operational matters that are presented for your consideration. This letter does not affect our report dated November 30, 2017, on the financial statements of the City of Buena Vista, Virginia. Our comments and recommendations, all of which have been discussed with appropriate members of management, are intended to improve the internal controls or result in other operating efficiencies. 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.

RECOMMENDATIONS FROM THE PRIOR YEAR STILL APPLICABLE:

Collection of Water and Sewer Receivables

In reviewing the aging of water and sewer receivables, we noted numerous delinquent accounts that had been inactive for several years. The allowance for uncollectible water and sewer receivables amounted to approximately 59% of billed water and sewer accounts receivable at June 30, 2017. It is our recommendation that the City consider addressing collection efforts for these delinquent accounts, and write off accounts that are no longer collectible.

Water and Sewer Revenue

The City utilizes a separate software module for water and sewer billing that does not interface with the City's general ledger software, thus the monthly billing must be manually posted to the City's ledger. During fiscal year 2016, a year-end adjustment was necessary to balance the City's ledger with the subsidiary accounting records for water and sewer accounts receivable. During fiscal year 2017, this adjustment was made on a monthly basis; however, the adjustments are made without knowledge or understanding of the reasons for the variance. In order to strengthen internal controls over the water and sewer billing and collection process, it is our recommendation that the City work to gain an understanding of the differences, and implement a monthly reconciliation of the subsidiary accounts receivable ledger to the City's general ledger to correct the determined variances.

Loan Receivable

It was noted that the City issued a \$15,000 loan to a local business owner on March 16, 2016 from its Community Development Block Grant funds. Payments on this loan were to begin on May 1, 2016. However, as of June 30, 2017, no payments have been received from the borrower. We recommend that the City consider enhancing collection efforts on this delinquent loan.

CURRENT YEAR RECOMMENDATIONS:

School Health Insurance Fund

The School Board has established a self-insurance plan for its employees, which is accounted for as an Internal Service fund in the City's Comprehensive Annual Financial Report (CAFR). Both amounts withheld from employee paychecks, as well as employer contributions, are deposited into a separate bank account established solely to manage these deposits and pay employee insurance claims. Employer contributions are expensed in the School Operating Fund. At June 30, 2017, the health insurance bank account maintained a reconciled balance of \$190,935. However, no activity or accounts related to this health insurance plan, other than the employer contribution expenses, are recorded in the City's general ledger. We recommend that the City establish a separate fund to record the transactions related to the activity of the school health insurance plan. Additionally, a monthly reconciliation should be performed between the health insurance expenses in the School Operating Fund and the deposits to the health insurance bank account. This reconciliation should provide a summary of the deposits to the health insurance account by type (i.e., Employer HSA contribution, Employee HSA contribution, Employer health contribution, Retiree health contribution, etc.).

Governmental Accounting Standards Board Pronouncements

In order to assist your staff in preparing for upcoming accounting changes, we have included the following summaries of Governmental Accounting Standards Board (GASB) pronouncements that will affect the County in upcoming years.

Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pension*, improves accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). This Statement replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple Employer Plans*, for OPEB. Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, establishes new accounting and financial reporting requirements for OPEB plans. This Statement is effective for fiscal years beginning after June 15, 2017.

Statement No. 81, *Irrevocable Split-Interest Agreements*, improves accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2016, and should be applied retroactively.

Statement No. 84, *Fiduciary Activities*, establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. This Statement describes four fiduciary funds that should be reported, if applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. This Statement also provides for recognition of a liability to the beneficiaries in a fiduciary fund when an event has occurred that compels the government to disburse fiduciary resources. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018.

Statement No. 86, Certain Debt Extinguishment Issues, improves consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. The requirements of this Statement are effective for reporting periods beginning after June 15, 2017.

Statement No. 87, Leases, increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019.