

**CITY OF STAUNTON, VIRGINIA AND
CITY OF STAUNTON PUBLIC SCHOOLS**

**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

To the Honorable Members of the
City Council and School Board
City of Staunton, Virginia

In planning and performing our audit of the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Staunton, Virginia 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 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.

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.

This communication is intended solely for the information and use of the City of Staunton, Virginia, 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

Harrisonburg, Virginia
December 7, 2023

**CITY OF STAUNTON, VIRGINIA AND
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CURRENT YEAR COMMENTS AND SUGGESTIONS

BANK RECONCILIATIONS

During our review of bank reconciliations, we noted an instance in which the bank reconciliation was not prepared in a timely manner. Preparing the bank reconciliations ensures that any irregular transactions are identified in a timely manner. We recommend preparing and reviewing the bank reconciliations no later than a month after the bank statement.

Because there was a bank reconciliation prepared for each month of the fiscal year, in our judgment this deficiency does not constitute a material weakness or significant deficiency. Even so, management should note that bank reconciliations are effective only if applied regularly with vigilance. Also, as described in our report on these comments, our responsibility is to report control deficiencies that we note in performing our audits; other undetected control deficiencies may exist elsewhere.

Client response: We concur with this comment and agree that preparing the bank reconciliation in a timely manner ensures that any irregular transactions are identified promptly. The Finance Department has experienced turnover, which resulted in a new staff member performing the bank reconciliation. Due to the complex nature of the bank reconciliation, there is a significant learning curve associated with the process. We are working through the training process as well as reviewing procedures used to perform the bank reconciliation. We expect the timing of completion of the bank reconciliation to improve in fiscal year 2024.

ECONOMIC INCENTIVE AGREEMENTS – EDA

Economic development incentives are common among governmental entities which are used to promote development within the locality. These agreements include rebates of certain percentages of taxes collected on the related development. Incentive agreements can become complex and involve calculations on tax collections which require coordination between many departments. During 2023, we noted the disbursement to the Staunton Frontier Center developer required an adjustment to the amounts paid for the second year in a row. The required adjustment was for the prior year yet was not caught until the current year disbursement was calculated. We recommend that the Commissioner of Revenue's office work closely with the Treasurer and EDA to develop this calculation and add a review process to compare to the actual underlying tax records and formal agreement to ensure the accuracy of the calculation prior to confirming amounts and releasing payment to the developer. This review process should be completed prior to providing information to the Finance department to ensure the proper transfer from the City to the EDA can be recorded and reflected in the City's current Annual Comprehensive Financial Report.

Client Response: We concur with this condition. The Treasurer and Commissioner of Revenue will work together to verify that the calculated taxes paid by the developer are correct. The EDA will ensure that the appropriate percentage payment is calculated as per the development agreement. Prior to processing the payment, Finance will review the payment calculated for accuracy based on the tax figures provided by the Commissioner and Treasurer. Finance will also verify the percentage to pay to the appropriate development agreement.

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PRIOR YEAR COMMENTS AND SUGGESTIONS

RELIANCE ON COMPENSATING CONTROLS

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. This is because such access may allow errors or fraud to occur and remain undetected or concealed.

Areas where in the past we identified a lack of segregation of duties included the accounts payable function, payroll function, bank reconciliation, journal entries, and authorized check signors. The City's finance department has responded to these concerns by implementing certain *compensating controls*, which, although they do not remove the original control deficiency, they mitigate the risk that a fraudulent transaction could occur and remain undetected. These compensating controls at the City consist of reviews of certain reports by the Assistant Director of Finance, Treasurer, and Director of Finance.

Because of these compensating controls, in our judgment these deficiencies do not constitute a material weakness or significant deficiency. Even so, management should note that these controls are effective only if applied regularly with vigilance. Also, as described in our report on these comments, our responsibility is to report control deficiencies that we note in performing our audits; other undetected control deficiencies may exist elsewhere.

Current Status: *Comment is still applicable*

Client response: We are continually reviewing the processes and procedures in the finance office to make sure there are adequate internal controls in place. Limitations in the number of staff that are employed and the numerous duties of each staff member make some transactions harder to fully segregate than other. Also, cross training to ensure we have coverage when staff is out creates issues with limiting access to our systems. We understand the importance of a good internal control structure and strive to put into place procedures that limit the possibility of errors or fraud to occur and remain undetected or concealed.

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PRIOR YEAR COMMENTS AND SUGGESTIONS

REPORTING UNDER GASB 84

The objective of GASB 84 is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. As a result, care should be taken to identify potential fiduciary activities in which the government possesses control or administrative involvement over trusts, charitable funds, and school activity funds in which the City could be required to include in financial reporting

Areas we have determined further documentation and understanding of activities could be improved are for foundations and charitable funds under the Sheriff, Police, and Fire Departments. Activities have been noted regarding the nature and extent of involvement between department heads and these foundations by management. We were not able to receive documentation to make a determination of these funds. We recommend the City review organizational documents, by-laws, Board member listings, and bank account information in order to properly determine whether the City possesses control of assets or provides administrative involvement for these foundations.

Due to the difference in size between the City and the foundations, these deficiencies do not constitute a material weakness or significant deficiency. Even so, management should further review the structure and use of these foundations to ensure the proper financial reporting.

Current Status: *Comment is still applicable, see next comment for specific details and client responses.*

GASB 84 – FIRE DEPTARMENT TRUST REPORTING

GASB 84, *Fiduciary Activities*, was effective starting in fiscal year 2021. Audit procedures in the prior year revealed that in some instances, not enough information was being provided by City departments to City Finance to determine proper accounting. After further documentation was reviewed, we determined the Fire Department became the beneficiary to the Tenney Trust in 1999. The Trust has several restrictions on use of the funds and also requires the Fire Department Chief to provide a written accounting statement to City Finance by January 31 of each year.

Although the preliminary review indicated that the funds would be subject to inclusion in the City's financial statements under GASB 84, there was some uncertainty surrounding the legality of the trust agreement as there was no record of the agreement being recorded with the circuit court nor did there appear to be a trust identification number obtained with the IRS. The cash and investment accounts established in 1999 have operated under the City of Staunton federal identification number and the trust is fully for the benefit of the City Fire Department with the current fire chief as the trustee. As a result of this uncertainty, the balance of the Trust cash and investments accounts were excluded from the fiscal year 2022 annual comprehensive financial report.

We recommend that the trust agreement be reviewed with the legal department, since Dr. Tenney is no longer alive, to try to determine the correct value of the principal amount that cannot be invaded, determine if the investments are subject to the City investment policy and determine if the agreement should be considered an endowment or a trust. Once all of this is considered, the proper accounting treatment can be proposed.

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PRIOR YEAR COMMENTS AND SUGGESTIONS

GASB 84 – FIRE DEPARTMENT TRUST REPORTING (Continued)

While the trust document specifies an accounting of transactions must be provided to the City Finance Department by January 31 for the previous calendar year, we recommend the accounting be made on a fiscal year basis to coincide with City reporting. We further recommend that the trustee (the current City Fire Chief) maintain monthly investment statements, since the investment advisor cannot provide fiscal year based statements, along with the other monthly cash account statements and transaction ledger. All of this documentation should be made available to the City Finance Department on at least a fiscal year basis to ensure that the transactions can be included, if required, with the City's financial statements at the end each fiscal year.

Current Status: *Comment is still applicable.*

Client response: We have determined that the Sheriff has no charitable foundation or funds associated with that office. The Police Department does have a related charitable foundation and we have reviewed the structure and use of the foundation for proper financial reporting. Documents are provided by the foundation to the finance department each year for review. The Fire Department does have a related trust. The trustee (the current fire chief) has provided documentation for the investment and bank accounts for review. We are still in the process of reviewing the status of the trust, since the benefactor is deceased. We hope to have a definite conclusion during fiscal year 2024, so we can correctly account for the funds.

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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.

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ACCOUNTING AND OTHER MATTERS (Continued)

NEW GASB PRONOUNCEMENTS (Continued)

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.

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.

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ACCOUNTING AND OTHER MATTERS (Continued)

NEW GASB PRONOUNCEMENTS (Continued)

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.

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 (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.