ROBINSON, FARMER, COX ASSOCIATES, PLLC

Certified Public Accountants

CPAs | CONSULTANTS

Date: February 18, 2020

Memorandum To: Maury Service Authority

From: Robinson, Farmer, Cox Associates

Regarding: Audit for year ended June 30, 2019

In planning and performing our audit of the financial statements of Maury Service Authority for the year ended June 30, 2019, we considered the Authority'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. This letter does not affect our report dated February 18, 2020 on the financial statements of Maury Service Authority. Our comments and recommendations, all of which have been discussed with appropriate members of management, are intended to improve the internal control structure 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.

Formal Policies and Procedures

Finding

The Authority ended their contract with the City of Lexington to operate the water and wastewater treatment plants at the conclusion of fiscal year 2016. The Authority assumed the employees who work at the facilities that were previously City employees and is now responsible for the operation of its own facilities. However, the Authority is still following some of the existing policies from the City of Lexington. Until June 2018, there was no formal documentation at the Authority regarding Fair Labor Standards Act (FLSA) status for individual employees and only new hires had forms on file at the time of audit fieldwork. There was also no formal reconciliation process in place for petty cash until late in the fiscal year. The general practice for credit cards with missing receipts is for the Administrative Secretary to contact the employee responsible for the purchase to request documents. If they are unable to provide documentation, the Administrative Secretary or employee documents the vendor and employee making the purchase.

Recommendation

We recommend that the Authority establish formal written policies covering over areas such as personnel, procurement and purchasing, capital assets, credit card usage, travel reimbursement and petty cash. In addition, a whistleblower policy should be created. Management should consider establishing periodic replenishment procedures for petty cash to maintain a routine balance. In the rare instance that credit card receipts are missing, the employee should submit a statement describing what was purchased. However, every effort should be made to maintain receipts to support the appropriateness of business expenses.

Recording of Accruals

Finding

Several accrual adjustments were made by management and the consultant prior to the audit; however, audit adjustments were still necessary to adjust accrual balances in accordance with generally accepted accounting principles.

Recommendation

We recommend that accrual activity be recorded prior to audit fieldwork to limit the auditor's involvement in recording adjusting journal entries and making significant adjustments to the general ledger. These include items such as accounts receivable, prepaid expenses, interfund balances, accrued interest payable, and compensated absences.

Capital Assets and Depreciation Schedules

Finding

There was an improvement related to accounting for capital assets compared to the prior audit in that an updated depreciation schedule was provided for audit. However, the schedule included additions for expenses that did not meet the criteria of capital assets. In addition, the consultant was unable to update the depreciation schedule to reflect additional assets identified during the audit and to remove items that should not have been capitalized.

Recommendation

The capital asset threshold is $7,000 and expenses at or above this amount should be analyzed for capitalization requirements. However, the invoices must be reviewed and discussed with management to ensure they are assets meeting the criteria for capitalization. For example, $21,602 was added to the depreciation schedule and titled MOB/DEMOB. Upon review of the invoice and audit inquiry, this was determined to be a contract for pressing biosolids and hauling them to the landfill. Prior to the fiscal year 2020 audit, the depreciation schedule must be updated to reflect adjustments noted during the audit and should be reviewed in detail to ensure it is complete and all items are still in use at the facility.

Bank Reconciliations

Finding

The operating bank account reconciliations for June 2019 did not reconcile to the general ledger presented for audit. Although it appeared the general ledger balance for the water fund operating account was correct as a result of corrections made after the June and July 2019 reconciliations were prepared. The wastewater fund operating account balance was also corrected after the June and July 2019 reconciliations were prepared. However, the balance still included reconciling items that should be researched and corrected, as appropriate.

Recommendation

We recommend that bank reconciliations be done in a timely manner and reviewed for accuracy with deposits in transit and outstanding items being researched, as appropriate. The bank reconciliation should be reviewed (with formal signoffs) by someone independent of the preparer and corrections made to the general ledger in a timely manner.

QuickBooks Account Postings

Finding

The water and sewer funds should balance individually. Several payments throughout the year are allocated between the two funds. A review of the detailed general ledger showed instances in which activity was recorded across funds. For instance, a check may have been recorded in the water bank account while the expense account was in the sewer fund.

Recommendation

General ledger postings in QuickBooks should be reviewed for accuracy (date, amount, account, etc.) prior to being recorded. In addition, interfund balances (due to and due from amounts within the individual funds) should be reviewed and reconciled each month. This account represents items paid from one fund that are actual expenses of the other fund. The monthly reports presented to the board are being relied on for financial decisions, so it is imperative that individual transactions are recorded in the correct fund and account.

Payroll Processing and Reconciliation

Finding

Employer portions of third-party benefit payments are posted to the wages accounts. Also, certain benefits or withholdings were not properly taxed in accordance with IRS regulations. For example, Federal Unemployment Taxes (FUTA) and SUI taxes were paid; however, the Authority is not subject to these taxes. Certain VRS contributions are exempt from social security and Medicare tax, but these taxes were withheld through March 2019.

Recommendation

We recommend management consider creating additional general ledger accounts (or subaccounts) to separately track ICMA-RC and other relevant expenses. This will help with reconciling payroll to VRS reporting, 941s, etc. The pension and OPEB standards require certain items to be reclassified from expense accounts to deferred outflows of resources and it would be easier to identify and adjust these items if they were recorded in their own account. In addition, the list of employee deductions should be reviewed to ensure they are correctly treated as pre-tax or post-tax items.

Virginia Retirement System (VRS) Processing and Reconciliation

Finding

As reported in the separate VRS attestation report, there were several deviations related to VRS compliance:

- Throughout the year, the Authority did not have documented reconciliation procedures in place and did not reconcile the payroll system to the information in myVRS Navigator.
- VRS deductions are not being withheld in accordance with VRS policies. For the five employees tested, the timing of changes in deduction amounts does not align with the methodologies used by VRS. Additionally, in one instance, the amount of the bi-monthly deduction was not calculated properly.

Recommendation

VRS regulations should be reviewed and transactions processed accordingly. In addition, monthly reconciliation procedures should be implemented and documented to ensure activity is properly reported to VRS and recorded in the general ledger.

Mileage Reimbursement

Finding

On 4/25/19, an employee reimbursement of $131.00 included payment of mileage for $115.00 based on the total miles driven instead of being paid at the reimbursable rate, which would have been $66.70. The mileage expense report included the correct amount at the top and the incorrect amount at the bottom.

Recommendation

We recommend staff review invoices and reimbursement forms for accuracy and clerical mistakes prior to processing payments.

GASB Pronouncements

Finding

The Authority is required to record its net pension asset, deferred outflows of resources, and deferred inflows of resources in accordance with GASB 68 and similar items for the net OPEB liability as required by GASB 75. This information is reported in actuarial valuations provided by VRS. The VRS website includes financial reporting guidance for employers. The auditor proposed journal entries to update these balances for fiscal year 2019.

Recommendation

We recommend management and the third-party accountant become familiar with these governmental standards in order to prepare the necessary adjustments going forward.