



ROBINSON, FARMER, COX ASSOCIATES, PLLC

Certified Public Accountants

Date: November 17, 2023

Memorandum to: Shawn Utt, County Administrator
Smyth County, Virginia

From: Robinson, Farmer, Cox Associates

Regarding: Audit Recommendations

In planning and performing our audit of the financial statements of the County of Smyth, Virginia for the year ended June 30, 2023, we considered the County's internal control structure to plan our auditing procedures for the purpose of expressing our opinions 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. 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.

School Board Recommendations

School Construction Grant Funds

In accordance with Code section 22.1-175.5, a separate account should be established for school construction fund awards and any interest on such funds shall be used in accordance with the grant award. Currently, the school construction funds are in the pooled cash account. We recommend that a separate bank account or separate fund in the ledger be established to ensure that amounts are appropriately segregated and tracked for expenditure in accordance with the Code.

Procurement

Purchases were made from Mountain Empire Restoration and the purchases did not follow the formal procurement process. Per inquiry, the services were considered emergency services and therefore were not put out to bid. We were unable to verify that the emergency procurement requirements per the Virginia Public Procurement Act (VPPA) were appropriately followed. We recommend that the VPPA be consulted going forward for any similar purchases to ensure that requirements are met.

During the year, several AC units were purchased and installed at various schools and federal funds were used to pay for the projects. Multiple quotes/bids were not obtained, nor was the formal procurement process followed. When each school's total cost is aggregated as a project, the amounts paid exceed the small purchase amount per the Uniform Guidance and would have required multiple bids/quotes. Per inquiry, an initial quote was obtained from an HVAC company and it came in well over budgeted totals. The School Board elected to purchase individual window units and have them installed instead as a design build project. Per the Code of Virginia, there are specific requirements related to design-build construction projects and, to our knowledge, those requirements were not met. We recommend that going forward, similar purchases be aggregated, and totals compared to local, state, and federal procurement thresholds, as applicable based on the funding source. Care should be taken to ensure that all such requirements are met.

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County Recommendations

RD Compliance

On April 13, 2018, we received a copy of a letter sent from Rural Development to the County requesting that the County separate the water and sewer systems into separate funds for the audit report. We performed this allocation in the audit process for fiscal year 2022; however, we recommend the County separate the funds in their accounting records.

Purchase Orders

Per inquiry, purchase orders are not required for all purchases but there is not an established threshold over which purchase orders would be required. We recommend that management review its procurement and small purchasing policy and consider adding a dollar threshold over which purchase orders will be required. If certain types of purchases do not require purchase orders (i.e., routine, monthly bills) we recommend that a policy and process be established for same.

Fire Program Funds

Documentation should be obtained and reviewed from the local fire departments that receive pass-through Fire Program Funds. Same should be reviewed and used for the annual report that is filed. Documentation should be maintained for audit purposes to verify amounts reported and to ensure compliance of expenditures under the program. We were unable to locate sufficient documentation for expenditures under the Fire Program.

Credit Card Purchases

During review, we noted over \$2,000 worth of gift card purchases on credit cards for which recipient information was not maintained with credit card documentation. If gift cards are purchased, we recommend that they be treated like cash. Recipients should sign an acknowledgement of receipt of the gift cards and same should be kept with the credit card documentation for audit purposes.

ARPA Reporting Requirements

The annual P&E report for the period of April 1, 2022 - March 31, 2023 was required to be filed by April 30, 2023. The report was not filed and certified until June 9, 2023. We recommend that steps be taken to ensure that all required reporting under the program is made in a timely manner.

Pooled Cash Balances

Historically, Fund 501 has had a negative pooled cash balance in the ledger. As of June 30, 2023, Fund 501 has a pooled cash balance of \$(2,675,891.87) per the detailed ledger. During the audit preparation, the consultant appropriately adjusted the total through transfers so that a negative pooled cash balance is not reported in accordance with GAAP. We recommend that management approve and post a transfer to true-up the pooled cash balances and monitor same routinely. If negative pooled cash continues, management may need to consider a rate study to ensure that water and sewer fees are appropriate to cover expenses for same.

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Department of Social Services Recommendations

Special Welfare Reimbursements

During review it was noted that reimbursements were not made to the Treasurer for program expenditures incurred throughout the year. Management is currently working to determine what amounts should have been reimbursed to remit amounts due. Program specific reimbursement request should also be reviewed to ensure that adjustments to program revenues are made as needed.

Special Welfare Account

Currently the Social Services Department holds funds in their special welfare fund that are not held for specific children. The *Code of Virginia, 1950 as amended section 63.2-230* specifically allows local agencies to accept and expend certain funds on behalf of children placed by or entrusted to the local board when no guardian is appointed. It appears that the local agency has deposited additional funds, such as general contributions (i.e. Disaster relief, United Way funds, admin account, rides program) to the special welfare fund. In general, we feel that contributions to the Social Services Department are subject to appropriation by the Board of Supervisors prior to expenditure. As such, we recommend that the Department review the sources and uses of these funds and establish a fund for the receipt and expenditure of non-fiduciary monies. The expenditure of such funds would be subject to an appropriation by the Board of Supervisors.

County and School Board Recommendations

Capitalization Thresholds

We recommend that a formal capitalization policy be established to include right-to-use intangible asset thresholds by types of assets to assist in evaluating leased assets and SBITA's for inclusion in the financial statements with the implementation of GASBs No. 87 and GASBs No. 96. The policy might also consider the allocation of equipment and maintenance/services for copier equipment when same is not specifically stated in the lease agreement to ensure consistency of reporting.

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