DATE: December 19, 2018

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, 2018, 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 December 19, 2018, 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 61% of billed water and sewer accounts receivable at June 30, 2018. 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 2018, the City made adjustments on a monthly basis to true up monthly utility revenues; discussions with management revealed the cause of the variance to be timing issues. In order to strengthen internal controls over the water and sewer billing and collection process, it is our recommendation that the City continue to work to gain an understanding of the differences. Management should be diligent in its review and oversight of this process.

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, 2018, no payments have been received from the borrower. We recommend that the City consider enhancing collection efforts on this delinquent loan.

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, 2018, the health insurance bank account maintained a reconciled balance of $98,052. 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.).

CURRENT YEAR RECOMMENDATIONS:

Cash Deposits – Golf Course

During our audit of revenues, it was noted that 8 out of 25 randomly selected daily cash receipts were not deposited with the City Treasurer within three business days of being received. This practice exposes the City to loss or theft of cash while it is on the golf course premises. To strengthen internal controls over cash, we recommend that golf course collections be deposited to the City Treasurer daily, or at a minimum, within three business days.

Unclaimed Property

During our audit of cash, it was discovered that, as of June 30, 2018, there were several checks totaling approximately $13,500 that had been outstanding for a period greater than one year. Of this amount, $1,344 had been outstanding for more than five years. Per Virginia Code Section 55-210.2:1, property is presumed abandoned when it is held in the ordinary course of business for a period exceeding five years and should be reported with the Virginia Treasury in accordance with Virginia Code Section 55-210.12. We recommend the City review its outstanding check listing at the end of each fiscal year to ensure compliance with Virginia law.

Upcoming Pronouncements

Statement No. 83, *Certain Asset Retirement Obligations*, addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement. This Statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018.

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. 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.

Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*, clarifies which liabilities governments should include when disclosing information related to debt. It defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established. The Statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. For notes to financial statements related to debt, it requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018.

Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*, enhances the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and simplifies accounting for interest cost incurred before the end of a construction period. Such interest cost includes all interest that previously was accounted for in accordance with the requirements of paragraphs 5-22 of Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-December 19, 1989 FASB and AICPA Pronouncements,* which are superseded by this Statement. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. This Statement also reiterates that in financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with governmental fund accounting principles. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019.