

**CITY OF CHARLOTTESVILLE, VIRGINIA.  
CITY COUNCIL AGENDA.**



Agenda Date: December 7, 2020.

Action Required: Report.

Presenter: Chris Cullinan, Director of Finance.  
John Aldridge, CPA, Partner, Brown Edwards and Company

Staff Contacts: Chris Cullinan, Director of Finance.  
Glen Pack, Comptroller.  
Gail Hassmer, Chief Accountant.

Title: Audit Report for Fiscal Year 2020 by Brown Edwards and Company.

**Background:**

The Code of Virginia requires that localities have all their accounts and records audited annually as of June 30 by an independent certified public accountant in accordance with the specifications furnished by the Auditor of Public Accounts (APA).

**Discussion:**

State Code requires the City's auditor to report to the governing body at a public session. John Aldridge, CPA from Brown Edwards and Company will be presenting their report to City Council.

**Community Engagement:**

The Comprehensive Annual Finance Report (CAFR) is available on the City's website under the Finance Department. Hard copies are available upon request.

**Budgetary Impact:**

N/A.

**Alignment with Council Vision Areas and Strategic Plan:**

This report on the audit of fiscal year 2020 aligns with Goal 4 of the Strategic Plan, to be a well-managed and successful organization.

**Recommendation:**

N/A.

**Alternatives:**

N/A.

**Attachments:**

1. Auditor's opinion letter.
2. Auditor's management letter.
3. Auditor's letter to those charged with governance.



## INDEPENDENT AUDITOR'S REPORT

To the Honorable Members of the City Council  
City of Charlottesville, Virginia

### Report on the Financial Statements

We have audited the accompanying 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 Charlottesville, Virginia (the "City") as of and for the year ended June 30, 2020 and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

#### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

#### *Auditor's Responsibility*

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the *Specifications for Audits of Counties, Cities, and Towns*, and the *Specifications for Audits of Authorities, Boards, and Commissions* issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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## ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position 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, as of June 30, 2020, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## ***Other Matters***

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the required supplementary information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### ***Other Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory, supplementary information as listed in the table of contents, and statistical section, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplementary section is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information as listed in the table of contents is fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 25, 2020 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

*Brown, Edwards & Company, S. L. P.*

CERTIFIED PUBLIC ACCOUNTANTS

Roanoke, Virginia  
November 25, 2020



## **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**

To the Honorable Members of  
the City Council  
City of Charlottesville, Virginia

We have audited, in accordance with the auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the *Specifications for Audits of Counties, Cities, and Towns*, and the *Specifications for Audits of Authorities, Boards, and Commissions*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia, the financial statements, 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 Charlottesville, Virginia (the “City”), as of and for the year ended June 30, 2020 and the related notes to the financial statements which collectively comprise the City’s basic financial statements, and have issued our report thereon dated, November 25, 2020.

### **Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the City’s 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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City’s internal control. Accordingly, we do not express an opinion on the effectiveness of the City’s internal control.

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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies may exist that were not identified. **Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.**

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## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* which are described in the in the accompanying schedule of findings and responses as Items 2019-002, 2018-001, 2018-002, and 2018-003.

## **City of Charlottesville's Response to Findings**

The City's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. The City's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Brown, Edwards & Company, L.L.P.*

CERTIFIED PUBLIC ACCOUNTANTS

Roanoke, Virginia  
November 25,  
2020



## INDEPENDENT AUDITOR'S REPORT ON COMMENTS AND SUGGESTIONS

To the Honorable Members of the City Council and School Board  
Charlottesville, 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 Charlottesville, Virginia and Charlottesville City Public Schools as of and for the year ended June 30, 2020, 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 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.

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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. A review of the status of our prior year comments and suggestions is included on page 5.

This communication is intended solely for the information and use of the City Council, the School Board, management, and state and federal regulatory agencies and is not intended to be, and should not be, used by anyone other than those specified parties.

*Brown, Edwards & Company, L.L.P.*

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Roanoke, Virginia  
November 25, 202

## **PRIOR YEAR COMMENTS AND SUGGESTIONS JUNE 30, 2020**

### **AUDITOR ADJUSTMENTS**

As part of our audit, we proposed multiple adjustments related to the improper accrual or recording of investments, capital assets, accounts payable and accrued interest on long term debt. Certain of these adjustments were related to estimates or determinations made by management that did not involve the proper accounting treatment or did not reflect actual results. We suggest management implement procedures such as periodic comparison of estimates with actual results, especially at year end, to ensure accurate financial reporting. Accounting procedures should be formulated to ensure all asset and liability accounts are either recorded in the general ledger or clearly compiled in subsidiary ledgers for entity wide balances that are not recorded on the fund level general ledger. All activities should be evaluated beyond transactional processing to focus on the financial reporting implications of those activities. Additionally, all adjustments that were made as a result of our current year audit should be reviewed during the next year as a reminder of matters needing accounting attention in preparing for the 2020 audit.

**Current Year Status:** *Condition still present in the current year. There was a material adjustment made for accrued liabilities. Adjustments made as a result of the current year audit should be reviewed during the next year as a reminder when preparing for the 2021 audit.*

### **TIMELY GRANT REIMBURSEMENT REQUESTS**

During our testing surrounding accounts receivable, we noted that reimbursement requests were not filed timely for VDOT grants. We recommend that reimbursement requests be completed more timely, on a monthly or quarterly basis.

**Current Year Status:** *Condition still present in the current year.*

### **CONSTRUCTION IN PROCESS**

During our testing, we noted that the City places all projects in service at the end of the year for proprietary funds in order to begin depreciation. The risk is that the City is not beginning depreciation when the assets are placed in service. We recommend that a more thorough process be considered to track specific projects and begin depreciation when assets are placed in service.

**Current Year Status:** *Condition still present in the current year.*



## REQUIRED COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

Honorable Members of City Council and School Board City  
of Charlottesville, Virginia

We have audited 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 Charlottesville, Virginia, collectively hereafter referred to as the City, for the year ended June 30, 2020. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, *Government Auditing Standards* and the Uniform Guidance, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated November 25, 2020. Professional standards also require that we communicate to you the following information related to our audit.

### **Significant Audit Matters**

#### *Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2020. We noted no transactions entered into by the City during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- The useful lives of capital assets are based on management's knowledge and judgment, which is based on history. Management also estimates the in-service date of construction in progress (CIP) is the last day of the fiscal year regardless of actual project completion.
- The other post-employment benefits (OPEB) liabilities are based on third-party actuarial calculations and assumptions that utilize census data provided by management.
- The allowance for uncollectible accounts receivable and unbilled accounts receivable is based on management's knowledge of the nature of the receivable and historical experience.
- The self-insurance liability is based on information from an external third party consultant and subsequent claims information provided by the insurance carrier.
- The net pension liabilities are based on actuarial studies provided by actuaries engaged by the City and Virginia Retirement System.

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### *Qualitative Aspects of Accounting Practices (Continued)*

We evaluated the key factors and assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements include those related to:

- Capital assets, long-term debt, commitments and contingencies, pensions, other post-employment liabilities, and the impacts of COVID-19.

The financial statement disclosures are neutral, consistent, and clear.

### *Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit.

### *Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. The following audit adjustments were proposed and were recorded by the City, which indicate matters that had a significant effect on the City's financial reporting process. All amounts are rounded to the nearest thousand.

#### Corrected Misstatements:

- The City did not reverse prior year accrued liabilities in four proprietary funds, resulting in the following audit adjustment to correct the error:
  - Decrease to accrued liabilities of approximately \$5,000 in the Golf fund with a corresponding decrease to expense.
  - Decrease to accrued liabilities of approximately \$206,000, a decrease to capital assets of approximately \$223,000 and an increase to expense of approximately \$17,000 in the Water fund.
  - Increase to accrued liabilities of approximately \$17,000 in the Wastewater fund with a corresponding increase to expense.
  - Decrease to accrued liabilities of approximately \$179,000 in the Stormwater fund and a corresponding decrease to capital assets.
- Decrease to current liabilities of approximately \$610,000 in the Gas fund with a corresponding decrease to expense to remove a duplicated invoice.
- Increase to Sewer capital assets of approximately \$415,000 with a corresponding decrease in Sewer expense, a decrease of approximately \$415,000 to Stormwater capital assets, with a corresponding increase in Stormwater expense.

Management has determined that the effects of the following misstatements are immaterial to the financial statements taken as a whole.

Uncorrected Misstatements

- June sales tax from the Commonwealth was received and recorded in August. The total amount received during the City and Schools' availability period of approximately \$905,000 for the City and \$200,000 for the schools should be recorded as revenue. It is management's policy not to report these items on the fund statements since they have an immaterial impact on fund balance or change in fund balance. For entity wide presentation, the full balance would impact change in operations and net position; however, that amount is deemed immaterial.

*Disagreements with Management*

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

*Management Representation*

We have requested certain representations from management that are included in the management representation letter dated November 25, 2020.

*Management Consultations with Other Independent Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the City's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

*Other Audit Findings or Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management while serving as the City's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our being hired to serve as the City's auditor.

**Other Matters**

We applied certain limited procedures to the management's discussion and analysis and the required supplementary information (RSI) as listed in the table of contents that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the combining and individual fund statements of the non-major and internal service funds, certain budget to actual statements, and the fund financial statements of the discretely presented component units, and the schedule of expenditures of federal awards which accompany the financial statements but are not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

We were not engaged to report on the introductory and statistical sections, which accompany the financial statements but are not RSI. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

#### *Cybersecurity Risk Management*

In today's environment of increasingly frequent cyber-attacks, ensuring the adequacy of cybersecurity is a critical aspect of board oversight. In addition to significant business disruption, substantial response cost, negative publicity, and reputational harm, cybersecurity breaches can result in litigation, and leaders may face potential liability if they failed to implement adequate steps to protect the organization.

Evidence suggests there may be a gap between the magnitude of exposure presented by cyber-risks and steps many corporate boards have taken to address these risks. Organizational leaders should be asking themselves what they can, and should, be doing to effectively oversee cyber-risk management.

### **Restriction on Use**

This information is intended solely for the information and use of the City Council, the School Board, and management of the City of Charlottesville 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

Roanoke, Virginia  
November 25, 2020