

Issue Analysis Form



Date: August 11, 2020
Item: School Request to Change Accounting – Accrual Period for School State Sales Tax School Division / County
Lead Department(s): Finance
Contact Person(s): Lisa Pennycuff, Monique Barnes & Betsy Drewry

Description and Current Status

Monique Barnes, School Finance Director, made a request to Josh Roller, Audit Director Robinson, Farmer Cox, to change accounting treatment of School Sales Tax Revenue “accruals” for FY2020.

Currently the school division accrues July and August School Sales Tax Collections to the prior fiscal year. The School Finance Director would like to change from accruing two-months (July and August) to accruing only one month (July).

School divisions are afforded the option of accruing one or two months when reporting revenues to the Virginia Department of Education (VDOE) in their Annual School Report – Financial (ASRFIN). Mrs. Barnes provided 2017 data from VDOE that showed 56 divisions accrued one month and 72 divisions accrued two months of Sales Tax Revenues.

Mr. Roller indicated that the change would be immaterial to the financial statements as a whole, and if the County Board of Supervisors and School Board were in agreement to make the change, they would support it.

Please see **Attachment 1** for email communications related to this request for FY2020.

If the School Board supports the change, the Board of Supervisors will likely receive a request to approve this change. Mrs. Barnes has requested permission from the Superintendent to add this item to the School Board’s August 6 meeting agenda.

If approved, the change would result in 11 months of School Sales Tax revenue being recorded for FY2020 instead of 12 months. School Sales Tax Revenues fluctuate from month to month, and the estimated reduction in FY2020 school revenue is \$470,000 - \$550,000. Future years will not be impacted.

Government Path

- Does this require IDA action?** Yes No
- Does this require BZA action?** Yes No
- Does This require Planning Commission Action?** Yes No

Does this require Board of Supervisors action? Yes No
Does this require a public hearing? Yes No
If so, before what date? Yes No

Fiscal Impact Statement

If the change in accrual periods is allowed (two months to one month accruals), the approximate reduction in FY2020 School Sales Tax revenue is estimated at \$470,000 - \$550,000 (and the amount to revert to fund balance would be reduced by this amount). The school division is projected to meet budgeted revenue targets for FY2020, even with this change due to excess federal Impact Aid revenue collections in FY2020 [excess of \$620,164.27; \$4,000,000 Budgeted; \$4,620,164.27 Actual].

County Impact

Estimated loss in school revenue reverting to fund balance of \$470,000 - \$550,000. The school division typically requests re-appropriation of "carryover funds" [revenues over expenditures] annually to meet capital needs.

Notes

Betsy Drewry

From: Josh Roller <jroller@rfca.com>
Sent: Monday, July 20, 2020 9:51 AM
To: Monique Barnes
Cc: Bonnie Jacobs; Betsy Drewry
Subject: RE: CAUTION--EXTERNAL SENDER Audit
Attachments: VRS Info for Planning Letters 2020.docx

Hi Monique

See attached for the planning letter for VRS testing. Any files that could be uploaded related to this today would be very helpful.

I apologize for my incorrect information regarding the sales tax accrual. I picked the wrong group of other clients to sample whether they were 1 or 2 month accruals. The difference in sales tax accrual of 1 month vs 2 month will likely be immaterial the financial statements. If the School Board and the County are agreeable in this change, then we can get behind it as well. Sales tax revenue for FY2020 would only recognize 11 months worth of revenue.

Thank you, and we will see you tomorrow.

Josh

Joshua A. Roller, CPA
Member



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From: Monique Barnes <mgbarnes@pgs.k12.va.us>
Sent: Monday, July 13, 2020 11:10 AM
To: Josh Roller <jroller@rfca.com>
Cc: Bonnie S. Jacobs <bjacobs@pgs.k12.va.us>; Betsy Drewry <BDrewry@princegeorgecountyva.gov>
Subject: RE: CAUTION--EXTERNAL SENDER Audit

[Message Received from External Sender]

Hi Josh,

I hope all is well with you. I would like to revisit accruing only one year of sales tax for FY20. Below is a response to one of my colleagues who also has RFC as her division's auditing firm. Also, last fall, I checked with the Virginia DOE and found that, at least as far as the ASRFIN goes, 56 accrue one year and 79 divisions accrue 2 years. At that time, the DOE's most recent records were from FY17. The report I received is attached.

Thanks for the consideration.

From: Andrew Grossnickle [<mailto:andrew@rfca.com>]
Sent: Friday, July 10, 2020 9:23 AM
To: Kelly, Krista <krista.kelly@mpark.net>
Subject: RE: Switching to One Month Sales Tax Accrual

Krista,

That is fine. Assuming the variance between one month and two months is immaterial then we will document it as an unadjusted audit difference and it will be documented as such in a schedule of unadjusted audit differences attached to the representation letter and governance letter. You may want to be prepared to explain that to the City as they may not like that approach as the lack of accruing that additional month will result in the School Division turning back less money to the City at FY20 year end (albeit it is somewhat of a timing issue ultimately).

Have a nice morning!

Andrew P. Grossnickle, CPA, CFE
Member
Robinson, Farmer, Cox Associates
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Phone - 540-898-8983
Fax - 540-898-8986

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From: Kelly, Krista <krista.kelly@mpark.net>
Sent: Friday, July 10, 2020 9:15 AM
To: Andrew Grossnickle <andrew@rfca.com>
Subject: RE: Switching to One Month Sales Tax Accrual

FYI – Last night I spoke with a friend at VDOE who worked for Isle of Wight, Williamsburg James City County, Chesterfield, and one other division. She indicated that while most divisions use two months, each of the divisions she worked at before heading to VDOE used the one month accrual. Rather than mess with estimates, I would like to move to the one month. As I said, this is the way the ASRFIN data is initially distributed with a patch required for those that use two months. It would create a variance this year, but we would be fine hereafter.

Thank you,

Monique

Monique G. Barnes, MBA, CGFM, SFO

Director of Budget and Finance

Prince George County Schools

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From: Josh Roller <jroller@rfca.com>
Sent: Thursday, August 29, 2019 9:37 AM
To: Monique Barnes <mgbarnes@pgsk12vaus.onmicrosoft.com>
Subject: RE: CAUTION--EXTERNAL SENDER Audit

Hi Monique

Sorry for the long delay in response. I have talked with a few others in the firm to confirm my thoughts on the sales tax accrual. We are all in agreement that accruing the two months is the only truly correct way to record the sales tax revenue - GAAP principles would back up those two months accrued at year end. We are not aware of any other locality recording just one month as an accrual. Even if you were to just record the one month, we would then be required to restate beginning balances and move the last payment in FY2018 to FY2019 revenue, so either way 12 payments would be recorded in FY2019.

The Annual School Report does allow for just one month sales tax accrual. It will be a difference from the ASR to the amount per books.

Let me know if you have any questions. I will be sure to come over there to meet you when we are back for final fieldwork at the end of October.

Thank you,
Josh

Joshua A. Roller, CPA
Member

Robinson, Farmer, Cox, Associates
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From: Monique Barnes <mgbarnes@pgsk12vaus.onmicrosoft.com>
Sent: Monday, August 5, 2019 8:27 AM
To: Josh Roller <jroller@rfca.com>
Subject: RE: CAUTION--EXTERNAL SENDER Audit

Hi Josh,

I apologize for not getting back with you earlier. I was out of town in a remote area. I'm also sorry that we did not have a chance to meet!

The question revolves around what is needed for the school division to change its sales tax accrual from a 2 month accrual to one month. Doing this will:

- Align actual revenue more closely to what is budgeted, as we pull sales tax figures from the DOE's calc tool which incorporates the state budget when building our budget

- Using a 2 month accrual typically requires a supplemental appropriation after the General Assembly approves the following year's budget. The revenue received in August is projected based upon the calc tool generated after the GA approves the budget in March, April, or whenever they approve a budget.

Also-

- Sales tax is not guaranteed and accruing 1 month would be more conservative
 - In FY18, the state withheld its accelerated sales tax and many divisions experienced shortfalls.
 - Reduces the risk of overspending the budget when there are years, such as last year when the state chose not to provide accelerated sales tax revenue.

This would be a good year to change this, as we have met our budgeted revenue.

Thanks,

Monique

Monique G. Barnes, MBA, CGFM, SFO

Director of Budget and Finance

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From: Josh Roller <jroller@rfca.com>

Sent: Thursday, August 1, 2019 10:00 AM

To: Monique Barnes <mgbarnes@pgsk12vaus.onmicrosoft.com>

Subject: CAUTION--EXTERNAL SENDER Audit

Hi Monique,

I was hoping to come over and introduce myself this afternoon, and Eric mentioned you might have a few questions. Would you be available at 1:30?

Josh

Joshua A. Roller, CPA

Member

Robinson, Farmer, Cox, Associates

(434) 973-8314

ATTACHMENT 1

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