November 5, 2019

Auditor of Public Accounts Note: This letter contains redacted information which refers to details of control weaknesses that were communicated to locality management and governance but are FOIAE under Code of Virginia §2.2-3705.2 due its sensitivity and description of security controls or mechanisms.

To the Board of Directors
Upper Occoquan Service Authority
Centreville, Virginia

In connection with our audit of the financial statements of the Upper Occoquan Service Authority (UOSA) for the year ended June 30, 2019, we have the following comments and suggestions for your consideration.

Evaluation of Conflict of Interests with Board Members

Per the *Specifications for Audits of Authorities, Boards, and Commissions* issued by the Auditor of Public Accounts of the Commonwealth of Virginia, entities such as UOSA are required to have procedures and controls in place to ensure disclosure and appropriate response to third-party relationships with Board Members. The State and Local Government Conflict of Interest Act, contained in Chapter 31 (Section 2.2-3100 et. seq.) of Title 2.2 of the *Code of Virginia*, prohibits local government officers or employees from participating in certain transactions in which they or their family members have a material interest. Members of a governing body of any authority established in any county or city are required to file an annual statement of economic interest, which contains extensive disclosures of personal financial interests, with the Office of the Virginia Conflict of Interest and Ethics Advisory Council. We recommend UOSA develop procedures to ensure all Board members have filed the necessary statements of economic interest.

Information Technology

While updating our understanding of internal controls over the information technology environment, we noted the following recommendations which UOSA should consider.

Information Management System Recommendations

[redacted]

UOSA Management Recommendations

- Ensure that roles and responsibilities related to IT management and security are defined and communicated throughout the organization, such as Chief Information Officer.
- [redacted]
- [redacted]
    - [redacted]
    - UOSA management should assign responsibility for ensuring that the recommended IT policies and procedures are documented, approved, and updated as necessary.

New GASB Pronouncements

As of June 30, 2019, the Governmental Accounting Standards Board (GASB) had issued several statements not yet implemented by UOSA. The statements which might impact UOSA are as follows:

Statement No. 84, *Fiduciary Activities*

The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. 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.

An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. Governments with activities meeting the criteria should present a statement of fiduciary net position and a statement of changes in fiduciary net position. An exception to that requirement is provided for a business-type activity that normally expects to hold custodial assets for three months or less.

The requirements of this Statement will enhance consistency and comparability by (1) establishing specific criteria for identifying activities that should be reported as fiduciary activities and (2) clarifying whether and how business-type activities should report their fiduciary activities. Greater consistency and comparability enhances the value provided by the information reported in financial statements for assessing government accountability and stewardship.

The requirements of Statement No. 84 are effective for financial statements for fiscal years beginning after December 15, 2018.

Statement No. 87, *Leases*

The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement 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. A lease is defined as a contract that conveys control of the right to use another entity's nonfinancial asset as specified in the contract for a period of time in an exchange or exchange-like transaction. Examples of nonfinancial assets include buildings, land, vehicles, and equipment. Any contract that meets this definition should be accounted for under the leases guidance, unless specifically excluded in this Statement.

The requirements of Statement No. 87 are effective for financial statements for fiscal years beginning after December 15, 2019.

Statement No. 90, *Majority Equity Interests – An Amendment of GASB Statements No. 14 and No. 61*

The primary objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value.

For all other holdings of a majority equity interest in a legally separate organization, a government should report the legally separate organization as a component unit, and the government or fund that holds the equity interest should report an asset related to the majority equity interest using the equity method. This Statement establishes that ownership of a majority equity interest in a legally separate organization results in the government being financially accountable for the legally separate organization and, therefore, the government should report that organization as a component unit.

This Statement also requires that a component unit in which a government has a 100 percent equity interest account for its assets, deferred outflows of resources, liabilities, and deferred inflows of resources at acquisition value at the date the government acquired a 100 percent equity interest in the component unit. Transactions presented in flows statements of the component unit in that circumstance should include only transactions that occurred subsequent to the acquisition.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2018.

Statement No. 91, *Conduit Debt Obligations*

The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures.

The requirements of Statement No. 91 are effective for financial statements for fiscal years beginning after December 15, 2020.

* * * * * *

This report is intended solely for the information and use of management, the Board of Directors of UOSA, and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

If you have any questions concerning any of these items or if we can be of further assistance, please contact us. We thank you for the opportunity to conduct your audit for the year ended June 30, 2019 and express our appreciation to everyone for their cooperation during this engagement.

PBMares, LLP

PBMares, LLP