To the Honorable Members of the Board of Supervisors
County of Orange, Virginia

In connection with our audit of the financial statements of the County of Orange, Virginia (County) for the year ended June 30, 2016, we have the following comments and suggestions for your consideration.

County

Compliance with the State and Local Government Conflict of Interest Act

The *State and Local Government Conflict of Interest Act* is designed to ensure the judgment of public employees is not compromised or affected by inappropriate conflicts. The *State and Local Government Conflict of Interest Act* prohibits local government officers or employees from participating in certain transactions. Statements of economic interests are required to be filed with the Virginia Conflict of Interest and Ethics Advisory Council semi-annually by December 15 and June 15 of each year. We noted the economic interest statements were filed timely by the County's Board; however one statement was not signed. We recommend all statements be signed to ensure compliance with state requirements.

Approval of Tax Abatements

Tax abatements should be formally approved by the Commissioner of the Revenue in order to verify the amounts of and reasons for the exonerations are valid. In testing tax abatements, it was noted all Commissioner of the Revenue department employees can initiate and post such abatements without additional approval as long as there is proper supporting documentation for the amount. Posting such abatements without formal approval increases the risk of an inappropriate or inaccurate abatement being made which is unauthorized by the Commissioner of the Revenue. We recommend tax abatements be approved by the Commissioner of the Revenue subsequent to staff entering the abatements into MUNIS.

Bank Reconciliations

Cash accounts should be reconciled to the general ledger on a timely basis. Bank reconciliations were not performed timely, and June 2016 bank reconciliations were not available when final audit fieldwork commenced in late September 2016. When reconciliations were provided later, there were instances of in which the balances per the reconciliations did not agree to the balances recorded in the general ledger. Failure to perform timely bank reconciliations could result in undetected errors, misstatements, or fraudulent activities. We recommend bank reconciliations be performed for all bank accounts on a timely basis.

Petty Cash

During the audit, it was determined that certain departments have petty cash bank accounts. The Treasurer is not required to sign checks before disbursements from these accounts are made, and expenditures are only recorded once replenishment of the petty cash fund is sought. As a result, there was improper cutoff noted with June 2016 disbursements from these accounts, as replenishment of the petty cash funds were not sought until July 2017. We recommend minimizing the number of petty cash accounts and considering an alternative, such as a p-card system in order to ensure proper approval and cutoff of expenditures.

School Board

Preparation of Annual School Report

On an annual basis, the School Board is required to submit an Annual School Report to the Virginia Department of Education. This report contains various financial data and is required to be completed using the modified accrual basis method of accounting. The 2016 Annual School Report was completed using the cash basis of accounting and, therefore, could not be easily reconciled to the School Board's final general ledger, after year end accrual entries were made. We recommend the School Board follow the appropriate guidance for preparation of this report going forward to ensure full compliance with the established requirements of the Virginia Department of Education.

Grant Administration Training

During inquiries related to audits of federal programs, some staff expressed unfamiliarity with the new Uniform Grant Guidance issued by the Office of Management and Budget, which was effective December 26, 2014. The new Uniform Grant Guidance is a comprehensive effort to streamline and consolidate government requirements for receiving and administering federal awards. There have been many changes to grant administrative requirements and cost principles. In order to ensure compliance with these and any other such changes to federal awards, staff should regularly receive information about current grant requirements. Unfamiliarity with grant requirements could result in improper administration over federal programs and questioned costs. We recommend implementing regular training on current grant requirements for staff responsible for administering federal awards.

Cafeteria Collections

Cafeteria collections are supported by daily Manager Money Count Sheets which are signed by the Cafeteria Manager and Cashier in order to ensure both employees agree with the funds collected for the day. Of twenty-seven sheets sampled, eight contained only one signature and one was unsigned. We recommend Count Sheets be signed by both the Cafeteria Manager and Cashier in order to provide proper segregation of duties and reduce the risk of misappropriation of cafeteria collections.

Department of Social Services

SVES Access

Not all staff members had access to the State Verification Exchange System (SVES) during the year, which is required. Corrective action has been taken and, as of March 2016, all staff now have the required access.

Timeliness of SNAP and TANF Applications

SNAP and TANF applications submitted through Common Help throughout the year were not being done so in a timely fashion. Corrective action has been taken after year end, including staff changes and additional training, and timely submission was resumed in August 2016.

Documentation of Approval

Child Care Purchase of Service Orders were not being signed by a Fiscal Agent of the Department of Social Services (Department) for the first half of the fiscal year. A new policy was put in place mid-year and required signatures are now being obtained.

Policies and Procedures

The policies and procedures handbook has not been updated to reflect current policies relating to the Department's daily operations. Current policies are essential in ensuring staff remain up to date on actual practices in order to most effectively perform their duties in accordance with Department requirements. The process to update policies and procedures was begun, but not completed, during the current fiscal year.

Additionally, there was a lack of formal policy related to cash receipts and petty cash for the majority of the year. As of March 2016, formal procedures were implemented over both the cash receipts and petty cash processes, including maintenance of receipts logs and supervisory review, and reconciliation of petty cash to log receipts and forms.

County, School Board, and Department of Social Services

Uniform Grant Guidance

During the current fiscal year, the County and School Board was required to implement the Uniform Guidance (2 CFR 200), which superseded OMB Circular A-133. As part of the new Uniform Guidance requirements, we recommend the County (including the School Board and Department of Social Services) adopt or amend the current policies and procedures to address these new or revised rules and regulations:

Uniform Guidance Cost Principles

Cost Principles under OMB Circular A-87 have been superseded by the Uniform Guidance Cost Principles (2 CFR 200, Subpart E – Cost Principles). We recommend the County maintain printed copies of the new Cost Principles, formally adopt as policy, and refer to them when expending federal awards.

Conflicts of Interest Policy

According to 2 CFR §200.112, 'The Federal awarding agency must establish conflict of interest policies for Federal awards. The non-Federal entity must disclose in writing any potential conflict of interest to the Federal awarding agency or pass-through entity in accordance with applicable Federal awarding agency policy." 2 CFR §200.113 further notes, "The non-Federal entity or applicant for a Federal award must disclose, in a timely manner, in writing to the Federal awarding agency or pass-through entity all violations of Federal criminal law involving fraud, bribery, or gratuity violations potentially affecting the Federal award. Failure to make required disclosures can result in any of the remedies described in §200.338, *Remedies for Noncompliance,* including suspension or debarment."

Cash Management Policy

Under the new Uniform Guidance rules, there are documentation requirements related to cash management as it pertains to receiving federal funds in advance of expenditures occurring. We recommend the County, School Board and Department adopt a Cash Management policy that addresses when the County, School Board and Department receives federal funding in advance of payment of related federal expenditures. The County, School Board and Department will need to document compliance with 2 CFR §200.302, which requires the financial management system of each non-federal entity to provide written procedures to implement the requirements of §200.305, *Payment.*

Procurement Policy

Non-federal entities are required to comply fully with the procurement rules in the Uniform Guidance. The County, School Board and Department should examine current procurement policies and procedures to ensure compliance with the following sections of 2 CFR:

- §200.318, *General Procurement Standards*
- §200.319, *Competition*
- §200.320, *Methods of Procurement to be Followed*
- §200.321, *Contracting with Small and Minority Businesses, Women's Business Enterprises, and Labor Surplus Area Firms*
- §200.322, *Procurement and Recovered Materials*
- §200.323, *Contract Cost and Price*
- §200.324, *Federal Awarding Agency or Pass-through Entity Review*
- §200.325, *Bonding Requirements*
- §200.326, *Contract Provisions*

New GASB Pronouncements

At June 30, 2016, the Governmental Accounting Standards Board (GASB) had issued statements not yet implemented by the County. Statements which might impact the County are as follows:

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*

The objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). This Statement replaces the requirements of Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, establishes new accounting and financial reporting requirements for OPEB plans.

The scope of this Statement includes OPEB plans – defined benefit and defined contribution – administered through trusts that meet the following criteria:

- Contributions from employers and nonemployer contributing entities to the OPEB plan and earnings on those contributions are irrevocable.

- OPEB plan assets are dedicated to providing OPEB to plan members in accordance with the benefit terms.

- OPEB plan assets are legally protected from the creditors of employers, nonemployer contributing entities, and the OPEB plan administrator. If the plan is a defined benefit OPEB plan, plan assets also are legally protected from creditors of the plan members.

This Statement also includes requirements to address financial reporting for assets accumulated for purposes of providing defined benefit OPEB through OPEB plans that are not administered through trusts that meet the specified criteria.

The requirements of Statement No. 75 are effective for financial statements for fiscal years beginning after June 15, 2017.

GASB Statement No. 77, *Tax Abatement Disclosures*

The objective of this Statement is to improve financial reporting by giving users of financial statements essential information that is not consistently or comprehensively reported to the public at present. Disclosure of information about the nature and magnitude of tax abatements will make these transactions more transparent to financial statement users. As a result, users will be better equipped to understand *(1)* how tax abatements affect a government's future ability to raise resources and meet its financial obligations, and *(2)* the impact those abatements have on a government's financial position and economic condition.

Financial statements prepared by state and local governments in conformity with generally accepted accounting principles provide citizens and taxpayers, legislative and oversight bodies, municipal bond analysts, and others with information they need to evaluate the financial health of governments, make decisions, and assess accountability. This information is intended, among other things, to assist these users of financial statements in assessing *(1)* whether a government's current-year revenues were sufficient to pay for current-year services (known as interperiod equity), *(2)* whether a government complied with finance-related legal and contractual obligations, *(3)* where a government's financial resources come from and how it uses them, and *(4)* a government's financial position and economic condition and how they have changed over time.

Financial statement users need information about certain limitations on a government's ability to raise resources. This includes limitations on revenue-raising capacity resulting from government programs that use tax abatements to induce behavior by individuals and entities that is beneficial to the government or its citizens. Tax abatements are widely used by state and local governments, particularly to encourage economic development. For financial reporting purposes, this Statement defines a tax abatement as resulting from an agreement between a government and an individual or entity in which the government promises to forgo tax revenues and the individual or entity promises to subsequently take a specific action that contributes to economic development or otherwise benefits the government or its citizens.

Although many governments offer tax abatements and provide information to the public about them, they do not always provide the information necessary to assess how tax abatements affect their financial position and results of operations, including their ability to raise resources in the future. This Statement requires disclosure of tax abatement information about *(1)* a reporting government's own tax abatement agreements, and *(2)* those that are entered into by other governments and that reduce the reporting government's tax revenues.

This Statement requires governments that enter into tax abatement agreements to disclose the following information about the agreements:

- Brief descriptive information, such as the tax being abated, the authority under which tax abatements are provided, eligibility criteria, the mechanism by which taxes are abated, provisions for recapturing abated taxes, and the types of commitments made by tax abatement recipients;

- The gross dollar amount of taxes abated during the period; and

- Commitments made by a government, other than to abate taxes, as part of the tax abatement agreement.

Governments should organize those disclosures by major tax abatement programs and may disclose information for individual tax abatement agreements within those programs.

The requirements of Statement No. 77 are effective for financial statements for periods beginning after December 15, 2015.

GASB Statement No. 80, *Blending Requirements for Certain Component Units – an amendment of GASB Statement No. 14*

The objective of this Statement is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. This Statement amends the blending requirements established in paragraph 53 of Statement No. 14, *The Financial Reporting Entity*.

The requirements of Statement No. 80 are effective for reporting periods beginning after June 15, 2016.

GASB Statement No. 82, *Pension Issues – an Amendment of GASB Statements No. 67, No. 68, and No. 73*

The objective of this Statement is to address certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans,* No. 68, *Accounting and Financial Reporting for Pensions,* and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68.* Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

The requirements of Statement No. 82 are effective for reporting periods beginning after June 15, 2016 except for the requirements of this Statement for the selection of assumptions in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year-end. In that circumstance, the requirements for the selection of assumptions are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017.

This report is intended solely for the information and use of management, the Board of Supervisors, School Board, Department of Social Services, and others within the County 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, 2016 and express our appreciation to everyone for their cooperation during this engagement.

PBMares, LLP

Harrisonburg, Virginia
February 17, 2017