CITY OF DANVILLE, VIRGINIA

COMMENTS ON INTERNAL CONTROL AND OTHER SUGGESTIONS FOR YOUR CONSIDERATION

June 30, 2019

CONTENTS

BROWNEDWARDS
certified public accountants

INDEPENDENT AUDITOR'S REPORT ON COMMENTS AND OTHER SUGGESTIONS

To the Honorable Members of the City Council
and the City Manager
City of Danville, 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 Danville, Virginia (the "City") as of and for the year ended June 30, 2019, 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 the 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 City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City'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.

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.

This communication is intended solely for the information and use of the City, management, and the appropriate state and federal regulatory agencies 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

Lynchburg, Virginia
November 25, 2019

CURRENT YEAR COMMENTS AND SUGGESTIONS

Segregation of Duties (Control Deficiency)

One of the more important aspects of any internal control structure is the segregation of duties. In an ideal system of internal controls, no individual would perform more than one duty in connection with any transaction or series of transactions. In particular, no one individual should have access to both physical assets and the related accounting records. Such access may allow errors or irregularities to occur and either not be detected or concealed.

Decisions about controls and processes always should be made in the light of the net benefit of the various solutions – and there may be times when management concludes that the cost of a control is not worth its net benefit. However, there may be areas where improvements could be made to current systems with minimal cost. In addition to areas where duties could be further segregated, management might also consider putting mitigating controls in place, such as review of user logs, review of transaction logs, and other oversight and monitoring in areas where segregation is not feasible.

There are a few areas where the segregation of duties could be improved.

- The Accountant III has the ability to generate the payroll checks and make adjustments to the general ledger for payroll. Ideally these responsibilities should be segregated.
- The Accountant II is responsible for preparing grant drawdowns, reconciling grants and submitting reports, and reviewing the grant drawdowns. Ideally another individual would review the grant drawdowns when they are received.

With the turnover of essential positions, it is important to continuously evaluate the City's segregation of duties. There are several mitigating controls, such as the review of accounts and general ledger activity by others, which should detect any material fraud or error if such reviews are thoroughly applied. Because of the mitigating controls, we believe that the above matters do not constitute a material weakness or a significant deficiency, and offer these comments for management's consideration.

PRIOR YEAR COMMENTS AND SUGGESTIONS

Credit Card Statement Review (Control Deficiency)

Currently, the City's process for reviewing credit card statements for the Director of Finance is for the Director's assistant to review the credit card statements when the expenses are entered into the system. This review is being performed by an employee in a subordinate role. We recommend that someone who is not a subordinate perform reviews of transactions such as credit cards or expense reimbursements; in this instance we would suggest management consider a process whereby the City Manager, the City's internal auditor, or even a City Council Member review the Director's purchases.

Status: *This is still applicable for fiscal year 2019. We also noted during our testing that the City Manager's credit card statements were reviewed by his Executive Assistant.*

ACCOUNTING AND OTHER MATTERS

NEW GASB PRONOUNCEMENTS

In this section, we would like to make you aware of certain confirmed and potential changes that are on the horizon that may affect your financial reporting and audit.

The GASB issued **Statement No. 84**, ***Fiduciary Activities*** in January 2017. 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.

This Statement 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.

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.

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. Custodial funds generally should report fiduciary activities that are not held in a trust or equivalent arrangement that meets specific criteria.

A fiduciary component unit, when reported in the fiduciary fund financial statements of a primary government, should combine its information with its component units that are fiduciary component units and aggregate that combined information with the primary government's fiduciary 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. Events that compel a government to disburse fiduciary resources occur when a demand for the resources has been made or when no further action, approval, or condition is required to be taken or met by the beneficiary to release the assets.

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

The GASB issued **Statement No. 87**, ***Leases*** in June 2017. 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.

ACCOUNTING AND OTHER MATTERS

Definition of a Lease

A lease is defined as a contract that conveys control of the right to use another entity's nonfinancial asset (the underlying 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.

Lease Term

The lease term is defined as the period during which a lessee has a noncancelable right to use an underlying asset, plus the following periods, if applicable:

a. Periods covered by a lessee's option to extend the lease if it is reasonably certain, based on all relevant factors, that the lessee will exercise that option.

b. Periods covered by a lessee's option to terminate the lease if it is reasonably certain, based on all relevant factors, that the lessee will not exercise that option.

c. Periods covered by a lessor's option to extend the lease if it is reasonably certain, based on all relevant factors, that the lessor will exercise that option.

d. Periods covered by a lessor's option to terminate the lease if it is reasonably certain, based on all relevant factors, that the lessor will not exercise that option.

A fiscal funding or cancellation clause should affect the lease term only when it is reasonably certain that the clause will be exercised.

Lessees and lessors should reassess the lease term only if one or more of the following occur:

a. The lessee or lessor elects to exercise an option even though it was previously determined that it was reasonably certain that the lessee or lessor would not exercise that option.

b. The lessee or lessor elects not to exercise an option even though it was previously determined that it was reasonably certain that the lessee or lessor would exercise that option.

c. An event specified in the lease contract that requires an extension or termination of the lease takes place.

Short-Term Leases

A short-term lease is defined as a lease that, at the commencement of the lease term, has a maximum possible term under the lease contract of 12 months (or less), including any options to extend, regardless of their probability of being exercised. Lessees and lessors should recognize short-term lease payments as outflows of resources or inflows of resources, respectively, based on the payment provisions of the lease contract.

Lessee Accounting

A lessee should recognize a lease liability and a lease asset at the commencement of the lease term, unless the lease is a short-term lease or it transfers ownership of the underlying asset. The lease liability should be measured at the present value of payments expected to be made during the lease term (less any lease incentives). The lease asset should be measured at the amount of the initial measurement of the lease liability, plus any payments made to the lessor at or before the commencement of the lease term and certain direct costs.

(Continued)

A lessee should reduce the lease liability as payments are made and recognize an outflow of resources (for example, expense) for interest on the liability. The lessee should amortize the lease asset in a systematic and rational manner over the shorter of the lease term or the useful life of the underlying asset. The notes to financial statements should include a description of leasing arrangements, the amount of lease assets recognized, and a schedule of future lease payments to be made.

Lessor Accounting

A lessor should recognize a lease receivable and a deferred inflow of resources at the commencement of the lease term, with certain exceptions for leases of assets held as investments, certain regulated leases, short-term leases, and leases that transfer ownership of the underlying asset. A lessor should not derecognize the asset underlying the lease. The lease receivable should be measured at the present value of lease payments expected to be received during the lease term. The deferred inflow of resources should be measured at the value of the lease receivable plus any payments received at or before the commencement of the lease term that relate to future periods.

A lessor should recognize interest revenue on the lease receivable and an inflow of resources (for example, revenue) from the deferred inflows of resources in a systematic and rational manner over the term of the lease. The notes to financial statements should include a description of leasing arrangements and the total amount of inflows of resources recognized from leases.

Contracts with Multiple Components and Contract Combinations

Generally, a government should account for the lease and nonlease components of a lease as separate contracts. If a lease involves multiple underlying assets, lessees and lessors in certain cases should account for each underlying asset as a separate lease contract. To allocate the contract price to different components, lessees and lessors should use contract prices for individual components as long as they do not appear to be unreasonable based on professional judgment, or use professional judgment to determine their best estimate if there are no stated prices or if stated prices appear to be unreasonable. If determining a best estimate is not practicable, multiple components in a lease contract should be accounted for as a single lease unit. Contracts that are entered into at or near the same time with the same counterparty and that meet certain criteria should be considered part of the same lease contract and should be evaluated in accordance with the guidance for contracts with multiple components.

Lease Modifications and Terminations

An amendment to a lease contract should be considered a lease modification, unless the lessee's right to use the underlying asset decreases, in which case it would be a partial or full lease termination. A lease termination should be accounted for by reducing the carrying values of the lease liability and lease asset by a lessee, or the lease receivable and deferred inflows of resources by the lessor, with any difference being recognized as a gain or loss. A lease modification that does not qualify as a separate lease should be accounted for by remeasuring the lease liability and adjusting the related lease asset by a lessee and remeasuring the lease receivable and adjusting the related deferred inflows of resources by a lessor.

Subleases and Leaseback Transactions

Subleases should be treated as transactions separate from the original lease. The original lessee that becomes the lessor in a sublease should account for the original lease and the sublease as separate transactions, as a lessee and lessor, respectively.

(Continued)

A transaction qualifies for sale-leaseback accounting only if it includes a sale. Otherwise, it is a borrowing. The sale and lease portions of a transaction should be accounted for as separate sale and lease transactions, except that any difference between the carrying value of the capital asset that was sold and the net proceeds from the sale should be reported as a deferred inflow of resources or a deferred outflow of resources and recognized over the term of the lease.

A lease-leaseback transaction should be accounted for as a net transaction. The gross amounts of each portion of the transaction should be disclosed.

The requirements of this Statement are effective for periods beginning after December 15, 2019.

The GASB issued **Statement No. 90**, ***Majority Equity Interests, an amendment of GASB Statements No. 14 and No. 61*** in August 2018. This Statement improves the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and improves 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 periods beginning after December 15, 2018. The requirements should be applied retroactively, except for the provisions related to (1) reporting a majority equity interest in a component unit and (2) reporting a component unit if the government acquires a 100 percent equity interest. Those provisions should be applied on a prospective basis.

The GASB issued **Statement No. 91**, ***Conduit Debt Obligations*** in May 2019. 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.

(Continued)

ACCOUNTING AND OTHER MATTERS

A conduit debt obligation is defined as a debt instrument having all of the following characteristics:

- There are at least three parties involved: (1) an issuer, (2) a third-party obligor, and (3) a debt holder or a debt trustee.
- The issuer and the third-party obligor are not within the same financial reporting entity.
- The debt obligation is not a parity bond of the issuer, nor is it cross-collateralized with other debt of the issuer.
- The third-party obligor or its agent, not the issuer, ultimately receives the proceeds from the debt issuance.
- The third-party obligor, not the issuer, is primarily obligated for the payment of all amounts associated with the debt obligation (debt service payments).

All conduit debt obligations involve the issuer making a limited commitment. Some issuers extend additional commitments or voluntary commitments to support debt service in the event the third party is, or will be, unable to do so.

An issuer should not recognize a conduit debt obligation as a liability. However, an issuer should recognize a liability associated with an additional commitment or a voluntary commitment to support debt service if certain recognition criteria are met. As long as a conduit debt obligation is outstanding, an issuer that has made an additional commitment should evaluate at least annually whether those criteria are met. An issuer that has made only a limited commitment should evaluate whether those criteria are met when an event occurs that causes the issuer to reevaluate its willingness or ability to support the obligor's debt service through a voluntary commitment.

This Statement also addresses arrangements – often characterized as leases – that are associated with conduit debt obligations. In those arrangements, capital assets are constructed or acquired with the proceeds of a conduit debt obligation and used by third-party obligors in the course of their activities. Payments from third-party obligors are intended to cover and coincide with debt service payments. During those arrangements, issuers retain the titles to the capital assets. Those titles may or may not pass to the obligors at the end of the arrangements.

Issuers should not report those arrangements as leases, nor should they recognize a liability for the related conduit debt obligations or a receivable for the payments related to those arrangements. In addition, the following provisions apply:

- If the title passes to the third-party obligor at the end of the arrangement, an issuer should not recognize a capital asset.
- If the title does not pass to the third-party obligor and the third party has exclusive use of the entire capital asset during the arrangement, the issuer should not recognize a capital asset until the arrangement ends.
- If the title does not pass to the third-party obligor and the third party has exclusive use of only portions of the capital asset during the arrangement, the issuer, at the inception of the arrangement, should recognize the entire capital asset and a deferred inflow of resources. The deferred inflow of resources should be reduced, and an inflow recognized, in a systematic and rational manner over the term of the arrangement.

(Continued)

ACCOUNTING AND OTHER MATTERS

This Statement requires issuers to disclose general information about their conduit debt obligations, organized by type of commitment, including the aggregate outstanding principal amount of the issuers' conduit debt obligations and a description of each type of commitment. Issuers that recognize liabilities related to supporting the debt service of conduit debt obligations also should disclose information about the amount recognized and how the liabilities changed during the reporting period.

The requirements of this Statement are effective for periods beginning after December 15, 2020.

CURRENT GASB PROJECTS

GASB currently has a variety of projects in process. Some of these projects discussed below.

Conceptual Framework – Recognition. The project's objective is to develop recognition criteria for *whether* information should be reported in state and local governmental financial statements and *when* that information should be reported. This project ultimately will lead to a Concepts Statement on recognition of elements of financial statements. The project is currently in deliberations with an exposure draft expected in February 2020, and Concepts Statement draft in November 2021.

Conceptual Framework – Disclosure. The project's objective is to develop concepts related to a framework for the development and evaluation of notes to financial statements for the purpose of improving the effectiveness of note disclosures in government financial reports. The framework will establish criteria for the Board to use in evaluating potential note disclosure requirements during future standards-setting activities and in reexamining existing note disclosure requirements. Those concepts also will provide governments a basis for considering the essentiality of information items for which the GASB does not specifically provide authoritative disclosure guidance. This project is currently in deliberations with an exposure draft expected in March 2021, and a Concepts Statement draft in April 2022.

Financial Reporting Model. The objective of this project is to make improvements to the financial reporting model, including Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, and other reporting model-related pronouncements (Statements No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*, No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus*, No. 41, *Budgetary Comparison Schedules – Perspective Differences*, and No. 46, *Net Assets Restricted by Enabling Legislation, and Interpretation No. 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*). The objective of these improvements would be to enhance the effectiveness of the model in providing information that is essential for decision-making and enhance the ability to assess a government's accounting and address certain application issues, based upon the results of the pre-agenda research on the financial reporting model. The project is currently in deliberations with an exposure draft expected in February 2020, and a final Statement draft in November 2021.

Public-Private Partnerships and Availability Payment Arrangements. The project's objective is to address accounting and financial reporting for public-private partnerships (PPPs) and availability payment arrangements (APAs). The project will consider: (1) potential amendments to Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, and potential amended or new implementation guidance to better address accounting and financial reporting for service concession arrangements (SCAs) within its scope, (2) potential additional accounting and financial reporting guidance for other types of public-private partnerships not with the scope of Statement 60, or subject to the provisions of Statement No. 87, *Leases,* and (3) APAs. The project is currently in the exposure draft comment period with a final Statement draft expected in February 2020.

(Continued)

ACCOUNTING AND OTHER MATTERS

Revenue and Expense Recognition. The objective of this project is to develop a comprehensive application model for the classification, recognition, and measurement of revenues and expenses. The purpose for developing a comprehensive model is (1) to improve the information regarding revenues and expenses that users need to make decisions and assess accountability, (2) to provide guidance regarding exchange and exchange-like transactions that have not been specifically addressed, (3) to evaluate revenue and expense recognition in the context of the conceptual framework, and (4) to address application issues identified in practice, based upon the results of the pre-agenda research on revenue for exchange and exchange-like transactions. The project is currently in deliberations with an exposure draft expected in September 2021, and a final Statement draft in December 2022.

CPAs and cybersecurity: Helping you build trust and transparency

Stolen data. System shutdowns. Widely publicized breaches.
High-dollar lawsuits.

Is your organization prepared for a cybersecurity attack? Boards of directors, senior management and other stakeholders are requesting more information than ever before about organizations' cybersecurity risk management programs.

Using the AICPA's SOC for Cybersecurity framework, CPAs can provide assurance over the effectiveness of controls within your organization's cybersecurity risk management program, helping build trust and transparency for customers, investors and leadership.

4 of the leading 13 information security and cybersecurity consultants are CPA firms.

CPA firms deploy multidisciplinary teams composed of licensed CPAs and information technology and security specialists to ensure a comprehensive and thorough evaluation of your cybersecurity risk management program and its effectiveness in meeting your organization's cybersecurity objectives.

What is SOC for Cybersecurity?

The SOC for Cybersecurity examination provides an independent, entity-wide assessment of your organization's cybersecurity risk management program.

- Appropriate for businesses, not-for-profits and virtually any other type of organization
- Helps reduce uncertainty and build resilient organizations by evaluating effectiveness of existing cybersecurity processes and controls
- Permits flexibility by not constraining management to a particular security management framework or control framework
- Results in a general use report on whether:
  - The description of an entity's cybersecurity risk management program is presented in accordance with description criteria and
  - The controls within that program were effective in achieving the entity's cybersecurity objectives

62%

of executives expect to see an increase in reporting requests from their board of directors on cybersecurity program effectiveness.

(Source: Deloitte, 2018. "Corporate Boards May Be More Likely Than Regulators to Scrutinize Cybersecurity Program Effectiveness This Year.")

(Continued)

AICPA cybersecurity risk management reporting framework

The AICPA cybersecurity risk management reporting framework helps organizations communicate about the effectiveness of their cybersecurity risk management programs via three components:

- Description Criteria for Management's Description of an Entity's Cybersecurity Risk Management Reporting Program — This is used by management to provide transparency regarding its cybersecurity risk management program and used by CPAs to report on management's description. Management's description provides users of the report with information that can help them understand the entity's cybersecurity risks and how it manages those risks. Description criteria includes considerations on the nature of an entity's business and operations, factors affecting inherent cybersecurity risk, risk governance and assessment process and the monitoring of the cybersecurity program, among other criteria.

- 2017 Trust Services Criteria for Security, Availability, Processing Integrity, Confidentiality and Privacy — This is used by management to evaluate the effectiveness of controls and used by CPAs providing advisory or attestation services to evaluate and report on the effectiveness of controls within the cybersecurity risk management program.

- AICPA Guide Reporting on an Entity's Cybersecurity Risk Management Program and Controls — This attestation guidance assists CPAs engaged to examine and report on an entity's cybersecurity risk management program (SOC for Cybersecurity). This guide also contains information that can assist management in understanding the SOC for Cybersecurity engagement and its responsibilities with respect to the engagement.

(Continued)

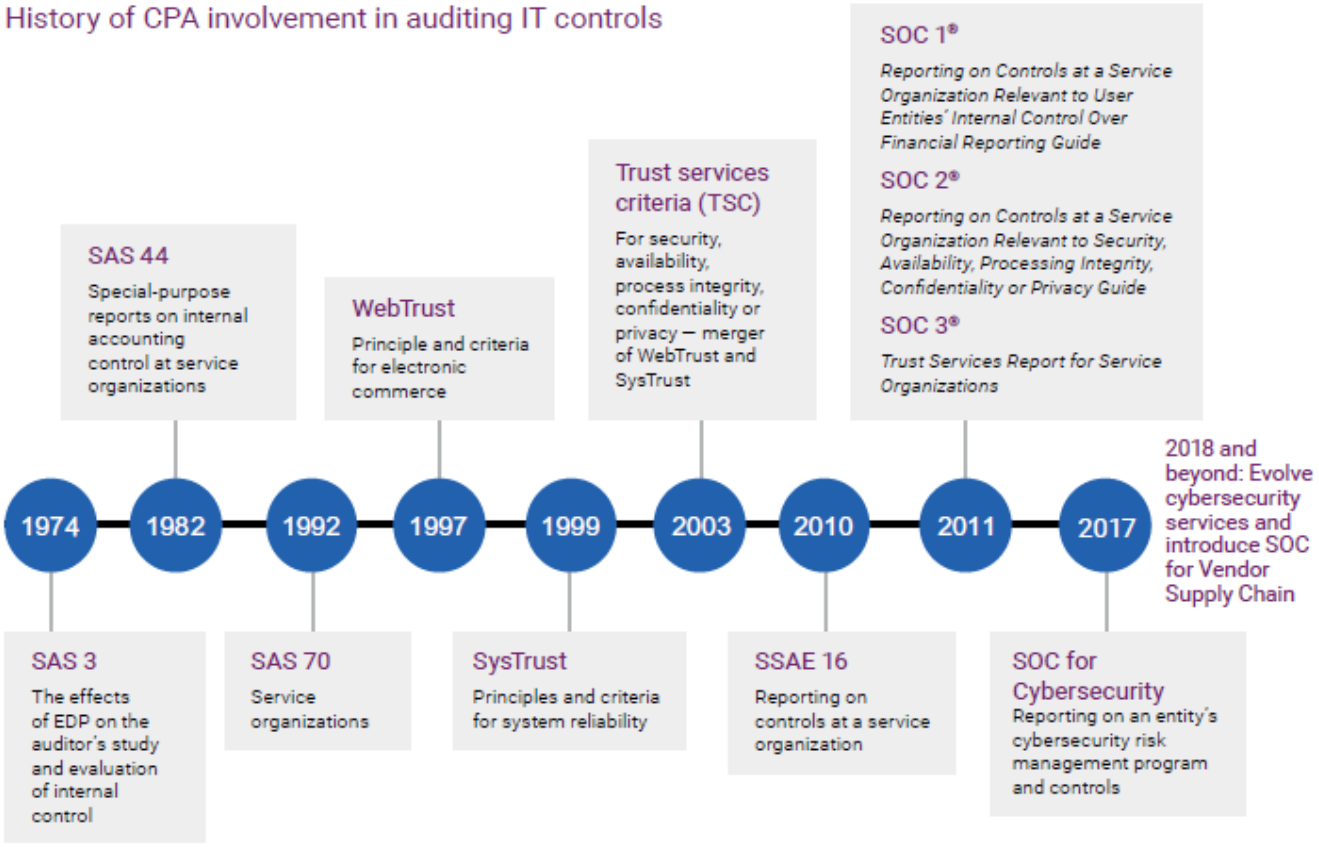
Why CPA firms? Education. Experience. Expertise.

The education, experience and expertise of CPAs position them as the premier providers of SOC for Cybersecurity services.

- Knowledge of relevant IT systems and technology, including mainframes, networking, firewalls, network management systems, security protocols and operating systems
- Understanding of IT processes and controls — such as management of operating systems, networking and virtualization software and related security techniques; security principles and concepts; software development; and incident management and information risk management
- Experience with common cybersecurity publications and frameworks (NIST CSF, ISO 27001/27002, 2013 COSO *Internal Control — Integrated Framework*, COBIT 5, etc.)
- Expertise in evaluating processes, control effectiveness and providing advisory services relating to these matters
- Multidisciplinary teams that incorporate certified information security professionals such as Certified Information Systems Security Professionals (CISSP), Certified Information Systems Auditors (CISA) and Certified Information Technology Professionals (CITP®)
- Proficiency in measuring performance against established criteria, applying appropriate procedures for evaluating against those criteria and reporting results
- Strict adherence to service-specific professional standards, professional code of conduct and quality control requirements
- Holistic understanding of entity's industry and business, including whether the industry in which the entity operates is subject to specific types of or unusual cybersecurity risks and uses specific industry technology systems
- Objectivity, credibility and integrity
- Independence, professional skepticism and commitment to quality
- Strong analytical skills
- International perspective for global organizations

(Continued)

CPAs: Forerunners in the cybersecurity movement



1970s – CPAs required to consider effects of electronic data processing on the evaluation of internal control in financial statement audits.

1990s – CPAs begin performing SAS 70 audits to report on the effectiveness of internal control over financial reporting.

2000s – CPAs begin using the trust services criteria for evaluating controls relevant to security, availability, processing integrity, confidentiality and privacy and issuing SOC reports to address vendor management needs related to outsourced services.

2017 – Introduction of SOC for Cybersecurity attestation services for CPAs to report on the effectiveness of controls within an organization's cybersecurity risk management program.

2018 and beyond – Continue to evolve cybersecurity services and introduce SOC for Vendor Supply Chain to enable users of products produced, manufactured and distributed by an entity to better understand and manage risks, including cybersecurity risks, arising from their business relationships with the entity.

ACCOUNTING AND OTHER MATTERS

REMINDERS FOR CREDIT CARDS AND RELATED CONTROLS

Because controls over purchases made with credit cards are generally less formal, and because often these transactions are conducted with vendors who may also sell consumer items, it can be difficult to detect unauthorized purchases. For this reason, the use of credit cards tends to attract fraud and abuse. At most organizations, the controls over these purchases consist primarily of the requirement that invoices and receipts be provided for every transaction. This documentation is then reviewed and approved by the supervisor before being forwarded to the finance department for final approval for payment. Properly implemented, these are effective controls – however, their effectiveness is highly dependent upon the attention to detail, knowledge, and skepticism of those who approv the payments. We suggest that organizations consider the following questions:

- How rigorous is the review of credit card receipts and applicable store account invoices when they are submitted for approval – are they inspected closely for items that could be personal in nature?
- Does the person reviewing these documents maintain a skeptical attitude?
- Is such documentation being reviewed and approved by *appropriate* personnel? Such personnel should have sufficient knowledge about the department and its operations to allow them to identify and question unusual purchases.
- Are there appropriate offsetting reviews in cases where supervisors may be responsible for reviewing and approving credit card and store account purchases, including those transactions conducted by the supervisor himself or herself?
- Are there appropriate limits on credit cards and store accounts?
- Are there any such accounts which are unnecessary and which could be closed without hindering the organization's operations?

Not only are credit cards and store accounts susceptible to abuse, but the quality of controls over these areas can be difficult to measure. In other words, the signature of one supervisor may indicate a thorough review of documentation, while the signature of another may signify only a cursory glance at the materials with no substantive review at all – a finance department will rarely know the difference. Because of these factors, we recommend that the organization's management review the questions above with those personnel who are involved in approving these transactions, and reinforce in their minds the importance of vigilance and attentiveness.

Specifically, we suggest consideration of the following controls:

- Organizations should consider restricting some cards for specific use or vendors. For instance, usage could be limited to travel related expenses or for vendors where emergency purchases are made. For travel related expenses, set limits for expenditures such as a per diem rate and require employees to pay for any overages.
- Limit the numbers of cards issued to employees. For instance, restrict issuance of cards to department heads or senior staff, if possible.
- Perform background or credit checks on employees before issuance and consider bonding employees with cards issued to them.

REMINDERS FOR CREDIT CARDS AND RELATED CONTROLS (Continued)

- Other credit cards could remain locked up until needed for use. A sign-out system could then be implemented where employees check out the cards when needed. Some organizations require prior written authorization before these cards are checked out or before credit cards are used to make purchases. If the department has to have a card available at all times, one card can be available to be checked out by only those who are on call.
- Limit the individuals authorized to request credit increases or additional cards.
- Have all statements mailed directly to the finance department. Require that employees submit original receipts for credit card purchases to department heads for approval. Have department heads submit approved, original receipts to the finance department for matching of supporting documentation to statements. Only pay statements that have been supported by approved, original supporting documentation. This function should be segregated from the issuance of credit cards.
- Ensure that all receipts and other documentation are reviewed and approved by someone other than the individual making the purchases. This person should be knowledgeable about the department's purchasing needs.
- Set spending limits consistent with the needs of the organization such as by day, by card, or by transaction. Monitor cards for spending beyond such limits.

Lastly, where there are multiple credit card accounts in use at an organization, the review, maintaining of cards, and policies is more difficult. Consider implementation of a uniform purchasing card system to be used by all employees who will be issued a card. This places all cards under one master account, allowing credit limits and authorized users to be easily tracked, revised as necessary, and spending monitored for any unusual items.

When properly implemented and monitored, purchasing cards can offer significant flexibility and convenience. The risks, however, must not be ignored. We believe the discussion above can help management teams in considering ways in which their controls over such programs can be periodically reviewed and strengthened.