To the Honorable Members of Town Council
Town of Ashland, Virginia
Ashland, Virginia

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

General Controls over the Information Technology Environment

Cybersecurity continues to be a major focus in 2016 for all organizations. However, this should be especially true for governmental organizations as hackers have shifted their attention from credit card data to Personally Identifiable Information (PII). As a result of this shift, the percentage of breaches effecting governmental organizations rose from only 5% in 2014 to 43% in 2015. While updating our understanding of the Town's internal controls over its information technology environment, we noted several areas of weakness that may increase the Town's exposure to cyberattacks and other external or internal threats.

Employee actions or mistakes remain the number one cause of security breaches and/or data loss across the United States. Majority of these incidents are effected by targeting employees with access to the system by means of social engineering, phishing, or spear phishing scams. In order to reduce the Town's risk to these types of threats, we recommend the Town institute a formalized training program for all employees. We recommend this training be mandatory for all new employees and recertification be performed on an annual basis.

Currently, the Town performs incremental backups of its server on a nightly basis and full backups of the server on a weekly basis. These tapes are then stored in the Town's vault, which is located inside the same building as the server room. This process provides an excellent control to prevent significant loss of data in the event of a cyberattack. Additionally, it allows the Town to quickly restore its servers and minimize potential downtime caused by an attack. However, this procedure could be significantly improved using more current and readily available technologies. We recommend the Town increase the strength of these controls by storing the backup tapes at an offsite location. More specifically, we recommend storing these backups in the cloud. In the event of an attack, this process would allow for multiple layers of redundancy across geographically diverse areas. As the use of the cloud for offsite storage has become more prominent, the price for these services has become more affordable.

A disaster recovery plan (DRP) is defined as a documented process or set of procedures to recover and protect a business IT infrastructure in the event of a disaster. The primary objective of the DRP is to protect the Town in the event that all, or part, of its operations and/or computer services are rendered unusable. The DRP formally documents a Recovery Time Objective (RTO) and a Recovery Point Objective (RPO). These objectives establish an expected downtime and the amount of data that will need to be restored, respectively. This plan should be re-evaluated on an ongoing basis and annual testing of the DRP should be performed to ensure relevant staff is adequately trained and the current DRP corresponds to existing software and procedures. Our recommendation is for the Town to develop a formalized disaster recovery plan in order to increase its preparedness in case of a catastrophe or major incident.

Review and Tracking of Federal Reimbursement Requests

In performing our audit procedures over federal revenues, we inspected a sample of reimbursement requests comprising the Safe Routes to School Revenue line item. In doing so, it was noted these requests were submitted for reimbursement of expenditures related to fiscal year 2015. As such, these amounts should have been recorded as revenue in the previous fiscal year. After noting this immaterial misstatement, we discussed the procedures surrounding review, approval, and recording of reimbursement requests with Finance personnel. It was noted during our discussion that Finance personnel is not always aware of reimbursement requests until the money is received by the Town from the federal agency. In most cases, there is a significant time delay between submission of the requests and actual receipt of the funds. This delay is what caused the revenue to be recorded in the wrong fiscal year.

In order to ensure the complete and accurate recording of federal revenues, we recommend the Town establish formalized policies and procedures over federal reimbursement requests. These procedures should require copies of all reimbursement requests be sent to the appropriate personnel within the Finance department. Additionally, Finance personnel should establish procedures to track these requests to allow for proper accounting of these transactions.

New GASB Pronouncements

At June 30, 2016, the Governmental Accounting Standards Board (GASB) had issued several statements not yet implemented by the Town. The statements which might impact the Town 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 will be effective for reporting periods 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 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 reporting 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, Town Council and others within the Town. It 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
October 5, 2016