Date: December 2, 2019

Memorandum To: Piedmont Community Services

From: Robinson, Farmer, Cox Associates

Regarding: Audit for Year Ended June 30, 2019

In planning and performing our audit of the financial statements of Piedmont Community Services for the year ended June 30, 2019, we considered the internal control structure to plan our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit, we noted certain matters involving the internal control structure and other operational matters that are presented for your consideration. This letter does not affect our report dated December 2, 2019 on the financial statements of Piedmont Community Services. Our comments and recommendations, all of which have been discussed with appropriate members of management, are intended to improve the internal control structure or result in other operating efficiencies. We will be pleased to discuss these comments in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Check Signatures

Policy requires dual signatures on all checks. We tested one personal assistance check that only contained one signature due to oversight. We recommend that dual signatures be included on all checks as required by policy.

Depreciation Schedules

An excel file is used to track depreciation for certain assets. These spreadsheets require significant manual entries each year to reflect acquisitions and disposals. Many personal property assets were grouped and tracked by fiscal year instead of by individual asset since there is a separate inventory system. The agency began transitioning to a fixed asset accounting system to track and record depreciation during fiscal year 2019. This is maintained for financial statement purposes, whereas the inventory system is used to maintain accountability over all equipment including those that do not meet the capitalization criteria. The capital asset threshold was also raised to $5,000 during the year. We recommend management complete the transition to Abila for the remaining capital assets before the end of fiscal year 2020. In addition, a capital asset lead sheet, reflecting addition and disposal information, reconciling the general ledger to the depreciation schedules, should be prepared each year.

Payroll Taxes

State and federal taxes were not withheld from Christmas bonuses and achievement awards paid to employees in December 2018. The payments were noted to be excluded from tax withholdings under the achievement awards exclusion. However, this exclusion applies to the value of any tangible personal property given to an employee as an award for either length of service or safety achievement. The exclusion does not apply to awards of cash, cash equivalents, gift cards, gift coupons, or gift certificates (other than arrangements granting only the right to select and receive tangible personal property from a limited assortment of items preselected or preapproved by you). We recommend that IRS guidelines be reviewed and payments to employees be taxed as required.

Windows 10 Upgrade

During the time of our audit, the agency had 272 computers to upgrade from Windows 7 to Windows 10. We recommend that this project be prioritized for completion prior to January 2020. If not completed, it presents a significant security risk as patches and security updates will no longer be available from Microsoft.

Upcoming Pronouncements

Statement No. 84, *Fiduciary Activities*, establishes criteria for identifying fiduciary activities of all state and local governments for accounting and financial reporting purposes and how those activities should be reported. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018.

Statement No. 87, *Leases*, requires 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. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019.

We recommend management review these accounting pronouncements in preparation for implementing them in the fiscal years 2020 and 2021. Lease agreements (lessee and lessor) should be gathered and terms reviewed for the appropriate accounting treatment.