

ROBINSON, FARMER, COX ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

A PROFESSIONAL LIMITED LIABILITY COMPANY

DATE: December 7, 2017

MEMORANDUM TO: Ashton Harrison, County Administrator
County of Bath, Virginia

FROM: Robinson, Farmer, Cox Associates

REGARDING: FY 16-17 Audit

In planning and performing our audit of the financial statements of the County of Bath, Virginia for the year ended June 30, 2017, we considered the County's internal controls 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 controls and other operational matters that are presented for your consideration. This letter does not affect our report dated December 7, 2017, on the financial statements of the County of Bath. Our comments and recommendations, all of which have been discussed with appropriate members of management, are intended to improve the internal controls 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.

Information Technology Review

As part of our annual audit, an information technology review was performed by our certified IT auditor. As a result of our procedures we determined that the County is employing adequate information technology controls however, we identified a few areas in which controls could be strengthened. Our recommendations were presented to management for consideration.

Public Service Authority:

During our audit we observed that the spreadsheet used by the Authority to track employees' compensatory time was not being updated on an ongoing basis. It is our recommendation that the leave records be updated after each payroll. This will strengthen internal controls and aid in preventing abuse/misuse of compensatory time.

The County staff processes monthly Virginia Retirement System (VRS) contribution reporting for both County and Service Authority employees, while the Service Authority processes payroll independently. During our audit we observed that County staff did not have formal documentation to support changes to VRS contributions for Service Authority employees. Under current procedures, any necessary changes are communicated verbally or via telephone. We recommend that any changes to VRS contributions for Service Authority staff be communicated in writing to the County Executive Assistant, to ensure the accuracy of VRS contributions and completeness of documentation for VRS reporting.

Certificate of Achievement for Excellence in Financial Reporting

We feel that the County's financial reporting is at a level to apply for the Certificate of Achievement for Excellence in Financial Reporting. This certificate is the highest form of recognition in governmental accounting and financial reporting. It has been our experience that obtaining this certification has been beneficial in obtaining financing from lenders. Additionally, certification from the GFOA demonstrates a locality's commitment to providing the most complete and informative financial report to its constituents and other users.

Governmental Accounting Standards Board Pronouncements

In order to assist your staff in preparing for upcoming accounting changes, we have included the following summaries of Governmental Accounting Standards Board (GASB) pronouncements that will affect the County in upcoming years.

Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pension*, improves 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 Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and 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. This Statement is effective for fiscal years beginning after June 15, 2017.

Statement No. 81, *Irrevocable Split-Interest Agreements*, improves accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2016, and should be applied retroactively.

Statement No. 83, *Certain Asset Retirement Obligations*, addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement. This Statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018.

Statement No. 84, *Fiduciary Activities*, 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. 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. 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. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018.

Statement No. 86, *Certain Debt Extinguishment Issues*, improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. The requirements of this Statement are effective for reporting periods beginning after June 15, 2017.

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