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

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

County Payroll Reconciliations for Full-Time Payroll

During the audit, we noted the County is no longer reconciling full-time gross payroll wages from one pay period to the next pay period. In the past fiscal years, gross wages for full-time employees were reconciled from one payroll run to the gross wages of the prior payroll run during payroll processing. Performing the reconciliation assisted in identifying changes between the payroll runs, with verification of any differences being due to new hires, promotions and terminations.

It is our recommendation the County resumes reconciling full-time gross payroll wages each pay period to the prior pay period to ensure all changes have been input correctly and properly approved. The County should also maintain copies of the reconciliations performed.

Schools Payroll Reconciliations for Contract Payroll

During the audit, we noted the School Board is no longer reconciling contract employee gross payroll wages from one pay period to the next pay period. In the past fiscal years, gross wages for contract employees were reconciled from one payroll run to the gross wages for contract employees of the prior payroll run during payroll processing. Performing the reconciliation assisted in identifying changes between the payroll runs, with verification of any differences being due to new hires, promotions and termination.

It is our recommendation the School Board resumes reconciling contract employee payroll wages each pay period to the prior pay period to ensure all changes have been input correctly and properly approved. The School Board should also maintain copies of the reconciliations performed.

School Board VRS Reconciliations

Section 3-7 of the *Specifications for Counties, Cities, and Towns* issued by the Auditor of Public Accounts require monthly reconciliations be performed between the monthly contributions made to the Virginia Retirement System (VRS) and an entity's payroll records. During our examination, it was noted the School Board's VRS monthly contributions were not being reconciled to payroll records in a timely manner. Reconciliations for the months of July 2015 through December 2015 were not started until December 2015. As of the end of the fiscal year, contributions through April 2016 had been reconciled.

We recommend performance of reconciliations on a monthly basis prior to confirming the monthly VRS Snapshot to ensure amounts being paid to the VRS are proper and agree with payroll records. Records should also be maintained of these reconciliations to ensure proper procedures are performed on a monthly basis.

County's Purchase Card Policy

During the current year, the County issued purchase cards to certain department heads. All card holders were required to sign a form agreeing to the policies and procedures to be followed when making purchases with the card. In testing purchase card transactions and based on discussions with the Finance Department personnel, it does not appear as though the department heads are required to obtain a secondary approval of purchases made with the purchase cards. The current purchase card policies and procedures do not address repercussions if there is a lack of supporting documentation for purchases.

To strengthen internal controls over purchase cards, we recommend the County Administrator or his designee be provided a copy of the complete purchase card statement to be reviewed and approved. We further recommend revisions to the policy to address situations when there is lack of supporting documentation and if any alternative documentation can be provided to support purchases made.

Cyber Audit and Cyber Risk Assessment

Cyber security continues to be an area of concern for all businesses, including localities. Cyber threats are prevalent in today's technologically dependent world. In discussing cyber security with the Director of Technology, we believe the County would benefit from a formal cyber audit and cyber risk assessment.

A cyber audit would consist of the following:

- An External Vulnerability Assessment to test and identify vulnerabilities to outside attacks through public-facing connectivity and network weaknesses. This scan may be conducted during non-working hours to limit impact on network systems.

- An Internal Vulnerability Assessment to find weaknesses and possible compromised systems or software within an organizations network infrastructure. This effort scans for thousands of vulnerabilities currently exploited by hackers, and a security engineer personally oversees the internal scan and adjusts the focus as needed based on findings and network configuration.

- Concurrent to the Internal Vulnerability Assessment, a security engineer will conduct a physical security review of specific compliance criteria and industry best practices applicable to the County. These criteria / best practices will be drawn from applicable standards as applicable. The purpose of this review is to evaluate overall adherence to physical compliance and/or industry best practices and identify those security areas that may need additional attention by the host organization.

Subsequent to a cyber audit, a cyber risk assessment could be performed, which could consist of collecting data, identifying and documenting vulnerabilities, assessing current security measures, determining the County's risk level and providing recommendations as part of a short-term and long-term strategy for continuous security improvement.

Uniform Grant Guidance

During the current fiscal year, the County 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 Harrisonburg-Rockingham Social Services District) 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 adopt a Cash Management policy that addresses when the County receives federal funding in advance of payment of related federal expenditures. The County 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 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*

Status of Previous Management Advice

In our letter dated November 25, 2015, we recommended the following comments which have not been implemented or have been partially implemented:

Cross Training of Personnel

During the fiscal year 2015 audit, we noted turnover within the County's finance department. The turnover revealed the need for cross-training within the department. Although some cross-training had been performed in fiscal year 2015, additional cross-training procedures were recommended, specifically for key functions to ensure the continuity of operations if a staff member was absent for an extended period of time.

While we did note cross-training had been performed in fiscal year 2016 for a number of key functions (specifically related to accounts payable and payroll), we continue to recommend cross-training be implemented for all key functions. We recommend the County finance department implement procedures to ensure all daily operations and duties continue to be performed when a person primarily responsible for certain tasks is away from work. On-site training should be performed by employee's designated as 'back-ups' and procedures manuals should be available. Manuals should be detailed enough so another individual can step in to that employee's position and perform the necessary operations and duties.

Schools Leave Tracking Software

During fiscal year 2015 a new leave tracking system was implemented by the School Board. During the prior year audit, we determined there was some confusion regarding the use of and abilities of the system. It was brought to our attention not all school personnel were aware of the fact the system provides a real time report of available leave balances.

In fiscal year 2016, we did note additional training was provided to administrators and employees regarding the system's capabilities. We also noted the system continues to not be used by certain departments within the School Board and, therefore, we recommend the system be used by School Board staff, to the extent possible. If there are certain departments in which it is not feasible for the system to be used to track leave, we recommend the School Board document the reason for the exception and document the process in which leave is to be communicated and tracked for payroll purposes.

Information Technology

Due to the implementation of new accounting system software during the prior fiscal year, an Information Technology (IT) Specialist of PBMares, LLP was used to examine the accounting system, as well as user rights within the system. The IT Specialist examined various user accesses within the system to determine user access rights and to assess what rights the users should have. The overall results of the testing performed indicated user rights have been appropriately restricted. Certain user rights that should be monitored and adjusted prospectively include access to the payroll system for employees who are currently in transition between positions. We recommend the County continue to be diligent in monitoring user accesses and continue to update and change those user access rights as roles change. Restricting certain user rights within the system can enhance internal controls. As roles change, the County should continue to ensure certain segregation of duties are maintained.

New GASB Pronouncements

At June 30, 2016, the Governmental Accounting Standards Board (GASB) had issued several statements not yet implemented by the County. The 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 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. 78, *Pensions Provided through Certain Multi-Employer Defined Benefit Pension Plans*

This Statement amends the scope and applicability of Statement No. 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that (1) is not a state or local governmental pension plan, (2) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (3) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). This Statement establishes requirements for recognition and measurement of pension expense, expenditures, and liabilities; note disclosures; and required supplementary information for pensions that have the characteristics described above.

The requirements of Statement No. 78 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.

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This report is intended solely for the information and use of management, the Board of Supervisors, 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
November 28, 2016