This letter contains redacted information which refers to details of control weaknesses that were communicated to locality management and governance but are FOIAE under Code of Virginia §2.2-3705.2 due its sensitivity and description of security controls or mechanisms.

COUNTY OF AMHERST, VIRGINIA AND AMHERST COUNTY PUBLIC SCHOOLS

COMMENTS ON INTERNAL CONTROL AND OTHER SUGGESTIONS FOR YOUR CONSIDERATION

June 30, 2016

CONTENTS

BROWN EDWARDS
certified public accountants

INDEPENDENT AUDITOR'S REPORT ON COMMENTS AND SUGGESTIONS

To the Honorable Members of the Board of Supervisors and School Board
County of Amherst, Virginia
Amherst, Virginia

In planning and performing our audit of the financial statements of the County of Amherst, Virginia (the "County"), as of and for the year ended June 30, 2016, 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 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 County's internal control. Accordingly, we do not express an opinion on the effectiveness of the County's internal control.

Our consideration of internal control was for the limited purpose described in the preceding 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.

Your Success is Our Focus

2102 Langhorne Rd., Suite 200 • Lynchburg, VA 24501 • 434-948-9000 • Fax: 434-948-9029 • www.BEcpas.com

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.

Brown, Edwards & Company, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

Lynchburg, Virginia
February 8, 2017

CURRENT YEAR COMMENTS ON INTERNAL CONTROL AND OTHER SUGGESTIONS FOR YOUR CONSIDERATION

COMMONWEALTH OF VIRGINIA DISCLOSURE STATEMENTS

During our compliance testing, we noted five individuals that filed their semi-annual disclosure statements after the required December 15, 2015 deadline. Additionally, one individual's statement was not located. We recommend that steps be taken to ensure that all statements are filed and filed timely. As noted in our Accounting and Other Matters section of this letter, the Virginia Conflict of Interest and Ethics Advisory Council has implemented a $250 late filing penalty for Statement of Economic Interest filers.

Management's Response: *Multiple reminders are sent by the County Administrator's office to all elected officials, which include notice of the $250 penalty. A policy is currently being drafted to centralize the record keeping of all filings within the County Administrator's office. This will hopefully insure that all filings are timely and easily accessible when needed.*

TRAVEL AND CREDIT CARD EXPENDITURES

During our review of a sample of travel and credit card expenditures, we noted instances of transactions both at the School Board and the County that were approved by the department head who had submitted the reimbursement request, or were approved by a subordinate of the department head. We recommend that the County Administrator or another appropriate individual review and approve all department head travel reimbursement requests and that a Board Member or appropriate designated individual approve any reimbursements for the County Administrator.

Management's Response: *All department head travel expenses are now being approved by the County Administrator and the County Administrator's travel expenses will be approved by the County Attorney or a member of the Board of Supervisors.*

PRIOR YEAR COMMENTS ON INTERNAL CONTROL AND OTHER SUGGESTIONS FOR YOUR CONSIDERATION

SEGREGATION OF DUTIES (MATERIAL WEAKNESS)

One of the more important aspects of any internal control structure is 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, due to the nature and number of areas where we noted improvements could be made, we believe the Board and management should take a closer look at the policies and procedures in place and give careful evaluation to the improvements that could be made to current systems. In addition to areas where duties could be further segregated, the Board and 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.

In particular, we noted the following areas where duties are not fully segregated:

- Under the current system access controls, the Director of Accounting can enter payroll time, edit the master payroll file, and approve payroll edits. Additionally, she has responsibility for calculating percentage pay increases and verifying that the correct pay rates are entered into the system each fiscal year. Ideally, the Director of Accounting would not have the ability to input payroll information and would serve as the reviewer and approver of payrolls.
- The Senior Account Clerk has the ability to edit the master payroll file and input time and other payroll related information to process payroll. Ideally, the Senior Account Clerk would not have the ability to edit the master payroll file.
- The Director of Accounting is the only person who can make budget adjustments in the system. She is also heavily involved in the budgeting process. Ideally, the Director of Accounting would be renewing entries made by accounting department staff and would not have the ability to enter adjustments.
- The Accounts Payable Clerk can edit master vendor files and receives checks back for mailing after they have been printed in Information Technology. Ideally, the Accounts Payable Clerk would not be able to perform these functions along with her responsibilities for entering invoices.
- The Treasurer prepares the account reconciliation for all investment accounts and has access to cash receipts.
- We noted that one Deputy Treasurer has the ability to post to the general ledger, void transactions, receive and process cash and has access to the vault and safe.
- The CFO for the School Board prepares bills, collects on receivables, posts cash receipts into the school's general ledger system, and has access to cash receipts before and after they have been posted. In addition, she has administrative rights to the accounting software and posts journal entries. The CFO also can initiate purchase orders, approve orders, receive goods, handles AP checks after signatures, reconciles credit card statements and receipts, can edit the master vendor list and master employee files in the system, functions as the payroll back-up, and is also responsible for complete grant reimbursement requests and drawdowns.

PRIOR YEAR COMMENTS ON INTERNAL CONTROL AND OTHER SUGGESTIONS FOR YOUR CONSIDERATION

SEGREGATION OF DUTIES (MATERIAL WEAKNESS) (Continued)

- The Payroll Clerk for the Schools has access to the master employee files. There is currently no log generated and reviewed for changes to master files. Ideally, access to master employee files would lie with someone else.
- We recommend that personnel outside of the County's Treasurer's office review and approve all wire transfers, bank statements and related reconciliations, and journal entries created in the Treasurer's office in order to enhance controls. Central accounting is responsible for the entire general ledger, which includes all cash and tax accounts. We recognize that state statute puts those under control of the Treasurer's office, but that does not eliminate all responsibility of finance and accounting personnel to monitor and understand the transactions in those accounts and review reconciliations on them.
- We would also recommend that the County implement a call back procedure for wire transfers such that the bank would notify someone outside of the Treasurer's office of wire transfers that have occurred.
- Currently, there is no review or approval of the entries that are written and posted by the Director of Accounting. We recommend that the County formulate procedures where all entries are approved prior to posting. Ideally, the Director of Accounting would be reviewing and approving entries, but would not have the ability to write and post an entry to the system. Posting should rest with another individual who does not have approval authority. In addition, we recommend that a knowledgeable individual review logs or other reports from the system to determine that only approved entries are being posted to the general ledger.
- Additionally, we also noted that complete supporting documentation is not consistently maintained with entries posted. While support was located for entries when requested, accounting personnel had to search for support that was maintained in various files or locations. When feasible, copies of support for entries should be maintained with the approved journal entry form to provide complete support and record for the entry in question.

Current Status: *During fiscal year 2016, budget amendments were entered by the accounting department staff and approved by the Director of Accounting. Also, the Director of Accounting's ability to enter payroll time and edit the master payroll file was removed. We also noted that supporting documentation was more frequently maintained with journal entries posted. All other conditions are still applicable for fiscal year 2016.*

Management's Response:

- *Due to staffing changes and a reorganization of the Finance Department, payroll duties should be completely segregated by the end of fiscal year 2017.*
- *The Payroll Clerk (previously the Senior Account Clerk) still maintains the ability to edit the master payroll file, input time, and other payroll related information to process payroll. However, now the Finance Director is reviewing all changes made by the Payroll Clerk as well as the payroll prior to submitting to the Information Technology department for processing to ensure that the Payroll Clerk cannot edit the file without review.*

PRIOR YEAR COMMENTS ON INTERNAL CONTROL AND OTHER SUGGESTIONS FOR YOUR CONSIDERATION

SEGREGATION OF DUTIES (MATERIAL WEAKNESS) (Continued)

Management's Response: (Continued)

- *The Accountant position now prepares budget amendments and they will be approved by the Finance Director beginning in January 2017.*
- *The reorganization of the office no longer allows the Accounts Payable Clerk to edit master vendor files. The Finance Director reviews all Accounts Payable prior to submitting to Information Technology for processing of ACH file and checks. The AP clerk does receive checks back from Information Technology for mailing.*
- *The Finance Department will begin reconciling all cash accounts, including investments, to the general ledger in February 2017. This will provide the needed review due to the Treasurer's access to cash receipts.*
- *The Finance Director will meet with the Treasurer in February 2017 to discuss how the duties of the office can be segregated to eliminate one deputy having the ability to post to the general ledger, void transactions, receive and process cash, and have access to the vault and safe.*
- *The following is an update to processes within the School Board business office;*

  The Accounting Clerk opens and prepares bills for payment, the CFO inputs, the accounting clerk codes the bills and the CFO posts, the accounting clerk checks off the checks and mails them out. The accounting clerk inputs the cash receipts and CFO carries them to the Treasurer for processing. Both employees can input the EDI's from the Department of Education. The accounting clerk inputs the purchase orders as requisitions. The CFO processes them as purchase orders and signs them. The accounting clerk sends them out through email or faxes. As a rule, the accounting clerk reconciles the credit card bank statement. The CFO changes vendor addresses based on information that is provided to me by the accounting clerk and/or the staff in the instructional office to also input requisitions for their departments. The hiring of an Accounting Clerk has provided some segregation of duties; however it has not fixed them all. The County Finance Director will work with the School CFO to see if any other changes can be made to segregate things further.
- *The Payroll Clerk for the Schools continues to have access to the master employee file, however all information is input into the AS400 system by Human Resources. The Finance Director and CFO will work on implementing a review process for these changes as the Payroll Clerk has access to the master employee file and there currently is no log to review changes. When the Schools are integrated on to the same accounting system of the County the log will exist for review.*
- *The Finance Department will begin reconciling all cash accounts during fiscal year 2017. The Finance Director will meet with the Treasurer to discuss implementing a review process for wire transfers, bank statements, reconciliations and journal entries created in the Treasurer's office. The Finance Department if time allows, will start reconciling other balance sheet accounts during fiscal year 2017 with a complete implementation of reconciliations by the end of fiscal year 2018.*
- *The entire process for wire transfers will be reviewed by the Finance Director and Treasurer to insure proper controls will be put into place by the end of fiscal year 2018.*
- *The process for journal entries has changed with the reorganization of the Finance Department. The Finance Director now approves all entries prior to posting. A formal procedure will be added to the Accounting regulations by the end of fiscal year 2018.*
- *Supporting documentation is being filed with each journal entry form in a single location, thereby eliminating the need to search in several locations for supporting documentation.*

(Continued)

PRIOR YEAR COMMENTS ON INTERNAL CONTROL AND OTHER SUGGESTIONS FOR YOUR CONSIDERATION

RECONCILIATIONS AND ADJUSTMENTS (MATERIAL WEAKNESS)

As part of our audit, we proposed multiple significant adjustments related to accounts receivable, accounts payable, long-term debt, capital assets, landfill closure/post-closure liabilities, property taxes, EMS billings, and other accrued liabilities. Many of these adjustments could be completed internally, significantly reducing the number of audit adjustments, if reconciliations were performed for significant balance sheet and related accounts. We recommend that these reconciliations be performed no less frequently than quarterly and at year end. Accounts with more activity should be considered for monthly reconciliation.

The following are a list of suggested reconciliations that should be performed:

- Cash reported in the funds should be reconciled to the Treasurer's accountability fund once all cash and investment accounts are reconciled each month.
- Tax ledgers should be reconciled at least quarterly in slow collection periods and no less than monthly in busier collection periods, to tie out billings, collections, abatements, and accounts receivable for personal property and real estate taxes.
- Miscellaneous accounts receivable, lodging tax, meals tax, and other local receivables should be reconciled to supporting documentation.
- Due from other governments (local, state, and federal) should be analyzed, both for recurring payments and amounts that are submitted for reimbursement for proper recording as receivables and potentially deferred revenues at year end.
- Prepaid expenditures (insurance renewals, service contracts, maintenance agreements) should be evaluated and recorded on the general ledger. Amounts should be tracked and amortized monthly.
- Due to/due froms and transfers between funds should be reconciled to the subsidiary ledger.
- A subsidiary ledger should be maintained for accounts payable that is reconciled to the general ledger. While we noted some accounts payable were recorded at year end, there were not detailed listings of what was recorded and amounts were only recorded through mid-July, resulting in material missed items. Payables should be extended at least 60 days past year end to capture items that are not received as quickly. Additionally, for any large projects, such as construction projects, renovations, etc., personnel should ensure that invoices have been received and recorded for all work completed through year end.
- Capital assets should be reconciled at least on a quarterly basis beginning with prior year balance, adding purchases, moving transfers from construction in progress to depreciable accounts, and subtracting disposals. We noted missed asset additions and deletions in our testing of capital assets.
- Construction in progress should be tracked and reconciled to invoices and project budgets. There were no schedules showing what construction in progress consisted of at year end. Additionally, significant payables were missed at year end that could have been captured if projects were more closely monitored.
- Debt should be reconciled to the amortization schedules and/or statements from the lender including principal and interest allocations in the funds.
- While both the County and the Schools reconciled the annual state disbursement report, we recommend this be completed quarterly and any adjustments to properly classify items be posted throughout the year.

PRIOR YEAR COMMENTS ON INTERNAL CONTROL AND OTHER SUGGESTIONS FOR YOUR CONSIDERATION

RECONCILIATIONS AND ADJUSTMENTS (MATERIAL WEAKNESS) (Continued)

- Employee leave balances should be reconciled and the amount outstanding calculated, taking into account all caps on payouts in place. While personnel did calculate this at year end, they did not properly take caps into place or record FICA on the balance, resulting in audit adjustments.
- Fund balance/net position for each fund should be reconciled to the prior year audit report once a year and no adjustments should be made to these accounts unless material errors in prior reported amounts are encountered.

Current Status: *Procedures to reconcile tax ledgers to billings, collections, abatements, and accounts receivable were implemented in fiscal year 2016. Debt was reconciled to the amortization schedules and employee leave balances were calculated, taking into account FICA and policy caps on payout. Improvements were noted in the reconciliation of amounts due from other governments and recording of accounts payable, however, adjustments were still necessary. Not all capital assets were identified prior to fieldwork, and recording of assets or depreciation expense were not posted to the general ledger. Cash in the funds did not agree to the Treasurer's accountability funds, necessitating an adjustment. Finally, fund balance/net position had minor differences from the prior year audited balances. All other conditions still exist for fiscal year 2016 and resulted in adjustments as part of the audit process.*

Management's Response: *Beginning in fiscal year 2017, with an anticipated completion date of the end of fiscal year 2019, all balance sheet accounts will be reconciled monthly for accounts with a large volume of activity and quarterly for those accounts with sporadic activity.*

- *Cash reported in all funds will begin being reconciled to the Treasurer's accountability fund along with the reconciliation of that same cash to the actual bank statements. This is slated to begin February 2017.*
- *Tax Ledgers, along with the associated revenue accounts, will be reconciled to the general ledger receivable accounts starting in fiscal year 2017 with a completion date anticipated by the end of fiscal year 2018.*
- *Miscellaneous accounts receivable, lodging tax, meals tax, and other local receivables will be reconciled to supporting documentation by the end of fiscal year 2019. A centralized system will be developed during this time as well so that all miscellaneous receivables will be maintained through the Finance department.*
- *Due from other governments will be analyzed at year end beginning with fiscal year 2017. The accountant will prepare the proper journal entries necessary at year end.*
- *Accounts Payable will begin to be reconciled in fiscal year 2017 with the process completely in place by end of fiscal year 2018.*
- *Capital assets, while important, are not a top priority at this time. The spreadsheet will continue to be used to maintain the asset listing with staff calculating depreciation and recording it in the general ledger. Staff will be maintaining the additions and deletions quarterly by the end of fiscal year 2017.*
- *All Construction in Progress is now being maintained in the Construction Funds and captured at year end as either an in service asset or as ongoing construction in progress.*
- *Debt is reconciled quarterly to insure accuracy or balances both with the lenders and the County general ledger.*

(Continued)

PRIOR YEAR COMMENTS ON INTERNAL CONTROL AND OTHER SUGGESTIONS FOR YOUR CONSIDERATION

RECONCILIATIONS AND ADJUSTMENTS (MATERIAL WEAKNESS) (Continued)

Management's Response: (Continued)

- *The state disbursement account for the County and Schools is being reconciled quarterly beginning in fiscal year 2017 and reclassifications made if necessary at that time. The annual report reconciliation should be much easier once these are in place.*
- *The leave balance calculation was corrected in fiscal year 2016 and will continue to be calculated by staff.*
- *The final balance sheet per the audit will be reconciled with the general ledger to insure that there are no differences in the fund balance/net position going into fiscal year 2017.*

AMBULANCE RECEIVABLES (MATERIAL WEAKNESS IN 2015)

Ambulance receivables do not appear to be reviewed during the year for appropriateness. Additionally, initial supporting documentation obtained for receivables at year end required an adjustment for bad debts. The County currently utilizes a third-party vendor for billing, collections, and reporting; however, the ultimate responsibility for recording and accounting is the County's. Without review during the year, there is a risk that receivable amounts could be materially misstated. There is also a risk that billings, collections, and report information could be misstated or misappropriated. We recommend that the County review reports provided by the third-party vendor at least quarterly and adjust amounts as necessary. Since key controls in collecting, billing, and reporting are part of the third-party vendor's system, we believe it is important the County understand these processes, and this increases the importance of the County's review.

Current Status: *Reports from the third-party vendor are being compared to receipts. Adjustments were properly recorded by the County for receivables and the allowance for uncollectible amounts at year end.*

Management's Response: *At least quarterly, an analysis of the reports provided by the third-party vendor compared to cash receipts will be documented. In the development of reconciliations one will be done for the ambulance receivable and the associated allowance account. Appropriate adjustments will be made by staff through the year and at year end.*

ACCOUNTING FOR CAPITAL ASSETS

There is no procedure in place to capture capital assets at purchase, resulting in capital asset records not being updated until after year end. In addition, capital asset changes such as disposals, transfers, etc., are not updated until after year end. The untimely process of updating capital asset records increases the risk of capital asset transactions being missed entirely. In addition, management does not currently perform a periodic review of capital asset records, other than vehicles. We noted during fieldwork that there are inconsistencies in lives and classifications. We recommend that procedures be implemented to capitalize any asset purchase at the time of purchase. We also recommend that the County and the Schools assign someone the task of reviewing and updating capital assets records periodically throughout the year and require each department to complete an annual physical inventory of capital assets to ensure records are reconciled and complete.

ACCOUNTING FOR CAPITAL ASSETS (Continued)

We also recommend County and the Schools implement procedures to track construction in progress as jobs that are completed over time progress, especially jobs that will start in one fiscal year and be completed in a subsequent year. The County was not fully aware, nor could personnel easily provide support for amounts that were in construction in progress at the beginning of fiscal year 2014. It required investigation on the part of County personnel to determine what amounts were in progress at the beginning of the year.

Currently, capital assets are currently maintained in an Excel spreadsheet, which increases the risk for errors in calculations and in rolling forward beginning balances. Formulas can easily become corrupted. We recommend the County and the Schools evaluate and implement capital asset software, either within the current accounting system or with a separate asset package. The software should provide the ability to track detailed asset information, including by class, department, etc., to accurately maintain asset listings, enable easy circulation of assets for review by departments, and calculate annual depreciation expense.

Finally, we recommend that the County and Schools adopt a comprehensive capital asset manual. This manual should cover capital asset thresholds (cost and useful life that requires capitalization), the recommended useful lives or ranges of lives for assets often purchased or constructed by the County, classes of items (such as buildings, land improvements, equipment, vehicles, etc.), the required procedures for disposing of any assets, and a recommended method for tracking/tagging or otherwise enabling inventories to be easily maintained for all departments and their assets.

Current Status: *Still applicable for fiscal year 2016.*

Management's Response: *Capital assets are currently maintained in a spreadsheet and will continue to be maintained in this manner until the end of fiscal year 2018. The Finance Director anticipates beginning the process of implementing the module within the financial software package in fiscal year 2019. A process will be implemented at that time to have departments report additions and deletions to the Finance Department. This will ensure accurate balances, no additions or deletions will be missed, and depreciation will be easily calculated within the system at year end. After implementation of the software, the County will explore the annual physical inventory of capital assets within each department.*

As stated previously, all construction projects will be maintained within the Construction Funds to better account for Construction in Progress at year end.

After all processes are in place a capital asset manual will be written and incorporated into the financial regulations of the County.

PURCHASE ORDER SYSTEM AND ENCUMBRANCES

Currently, the County is not fully utilizing a centralized purchase order system. Some purchases, such as office supplies and school supplies purchased in large quantities are more centralized and under contract, but many others are not. Additionally, there are purchasing guidelines in place that cover requirements for quotes, both verbal and written, as well as the need to solicit bids, but the process is not fully centralized. A centralized purchase order system is used to help control spending and ensure that purchases are approved only if there are funds available for use. This system would provide strong tracking of not only what has been expended, but what amounts have been committed for goods and services. We noted that some departments are doing this, but there is no mechanism in place to provide such information to the Board, nor is there a mechanism in place to provide copies of purchase orders to accounting to be matched to invoices independently of the purchasing process.

(Continued)

PURCHASE ORDER SYSTEM AND ENCUMBRANCES (Continued)

In addition, the use of a centralized purchase order system would allow the County to record encumbrances on the accounting system, providing management with increased budgetary control throughout the year and at year end. Current practice to is "cancel" any purchase orders at year end and re-issue them in the new fiscal year. Proper use of an encumbrance process in a purchase order system would eliminate that practice and allow for better budgeting and expenditure tracking.

Current Status: *Still applicable for fiscal year 2016. The County is reviewing options for a more centralized purchasing system.*

Management's Response: *After all pertinent account reconciliations are in place and the processes associated with them, the process of getting all departments access to the software program will begin. Once departments can access the system, the purchase order system can be centralized and timely information will be available to the departments. The County is aware that this will help in the budgeting and expenditure tracking, but at this time does not have a timeframe for full implementation. The anticipated start date for this implementation at this time is January 2019.*

ACCOUNTING MANUAL

Neither the County nor the Schools have a complete accounting procedures manual. Written procedures, instructions, and assignment of duties will prevent or reduce misunderstandings, errors, inefficient or wasted effort, duplicated or omitted procedures, and other situations that can result in inaccurate or untimely accounting records. A well-devised accounting manual can also help to assure that all similar transactions are treated consistently, that accounting principles used are proper, and that records are produced in the form desired by management. A good accounting manual should aid in the training of new employees and possibly allow for delegation to other employees of some accounting functions management performs. It will take some time and effort for management to develop a manual; however, we believe this time will be more than offset by time saved later in training and supervising accounting personnel. Also, in the process of the comprehensive review of existing accounting procedures for the purpose of developing the manual, management will be likely to discover procedures that can be eliminated or improved or added to make the system more efficient and effective.

Current Status: *Still applicable for fiscal year 2016. No complete accounting policies and procedures manual is in place.*

Management's Response: *As the Finance Director evaluates current processes and develops new processes they will be documented and collected into a manual. Anticipated completion date is June 2020.*

DUAL ACCOUNTING SYSTEMS

Currently, school personnel are entering all financial items into their own accounting system and then providing information to the County to be entered into the County's system so that processing can be completed. School personnel cannot print checks or finish the process for direct deposits. Revenues are entered in the County's system when the Treasurer's office processes EDIs or deposits brought over by school personnel. School personnel enter all receipts into their system. Currently, there is no formal reconciliation process to ensure that the two systems are in agreement. Additionally, historically, any school related audit adjustments have not been entered into the school system. We recommend that the County and Schools pursue options to have both entities on one accounting system. If that is concluded to not be feasible, then we recommend that the County and Schools reconcile the information contained in both systems monthly and resolve any discrepancies promptly.

(Continued)

DUAL ACCOUNTING SYSTEMS (Continued)

Current Status: *Still applicable for fiscal year 2016.*

Management's Response: *The County will be working towards combining School and County financial systems on to one accounting system in the future. This will remain as an outstanding item for some time as more pressing processes are implemented. Reconciling the two systems and entering all adjustments on the School side will be explored as well. The County does not anticipate this to begin before fiscal year 2019.*

USE OF CREDIT CARDS

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 local governments, 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 approving the payments. We suggest that management 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 County's operations?

We are bringing these issues to your attention because these areas are susceptible to abuse, and because 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 County'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.

(Continued)

USE OF CREDIT CARDS (Continued)

Specifically, we suggest consideration of the following controls:

- The County 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.
- Perform background or credit checks on employees before issuance and consider bonding employees with cards issued to them.
- 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. The County should 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, have one card 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 head 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 County such as by day, by card, or by transaction. Monitor cards for spending beyond such limits.

We noted that currently there are multiple credit card accounts in use in the County, making review, maintaining of cards, and policies more difficult. We recognize the ease of small purchasing with credit cards and see that as a benefit to the County's operations. We recommend that the County evaluate the implementation of a uniform purchasing card system to be used by all County employees who will be issued a card. This would place all cards under one master account, allowing for credit limits and authorized users to be easily tracked, revised as necessary, and spending monitored for any unusual items.

Current Status: *Still applicable for fiscal year 2016. We encourage the County to explore controls and options to create a comprehensive credit card system to meet all user needs.*

Management's Response: *The Finance Director will be reviewing the current credit card policy and making any revisions necessary to insure adequate internal control by early fiscal year 2018. At present, the County has issued less than 10 credit cards, which is not a difficult number to track. The use of a uniform purchasing card system will be explored for the County at a later date along with the purchase order system full implementation.*

(Continued)

PRIOR YEAR COMMENTS ON INTERNAL CONTROL AND OTHER SUGGESTIONS FOR YOUR CONSIDERATION

PAYROLL COMMENTS AND SUGGESTIONS

During an agreed upon procedures engagement with the County in fall 2013, we communicated the following comments on matters noted in payroll procedures and processes. Many of these comments were not addressed or fully addressed before the end of fiscal year 2014, so we have included them in this letter as well. Some of these comments could also be applied to other areas of County operations in looking at ways to improve controls and processes in place for the County.

ORGANIZATIONAL/STRUCTURAL SUGGESTIONS

PAYROLL MANUAL

The County currently does not have a written payroll manual and most of the key payroll processes and controls are not documented in written form. In common practice, such documentation varies significantly in level of detail, but we recommend that the County develop a written manual that provides at least the following:

- A description of each step in the payroll process.
- Identification of key points of internal control, and a description of how evidence of the control will be retained.
- A description of the required contents of each personnel file.
- A description of the process for set up of new employees and termination of departing employees.
- Responsibilities of each person who participates in the payroll process, including responsibility for key controls.

We believe that developing this level of detail in written form will not be cost-prohibitive nor particularly time consuming – the understanding of the County's payroll processes which we have developed as part of this engagement could be used as a starting point. The benefits of developing this documentation include the following:

- It provides management and those charged with governance an understanding of the system of internal controls. Management (not the external auditor) is responsible to see that internal controls are in place – written documentation both increases management's visibility into the control structure and demonstrates that management is managing this responsibility appropriately.
- It provides clear documentation of individual responsibility and accountability, which serves to ensure that key points of control are indeed being followed.
- New employees or management can more easily and effectively step into their roles.

Current Status: *Still applicable for fiscal year 2016.*

Management's Response: *The payroll manual is being developed and is anticipated to be completed by the end of fiscal year 2017. The County will, from time to time, amend the manual as processes become more streamlined.*

<u>ORGANIZATIONAL/STRUCTURAL SUGGESTIONS</u> (Continued)

PERSONNEL FILES

We noted that personnel file documentation is not consistent between County departments and Constitutional Officers. We recommend that management consider the following:

- Ensure that personnel files are maintained in a centralized secure location where only appropriate personnel have access to such files.
- Establish a checklist for each file to ensure that every personnel file has appropriate and consistent documentation.
- If Constitutional Officers maintain their own personnel files, establish a minimum of documentation that will be retained in a separate personnel file maintained by the County. That minimum documentation should include pay rate information, raise calculations, and any other documentation relevant to the payroll processes.
- Maintain annual salary or pay rates documentation signed by employees and kept in the personnel files to support the annual salary for each employee.
- Wherever possible, ensure that payroll and human resources processes are consistent across all County departments, including those which are supervised by constitutional officers.

Current Status: *We noted that personnel files selected had pay rate documentation signed by employees. The County is continuing to work to centralize all documentation with the recent full-time hire in the human resources department.*

Management's Response: *County HR maintains complete personnel files on those employees who fall directly under the County Administrator's chain of command (regular County departments) and limited payroll and benefit related files on the employees of Constitutional Officers and other County agency heads (Library, Museum, DSS, Public Service Authority, etc.). These files are maintained in the County HR office in locked file cabinets. The HR Coordinator has the only keys to the cabinets and controls access to the files.*

A checklist regarding documents required for each type of personnel file is being developed. Target completion date: February 28, 2017.

Revisions to the HR regulation were adopted by the Board of Supervisors on January 17, 2017. Revisions to Section 2.13.1-3 include language describing the limited nature of files (primarily payroll/benefit information) kept by the County HR office on employees of Constitutional Officers, the Service Authority, and other County agencies. As the HR Coordinator meets with the Constitutional Officers and other County agency heads over the next several months, the County's checklist will be shared.

A Payroll Authorization Form has been developed and distributed to be submitted on all new hires after January 1, 2017. The Salary Change Authorization Form was revised for use with salary/position changes of current employees and distributed at the same time.

The HR Coordinator is meeting with all Constitutional Officers and County agency heads to discuss and identify areas of concern and ways that County HR can assist these departments. This should allow for consistency across the organization. Target completion date: June 30, 2017.

ORGANIZATIONAL/STRUCTURAL SUGGESTIONS (Continued)

COMMUNICATION AND TRAINING

We recommend that there be training and education at some point that involves department heads and others who are involved in the payroll process, outside of the finance department to ensure that they have a full understanding of their own responsibilities versus those of the finance department. This training could occur in stages, but would likely be most effective after management and the finance department have fully discussed the recommendations contained in this document and reached conclusions as to which new policies to adopt.

Management should also ensure that those involved with payroll are receiving appropriate "best practice" training and are staying abreast of applicable laws and regulations. Payroll for a governmental entity is a complex process that requires compliance with myriad federal and state regulations. Special attention should be paid to unique areas such as public safety payroll.

Current Status: *Still applicable for fiscal year 2016, however, training opportunities are being explored for fiscal year 2017.*

Management's Response: *The HR Coordinator and IT Director have received payroll training from Bright and additional training is available. The HR Director is a Senior Certified Professional by the Society for Human Resources Management through June 2019 and has continued to maintain this certification since May 2002 to help her stay abreast of best practices.*

The HR Coordinator will meet with the County Attorney to discuss payroll related training. The County Attorney has addressed payroll issues related to Public Safety in the past. After that meeting, the HR Coordinator will work with the Finance Director to develop appropriate payroll training for supervisory staff to be conducted later in the fiscal year. Target completion date: December 2017.

SCHOOL PAYROLL

Currently the Schools appear to fully process payroll each month (except for the issuance of checks); the County repeats this process, and after a reconciliation process whereby the two payroll processes are compared with each other and differences are identified and resolved, the County ultimately processes the paychecks/direct deposit for the schools. This process may be effective at minimizing errors, but we question its efficiency. We recommend that the County and the Schools discuss whether there might be more efficient ways to achieve the same objective (which, presumably, is to minimize errors in the payroll process). Common practice would be for payroll either to be fully processed by the school system, or for payroll to be substantially integrated such that it is processed by the County after information is provided by the schools.

Current Status: *Still applicable for fiscal year 2016.*

Management's Response: *The process for school payroll and its inefficiency will be evaluated when the combining of financial systems is explored in the future.*

EMPLOYEE CLASSIFICATION

Employee classification between exempt and non-exempt employees is critical when it comes to determining if the employee should receive overtime pay. We recommend that each employee have a clearly written job description that supports the employee being classified as exempt or non-exempt, and that current employee classifications be reviewed as part of this documentation.

ORGANIZATIONAL/STRUCTURAL SUGGESTIONS (Continued)

EMPLOYEE CLASSIFICATION (Continued)

Current Status: *Still applicable for fiscal year 2016. We noted that there were some personnel files that reflected classification documentation, however, several selected for examination did not. The County is continuing to work to ensure classification documentation is in all files.*

Management's Response: *The HR Coordinator has done a preliminary review of the exempt status of County employees and did not identify any immediate concerns. The HR Coordinator is updating job descriptions for each County position. Exempt status and grade is being added to the job descriptions. Target completion date: February 28, 2017.*

ACTIVITY OR TRANSACTION LEVEL SUGGESTIONS

CALCULATION OF PAY RATE CHANGES

A significant point of confusion at the County seems to stem from disagreement about pay rates. We recommend that the calculation of pay-rates/raises be performed in a more structured way. An objective should be to minimize errors and to increase the ease with which the calculations can be reviewed and discussed. Our suggestions are as follows:

- Implement the use of an Excel spreadsheet that can be used to calculate pay raises for each individual. The spreadsheet would serve as a New Pay Rate Worksheet; it should be as detailed as necessary, and should clearly walk a reader through the raise calculation in such a way that a reviewer could use a printed copy of the worksheet to easily recalculate the new pay rate. This document would then be reviewed by the appropriate department head and could be used as the tool for communicating the new pay rate to the employee.
- A printed copy of the New Pay Rate Worksheet would be retained in the employee's file, and should show the initials and dates documenting the department head's approval.
- Prior to distribution of the New Pay Rate Worksheets to the department heads for approval, the new rates should be entered into Bright, and then a recap report printed by department. Along with reviewing the individual worksheets for each person in the department, the department head would also compare those sheets with this recap report from Bright. This will reduce the risk of keying errors after the pay rates have been approved.
- We recommend that for special situations, or corrections of errors, etc., thorough documentation explaining the circumstances and how they were handled should be retained in personnel files to the extent the situation was specific to certain individuals. The documentation should be initialed and dated by both the finance department and the finance director. The County Administrator should be made aware of all such situations.

Current Status: *Personnel files we selected as part of our current year audit contained pay rate calculation documentation. The County is continuing to work to ensure pay rate documentation is in all files.*

Management's Response: *Management has addressed pay rate changes by having HR calculate the change and maintain the documentation. The full process will be documented within the payroll manual once it is completed.*

The HR coordinator has revised the Payroll Authorization Form and Salary Change Authorization Forms to include full and part-time status and work week information.

(Continued)

ACTIVITY OR TRANSACTION LEVEL SUGGESTIONS (Continued)

TIME SHEETS

The County has implemented new time sheets in fiscal year 2014, and our initial impressions are that these appear more detailed and easier to review than those which they replaced. This demonstrates that management is giving thought to opportunities for improvement to processes.

However, we have noted that department heads are currently using time sheets to not only summarize hours worked during the period, but to also recalculate gross pay for each employee. We recommend that instead, time sheets only be used to summarize information about hours worked, leave taken, etc. Use of the time sheets to calculate the gross pay amount should not be necessary – if department heads feel that this is a needed step, we would recommend that they perform a recalculation after receiving payroll information for distribution, but not retain the recalculation.

Current Status: *Still applicable for fiscal year 2016.*

Management's Response: *The County plans to implement an automated leave tracking system by January 2018. It is HR's recommendation that an electronic time sheet be developed as part of that upgrade.*

DEPARTMENT HEAD REVIEWS

There appears to be inconsistency with the department heads' review of payroll information after it has been processed. We recommend the following:

- Department heads should review the payroll registers for the department to ensure that the appropriate hours were processed.
- Department heads should compare budget to actual information for year-to-date payroll, and investigate significant variances.
- Department heads should retain evidence that demonstrates that these reviews have been performed.
- Some other appropriate individual (County Administrator's office would be a possibility) should periodically verify that these reviews are occurring and are being documented.

We also noted inconsistencies in the type of payroll information retained in the departments and the length of time that it is retained – we recommend establishing a consistent policy across the County.

Current Status: *Still applicable for fiscal year 2016.*

Management's Response: *The proper steps that department heads should be following as well as the documentation to be retained will be outlined in the payroll manual as well. This should all be in place by end of fiscal year 2017.*

BANK RECONCILIATIONS

One of the controls that is involved in the payroll process (as well as other key transaction cycles) is the ultimate reconciliation of bank accounts to the general ledger's cash accounts. These reconciliations can detect errors or fraud and can reveal other anomalies that warrant investigation, such as very old outstanding checks, etc.

(Continued)

PRIOR YEAR COMMENTS ON INTERNAL CONTROL AND OTHER SUGGESTIONS FOR YOUR CONSIDERATION

ACTIVITY OR TRANSACTION LEVEL SUGGESTIONS (Continued)

BANK RECONCILIATIONS (Continued)

Based on our inquiries, the County's finance department currently reconciles to cash control accounts that are maintained by the Treasurer. The Treasurer maintains these control accounts by posting batch cash activity, and in turn reconciles this to the general ledger.

We recommend that the finance department obtain bank information and reconcile the County's G/L directly to that information rather than simply to the Treasurer's control accounts. Despite the responsibilities that are assigned to the Treasurer through law, the finance department should ensure that all balances are appropriately reconciled to the best possible supporting information – which in this case is the bank account itself. This gives the finance department the best insight into any reconciling items between the bank and the County's general ledger. It also limits the effects if a future Treasurer were to fail to appropriately reconcile the Treasurer's control accounts to bank information.

Current Status: *Still applicable for fiscal year 2016.*

Management's Response: *These should be in place and be completed monthly by the end of fiscal year 2017.*

HIGH LEVEL DETECTION-TYPE CONTROLS

PAYROLL FILE MAINTENANCE LOGS

File maintenance logs are a type of report that allow a user to review activity applied to some type of master file. Common file maintenance reports include vendor file maintenance (which would show new vendors, or changes to existing vendors) and payroll file maintenance reports (which typically would show new employee setups, terminations, and other modifications to employee attributes such as address, name, pay rate, etc. File maintenance logs are generally used to provide a compensating control when it is not considered cost effective to fully segregate duties, and the review of such logs should generally be performed by a person who is (1) knowledgeable and (2) separated from the process.

We recommend that an appropriate individual at the County (probably the IT department) run a file maintenance report monthly or quarterly that shows all changes in employee information, including pay rate, address, name, etc. This report should be reviewed by someone uninvolved in the processing of payroll (the County Administrator would be a possibility) to ensure that all changes were approved and appear appropriate.

Current Status: *The recommendation for payroll file maintenance reviews was implemented during fiscal year 2016.*

Management's Response: *These have been implemented and will become a requirement within the payroll manual.*

HIGH LEVEL DETECTION-TYPE CONTROLS (Continued)

MANAGEMENT REVIEW OF PAYROLL REGISTERS

Another very effective control over payroll is a high level review of a payroll register by an appropriate member of management. The objective of such a review is primarily to reduce the risk of a fictitious employee being used to misappropriate funds or for someone involved in the payroll process to inappropriately modify pay rates for themselves or others. Our conversations with management indicate that reviews such as this do occur currently, although they may not be highly formalized. Following are factors that should be considered in making this process as effective as possible:

- The reviews should be conducted by an individual who is somewhat familiar with all of the County's departments – enough so that they would be likely to recognize a fictitious payee or an unusual pay rate. For much of the County, this is probably the County Administrator or some designee. For the Schools, it should be someone who is not involved in other parts of the payroll process – including the setup of new employees or the submission of time sheets.
- The information reviewed should be derived directly from paycheck listings or direct deposit information to limit the risk that the information would be modified prior to review in order to conceal a fraud. In this case, receiving these reports directly from the IT department would be the best practice, since this would limit the ability of others involved in earlier steps in the payroll process to modify the reports. At the same time, these IT-provided reports should also be reviewed by an individual from the finance department who is involved in the earlier stages of the process, in order to limit the risk that the IT department would introduce a fictitious employee. (Based on our inquiries, reconciliations between the IT department paycheck/direct deposit totals and those of the finance department are part of the current process and are likely effective.)
- These reviews should be documented and evidence retained.

Current Status: *Still applicable for fiscal year 2016.*

Management's Response: *The Finance Director is reviewing all payroll registers before they are sent to processing by the IT department. The Finance Director will work with the Schools to get this process formalized by the end of fiscal year 2018.*

The IT department produces the registers, the Payroll Clerk reviews them, and then the Finance Director reviews them one final time before payroll is released.

The Finance Director signs the register as approved to document that the review has happened and that it is prior to payroll being released.

PRIOR YEAR COMMENTS ON INTERNAL CONTROL AND OTHER SUGGESTIONS FOR YOUR CONSIDERATION

HIGH LEVEL DETECTION-TYPE CONTROLS (Continued)

BUDGET TO ACTUAL REPORTS

Budget to actual reports are an effective, high level control over expenses and should be part of every government's system of payroll controls. The County does use budget to actual reporting, but based on our inquiries, does not consistently provide these reports to department heads early in the year. Some departments indicated that they maintain their own budget-to-actual information independent from that of the finance department – determining whether or not that was necessary was beyond the scope of our engagement, however, we do recommend the following:

- Department heads and County management should receive budget versus actual reports on a consistent, predetermined basis. The County Administrator should be notified if such reports are unavailable at the agreed upon dates.
- The reports should be reviewed, and evidence of the review should be documented and retained.

The finance department and the County Administrator's office should periodically review evidence that the reports are being reviewed appropriately.

Current Status: *Still applicable for fiscal year 2016.*

Management's Response: *The Finance Director is currently working to get a monthly budget to actual report to department heads on a consistent basis. This should be in place no later than December 2018.*

After the process has become consistent, the Finance Director will document within the Accounting Manual the process which will include record retention by departments. This should be in effect by December 2018.

PRIOR YEAR COMMENTS ON INTERNAL CONTROL AND OTHER SUGGESTIONS RELATED TO INFORMATION TECHNOLOGY FOR YOUR CONSIDERATION

IT ADMINISTRATOR LEVEL PROCESS ACCESS (MATERIAL WEAKNESS)

In addition to having normal IT system administrator rights to grant and change access to the network and financial systems, the process of processing, printing, and signing checks is able to be totally performed by only one IT employee. There are two IT employees that have the ability to perform these actions. IT has access to the check stock, the right to process batches of checks for AP or Payroll, access to the printed checks, and access to the program that prints signatures on the checks. Additionally, IT with its system administrator rights could set up fictitious accounts, or as noted in the comment below, may be able to access user accounts based on their knowledge of user passwords at setup to set up batches of checks. While positive pay is used, the files are pulled by IT from the financial software server and then transmitted to the bank. This combination could allow one of the IT employees to be able to input, process, print checks, and cash them. We recommend that controls be put in place to limit IT from being able to complete all the steps in the process without intervention. This could include items such as only providing the necessary amount of check stock to IT at the time of check runs, review by someone other than IT of logs that add users or change user rights in the financial system, and removal of rights in the financial system for those in IT to initiate batches in that system that would generate checks.

Current Status: *Some additional safeguards have been put in place, however, still applicable for fiscal year 2016.*

Management's Response: *In regards to security and access to the various modules, IT staff has all administrator rights to all software modules for purposes of granting access to the County staff within all County departments. There are two employees in IT with this access and the reason for that is so they can function as a backup to each other.* [redacted] *all entries and changes made to any payroll master files or deduction files are entered by HR and then must be approved by accounting before any payroll changes can be effective. Also as an additional feature for added security, there is a log kept within the system that cannot be altered by those in IT or any other person that keeps track of all changes made in the system, the date they were made, and who made them. Moving the process of generating and submitting the positive pay files to the Treasurer's office will enhance the segregation of duties. Plans are being made to initiate this in 2017 year. The issue of anyone in IT having access to passwords has been changed; we have no way of knowing what a user's password is as once they login to the system the first time, they are required to change it immediately. We do not keep records of those or have any way of knowing them to prevent IT from using their logins.*

SETUP AND MAINTENANCE USER ACCESS AND RIGHTS (SIGNIFICANT DEFICIENCY)

[redacted]

[redacted]

SETUP AND MAINTENANCE USER ACCESS AND RIGHTS (SIGNIFICANT DEFICIENCY) (Continued)

[redacted]

SMALLER INFORMATION TECHNOLOGY DEPARTMENT

In smaller IT departments, such as yours, there is often a need to cross train and have backups for various functions or to have vendors assist in performing certain functions. While these factors do improve the ability to respond to County needs and can reduce staffing requirements, it also reduces the level of controls that exist when personnel or vendors have access to several stages within the input/processing/output cycles or to access controls. Having an individual with rights to root access or IT system administrator's level access combined with other functions pose several potential challenges. Often, it is not possible to further segregate the duties based on resource limitations and demands. We recommend that current cross-training and personnel backup strategy be considered in terms of controls and determine if reasonable changes should be made to improve controls, or whether additional reviews of IT system administrator's and other critical logs may be considered necessary as a compensating control. We recommend logging of accesses to sensitive data, or the restriction of use of utilities to help provide audit trails. If logs are automated and are to be reviewed, often filters can be set up to reduce the burden of the review. Based on good control structures, an individual who would perform these types of review should not be in a position where they might be reviewing their own work.

Current Status: *Still applicable for fiscal year 2016.*

Management's Response: *With a staff of only three in the IT department and the various duties associated with the departments,* [redacted] *act as a backup for each other in processing of payrolls and accounts payables.* [redacted] *act as a backup for each other on all network security issues. We have segregated the duties between them, but also in a way that there are always two people to perform functions such as those described above; this has to be implemented in order to not delay the processing of payrolls and accounts payables. Also as previously noted, there are history and security logs maintained within the BAI modules that are not accessible to be altered by staff in any way. These logs track changes and modifications to both the accounting and treasurer modules.*

DISASTER RECOVERY

Disaster Recovery Plan

The County has not fully developed a written IT disaster recovery plan, beyond the required COOP, and placed it in operation to help ensure proper and timely recovery in case of a disaster. Once fully placed in operation, we also recommend that this plan be appropriately tested to assist in ensuring its viability. Scenarios should include, but not be limited to, non-availability of key staff and assumed unavailability of certain key resources. We also recommend that the plan be reviewed annually to ensure that it is up to date if a disaster should occur.

Current Status: *Still applicable for fiscal year 2016.*

PRIOR YEAR COMMENTS ON INTERNAL CONTROL AND OTHER SUGGESTIONS RELATED TO INFORMATION TECHNOLOGY FOR YOUR CONSIDERATION

DISASTER RECOVERY (Continued)

Disaster Recovery Plan (Continued)

Management's Response: *The County approved and we installed a generator in 2016 to power the County Administration building in the event of a power outage (long-term or short-term) in order that we would be able to process payrolls and accounts payable. A budget request has been made in the fiscal year 2018 budget to have an analysis done for a vendor to provide a complete disaster recovery plan for County Administration in the event of a catastrophic occurrence. That is pending approval.*

[redacted]

[redacted]

[redacted]

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PRIOR YEAR COMMENTS ON INTERNAL CONTROL AND OTHER SUGGESTIONS RELATED TO INFORMATION TECHNOLOGY FOR YOUR CONSIDERATION

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

Internet Security – [redacted]

We noted that the County still had computers that had the [redacted] operating system installed. This version of Windows no longer receives security patches, which if used and connected to the network increases the risk of that system and potential improper network access occurring. We recommend that the County either dispose of these computers or update the operating system to one that is currently supported.

NETWORK AND SERVER SECURITY (Continued)

[redacted]

Current Status: *No longer applicable as the County is no longer running* [redacted]

[redacted]

Periodic Review of Granted Access

The County has procedures to help ensure that logical access to its core systems is only granted after appropriate approvals have been obtained. However, after an extended period of time, either due to inadvertent error or due to changes in job functions or accesses, an individual may have more access than was originally intended. While the County is performing reviews of access, these reviews are not being documented. We recommend that the County document its periodic reviews to assist in ensuring that only those accesses that are currently granted are in force to help ensure segregation of duties and internal controls.

Current Status: *Additional periodic reviews of access was implemented during fiscal year 2016.*

Limiting Access through Group Policies or Profiles

The County has been assigned rights to the network by adding individual rights, instead of using groups in Active Directory. Using groups helps ensure that only those applications or data files that are needed by an individual are all that they can access from the system to manage access and reduces review and access right provisioning time. We recommend that the County consider use of groups in Active Directory to help manage and reduce access, so that only those files and applications that an individual has a demonstrated need can be accessed by that individual.

Current Status: *The County has transitioned to primarily using group policy and profiles during fiscal year 2016.*

PRIOR YEAR COMMENTS ON INTERNAL CONTROL AND OTHER SUGGESTIONS RELATED TO INFORMATION TECHNOLOGY FOR YOUR CONSIDERATION

ACCESS SECURITY (Continued)

[redacted]

[redacted]

[redacted]

EQUIPMENT RETIREMENT POLICY

[redacted]

[redacted]

[redacted]

ACCOUNTING AND OTHER MATTERS

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.

GASB STATEMENT NO. 74

GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans other than Pensions* improves the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency.

This Statement replaces Statements No. 43, F*inancial Reporting for Postemployment Benefit Plans other than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans.* It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, as amended, Statement No. 43, and Statement No. 50, *Pension Disclosures.*

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits other than Pensions*, establishes new accounting and financial reporting requirements for governments whose employees are provided with OPEB, as well as for certain nonemployer governments that have a legal obligation to provide financial support for OPEB provided to the employees of other entities.

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.

GASB Statement No. 74 will be effective for the year ending June 30, 2017.

ACCOUNTING AND OTHER MATTERS

GASB STATEMENT NO. 75

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits other than Pensions* improves accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency.

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.

The scope of this Statement addresses accounting and financial reporting for OPEB that is provided to the employees of state and local governmental employers. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit OPEB, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about defined benefit OPEB also are addressed.

In addition, this Statement details the recognition and disclosure requirements for employers with payables to defined benefit OPEB plans that are administered through trusts that meet the specified criteria and for employers whose employees are provided with defined contribution OPEB. This Statement also addresses certain circumstances in which a nonemployer entity provides financial support for OPEB of employees of another entity.

In this Statement, distinctions are made regarding the particular requirements depending upon whether the OPEB plans through which the benefits are provided are 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, the OPEB plan administrator, and the plan members.

GASB Statement No. 75 will be effective for the year ending June 30, 2018.

ACCOUNTING AND OTHER MATTERS

GASB STATEMENT NO. 77

Financial statements prepared by state and local governments in conformity with generally accepted accounting principles provide citizens and taxpayers, legislative and oversight bodies, municipal bond analysts, and others with information they need to evaluate the financial health of governments, make decisions, and assess accountability. **GASB Statement No. 77**, *Tax Abatement Disclosures* is intended, among other things, to assist these users of financial statements in assessing (1) whether a government's current-year revenues were sufficient to pay for current-year services (known as interperiod equity), (2) whether a government complied with finance-related legal and contractual obligations, (3) where a government's financial resources come from and how it uses them, and (4) a government's financial position and economic condition and how they have changed over time.

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.
- Commitments made by a government, other than to abate taxes, as part of a tax abatement agreement.

Governments should organize those disclosures by major tax abatement program and may disclose information for individual tax abatement agreements within those programs. Tax abatement agreements of other governments should be organized by the government that entered into the tax abatement agreement and the specific tax being abated. Governments may disclose information for individual tax abatement agreements of other governments within the specific tax being abated. For those tax abatement agreements, a reporting government should disclose:

- The names of the governments that entered into the agreements.
- The specific taxes being abated.
- The gross dollar amount of taxes abated during the period.

GASB Statement No. 77 will be effective for the year ending June 30, 2017.

ACCOUNTING AND OTHER MATTERS

GASB STATEMENT NO. 78

The objective of **GASB Statement No. 78**, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans* is to address a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*. This issue is associated with pensions provided through certain multiple-employer defined benefit pension plans and to state or local governmental employers whose employees are provided with such pensions.

Prior to the issuance of this Statement, the requirements of Statement No. 68 applied to the financial statements of all state and local governmental employers whose employees are provided with pensions through pension plans that are administered through trusts that meet the criteria in paragraph 4 of that Statement.

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.

GASB Statement No. 78 will be effective for the year ending June 30, 2017.

GASB STATEMENT NO. 79

GASB Statement No. 79, *Certain External Investment Pools and Pool Participants* addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. An external investment pool qualifies for that reporting if it meets all of the applicable criteria established in this Statement. The specific criteria address (1) how the external investment pool transacts with participants; (2) requirements for portfolio maturity, quality, diversification, and liquidity; and (3) calculation and requirements of a shadow price. Significant noncompliance prevents the external investment pool from measuring all of its investments at amortized cost for financial reporting purposes. Professional judgment is required to determine if instances of noncompliance with the criteria established by this Statement during the reporting period, individually or in the aggregate, were significant.

If an external investment pool does not meet the criteria established by this Statement, that pool should apply the provisions in paragraph 16 of Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, as amended. If an external investment pool meets the criteria in this Statement and measures all of its investments at amortized cost, the pool's participants also should measure their investments in that external investment pool at amortized cost for financial reporting purposes. If an external investment pool does not meet the criteria in this Statement, the pool's participants should measure their investments in that pool at fair value, as provided in paragraph 11 of Statement No. 31, as amended.

This Statement establishes additional note disclosure requirements for qualifying external investment pools that measure all of their investments at amortized cost for financial reporting purposes and for governments that participate in those pools. Those disclosures for both the qualifying external investment pools and their participants include information about any limitations or restrictions on participant withdrawals.

GASB Statement No. 79 will be effective for the year ending June 30, 2017.

ACCOUNTING AND OTHER MATTERS

GASB STATEMENT NO. 80

GASB Statement No. 80, *Blending Requirements for Certain Component Units – an amendment of GASB Statement No. 14* will 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*, as amended. This Statement amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of Statement No. 39, *Determining whether Certain Organizations are Component Units.*

GASB Statement No. 80 will be effective for the year ending June 30, 2018.

GASB STATEMENT NO. 81

GASB Statement No. 81, *Irrevocable Split-Interest Agreements* will improve 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.

Split-interest agreements are a type of giving agreement used by donors to provide resources to two or more beneficiaries, including governments. Split interest agreements can be created through trusts – or other legally enforceable agreements with characteristics that are equivalent to split-interest agreements – in which a donor transfers resources to an intermediary to hold and administer for the benefit of a government and at least one other beneficiary. Examples of these types of agreements include charitable lead trusts, charitable remainder trusts, and life-interests in real estate.

This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement requires that a government recognize revenue when the resources become applicable to the reporting period.

GASB Statement No. 81 will be effective for the year ending June 30, 2017.

GASB STATEMENT NO. 82

The objective of **GASB Statement No. 82**, *Pension Issues – an amendment of GASB Statements No. 67, No. 68, and No. 73* 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 No. 68, and Amendments to Certain Provisions of GASB Statements No. 67 and No. 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.

GASB STATEMENT NO. 82 (Continued)

Prior to the issuance of this Statement, Statements No. 67 and No. 68 required presentation of covered-employee payroll, which is the payroll of employees that are provided with pensions through the pension plan, and ratios that use that measure, in schedules of required supplementary information. This Statement amends Statements No. 67 and No. 68 to instead require the presentation of covered payroll, defined as the payroll on which contributions to a pension plan are based, and ratios that use that measure.

This Statement clarifies that a deviation, as the term is used in Actuarial Standards of Practice issued by the Actuarial Standards Board, from the guidance in an Actuarial Standard of Practice is not considered to be in conformity with the requirements of Statement No. 67, Statement No. 68, or Statement No. 73 for the selection of assumptions used in determining the total pension liability and related measures.

This Statement clarifies that payments that are made by an employer to satisfy contribution requirements that are identified by the pension plan terms as plan member contribution requirements should be classified as plan member contributions for purposes of Statement No. 67 and as employee contributions for purposes of Statement No. 68. It also requires that an employer's expense and expenditures for those amounts be recognized in the period for which the contribution is assessed and classified in the same manner as the employer classifies similar compensation other than pensions (for example, as salaries and wages or as fringe benefits).

GASB Statement No. 82 will be effective for the year ending June 30, 2017, 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.

CURRENT GASB PROJECTS

GASB currently has a variety of projects in process. Some of these projects are as follows:

- ***Asset Retirement Obligations.*** The objective of this project would be to improve financial reporting by developing requirements on recognition for asset retirement obligations (ARO), other than landfills. The achievement of this objective would reduce inconsistency in current reporting and, therefore, enhance comparability between governments. The project also will improve the usefulness of information for decisions and analysis of various users of external financial reports of governments by developing disclosure requirements for AROs. An exposure draft document was issued in December 2015 with the comment period for the exposure draft, and the field test both ending on March 31, 2016. A final statement is expected in November 2016.

- ***Certain Debt Extinguishments Using Existing Resources.*** This project addresses certain issues identified during the pre-agenda research that evaluated the effectiveness of Statements No. 7, *Advance Refundings Resulting in Defeasance of Debt*, and No. 23, *Accounting and Financial Reporting for Refundings of Debt Reported by Proprietary Activities*, and relevant sections of Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The project will consider improvements to the existing guidance related to debt extinguishments using existing resources. Debt extinguishments connected with troubled debt restructurings and bankruptcy, which are addressed in other pronouncements, are not included. An exposure draft is expected in August 2016, with a final statement in May 2017.

CURRENT GASB PROJECTS (Continued)

- ***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. Deliberations recommenced in conjunction with the Financial Reporting Model project in October 2015.
- ***Fiduciary Responsibilities.*** The primary objective of this project would be to develop guidance regarding the application of the fiduciary responsibility criterion in deciding whether and how governments should report fiduciary activities in their general purpose external financial reports. Other objectives of this project include assessing whether additional guidance should be developed to (1) clarify the difference between a private-purpose trust fund and an agency fund, (2) clarify whether a business-type activity engaging in fiduciary activities should present fiduciary fund financial statements, and (3) consider requiring a combining statement of changes in assets and liabilities for agency funds. An exposure draft document was issued for public comment in December 2015 with the comment period ending March 31, 2016. A final statement is expected in December 2016.
- ***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 December 2019, with a final statement in May 2021.
- ***Lease Accounting – Reexamination of NCGA Statement 5 and GASB Statement No. 13.*** The objective of this project is to reexamine issues associated with lease accounting, considering improvements to existing guidance. This project will provide a basis for the Board to consider whether current operating leases meet the definitions of assets or liabilities. This project would provide an opportunity for a fresh look at the existing guidance for any improvements not contemplated by the FASB/IASB project given the unique nature of governmental entities and the complexities of their leasing transactions. An exposure draft document was issued for public comment in January 2016 and the comment period ended May 31, 2016. A final statement is expected in December 2016.

CURRENT GASB PROJECTS (Continued)

- ***Revenue and Expense Recognition.*** The objective of this project is to develop a comprehensive application model for the recognition of revenues and expenses that arise from nonexchange, exchange, and exchange-like transactions, including guidance for exchange transactions that has not been specifically addressed in the current literature. 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 a final statement expected in June 2022.

STATEMENTS OF ECONOMIC INTERESTS

The Virginia Conflict of Interest and Ethics Advisory council has implemented a $250 late filing penalty for Statement of Economic Interest (SoEI) filers. This late fee will apply to all SoEI's filed after each filing deadline, June 15 and December 15. The late filing penalty does not apply to financial disclosure filers. Late filing lists should be submitted to the local Commonwealth attorney who will assess and collect the penalty from each individual who is late or does not file.