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

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

County

Recording of Retainage Payable

At year-end, it was noted the County had two large ongoing construction projects for the renovation of Caroline County High School and Madison Elementary School. Upon examination of various invoices related to these projects, there was retainage payable that was not recorded by the County. Retainage consists of a percentage of the progress payment due for each invoice that is withheld until the work is substantially complete to ensure satisfactory work is performed.

According to Interpretation No. 6 of the Governmental Accounting Standards Board, the County should accrue a liability and expenditure in the period in which the County incurs the liability. In this scenario, the County is expected to pay the amount withheld as retainage once the work is complete. While the construction project was not complete in fiscal year 2016, the work that related to the retainage was performed in fiscal year 2016; therefore, the County should have recorded a liability for the amount. We recommend the County record retainage payable on any contracts where retainage is withheld.

School Board

Compensated Absences Policy

From our discussion with management and review of the compensated absences balances at year end, sick leave granted to employees has not been accounted for in accordance with School Board policy. Therefore, the compensated absences balances recorded in the database used to track hours earned and hours used may differ from what the balances should be according to the School Board policy.

We recommend the School Board revise their current compensated absences database to comply with School Board policy and to accurately reflect the School Board's sick leave liability at year end. Additionally, the sick leave database should be reviewed at year end to ensure amounts reported are in line with School Board policy.

County and School Board

Uniform Grant Guidance

During the current fiscal year, the County and School Board was required to implement the Uniform Guidance (2 CFR 200), which superseded OMB Circular A-133. As part of the new Uniform Guidance requirements, we recommend the County (including the School Board) adopt or amend the current policies and procedures to address these new or revised rules and regulations:

Uniform Guidance Cost Principles

Cost Principles under OMB Circular A-87 have been superseded by the Uniform Guidance Cost Principles (2 CFR 200, Subpart E – Cost Principles). We recommend the County maintain printed copies of the new Cost Principles, formally adopt as policy, and refer to them when expending federal awards.

Conflicts of Interest Policy

According to 2 CFR §200.112, "The Federal awarding agency must establish conflict of interest policies for Federal awards. The non-Federal entity must disclose in writing any potential conflict of interest to the Federal awarding agency or pass-through entity in accordance with applicable Federal awarding agency policy." 2 CFR §200.113 further notes, "The non-Federal entity or applicant for a Federal award must disclose, in a timely manner, in writing to the Federal awarding agency or pass-through entity all violations of Federal criminal law involving fraud, bribery, or gratuity violations potentially affecting the Federal award. Failure to make required disclosures can result in any of the remedies described in §200.338, *Remedies for Noncompliance*, including suspension or debarment."

Cash Management Policy

Under the new Uniform Guidance rules, there are documentation requirements related to cash management as it pertains to receiving federal funds in advance of expenditures occurring. We recommend the County and School Board adopt a Cash Management policy that addresses when the County and School Board receives federal funding in advance of payment of related federal expenditures. The County and School Board will need to document compliance with 2 CFR §200.302, which requires the financial management system of each non-federal entity to provide written procedures to implement the requirements of §200.305, *Payment.*

Procurement Policy

Non-federal entities are required to comply fully with the procurement rules in the Uniform Guidance. The County and School Board should examine current procurement policies and procedures to ensure compliance with the following sections of 2 CFR:

- §200.318, *General Procurement Standards*
- §200.319, *Competition*
- §200.320, *Methods of Procurement to be Followed*
- §200.321, *Contracting with Small and Minority Businesses, Women's Business Enterprises, and Labor Surplus Area Firms*
- §200.322, *Procurement and Recovered Materials*
- §200.323, *Contract Cost and Price*
- §200.324, *Federal Awarding Agency or Pass-through Entity Review*
- §200.325, *Bonding Requirements*
- §200.326, *Contract Provisions*

Status of Previous Management Advice

In our letter dated January 22, 2016, we recommended the following comments which have not been implemented or have been partially implemented:

Tracking of Agency Fund Deposits

We noted the lack of tracking performance bonds outstanding. This resulted in us not being able to test the beginning balance to ensure amounts were still properly recorded. Although deposits were being properly recorded in fiscal year 2015, we recommended a schedule to be kept to track performance bonds outstanding and establish procedures to monitor these payments.

While we did note tracking of performance bonds had been started in fiscal year 2016 the schedule did not include all performance bonds outstanding. We recommend the Treasurer's office continue to complete a schedule of performance bonds outstanding and implement procedures to ensure when payments are made, the schedule is appropriately updated.

Single Audit Documentation Completeness

While performing our Single Audit during fiscal year 2015 it was noted that time certifications related to the *Special Education Cluster* were not being dated by the Supervisor. Although the School Board was ultimately able to support each of the items required for compliance, we thought it was in the School Board's best interest to better document their compliance by including dates on signature approvals.

In fiscal year 2016, we noted the same scenario when performing testing of the *Special Education Cluster*. We recommend the School Board implement a policy to include dates on supervisor signatures of time certifications.

Preparation of Annual School Report

While performing our audit during fiscal year 2015 it was noted the Annual School Report (ASR) was being completed using the Cash Basis of accounting rather than the required method of Modified Accrual. By using the Cash Basis, the School Board was not able to reconcile the ASR to the general ledger.

In fiscal year 2016, we ran into the same scenario of not being able to reconcile the ASR to the general ledger. After further inquiry and examination it appeared the ASR was prepared with a combination of the Cash Basis and Modified Accrual basis of accounting. We recommend the School Board follow the appropriate guidance for preparation of this report going forward to ensure full compliance with the established requirements of the Department of Education.

New GASB Pronouncements

At June 30, 2016, the Governmental Accounting Standards Board (GASB) had issued statements not yet implemented by the County. Statements which might impact the County are as follows:

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*

The objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). This Statement replaces the requirements of Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans,* for OPEB. Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans,* establishes new accounting and financial reporting requirements for OPEB plans.

The scope of this Statement includes OPEB plans – defined benefit and defined contribution – administered through trusts that meet the following criteria:

- Contributions from employers and nonemployer contributing entities to the OPEB plan and earnings on those contributions are irrevocable.

- OPEB plan assets are dedicated to providing OPEB to plan members in accordance with the benefit terms.

- OPEB plan assets are legally protected from the creditors of employers, nonemployer contributing entities, and the OPEB plan administrator. If the plan is a defined benefit OPEB plan, plan assets also are legally protected from creditors of the plan members.

This Statement also includes requirements to address financial reporting for assets accumulated for purposes of providing defined benefit OPEB through OPEB plans that are not administered through trusts that meet the specified criteria.

The requirements of Statement No. 75 are effective for financial statements for fiscal years beginning after June 15, 2017.

GASB Statement No. 77, *Tax Abatement Disclosures*

The objective of this Statement is to improve financial reporting by giving users of financial statements essential information that is not consistently or comprehensively reported to the public at present. Disclosure of information about the nature and magnitude of tax abatements will make these transactions more transparent to financial statement users. As a result, users will be better equipped to understand *(1)* how tax abatements affect a government's future ability to raise resources and meet its financial obligations, and *(2)* the impact those abatements have on a government's financial position and economic condition.

Financial 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. This information 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; and
- Commitments made by a government, other than to abate taxes, as part of the tax abatement agreement.

Governments should organize those disclosures by major tax abatement programs and may disclose information for individual tax abatement agreements within those programs.

The requirements of Statement No. 77 are effective for financial statements for periods beginning after December 15, 2015.

GASB Statement No. 78, *Pensions Provided through Certain Multi-Employer Defined Benefit Pension Plans*

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

The requirements of Statement No. 78 are effective for reporting periods beginning after December 15, 2015.

GASB Statement No. 80, *Blending Requirements for Certain Component Units – an amendment of GASB Statement No. 14*

The objective of this Statement is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. This Statement amends the blending requirements established in paragraph 53 of Statement No. 14, *The Financial Reporting Entity*.

The requirements of Statement No. 80 are effective for reporting periods beginning after June 15, 2016.

GASB Statement No. 82, *Pension Issues – an Amendment of GASB Statements No. 67, No. 68, and No. 73*

The objective of this Statement is to address certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans,* No. 68, *Accounting and Financial Reporting for Pensions,* and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68.* Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

The requirements of Statement No. 82 are effective for reporting periods beginning after June 15, 2016 except for the requirements of this Statement for the selection of assumptions in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year-end. In that circumstance, the requirements for the selection of assumptions are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017.

This report is intended solely for the information and use of management, the Board of Supervisors, School Board, and others within the County and is not intended to be and should not be used by anyone other than these specified parties.

If you have any questions concerning any of these items, or if we can be of further assistance, please contact us. We thank you for the opportunity to conduct your audit for the year ended June 30, 2016 and express our appreciation to everyone for their cooperation during this engagement.

PBMares, LLP

Harrisonburg, Virginia
November 28, 2016