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

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

County

General Controls over the Information Technology Environment

Cybersecurity continues to be a major focus in 2016 for all organizations. However, this should be especially true for governmental organizations as hackers have shifted their attention from credit card data to Personally Identifiable Information (PII). As a result of this shift, the percentage of breaches affecting governmental organizations rose from only 5% in 2014 to 43% in 2015. While updating our understanding of the County's internal controls over its information technology environment, we noted an area of weakness that may increase the County's exposure to cyberattacks and other external or internal threats.

Employee actions or mistakes remain the number one cause of security breaches and/or data loss across the United States. A majority of these incidents are effected by targeting employees with access to the system by means of social engineering, phishing, or spear phishing scams. In order to reduce the County's risk to these types of threats, we recommend the County institute a formalized training program for all employees. We recommend this training be mandatory for all new employees and recertification be performed on an annual basis.

School Board

Documentation of Employee Time and Effort for Title I Administrators

Per 2 CFR 200, 2016 Compliance Supplement, "for an employee who works in part on the consolidated administrative cost objective and in part on a Federal program whose administrative funds have not been consolidated or on activities funded from other revenue sources, an SEA or LEA must maintain time and effort distribution records in accordance with 2 CFR section 200.430(i)(1)(vii) that support the portion of time and effort dedicated to the consolidated cost objective and each program or other cost objective supported by non-consolidated Federal funds or other revenue sources."

Based on the testing of teachers and administrative staff whose salaries were charged to the Title I Grants to Local Education Agencies (CFDA Number 84.010) program, it was determined that adequate time and effort records were not prepared by administrative staff whose time was only partially charged to the grant. We recommend the School Board develop procedures to ensure employees maintain adequate time and effort records to substantiate the employees' time that is charged to such federal programs as required by 2 CFR section 200.430(i)(1)(vii).

Capital Asset Additions and Disposals

Based on testing performed in the current fiscal year, a material weakness in financial reporting was noted in the Comprehensive Annual Financial Report due to a material audit adjustment in the Schools Capital Improvements Fund as a result of the lack of recording certain invoices as accounts payable at year end. As a result of the unrecorded invoices, the related capital asset additions were not recorded by the School Board. The improper recording of such transactions resulted in a number of audit adjustments necessary to properly record current year capital activity. We recommend the School Board implement procedures to ensure all capital asset activity is properly recorded in the appropriate fiscal year. Capital asset files and records should be reviewed at least annually to ensure purchases of capital assets, donations, and disposals are properly recorded.

County, Social Services and School Board

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

Uniform Guidance Cost Principles

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

Conflicts of Interest Policy

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

Cash Management Policy

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

Procurement Policy

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

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

Status of Previous Management Advice

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

Tracking of Entity-Wide Adjustments

The governmental funds report data using the current financial resources measurement focus and the modified accrual basis of accounting. Accordingly, their data must be converted to the economic resources measurement focus and the accrual basis of accounting for incorporation into the government-wide financial statements. The County currently does not track all such adjustments in the accounting system and prepares these manually. We recommend the County use a capital asset fund and a long-term debt fund to track all entity-wide adjustments in the accounting system.

Frank L. Matthews Testamentary (Private Purpose) Trust

Based on inquiry procedures performed during the audit, we were informed the balance recorded on the general ledger for the Matthews Private Purpose Training Trust includes only the amount of interest earned throughout past years on the original endowment. Under the Uniform Prudent Management of Institutional Funds Act (UPMIFA), the School Board is subject to guidelines, which provide rules on spending from endowment funds and permits the release of restrictions on the use and management of these funds.

We noted the School Board searched records and performed necessary inquiries in an effort to identify the principal balance of the endowment and record this amount as a nonexpendable asset, however, the original principal balance could not be identified. We recommend the School Board evaluate the treatment of this fund prospectively to determine the proper treatment, given that the original principal balance is indeterminable.

Reconciliation of School Cafeteria Charges for Services

During the fiscal year 2015 audit, based on our testing of a sample of cafeteria charges for services, we noted there was no reconciliation performed between the cash deposited by the cafeteria managers and the daily revenue reported in the cafeteria's cash receipts software, Infinite Campus. Reconciling items between cash collected and revenue recorded may include students who pay additional amounts in advance and students who draw down from the prepaid balance on their account. Not performing this reconciliation increases the possibility that errors or fraud would go undetected. Upon further inquiry, it was determined the Infinite Campus software does not yet have the ability to produce the information necessary to complete this reconciliation. We recommend the School Board work with Infinite Campus to develop such reporting capabilities in order to perform reconciliations between cash deposits and reported revenues.

Management has indicated that subsequent to year end, Infinite Campus has provided such a report to assist in the reconciliation between cash deposits and reported revenues.

New GASB Pronouncements

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

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

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

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

- Contributions from employers and nonemployer contributing entities to the OPEB plan and earnings on those contributions are irrevocable.
- OPEB plan assets are dedicated to providing OPEB to plan members in accordance with the benefit terms.
- OPEB plan assets are legally protected from the creditors of employers, nonemployer contributing entities, and the OPEB plan administrator. If the plan is a defined benefit OPEB plan, plan assets also are legally protected from creditors of the plan members.

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

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

GASB Statement No. 77, *Tax Abatement Disclosures*

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

Financial statement users need information about certain limitations on a government's ability to raise resources. This includes limitations on revenue-raising capacity resulting from government programs that use tax abatements to induce behavior by individuals and entities that is beneficial to the government or its citizens. Tax abatements are widely used by state and local governments, particularly to encourage economic development. For financial reporting purposes, this Statement defines a tax abatement as resulting from an agreement between a government and an individual or entity in which the government promises to forgo tax revenues and the individual or entity promises to subsequently take a specific action that contributes to economic development or otherwise benefits the government or its citizens.

Although many governments offer tax abatements and provide information to the public about them, they do not always provide the information necessary to assess how tax abatements affect their financial position and results of operations, including their ability to raise resources in the future. This Statement requires disclosure of tax abatement information about *(1)* a reporting government's own tax abatement agreements, and *(2)* those that are entered into by other governments and that reduce the reporting government's tax revenues.

This Statement requires governments that enter into tax abatement agreements to disclose the following information about the agreements:

- Brief descriptive information, such as the tax being abated, the authority under which tax abatements are provided, eligibility criteria, the mechanism by which taxes are abated, provisions for recapturing abated taxes, and the types of commitments made by tax abatement recipients;
- The gross dollar amount of taxes abated during the period; and
- Commitments made by a government, other than to abate taxes, as part of the tax abatement agreement.

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

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

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

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

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

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

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

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

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

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

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

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

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

PBMares, LLP

Harrisonburg, Virginia
November 28, 2016