SPECIFICATIONS FOR AUDITS OF COUNTIES, CITIES, AND TOWNS

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***NOTE: The documented ‘Track Changes’ included within this manual are intentional to communicate notable amendments of the current year. Other minor wording or formatting changes have also been made in this version but are not shown as ‘Track Changes’ for easier review of this document. See related Note on page 1-1.***

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**SPECIFICATIONS FOR AUDITS OF COUNTIES, CITIES, AND TOWNS**

CHAPTER 1

**INTRODUCTION**

1-1 Introduction

The *Specifications for Audits of Counties, Cities, and Towns* sets standards for audits of local governments in Virginia. The specifications in this manual apply to all audits of counties, cities, towns with populations of 3,500 or more, and towns operating a separate school division. The Code of Virginia does not require towns with populations of less than 3,500 without a separate school division to have an audit in accordance with these specifications. However, nothing prevents these towns from having an audit in accordance with these specifications at their option.

This **2025 revision** of the *Specifications for Audits of Counties, Cities, and Towns* completely supersedes the prior year revision. This revision is effective for audits of fiscal years ending on or after June 30, 2025.

*Note: Throughout this 2025 revision for existing sections, the APA may have reorganized the sequence of certain audit procedures at some sections; however, the overall content of the audit procedures remains the same as in prior year. Significant changes to content for FY2025 are shown in Track Changes to communicate notable amendments of the current year.* *The* ***Required Audit Procedures, Suggested Audit Procedures,*** *overall* ***Audit Requirements, and Risk Assessment Considerations*** *are shown in blue boxes with applicable headings to better highlight this information separately from the background, explanatory information throughout the various chapters and sections.*

***Effective starting with fiscal year 2024 audits, the audit procedures at*** [***Section 3-18 Opioid Abatement Funds***](#opioidabatement318) ***are applicable to cities and counties that are receiving opioid settlement funds.***

No manual defining audit specifications can meet all the present and future needs of local governments or their auditors. Changes will occur with the issuance of new accounting and auditing pronouncements or as problems emerge. The Auditor of Public Accounts will periodically update this manual as changes occur. However, responsibility for complying with professional standards remains with the auditor, and the auditor should follow all new pronouncements.

1-2 Organization of the Manual

The *Specifications for Audits of Counties, Cities, and Towns* has six chapters, including this introduction. The Audit Specifications include *Audit Procedures* in chapter 2; *Virginia Compliance Supplement* in chapter 3; *Quality Control Program* in chapter 4; *Treasurer’s Turnover Audits* in chapter 5; *Audit of Circuit Court Clerks* in chapter 6; and *Turnover Audit of Circuit Court Clerks* in chapter 7.

Chapter 2, *Audit Procedures*, has specific audit procedures unique to local government audits in Virginia. The Code of Virginia gives the Auditor of Public Accounts authority to issue audit specifications to help ensure the quality of local government audits. Additionally, the current auditing literature encourages governmental officials to provide auditors information on statutory or accounting requirement unique to a state or local government.

Chapter 3, *Virginia Compliance Supplement*, has required audit procedures for determining compliance with certain state laws, regulations, and policies. State agencies need assurance about the proper utilization of assets provided to local governments and that localities have complied with applicable laws and regulations. The chapter addresses some of the laws and regulations that an auditor may need to address regardless of materiality due to the nature of the statute or regulation. Accordingly, this chapter requires auditors to test and report on state compliance as part of the local government audit.

Note that throughout some sections of Chapter 3 the specifications may allow for the auditor to apply risk assessment and materiality considerations for testing during the applicable fiscal year, and/or apply an alternate testing schedule of performing certain procedures over a three-year period. However, these considerations are only applicable to certain areas/audit procedures as specifically indicated as such at those relevant sections.

Chapter 4, *Quality Control Program*, discusses the Auditor of Public Accounts’ quality control program. It includes the policies and procedures the Auditor of Public Accounts uses during desk and quality control reviews. This chapter also includes procedures the Auditor of Public Accounts uses if we find an audit of substandard quality.

Chapter 5, *Treasurer’s Turnover Audits,* includes accounting and auditing specifications required to be performed when a county or city treasurer leaves office. The turnover audit must include all funds handled by the treasurer.

Chapter 6, *Audits of Circuit Court Clerks,* has required audit procedures when the CPA firm is engaged to complete the audit of the locality’s Circuit Court Clerk pursuant to §15.2-2511 of the Code of Virginia.

Chapter 7, Turnover Audit of Circuit Court Clerks, includes the required auditing specifications to be performed when a CPA firm is engaged to complete the review when a Clerk leaves office.

1-3 Revisions to the Audit Specifications

This 2025 revision of the *Specifications for Audits of Counties, Cities, and Towns* reflects existing professional literature at the time of issuance. However, as new accounting and auditing pronouncements emerge, the manual will need to change. The Auditor of Public Accounts will periodically review the audit specifications to identify changes that may be required. The Auditor of Public Accounts will distribute these changes to local governments and their auditors.

1-4 Relationship to Other Standards

The procedures in this manual are not intended to constitute, and do not constitute, an audit in accordance with generally accepted government auditing standards or Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). The procedures in this manual are additional work not necessarily required by those standards.

Some of the required procedures may provide the auditor with evidence useful in conducting the audit of the financial statements and the Schedule of Expenditures of Federal Awards. However, performance of these procedures alone will not satisfy the standards mentioned above. As a result, the auditor must perform such additional procedures as deemed necessary to satisfy those standards.

The Auditor of Public Accounts designed these specifications to help ensure the quality of local government audits and ensure compliance with material and significant state laws and regulations. Accordingly, the auditor must perform the required procedures in this manual; however, auditors may use judgment when applying audit procedures that involve audit sampling. The auditor's determination that certain procedures do not apply requires documentation in the working papers.

The Code of Virginia §15.2-2511 requires local governments to obtain an audit in accordance with the specifications of the Auditor of Public Accounts. In addition, most audit contracts incorporate a reference to these specifications. As a result, due professional care requires the auditor to follow all applicable standards in conducting local government audits, including the requirements of these specifications.

1-5 APA Website and Other Informational Resources

Our Office publishes various reports, resources, and guidelines on the APA Local Government website page, [**https://www.apa.virginia.gov/local-government**](https://www.apa.virginia.gov/local-government)**.**

**During February 2024, the APA launched a new website platform; as such, all URL hyperlinks to local government resources have changed. Please note that the URL hyperlinks for all local government reports and resources published on the APA website no longer contain *apa.virginia.gov* in the URL domain.** The URL domain name now points to the Commonwealth agency Division of Legislative Automated Systems’ (DLAS) data content and cloud-based web-hosting platforms (via Directus and Microsoft Azure), as DLAS is assisting our office with managing the APA website. For example, the URL hyperlink for the Uniform Financial Reporting Manual resource is now:

<https://dlas-directus-prod.azurewebsites.net/assets/3A9D01DC-8718-4053-9D3D-BD57BA48081A.docx>

Refer to additional information below on how to navigate the new Local Government page of the APA website.

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Description automatically generated***Resources Section:***

The Resources section of the Local Government website page includes important guidelines, manuals, and other helpful guidance, such as the Cardinal State Disbursement reports, the annual Audit Specifications, Uniform Financial Reporting Manual, and many other documents published and updated annually. This section also contains all files related to the Comparative Report Transmittal process, such as Transmittal preparation and training resources, the locality specific annual surveys, and the locality specific Transmittal workbooks.

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Description automatically generated All relevant guidelines, manuals, and other guidance documents are available by selecting the main ***Guidelines and Manuals*** category. You can search for the various types of resources under the *Find a Report* feature, and filtering by the ‘Subcategories’ menu. You can also search for a specific resource by typing a keyword in the *Filter by Title* search feature at the top of the documents listing.

***Reports Section:***

Local Government-related reports are organized into two main categories: those issued by our office and those issued by external CPA firms.

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The ***APA Reports*** section includes internally APA- issued reports for local related audits, special projects like the Comparative Reports and Fiscal Distress Monitoring, APA quality control reviews over CPA firms performing local government audits, and other areas. **The Judicial Reports section now includes all APA issued reports for court/judicial audits, constitutional officer turnovers, and the results of audits over state funds held by constitutional officers.**

Once navigating to one of the main ***APA Reports*** categories, you can search on various report types under the *Find a Report* feature, and filtering by the ‘Subcategories’ menu. You can also search for a specific locality report by filtering the ‘Localities’ menu or using the *Filter by Title* search feature at the top of the reports listing.

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Description automatically generatedThe ***Other Reports*** section includes financial related reports issued by external CPA firms for localities (cities, counties, and towns), along with other governmental entities that have submitted their annual audit reports to our office such as local authorities, boards, commissions, districts, and small towns that elect to have an audit. This section includes reports for the judicial audits over certain Clerks of the Circuit Court and other audits over constitutional officers performed by an external CPA firm. This section also includes Stormwater Reporting submitted by applicable localities, as of FY2023. (Note that this reporting is no longer required; see updates below at [Section 3-16](#stormwater316).)

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Description automatically generated Once navigating to one of the main ***Other Reports*** categories, you can search on various report types under the *Find a Report* feature, and filtering by the ‘Subcategories’ menu. You can also search for a specific locality report by filtering the ‘Localities’ menu or using the *Filter by Title* search feature at the top of the reports listing.

There are many other, external sources available to obtain information related to Virginia local governments. The following is a list of some of the organizations with their website address.

* Virginia Association of Counties – [www.vaco.org](http://www.vaco.org/)
* Virginia Municipal League – [www.vml.org](http://www.vml.org/)
* Virginia Government Finance Officers’ Association – [www.vgfoa.org](http://www.vgfoa.org/)
* UVA Weldon Cooper Center for Public Service – [www.coopercenter.org](https://www.coopercenter.org/)
* VA Tech School of Public and International Affairs – [spia.vt.edu/leadership-development.html](https://spia.vt.edu/leadership-development.html)

**SPECIFICATIONS FOR AUDITS OF COUNTIES, CITIES, AND TOWNS**

CHAPTER 2

**AUDIT PROCEDURES**

2-1 General

This chapter contains required audit procedures for local government audits made pursuant to §15.2-2511 of the Code of Virginia. Chapter 3 contains additional procedures that localities agree to have performed, when they accept state grants, contracts or other state funding. The degree of testing on these state compliance issues may depend on the terms of the state law, agreement or other requirements of the program.

Auditors should be thoroughly familiar with this chapter before planning and performing the audit and should incorporate these considerations into the auditor's plan and programs. The procedures contained in this chapter do not constitute an audit in accordance with *Government Auditing Standards.* The auditor should perform such additional procedures, as he deems necessary to satisfy those standards.

Where appropriate, the auditor must meet the requirement of the Single Audit Act Amendments of 1996 and the Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*.

No manual defining audit specifications can meet all the present and future needs of local governments or their auditors. Changes will be needed as new accounting and auditing pronouncements and/or as problems emerge. The Auditor of Public Accounts will periodically update these specifications as changes occur. However, responsibility for complying with professional standards remains with the auditor and the auditor should follow all new pronouncements.

The auditor should be familiar with Virginia local governments including internal control and compliance issues. Available informational resources are provided in Chapter 1.

### Audit Requirement

The auditor must document in the working papers the justification for changing specifically required audit procedures.

2-2 Auditing Standards and the Audit Contract

### Audit Requirement

Auditors must conduct their audit in accordance generally accepted auditing standards, as set forth by the American Institute of Certified Public Accountants, and Government Auditing Standards issued by the Comptroller General of the United States, and the Specifications for Audits of Counties, Cities, and Towns issued by the Auditor of Public Accounts. The auditor must follow *Government Auditing Standards* on every audit, regardless of whether the local government received federal financial assistance.

### Audit Requirement

Auditors must discuss materiality, the anticipated nature and scope of the audit, and the planned work on internal controls and compliance during the procurement process and with management and the governing body before the start of the engagement each year.

If a locality has an audit committee the discussion with this committee will meet this requirement. The auditor should document these discussions in the working papers. To the extent the governing body's expectations exceed professional standards, the auditor should incorporate these additional requirements into the contract documents. The auditor is then responsible for performing the audit in accordance with applicable standards and the terms of the audit contract.

2-3 Audit Scope

### Audit Requirement

The audit must include all component units of the local government, unless the audit contract indicates that other auditors will audit them. The audit must include the offices of each of the constitutional officers. Auditors must include in the audit all funds received from the Compensation Board and expenses paid by the local government for the constitutional officers, including the clerk of the circuit court, if the local government directly pays the expenses of this office. The local audit must also include trust and canteen funds held by the sheriff, even if the locality's financial statements do not report such funds. The auditor should also determine if any constitutional officers other than the clerk of the circuit court are holding funds for others even under court order and where appropriate consider their impact on the financial statements.

Unless contracted by the locality pursuant to §15.2-2511 of the Code of Virginia, auditors do not need to audit the collections of the clerk of the circuit court, nor do they need to audit any disbursements made by the clerk of the circuit court including office expenses and salaries, if the clerk makes these payments directly. The Auditor of Public Accounts will annually audit these collections and disbursements and any funds held by the clerk in his or her official capacity and the state funds held by the local treasurer.

Note: *See Chapter 6, Audit of Circuit Court Clerks, for audit requirements when firm is engaged to perform the locality’s Circuit Court Clerk audit.*

2-4 Property Taxes and Property Taxes Receivable

***Reviewed by/Date:*** *APA Local Government team, June 2025*

### Background Information

Property taxes are the largest source of revenues in most local governments. Property taxes typically consist of real estate taxes, personal property taxes, machinery and tools taxes, merchants’ capital taxes, and mobile homes taxes. They also consist of real estate and personal property taxes on public service corporations. The State Corporation Commission assesses property owned by public service corporations and sends the valuation to the local commissioner of the revenue for use in the assessment process.

The commissioner of the revenue maintains the original assessment books showing the value of property. The commissioner forwards copies of the assessment books to the treasurer who records the levy in the local government's books and mails the tax bills. The treasurer collects the taxes and maintains the subsidiary listings for taxes receivable. Taxes receivable consist of both current and delinquent taxes.

The governing body has the authority to hear complaints from taxpayers and to revise individual assessments either up or down. When property values are revised upward, the commissioner or other assessing officer must prepare supplemental assessments. These assessments constitute an additional charge to the treasurer for collection and should be accounted for in the same manner as the original tax assessment.

When property values are revised downward or when mistakes come to the commissioner of the revenue's attention, the commissioner corrects his assessment books and completes an exoneration (abatement) form to correct the error. The commissioner forwards the approved exoneration form to the treasurer who writes off the taxes. The Code of Virginia prohibits the treasurer from adjusting the land books without authorization from either the commissioner of the revenue or the governing body. If the taxpayer has already paid the tax, the governing body must authorize the treasurer to make a refund for taxes already paid.

Most local governments offer some form of tax relief for the elderly or handicapped. The commissioner of the revenue records the valuation of these properties in the land book. However, the treasurer is not charged with the collection of these assessments and the treasurer does not record these amounts in his ledgers.

Delinquent personal property taxes typically remain on the books for five years. During this time, the treasurer or other collecting official is responsible for collecting the taxes. After five years, the treasurer returns the listing of delinquent personal property taxes to the governing body. Delinquent real estate taxes remain on the books for twenty years or until the property is sold. After the first year, the treasurer records the amount in the delinquent tax books and records a lien on the property. On December 31 following the third anniversary of the due date, the treasurer may implement proceedings to sell the property.

Delinquent real estate taxes are subject to special audit procedures to help ensure that payments on delinquent taxes are properly recorded. Because unpaid property taxes may result in a lien against the property or even sale of the property, it is imperative that the treasurer properly record payments in the tax records. Although most taxpayers do not respond to confirmation requests for delinquent taxes, direct confirmation is still the best way to detect unrecorded receipts.

### Required Audit Procedure

1. The auditor must trace the original and supplemental assessments per the assessing officer's records to the treasurer's general ledger.
2. The auditor must obtain the State Corporation Commission's report showing the valuation of public service corporation property. The auditor must agree the Commission's valuations for real estate and personal property to the assessing officer's assessment sheets.
3. The auditor must perform appropriate audit procedures over exoneration forms to determine whether they have been properly approved. The auditor also must verify that the treasurer has properly recorded the exoneration in the general ledger and subsidiary assessment records. The auditor may choose to design audit procedures through sampling or other data analytics/system related procedures.
4. If the local government has assessed special levies for school, debt service, or other purposes, the auditor must verify that the local government distributed collections to the proper fund(s) for those levies.
5. The auditor must perform appropriate audit procedures to substantiate the balance of delinquent taxes.

2-5 Intergovernmental Revenues

***Reviewed by/Date:*** *APA Local Government team, June 2025*

### Background Information

Intergovernmental revenues are a significant source of revenue in most local governments. Local governments receive money from the Commonwealth to assist in operating education, social services and other state programs. Local governments also receive money to pay a portion of the constitutional officers' salaries.

Most local governments also receive revenues from the federal government. The federal government may disburse the funds directly to the local government or may disburse them to a state agency, which then passes them through to the local government. Some local governments also participate in non-cash assistance programs such as loan guarantee, supplemental nutrition assistance programs, or commodities programs.

The Auditor of Public Accounts provides the Cardinal State Disbursements Reports based on data extracted from the State’s accounting and financial reporting system, published at  [apa.virginia.gov > Local Government > Resources > Cardinal State Disbursements](https://www.apa.virginia.gov/local-government/resources?type=cardinal-state-disbursement). The APA publishes this report monthly and annually for local government officials and their auditors. The report shows most disbursements from state agencies to local governments and may serve as a form of revenue confirmation. The State Disbursements Report distinguishes between state assistance and federal pass-through assistance. In the event the auditor has questions or concerns about the accuracy of data contained in the State Disbursements Report, the auditor should contact the state agency that remitted the funds to the local government. The state assigned fund numbers for federal pass-through assistance will vary, but the Disbursement Report may be used in conjunction with the APA’s annual Federal Programs Cross Reference Index resource, and other information received directly from the state agencies to test proper classification of intergovernmental revenues and to assist in determining the completeness of the schedule of expenditures of federal awards. A copy of the Federal Programs Cross Reference Index resource is available at this [link](https://dlas-directus-prod.azurewebsites.net/assets/6C27DA94-91DE-4853-8AF5-06DD83113CF9.xlsx) (available at [apa.virginia.gov > Local Government > Resources > Guidelines and Manuals](https://www.apa.virginia.gov/local-government/resources?type=guidelines-and-manuals)).

### Required Audit Procedure

The auditor must reconcile remittances of state disbursements and federal pass-through assistance appearing on the Cardinal State Disbursements Report to the local government's records. The auditor can perform this procedure either by selecting a sample of remittances and tracing them to the local government's accounting records, or by reconciling total remittances to the local government's records. In performing this procedure, the auditor should ensure both proper recording and proper classification of revenues (as either state or federal revenue).

### Suggested Audit Procedure

The auditor may want to consider performing certain audit procedures to ensure the locality is properly accounting for all federal funds received. When performing the required audit procedure above for reconciling remittances of state disbursements and federal pass-through assistance, the auditor may consider ensuring the federal portion in the Schedule of Expenditures of Federal Awards equals the amounts the locality has reported to the Federal Audit Clearinghouse.

Note: The AICPA Audit and Accounting Guide, *Government Auditing Standards and Single Audits*, states: *audit procedures should be performed to obtain sufficient appropriate audit evidence supporting the accuracy and completeness of the schedule of expenditures of federal awards, including the identification of federal programs in the schedule. In testing the accuracy and completeness of the schedule of expenditures of federal awards, the auditor may use evidence obtained from audit procedures performed during the audit of the financial statements and the Uniform Guidance compliance audit regarding the accuracy, completeness, and classification of recorded revenues and expenditures. Additionally, the auditor may consider reviewing an auditee-prepared reconciliation of amounts reported in the schedule of expenditures of federal awards and the related notes to corresponding amounts reported in the financial statements or other underlying records used to prepare the schedule (for example, the general ledger, reimbursement requests, loan agreements, or other supporting documentation). The auditor may also consider sending confirmations to federal awarding agencies or pass-through entities in an audit of a subrecipient*.

2-6 Inmate Canteen and Other Auxiliary Funds

***Reviewed by/Date:*** *APA Local Government team, June 2025*

***State Compensation Board Contact:*** *Robyn DeSocio, Executive Secretary; 804.225.3439; robyn.desocio@scb.virginia.gov*

### Background Information

**Note:** **During the 2024 legislative session, the General Assembly passed** [**HB 912**](https://lis.virginia.gov/cgi-bin/legp604.exe?ses=241&typ=bil&val=hb912)**, which imposes new limitations on the use of the net profits from commissary/canteen stores and telephone communication systems in local and regional jails. Specifically, this legislation now limits the use of net profits solely for** ***educational, recreational, or medical purposes for the benefit of the inmates to include behavioral health, substance abuse, reentry, and rehabilitative services for the benefit of inmates and may be expended to pay for the training, salaries, and benefits of employees or contractors whose primary job is to provide such programs and services to the inmates****.***In addition, this new legislation no longer permits net profits/other commissions from local telephone systems and other communication systems to be used to defray the costs of jail operations. Net profits from telephone and other communication systems must be used solely for educational, recreational, or medical purposes for the benefit of the inmates** (Code of Virginia[§53.1-115.2](http://law.lis.virginia.gov/vacode/53.1-115.2), [§53.1-127.1](http://law.lis.virginia.gov/vacode/53.1-127.1),  [§53.1-127.2](http://law.lis.virginia.gov/vacode/53.1-127.2))*.*

**This legislation was effective July 1, 2024, therefore effective beginning with fiscal year 2025*.*** During 2024, the APA included necessary updates to reflect these legislative changes in the Sheriff’s Accounting Manual to provide guidance for applicable budgetary and accounting practices and internal controls for the local Sheriff offices and jails. Auditors should be mindful of changes to the allowable uses of these funds when performing audit procedures at this section for the FY2025 local government audits.

Most local correctional facilities, including jails, offer canteen services to their inmates. Facilities use various methods to sell these items to inmates, depending on the size of the facility and the number of times each week canteen services are offered. Net profits from the canteen operations that are generated from the inmates’ accounts must benefit the inmates in the custody of the Sheriff or Regional Jail Superintendent.

Some Sheriffs/jails also receive funds from other sources directly related to jail operations. These include inmate medical co-payments, work release and other fees collected from inmates. As further described below, these funds are either included in the canteen proceed accounts or go to the local treasurer and, through appropriation, may be used to defray the cost of the jail operations.

The inmate canteen accounts and telephone commissions are public funds. The Code of Virginia requires that these funds be used within the jail facility for purposes to benefit the inmates. The funds should not be used for the sheriff’s or superintendent’s personal gain or convenience.

Some jails have established work release and medical treatment programs where inmates contribute to the costs. Inmate co-payments for medical services are a set fee that covers only a portion of the costs of the services. The medical co-payments should directly offset the costs for medical programs.

Annually the Compensation Board prepares a Jail Cost Report on jail revenue and expenditure data from all local and regional jails and jail farms that receive funds from the Compensation Board. The jails must include an audited statement of revenues and expenses for inmate canteen accounts, telephone commission funds, inmate medical co-payment funds, any other fees collected from inmates, and investment/interest monies for inclusion in the report. Note that the Compensation Board publishes the Jail Cost Report as of November 1 each year, which is based on the prior fiscal year’s audited data. See additional information on the Compensation Board website at [http://www.scb.virginia.gov](http://www.scb.virginia.gov/); follow the link for Publications and Forms (Jail Canteen Funding Audit Information).

*Inmate Canteen Accounts*

*(See Note above for legislative changes effective July 1, 2024)* In accordance with §53.1-127.1, the canteen account net profits that are generated from the inmates’ accounts are required to be used within the facility for purposes to benefit the inmates under the jurisdiction of the Sheriff or Regional Jail Superintendent and must be used solely for educational, recreational, or medical purposes for the benefit of the inmates to include behavioral health, substance abuse, reentry, and rehabilitative services for the benefit of inmates and may be expended to pay for the training, salaries, and benefits of employees or contractors whose primary job is to provide such programs and services to the inmates.. The allowable expenses from profits of the inmate accounts include:

* Commissary-services, supplies, furnishings, equipment, training. Also, personnel services for time spent directly guarding or working in the commissary. *[Note: These are all direct costs of the canteen.]*

The profits from the inmate canteen should not be used to fund the normal operations of the jail. They may be used for costs that directly benefit the inmates, such as:

* Education-services, supplies, equipment, furnishings, training.
* Recreation-services, supplies, equipment, furnishings.
* Library-services, supplies, furnishings, equipment, books, magazines, periodicals, newspapers.
* Indigent Inmate Care-stamps, clothing, personal hygiene items, vision, dental, medical, commissary items.
* Inmate care/programs-safety equipment, workforce clothing, workforce tools, laundry equipment, supplies, hygiene items, medical equipment.
* Special Food Service-special meals or food items associated with holidays and/or specific events/occasions.
* SpecialCounseling/Pastoral Care-services, supplies, equipment, furnishings, training.
* Medical purposes- services, supplies, equipment, training, to include behavioral health, substance abuse, reentry, and rehabilitative services for the benefit of inmates and may be expended to pay for the training, salaries, and benefits of employees or contractors whose primary job is to provide such programs and services to the inmates.

The above allowable expenses are not considered all-inclusive and funds should not be used for goods or services that can be provided to the jail at no cost. Additional expenses may be approved at the sole discretion of the Sheriff/Regional Jail Superintendent, provided that the expense is for the care and welfare of inmates. **No expense shall be for the personal gain, benefit, consumption, or use of any individual other than jail inmates.**

*Telephone Commissions*

*(See Note above for changes effective July 1, 2024)* The Code of Virginia § 53.1-127.2 now requires that the net profits/commissions from local telephone systems and other electronic communication systems must be used for educational, recreational, or medical purposes for the benefit of the inmates to include behavioral health, substance abuse, reentry, and rehabilitative services for the benefit of inmates and may be expended to pay for the training, salaries, and benefits of employees or contractors whose primary job is to provide such programs and services to the inmates. These net profits/commissions are no longer permitted to be used to defray the costs of jail operations. For examples of allowable costs from the net profits/ commissions from telephone systems and other electronic communication system, refer to examples noted above for inmate canteen accounts..

*Inmate Medical Co-payment Funds*

The inmate medical co-payment funds should directly offset the costs for medical programs.

*Other Inmate Fees (Work Release, RAID and HEM monies) and Investment/Interest Monies*

All fees collected from inmates and all interest earned on inmate accounts must be used for the benefit of the inmates or deposited with the Treasurer and used to defray the cost of jail operations.

### Required Audit Procedure

The auditor must obtain the Jail Canteen Fund Activity Report for the fiscal year under audit and perform the following:

* Agree the revenue and expense amounts from the Jail Canteen Fund Activity to the accounting ledger.
* Select a sample of disbursement transactions from the inmate canteen accounts. For each transaction selected, determine whether the disbursement benefited the inmates based on the allowable costs described above.
* Determine the reasonableness of inmate medical co-payment funds collected during the year to ensure the funds were used to offset the total costs for medical programs.

*Note: The auditor may consider risk assessment and materiality when reviewing the medical co-payment funds collected. If the balance is material as it relates to the total costs, the auditor should consider selecting a sample of inmate medical co-payment fees and trace each fee to the general ledger to determine whether it defrayed the inmate medical program costs.*

* Determine the reasonableness of other fees collected from inmates and ensure that the subsequent disbursements from these fees benefited the inmates or were used to defray the cost of jail operations as appropriate, depending upon the type of fee or fund.

*Note: The auditor may consider risk assessment and materiality when reviewing other fees collected and investment/interest monies.*

2-7 Sheriff Office Internal Controls

***Reviewed by/Date:*** *APA Local Government team, June 2025*

### Background Information

All sheriffs are responsible for having sufficient controls and procedures in place to satisfy statutory requirements and prevent fraud, misuse, or loss of funds and assets. The Sheriff’s office must deposit all sources of funds in an official bank account and these funds are subject to the auditor’s review. The [*Virginia Sheriffs Accounting Manual*](https://dlas-directus-prod.azurewebsites.net/assets/DB31D22E-C0FB-4195-8DED-0ECE683B7E85.pdf), issued by the Auditor of Public Accounts, has recommended guidelines including aspects of sheriffs’ internal control environment. A copy of the manual can be obtained from the APA website at [apa.virginia.gov > Local Government > Resources > Guidelines and Manuals](https://www.apa.virginia.gov/local-government/resources?type=guidelines-and-manuals))*.* There are three major accounting areas in a Sheriff’s office: jail operations, law enforcement; and court support services. The accounting procedures in the manual serve as a guide to sheriffs for developing individual accounting and control procedures appropriate for the functions within these areas.

Chapter 725 of the 2025 Acts of Assembly, Item 2C, includes audit requirements for any funds received by the local Sheriff. The locality’s independent auditor is required to submit a letter to the Auditor of Public Accounts annually providing assurance as to whether for any funds received the sheriff has maintained a proper system of internal controls and records in accordance with the Code of Virginia.

### Required Audit Procedures

Gain an understanding of the Sheriff’s operations and determine whether there are actions that locality’s general administration typically performs. Consider such things as:

* Procurement - the Sheriff must meet the minimum standards of the Virginia Public Procurement Act when contracting for goods and services directly. For services, the value of the contract is a measure of the estimated gross amount of collections, not just the net profits. Examples include food services; inmate medical care; telephone services; canteen operations, etc.
* Personnel systems that account for special incentives, bonuses, etc. for deputies and other staff.

Determine whether the Sheriff is in compliance with applicable state and federal regulations and Sheriff’s internal policies and procedures.

### Required Audit Procedure

Identify all sources of funds of the Sheriff’s office and determine whether there are adequate internal controls in place over these funds. Additionally, determine whether the Sheriff is depositing all funds in an official account or remitting the funds to the local Treasurer as required.

### Required Audit Procedure

Determine whether the internal controls are functioning as intended and are adequate to:

* comply with the Virginia Sheriffs Accounting Manual
* comply with the Code of Virginia, Sections 15.2-1609 through 15.2-1625
* safeguard all money
* ensure proper accountability of funds and their disbursement

The auditor is required to perform these procedures regardless of the actual accounts held by the Sheriff.

*Note: The auditor should be mindful of the security and sensitivity requirements the Sheriff may have over certain areas, such as an evidence room. Where necessary, the auditor should work with the Sheriff to determine acceptable audit procedures for these areas, so they do not compromise legal proceedings.*

### Required Audit Procedure

The auditor is required to submit a letter to the Auditor of Public Accounts by December 15 each year for all local sheriffs. The auditor is required to provide assurance as to whether the sheriff has maintained a proper system of internal controls and records in accordance with the Code of Virginia. A [sample letter](https://view.officeapps.live.com/op/view.aspx?src=https%3A%2F%2Fdlas-directus-prod.azurewebsites.net%2Fassets%2F5A25845E-2B1A-49C1-9DC7-FC43507521BE.docx&wdOrigin=BROWSELINK) is available on the APA website at [apa.virginia.gov > Local Government > Resources > Guidelines and Manuals](https://www.apa.virginia.gov/local-government/resources?type=guidelines-and-manuals).

2-8 Reporting

### Reporting Instances of Noncompliance, Fraud, and Illegal Acts

Auditors should follow the requirements of *Government Auditing Standards* and the federal Uniform Guidance requirements for single audits, in reporting weaknesses in internal controls and noncompliance with laws and regulations. Auditors should use special care in determining whether to report noncompliance with state laws and policies, particularly with those issues tested in Chapter 3. The auditor may apply materiality thresholds and use professional judgment when making the determination to report noncompliance findings; for example, when evaluating whether the finding rises to the level of a material weakness or significant deficiency for Government Auditing Standards reporting purposes, or whether the finding is reported at a lower level in a written management letter. However, some state agencies rely on the auditor's reports to meet their sub-recipient monitoring responsibilities; accordingly, an "immaterial" instance of noncompliance may be significant to the state agency, particularly if other local governments are having similar problems. For example, an instance of noncompliance related to the Virginia Department of Social Services may be more significant on an overall state-wide level, versus noncompliance related to a late filing of a conflicts of interest form. Auditors should contact the state agency contact person included in the state agency contact list provided by the Auditor of Public Accounts each year if they have any questions about whether the state noncompliance is significant enough to include in the annual financial report.

### Audit Requirement

If the auditor reports state noncompliance in the annual financial report, the auditor must also send a copy of the report to the applicable state agency. (See the [State agency contact list](https://view.officeapps.live.com/op/view.aspx?src=https%3A%2F%2Fdlas-directus-prod.azurewebsites.net%2Fassets%2F853BAE56-493C-4C3E-B73D-2830BA2ADDF1.xlsx&wdOrigin=BROWSELINK) on the APA website at [apa.virginia.gov > Local Government > Resources > Guidelines and Manuals](https://www.apa.virginia.gov/local-government/resources?type=guidelines-and-manuals))*.* Auditors should disclose any questioned costs involving federal funds in accordance with the provisions of the Uniform Guidance audit requirements and the AICPA Audit and Accounting Guide, Government Auditing Standards and Single Audits, as amended. In addition to questioned costs of federal funds, the auditor should identify state "questioned costs" that are material to the financial statements. Specifically, the auditor should "question" unallowable, undocumented, unapproved, or unreasonable costs charged to state programs. Auditors should disclose state "questioned costs" in the auditor's report on compliance performed in accordance with Government Auditing Standards or in the Schedule of Findings and Questioned Costs. If the auditor includes them in the Schedule of Findings and Questioned Costs, the schedule should clearly distinguish between federal and state findings.

Auditor reports should be based on the requirements of the AICPA Audit and Accounting Guide for Audits of State and Local Governments, as amended.

The local government, or the auditor if so specified in the audit contract, must submit the data collection form and the reporting package to the Federal Clearinghouse as required by the Uniform Guidance audit requirements.

### Audit Requirement

In the event the audit discloses fraud or illegal acts, the auditor must follow applicable auditing standards for reporting on such instances in the auditor’s report on internal control and compliance relevant information about:

1. fraud
2. noncompliance with provisions of laws or regulations and provisions of contracts or grant agreements that have a material effect on the financial statements or other significant financial data and any other instances that warrant the attention of those charged with governance
3. abuse that is material, either quantitatively or qualitatively

Additionally, in the event the audit discloses fraud or illegal acts involving circumstances that suggest a reasonable possibility that a fraudulent transaction has occurred involving funds or property under the officer’s control and an officer or employee of the local government may be involved, the auditor must advise the local government officials to report fraudulent transactions to the Auditor of Public Accounts, the State Inspector General, and the Superintendent of State Police in accordance with §30-138 of the Code of Virginia.

### Audit Requirement

If a local government employee is convicted of a felony related to a fraud in connection with employment at a locality, the local government officials have responsibility to notify the Virginia Retirement System, if the activity occurred on or after July 1, 2011, as the employee is no longer entitled to his or her pension benefits pursuant to §51.1-124.13 of the Code of Virginia. The auditor should inquire as to whether any such instances have occurred with any employee being convicted of a felony in connection with their employment at the locality, and if so, the auditor should ensure that the locality employer has initiated the pension benefit forfeiture process in accordance with VRS policy.

*Note: Additional information related to this requirement can be found at the* [*Attorney General July 31, 2015 advisory opinion*](http://ag.virginia.gov/files/Opinions/2015/15-008_McAuliffe.pdf?utm_source=VRS+Employer+Update&utm_campaign=ef5584e283-Employer_Update_December_2015&utm_medium=email&utm_term=0_452330e899-ef5584e283-221415189)*, at* <http://ag.virginia.gov/index.php/citizen-resources/opinions/official-opinions>*.*

### Annual Financial Reports and Audit Completion

Local governments are required to prepare the annual financial reportin accordance with pronouncements of the Governmental Accounting Standards Board (GASB).

The auditor and/or locality should only submit a final audited financial report to the APA by December 15 in compliance with §15.2-2510 of the Code of Virginia. The auditor or locality should not email or send any “draft” version of a financial report to the APA; the APA will only accept a final copy of the audited financial report. The auditor and locality should be aware that the Auditor of Public Accounts publishes the locality’s annual financial reports on the APA website. The report should not include any personally identifiable information or other sensitive, FOIA exempt information. Refer to additional reporting instructions in the [Reporting Requirements and Distribution](https://view.officeapps.live.com/op/view.aspx?src=https%3A%2F%2Fdlas-directus-prod.azurewebsites.net%2Fassets%2FE30B0BA9-BF5C-4042-9D33-7DEABADA4A90.docx&wdOrigin=BROWSELINK) document on the Auditor of Public Accounts website at [apa.virginia.gov > Local Government > Resources > Guidelines and Manuals](https://www.apa.virginia.gov/local-government/resources?type=guidelines-and-manuals).

Additionally, §15.2-2511 of the Code of Virginia requires the following:

* If the local government’s audit is not completed as required by this statute, the locality shall promptly post a statement on its website, if such website exists, declaring that the required audit is pending, the reasons for the delay, and the estimated date of completion. Such statement shall also be posted and made available to the public at the next scheduled meeting of the local governing body and also be sent to the Auditor of Public Accounts. The statement shall continue to be posted and updated until the audit is complete.
* Any town under the 3,500 population threshold (not required to have an annual audit under §15.2-2511 subsection C) that voluntarily contracts for or performs an audit shall submit the results of such audit to the Auditor of Public Accounts upon completion of the audit.

*Note: “Small towns” (under the 3,500 population threshold) are not required to follow these Audit Specifications during their audit, although they may elect to do so. Additionally, the December 15 reporting due date required by Code §15.2-2510 is not applicable to a small town that voluntarily elects to receive an audit.*

### Audit Requirement

The auditor must render an opinion on the financial statements and provide the other appropriate reports required by *Government Auditing Standards* issued by the Comptroller General of the United States. The Auditor of Public Accounts also requires that the opinion(s) reference these Audit Specifications.

### Audit Requirement

* The local government, or the auditor, if so specified in the audit contract, must submit the final audited financial report to the Auditor of Public Accounts by December 15 of each year in accordance with §15.2-2510 of the Code of Virginia.
* If the School Board issues a separate financial report, they are required to submit a copy of the final audited report to the Auditor of Public Accounts by December 15.

*Note: If another component unit of a locality issues a separate financial report, they are required to submit their audited financial report to the Auditor of Public Accounts in accordance with Code of Virginia §30-140; refer to the Specifications for Audits of Authorities, Boards, and Commissions* (available at [apa.virginia.gov > Local Government > Resources > Guidelines and Manuals](https://www.apa.virginia.gov/local-government/resources?type=guidelines-and-manuals)).

* If the local government elects to prepare a separate single audit report, they are also required to submit that report to the Auditor of Public Accounts as soon as the single audit report is completed and issued. The local government should adhere to OMB’s guidance for the single audit reporting deadline.
* If a “small town” (under the 3500 population threshold) has voluntarily elected to contract for the performance of an audit, the town, or the auditor, if so specified in the audit contract, should submit the final audit report to the Auditor of Public Accounts upon completion of the audit.

### Audit Requirement

The auditor must present the audited financial report to the local governing body at a public session by December 31 as required by §15.2-2511 of the Code of Virginia.

### Audit Requirement

If a locality’s audit is delayed past the required deadlines of submitting the audited financial report and transmittal data to the APA (December 15 deadline at Code of Virginia §15.2-2510) and the auditor’s requirement to present the results of the audit to the local governing body (December 31 deadline at Code of Virginia §15.2-2511), the locality is required to post a statement about the audit delay on its website, and notify the Auditor of Public Accounts and its governing body regarding the audit delay and expected completion.

The auditor should determine if the local government has posted the appropriate statement about the audit delay and notified the Auditor of Public Accounts and its governing body accordingly.

### Management Letters

In accordance with Chapter 725 of the 2025 Acts of Assembly, Item 2 E., any auditor communication related to other internal control deficiencies and/or financial matters that merit the attention of locality management and the governing body (commonly referred to as a “management letter”) must be made in the form of official, written communication; this communication cannot be made orally.

Additionally, the Auditor of Public Accounts publishes on the APA website any written Management letters separately issued to the locality. **The locality and auditor should ensure that sensitive/FOIA exempt information, for example FOIA exempt information related to an internal control weakness in information systems, has been redacted from the written Management letter submitted to the APA.**

### Audit Requirement

* The auditor must provide in official, written communication any other internal control deficiencies or other financial matters that the auditor has communicated with locality management and the local governing, outside of the report on internal control.
* The locality or auditor should submit to the Auditor of Public Accounts a copy of any separate written management letter that the auditor has issued to the locality management and governing body.

Note: When submitting the required annual financial report to the Auditor of Public Accounts, the locality and/or auditor should provide confirmation on whether a written management letter has been issued for the fiscal year, by either stating that no management letter has been issued or including a copy of the written management letter with the audited financial report.

2-9 Comparative Reporting

### Background Information

The Code of Virginia requires the Auditor of Public Accounts to prepare an annual report showing comparative data for local governments in Virginia. To prepare this report, the Auditor of Public Accounts requires local governments, or their auditors if so specified in the audit contract, to submit data using Comparative Report Transmittal Forms. Copies of the transmittal forms, including the auditor's report on the forms, must be submitted to the Auditor of Public Accounts by December 15 of each year in accordance with §15.2-2510 of the Code of Virginia.

The Uniform Financial Reporting Manual specifies the format and contents of the transmittal forms. Much of the information contained in the transmittal forms comes from the audited financial statements. However, to make the report comparable between local governments, certain adjustments must be made to the data. These special reporting requirements apply only to the transmittal forms and do not alter the requirement to prepare the annual financial report in accordance with generally accepted accounting principles.

### Audit Requirement

Auditors must perform agreed-upon procedures on the transmittal forms as set forth in the [Uniform Financial Reporting Manual.](http://www.apa.virginia.gov/data/download/local_government/manuals/Uniform%20Financial%20Reporting%20Manual.docx) Auditors must then report on the results of the agreed-upon procedures in accordance with the Uniform Financial Reporting Manual.

**SPECIFICATIONS FOR AUDITS OF COUNTIES, CITIES, AND TOWNS**

CHAPTER 3

**VIRGINIA COMPLIANCE SUPPLEMENT**

3-1 General

This chapter includes required audit procedures for determining compliance with certain state laws and regulations. The required procedures contained within this chapter relate to all local government audits conducted pursuant to §15.2-2511 of the Code of Virginia. Chapter 2 contains additional required procedures related to local government audits.

The Auditor of Public Accounts has established these procedures in conjunction with the various state agencies named within this chapter. State agencies providing funds to local governments need assurance that the locality has complied with applicable laws and regulations. To this end, the Governor of Virginia has asked state agencies to work with the Auditor of Public Accounts to develop audit requirements related to state programs. This compliance supplement is a direct result of that request.

Many state programs require audits to determine the proper management of their programs and funds. Combining audit requirements for these state programs into the local government audit streamlines the audit process and ensures uniformity. The Auditor of Public Accounts believes that the incorporation of compliance procedures into the local government audit will increase audit efficiency and ultimately reduce audit costs.

The required procedures also may provide evidence for the auditor's report on compliance in accordance with Government Auditing Standards. Generally accepted government auditing standards require the auditor to identify and test those items of law that may have a material effect on the local government's financial statements. This chapter contains those provisions of state laws, regulations, and policies considered material by the Auditor of Public Accounts and the various state agencies that assisted in the development of this chapter.

Although performance of the required procedures may help satisfy the requirements of certain standards, the procedures contained in this chapter do not constitute an audit in accordance with generally accepted government auditing standards or the federal Uniform Guidance requirements for single audits. The auditor must perform such additional procedures, as deemed necessary to satisfy those standards. In addition, the auditor must perform any additional procedures required by the audit contract.

This chapter contains all of the Auditor of Public Accounts' requirements at the time of issuance of these specifications. The Auditor of Public Accounts will continue to work with state agencies to develop compliance requirements. The Auditor of Public Accounts will distribute additional requirements to local governments and their auditors as they arise. The auditor should follow generally accepted auditing standards and the terms of individual grant agreements in determining whether to perform tests of compliance for state programs not included in the current specifications.

Specific questions regarding the requirements contained within this chapter should be addressed to the related state agency. General questions regarding the audit specifications can be directed to the local government team at the Auditor of Public Accounts.

3-2 Using the Virginia Compliance Supplement

This chapter has two parts: general requirements and program specific (state agency requirements). Sections 3-3 through 3-9 contain generally applicable requirements that the auditor must consider on every audit. Generally applicable requirements are provisions of state law that affect all or most local governments. The auditor must generally perform the required procedures on every audit, regardless of materiality. Note that some sections may allow for the auditor to apply risk assessment and materiality considerations for testing during the applicable fiscal year, and/or apply an alternate testing schedule of performing certain procedures over a three-year period. However, these considerations are only applicable to certain areas/audit procedures as specifically indicated as such at those relevant sections.

The remainder of the chapter, Sections 3-10 through 3-17, contains program specific requirements. Program specific requirements must be tested for all material state programs (except where otherwise noted below at applicable sections where materiality is not applicable). Auditors shall determine whether a program is material by comparing total program expenditures to the materiality levels established in the planning stage for the applicable reporting level. The separate reporting levels for materiality purposes are defined by the AICPA’s Audit and Accounting Guide*, Audits of State and Local Governments*. If program expenditures are material to the reporting level, the auditor must perform the required procedures set forth in this chapter. If the program expenditures are not material to the reporting level, test work relative to that particular state program is optional, unless the program has an annual audit requirement. If the state grantor agency requires an annual audit, the auditor must perform the required procedures contained in this chapter regardless of materiality. Once the auditor determines which state programs must be tested, the auditor must perform all of the required audit procedures for that program. Note that some sections may allow for the auditor to apply risk assessment and materiality considerations for testing during the applicable fiscal year, and/or apply an alternate testing schedule of performing certain procedures over a three-year period. However, these considerations are only applicable to certain areas/audit procedures as specifically indicated as such at those relevant sections.

Auditors should follow generally accepted auditing standards for all the Virginia Compliance Supplement required procedures. This includes consideration of factors such as the amount of program expenditures, the newness of the program or changes in its conditions, prior experience with the program, and the expectation of adherence or lack of adherence to the program requirements and standards in determining the number of transactions to be tested. The auditor also should review the contract or grant agreement to identify requirements specific to the local government under audit.

Auditors should disclose findings related to state programs (including any questioned costs) in accordance with requirements contained in [*Section 2-8* *Reporting*](#Reporting2). Generally, any unsupported costs, unapproved costs, missing documentation related to eligibility, or the absence of a required reconciliation is considered noncompliance and must be reported.

Two or more local governments may jointly operate some state programs. For example, a city and a county may share a social services board. In cases of joint programs, the fiscal agent should arrange for the program audit. In some cases, the program audit may be a part of the local government audit in accordance with these audit specifications, or separately in accordance with the Specifications for Audits of Authorities, Boards and Commissions. If the program is a part of the local government audit, the auditor must include any findings in the locality's audited financial report in accordance with requirements contained in Section 2-8, Reporting. If a program has a separate audit, the auditor must include any findings in the separate report on the joint activity. Regardless of program structure, the auditor should audit all of the programs annually in accordance with the specifications of the Auditor of Public Accounts.

**GENERAL REQUIREMENTS:**

3-3 Budget and Appropriation Laws

***Reviewed by/Date:*** *APA Local Government team, June 2025*

### Background Information

The annual budget and appropriation process controls local expenditures. The Staff propose a budget and the governing body then has a series of public hearings to obtain the public’s comments on the proposal. The board of supervisors or other governing body will review and approve a final budget and must appropriate the funds so they can be spent.

*Special Requirement – Public Notice*

The governing body must hold public hearings on the annual budgetary process, budget amendments, and proposed tax increases in accordance with Sections 15.2-2506, 15.2-2507, and 58.1-3321 of the Code of Virginia. *Note: During the 2022 legislative session (Chapter 29) Code of Virginia §58.1-3321 was amended to change the notice requirements for public hearings held to increase property taxes in localities that conduct their reassessment of real estate more than once every four years. Additionally, during the 2024 legislative session (Chapters 225 and 242), Code of Virginia §58.1-3321 was amended to remove the 14-day exception to the notice requirements for public hearings.*

### Required Audit Procedure:

Determine if the required public hearings on the budget, budget amendments, and proposed tax increases were properly held, such as through review of board minutes from the date of hearing or other applicable procedures.

*Special Requirement - Appropriations*

No money may be paid out for any contemplated expenditure unless and until the governing body has made an appropriation for the expenditure (Sections 15.2-2506 and 58.1-3001 of the Code of Virginia).

Note: Code of Virginia §15.2-2506 provides for the following exception specific to carry over appropriations: *except that funds appropriated in a county having adopted* ***the county executive form of government*** *(Counties of Albemarle and Prince William) for multiyear capital projects, and outstanding grants may be carried over from year to year without being reappropriated.*

### Required Audit Procedure:

Compare adjusted appropriations and expenditures in each fund and determine whether disbursements were made in excess of appropriations. If auditor notes that disbursements were made in excess of appropriations, auditor should follow-up and discuss accordingly with management and the governing body concerning any potential noncompliance or control weakness in the locality’s budget process.

When reviewing to ensure no money has been paid out for any expenditure unless and until the governing body has made an appropriation for the expenditure, the auditor should also consider whether the local government has entered into a material/significant contract for services (except for an emergency situation) prior to sufficient unencumbered appropriations being available to cover the full value of the contract.

*Note: When reviewing whether expenditures were made in excess of appropriations, the auditor may choose to apply judgment to review those funds considered significant and material to the financial statements.*

*Special Requirement - Availability of Cash*

Warrants may not be drawn on any fund unless cash is available with the treasurer to pay the warrant (Section 15.2-1244 of the Code of Virginia, is applicable to counties). Overnight investments (i.e., repurchase agreements, certificates of deposit, etc.) held by the same bank may be considered in computing available cash. Additionally, there must be sufficient cash in the bank at the time the Treasurer (or their designee) issues any check. Special law or city or town ordinance may have similar provisions requiring that sufficient funds are available for all disbursements. The auditor should be aware of these provisions.

### Required Audit Procedure:

The auditor should determine whether the Treasurer has appropriate internal controls to ensure cash is available in the bank for all checks issued. The auditor should determine whether appropriate internal controls are in place to ensure Treasurer has sufficient funds available for bank warrants and drafts.

*Note: Issuing checks or warrants without having cash or other assets is the equivalent of incurring unapproved debt.*

*3-4 Cash and Investments*

***Reviewed by/Date:****APA Local Government team, June 2025*

***Department of the Treasury Contact:*** *Cliff Lewis, 804-393-1183, cliff.lewis@trs.virginia.gov*

### Background - Petty Cash Funds

The board of supervisors of any county may, by resolution, establish one or more petty cash funds not to exceed $5,000 each (Section 15.2-1229 of the Code of Virginia). *Note: This requirement does not apply to cities or towns.*

### Required Audit Procedure:

Obtain or prepare a listing of any new petty cash funds maintained by the county that were established during the fiscal year. Examine the board resolution establishing the fund(s). Determine whether any funds are in excess of $5,000.

*Note: The auditor may consider risk assessment and materiality when reviewing any new petty cash funds during the year.*

### Background - Public Depositories (SPDA)

The Code of Virginia contains various requirements designed to safeguard state and local funds. Deposits must be secured in accordance with the Virginia Security for Public Deposits Act (Section 2.2-4400 et. seq. of the Code of Virginia). The Act requires governments to use bank and financial institutions that meet specific collateralization requirements. The Code of Virginia also places restrictions on the types of investments a local government may invest in.

The state Department of the Treasury makes available a monthly listing of qualified depositories. The listing may be obtained from Treasury’s website at <https://www.trs.virginia.gov/Operations>. Under *Important Links*, click *SPDA Depositories*.

All public deposits must be made into a qualified public depository in accordance with the Virginia Security for Public Deposits Act (Section 2.2-4407 of the Code of Virginia). Treasurers must ensure the qualified depository identifies the account(s) as public deposits. Public deposits include all moneys of the Commonwealth, local governments, or constitutional officers of local governments, including any canteen and inmate trust funds held by the sheriff.

In the Security for Public Deposits Act amendments, effective July 1, 2010, the definition of “public deposit” is redefined to “mean moneys held by a public depositor who is charged with the duty to receive or administer such moneys and is acting in an official capacity, . . . “Application of this revised definition of “Public Deposit” may allow for the inclusion of school activity funds and other funds held by a public entity as public deposits that may have previously been excluded.

Under the Act, banks and savings and loans holding public deposits in excess of the amounts insured by FDIC must pledge collateral to secure those public deposits in amounts set by regulations or action of the Treasury Board. Banks and savings and loans holding public deposits have two methods to secure Virginia public deposits: the dedicated method or the pooled method.

As the FDIC coverage limits have continued to change over the last few years, auditors should refer to guidance on insurance coverage for governmental units at the FDIC’s website: <http://www.fdic.gov/deposit/deposits/factsheet.html>. Balances in excess of the FDIC limits are covered under Virginia’s Security for Public Deposits Act. Under the Virginia Security for Public Deposits Act, balances in excess of the FDIC limit are covered if the local official properly identifies the funds as public funds and holds them in a Virginia qualified public depository.

Under the dedicated method, public depositories can secure public deposits without accepting the contingent liability for the losses of public deposits of other qualified public depositories. Because the Commonwealth can only look to the collateral pledged by the depository choosing the dedicated method to cover any losses of deposits if the depository fails, the collateral required to be pledged and the reporting requirements under the dedicated method are more stringent than under the pooled method. Depositories choosing the dedicated method must pledge collateral between 105% to 130% of their public deposit balances net of FDIC based on the financial condition of the depository. Dedicated depositories are required to report their public deposit balances and the market value of pledged collateral on a weekly basis.

Under the pooled method, public depositories accept a contingent liability for the possible loss of public deposits from the failure of other public depositories that choose the pooled method. In the event of the failure of a pooled depository, the Treasury Board would first look to the collateral pledged by the failed depository to recover the loss of public deposits. If the realized value of the pledged collateral of the failed depository is not sufficient to cover the loss of public deposits at the failed depository, the Treasury Board will assess the remaining loss against the other depositories in the pool based on average public deposit balances held by pooled depositories during the previous twelve months.

For pooled banks and savings and loans, the collateral requirements approved by the Treasury Board in February 2009 are effective. For the first $50 million in public deposits, the bank is required to pledge 50 percent collateral. For public deposits between $50 million and $250 million, the bank is required to pledge 75 percent collateral. For public deposits over $250 million, the bank is required to pledge 100 percent collateral. Based on their financial condition, Treasury Board may require some pooled banks to pledge 100% collateral.

The Treasury Board is responsible for monitoring compliance with the collateralization and reporting requirements of the Act and for notifying local governments of compliance by banks and savings and loans*.*

*Note: Effective July 1, 2023, an amended version of the Security for Public Deposits Act (SPDA) Regulations became effective. The SPDA Regulations were amended via the Commonwealth's Administrative Process Act. SPDA regulations at 1VAC75-20-160 have been amended to add a new compliance requirement related to additional reporting by public depositors to the state’s Department of Treasury to* *verify and confirm their account balances to ensure public funds accounts are being properly reported to the Treasury Board. Public depositors were required to comply with this new reporting requirement for the quarter ending December 31, 2023.*

The Treasury Board has a feature to confirm that a Virginia governmental unit’s public deposits are being reported as public deposits and collateralized by the governmental unit’s public depository in accordance with the Security for Public Deposits Act. The state Department of Treasury has implemented a new SPDA Account Verification and search feature (***see Note below regarding the external auditor’s access to this search feature for SPDA account confirmation procedures***). The Public Funds Account Search and new Account Verification features are designed to provide public officials and their designees the ability to ensure that all the public fund accounts are being properly reported to the Virginia Treasury Board in accordance with the Security for Public Deposits Act. The new SPDA Account Verification feature contains account data beginning with Quarter 4 2023 (quarter ended 12/31/2023). Section 1VAC75-20-160 of the revised SPDA Regulations, which became effective 7/1/2023, requires state and local public entities to verify to Treasury that their accounts and account balances are being correctly reported to the Treasury Board by their financial institutions, beginning with Q4 2023. Local governments are now required to perform verifications in this new system. Note that if an auditor is attempting to review a local government’s account balances for the current quarter, the auditor will need to coordinate with the local government to ensure the local government has first verified their accounts for the current quarter.

The new SPDA Verification application is located on the Department of the Treasury’s website under the Operations Division page at the following link, <https://spda.trs.virginia.gov/search>.

The legacy Public Fund Search application contains historical account data from Quarter 1 2010 (quarter ended 3/1/2010) through Quarter 3 2023 (quarter ended 9/30/2023) and is located on the Department of the Treasury’s website under the Operations Division page at the following link: <https://spda.trs.virginia.gov/quarterlysearch.aspx>.

***Note: The new Treasury SPDA account balance search and verification feature requires a user to establish an account/login credentials with the Department of Treasury. Auditors will need to first establish an “Auditor access” SDPA account to search and confirm the local government’s account balances for SPDA compliance. Additional information is provided in the*** [***Treasury SPDA Verification System Auditor Access Instructions***](https://dlasprodpublic.blob.core.windows.net/apa/B331F052-B64B-43DB-8A38-4FF593CD8B71.pdf) ***resource, available at*** [***apa.virginia.gov > Local Government > Resources > Guidelines and Manuals***](https://www.apa.virginia.gov/local-government/resources?type=guidelines-and-manuals)***.***

### Required Audit Procedure:

In Virginia, the auditor has additional responsibility with regard to cash accounts held in banks and other financial institutions.

The auditor should determine the following:

a) The balances in all official bank accounts held by the Treasurer, Director of Finance, or other Constitutional Officers are appropriately reported in the locality’s annual financial statements.

*Note: The auditor may perform audit procedures, such as obtaining confirmations or reviewing contracts with banks, as appropriate for this requirement according to the auditor’s planning and risk assessment procedures. If the auditor chooses to use bank confirmation procedures, auditors should encourage localities to contact their local bank’s customer relations manager to negotiate potential reduced or waived confirmation request fees.*

b) The locality has properly complied with the state Department of Treasury’s verification process in the SPDA system and confirmed account balances to ensure public funds are being properly reported to the Treasury Board in accordance with the SPDA program. (Auditor should review applicable quarters that occurred during the fiscal year under audit.)

*Note: If an auditor is attempting to review a locality’s account balances for the current quarter, the auditor will need to coordinate with the locality to ensure the locality has first verified their accounts for the current quarter.*

*Note: If the external auditor chooses not to establish an “Auditor” SPDA account with Treasury, refer to recommended alternate procedures below to review locality’s SPDA compliance.*

c) All of the locality’s public funds held by the Treasurer, Director of Finance, or other Constitutional Officer are properly insured against loss in accordance with current FDIC coverage for demand and savings accounts and the Virginia Security for Public Deposits Act.

To determine whether the locality has adequate protection against loss for bank balances in excess of the FDIC limit, the auditor should obtain a listing from the state Department of Treasury’s SPDA website application and agree the SPDA information to the locality’s reported balances per the locality’s bank statements.

**Attribute (b) Alternate Procedures:**

*Identify the appropriate locality staff with access to the SPDA verification system and perform walkthrough observation with the locality through their established SPDA account access.*

*Request locality staff to login to their SPDA account, and through observation,* *determine whether the locality has properly complied with the state Department of Treasury’s verification process in the SPDA system and confirmed account balances to ensure public funds are being properly reported to the Treasury Board in accordance with the SPDA program.*

### Background – SNAP Accounts

Sections 2.2-4700 through 2.2-4705 of the Code of Virginia, the Government Non-Arbitrage Investment Act, authorizes the Virginia Treasury Board to provide assistance to local governments in the management of and accounting for their bond funds including, without limitation, bond proceeds, reserves, and sinking funds, and the investment thereof.

Following the passage of the Tax Reform Act of 1986, which placed arbitrage restrictions and additional reporting requirements on issuers of tax-exempt municipal bonds, a group of local finance officials, working together with the Virginia Department of the Treasury introduced legislation authorizing the Treasury Board of Virginia to implement the State Non-Arbitrage Program(SNAP).

Since 1989, the Treasury Board has sponsored the SNAP Program to provide comprehensive investment management, accounting and arbitrage rebate calculation service for proceeds of tax-exempt and certain taxable financings of Virginia issuers through the hiring of a Program Administrator, Rebate Calculation Agent, Program Custodian, Program Depository (currently as of June 2021 a separate firm from Program Custodian), and legal counsel.

Participation, initially limited to general-obligation bonds issued by Virginia's localities, has been expanded to allow for the participation of the Commonwealth of Virginia itself as well as its boards and authorities and those of local governments (collectively referred to as Participants). The Program now accepts proceeds of G.O. and revenue bonds.

Participants can participate in the Program by opening a Pool Account or a Pool Account accompanied by an Individually Managed Portfolio. Participants that are uncertain of how quickly they will spend their bond proceeds generally only open a Pool Account. Participants that have some estimate of their spending plans sometimes open Individual Portfolios in an effort to maximize their potential interest earnings. At the Participant’s request, the Program Administrator develops a customized portfolio model to meet the unique draw schedule of the Participant’s bond issue.

*Pool Accounts*

Participants that open a Pool Account buy into a fund that is structured as a Local Government Investment Pool (LGIP) managed in accordance with the Government Accounting Standards Board (GASB) Statement 79. In Fiscal Year 2017, the SNAP Portfolio converted from an SEC 2a-7 registered Money Market Fund to the LGIP vehicle, retaining the same standards of safety, liquidity, maturity and diversification that governed the Pool in its previous status as an SEC Fund. The Pool is managed to maintain a dollar weighted average maturity of 60 days or less and to maintain a constant net asset value of $1 per share. The Program Administrator makes all investment decisions and purchases for the Pool. The Program Administrator provides monthly reports to the Participants. The Virginia Treasury Board provides governance and oversight of the SNAP LGIP and individual portfolios. Audited financial statements are provided annually to all Participants.

Local auditors should confirm asset balances by contacting the SNAP Program Administrator. (<https://www.vasnap.com/>) In addition, local auditors should review the most recent arbitrage report to determine potential financial statement reporting and/or disclosures.

*Individually Managed Portfolios*

Participants that open a Pool Account accompanied by an Individually Managed Portfolio (an IP) collaborate with the Program Administrator to determine a customized investment strategy which may include investments in the Pool and in individual investment securities. The Program Administrator then implements the investment strategy and provides monthly reports to the Participants.

Participants are required to participate in the Pool in order to also have an Individually Managed Portfolio. As a control measure, funds cannot be wired out of an IP. Monies must first be transferred to a Pool and then wired out. This procedure provides a clear audit trail because all cash movements are recorded in the mutual fund accounting system and shown on monthly pool reports to participants. In addition, it assures that maturities and coupon payments are invested at all times. Participants in the Individually Managed Portfolios are also required to submit additional documentation to the Program’s Administrator: a completed W-9 form for the custodian bank, to establish a custody account in the name of the public entity; and a determination how fees associated with the individual portfolio for investment advisor and custody are to be paid, either by check or automatic payment from the Participant’s associated Pool Account.

Local auditors must audit SNAP Individually Managed Portfolios just like any other investment portfolio held by the local government. The SNAP Individually Managed Portfolios are not audited by any other party.

*Program Depository*

The Program Administrator works with the Program Depository to process all SNAP Participant request for purchase to or redemptions from the SNAP Pool via wire and ACH transfers. The Program Depository is selected through an RFP process administered by Treasury Department Staff. The Program Depository may be the same institution as the Program Custodian but as of June 2021 the roles are handled by separate financial institutions. The Program Depository is required to be a Qualified Public Depository as defined by Section 2.2-4400 et seq. of the Code of Virginia, Security for Public Deposits Act. *(Note: Local government auditors do not need to confirm information with the SNAP Depository.)*

*Program Custodian*

Securities purchased for an IP are held by the Program Custodian or for revenue bonds may be held by the issuer’s bond trustee. Both the Program Administrator and the Participants are given access to the Participant’s IP account at the Program Custodian in order to ensure compliance and to obtain information for accounting records. The Program Custodian is selected through an RFP process administered by Treasury Department Staff. The Program Custodian is selected in conjunction with the selection of a custodian for the Pool but may or may not be the same financial institution as the Pool’s custodian. Currently, the Program Custodian and Pool Custodian are the same financial institution. The Treasury Board contracts with the Program Custodian and the Pool Custodian.

Local government auditors can confirm IP investments by contacting the Program Custodian. In addition, the auditor may consider reviewing the Pool Custodian’s and Program Custodian’s System and Organization Controls (SOC) reports for custodial services. (*Note: The SOC reports are required to be reviewed by Virginia Department of Treasury staff per the Virginia Public Procurement Act and DGS standards*.) Overall, local government auditors should ensure the local government has adequate expertise and internal controls to authorize, execute, and monitor investment activity.

### Required Audit Procedure

For SNAP Pool Accounts, auditor should confirm asset balances by contacting the SNAP Program Administrator (See <https://www.vasnap.com/> for address).

### Required Audit Procedure

For SNAP Pool Accounts accompanied by Individually Managed Portfolios, auditor should confirm asset balances by contacting the SNAP Program Administrator (see <https://www.vasnap.com/> for address) and the Program Custodian respectively. Document the source of the confirmations.

### Suggested Audit Procedure

1. For both Pool Accounts and Pool Accounts accompanied by Individually Managed Portfolios, auditor may consider reviewing the most recent arbitrage report to determine if the government is properly managing arbitrage and if there is any necessity for financial statement reporting and/or disclosure.
2. For Individually Managed Portfolios, auditor may consider reviewing the locality’s methodology and procedures to determine whether they are appropriate for managing spending requirements and arbitrage.
3. For Individually Managed Portfolios, auditor may consider reviewing the locality’s internal controls for authorizing, executing, and monitoring investment activity.
4. For Pool Accounts and Pool Accounts accompanied by Individually Managed Portfolios, auditor may consider reviewing the locality’s internal controls over drawing down bond proceeds. Determine how the locality prevents unauthorized transfers.

### Background – Legality of Investments

All investments must be legal investments as defined by Chapter 45 (Section 2.2-4500 et. seq.) of Title 2.2 of the Code of Virginia. Generally, local governments may invest in obligations of the United States or agencies thereof, obligations of the Commonwealth of Virginia or political subdivisions thereof, obligations of the International Bank for Reconstruction and Development (World Bank), the Asian Development Bank, the African Development Bank, “prime quality” commercial paper that has received at least two of the following ratings: P-1 by Moody's Investors Service, Inc.; A-1 by Standard and Poor's; or F1 by Fitch Ratings, Inc. (Code of Virginia §2.2-4502), banker's acceptances, repurchase agreements, and the State Treasurer's Local Government Investment Pool (LGIP).

### Required Audit Procedure

Obtain or prepare a listing of all investments held by the local government during the year. Determine whether investments constitute legal investments as defined by Chapter 45 (Section 2.2-4500 et. seq.) of Title 2.2 of the Code of Virginia.

*3-5* *Conflicts of Interest*

***Reviewed by/Date:*** *APA Local Government team, June 2025*

### Background Information

The State and Local Government Conflict of Interests Act is contained in Chapter 31 of Title 2.2 of the Code of Virginia (§2.2-3100 et. seq.). The Act is designed to ensure that the judgment of public employees is not compromised or affected by inappropriate conflicts. The Act prohibits local government officers or employees from participating in certain transactions in which they or their family members have a material financial interest. The Act absolutely prohibits other activities such as accepting bribes.

Section 2.2-3115 of the Code of Virginia stipulates that certain local government employees are required to file Statement of Economic Interest (SOEI) forms with their respective local body by February 1 for each calendar year. Prior to assuming office or taking employment, each person listed below must file his or her required disclosure form (see further considerations below at item #7). Thereafter, the local official must file on an annual basis.

**The following local officials are required to file the SOEI forms per §2.2-3115**:

* Members of the Board of Supervisors
* Members of the City Council
* Members of the Town Council, if the town has a population exceeding 3,500
* Members of the school board
* Persons holding positions of trust appointed or employed by the governing body if the governing body has passed an ordinance requiring them to file
* Persons holding positions of trust appointed or employed by school board if the school board has adopted a policy requiring them to file

**The following local officials are required to file the Financial Disclosure Statement per §2.2-3115:**

* Non-salaried citizen members of local boards, commissions, and councils if the governing body has designated them to file.

**The following local officials are required to file the Real Estate Disclosure per §2.2-3115(G):**

* Planning commission members
* Members of board of zoning appeals
* Real estate assessors
* County, city, or town managers
* Executive officers

**If the local government individual in question does not meet one of the aforementioned criteria, they cannot be mandated to file.**

Auditors should consider the following information when performing procedures:

1. **The filing deadline each calendar year is February 1**. The auditor should perform procedures to review the calendar year filings that are within the applicable fiscal year under audit.
2. Local officials must file their disclosure forms with the Clerk of the appropriate governing body. The clerk of the governing body (or school board as applicable) are required to maintain the disclosure form records. Auditors should direct their requests accordingly. Local elected officials, which are not constitutional officers (for example a City or Town mayor), are required to file their forms with the Clerk of the local governing body.
3. The Clerks are required to send the filers the correct forms to complete (i.e.: either the SOIE form or Financial Disclosure form, not both) 20 days prior to the filing deadline.
4. The filer may have filed with a different locality or State Agency for another position—the auditor can review the COIA database (for state agency filings) or make inquiries as the auditor determines necessary. If a local official has already filed with a different locality or state agency for the year, the filer has met the Council’s requirement and is not required to file multiple forms.
5. If a filer meets the requirements for filing both the SOEI form and the Financial Disclosure form, the filer is only required to file one form. Filing the SOEI form fulfills the Financial Disclosure requirement if the person holds more than one position that would require each.
6. Departure filings are only required if the position is held through the filing deadline (there is no requirement to file if the person leaves on or before January 31).
7. The Council provides guidance for certain situations where individuals are hired, or local elected/appointed members start their term during an annual filing period of January 1 to February 1. In these instances, when an individual begins their term or assumes employment during the filing period starting January 1 to February 1, they only need to complete the SOEI form on a date starting January 1 to February 1 for that year’s upcoming annual requirement. They would not need to complete a form prior to January 1 for the prior period filing. In other words, the general requirement of “prior to assuming office/employment” would not be interpreted as having an expectation that a new Board member, who starts their term on January 1, would also need to file a form in December for the prior filing. This information is based on the state’s [guidelines](https://ethics.dls.virginia.gov/2.0%20SLSOEI%20Guide-1.pdf) (see “What is the reporting period?” on p. 2) for completing the SOEI forms published directly by the Ethics Council.

For additional resources and guidance on Conflict of Interests, auditors can refer to the Council’s website under Filing Resources: <http://ethics.dls.virginia.gov/filing-resources.asp>

### Required Audit Procedure

Obtain and review annual disclosure forms filed by applicable local officials of the locality (refer to guidance above). Determine completeness of those officials that were required to file and that the accurate form was filed according to the type of filer. Where applicable, the auditor should review disclosure forms for new local officials hired during the year, as any newly hired officials, where applicable, are required to file disclosure forms prior to assuming office or taking employment.

*Employment Requirement*

In accordance with §2.2-3110B of the Code of Virginia, the employment at the same governmental agency of an officer or employee and a spouse or other relative residing in the same household, who is employed in a direct supervisory or administrative position, or both, and receives an annual salary of $35,000 or more, creates a material financial interest.

Section 2.2-3101 defines a “governmental agency” as component part of the legislative, executive or judicial branches of state and local government, including each office, department, authority, post, commission, committee, and each institution or board created by law to exercise some regulatory or sovereign power or duty as distinguished from purely advisory powers or duties.

### Required Audit Procedure

Through inquiry and observation, the auditor should determine whether any locality officer or employee has a spouse or other relative residing in the same household, who occupies a direct supervisory and/or administrative position at the same locality and receives an annual salary of $35,000 or more. In such instances, the auditor should verify that the local officials have disclosed this material financial interest and sought an advisory opinion/legal counsel on whether a conflict may exist in accordance with the Conflict of Interests Act.

### Required Audit Procedure

When obtaining an understanding of the entity and their internal controls, the auditor should assess the risk of the locality entering into illegal contracts based on third party relationships with members of the governing body. The locality should have procedures in place to ensure disclosure and appropriate response to third party relationships in areas such as contract negotiations, grant recipient selections, and related party board appointees.

3-6 Debt Provisions

***Reviewed by/Date:*** *APA Local Government team, June 2025*

### Background Information

The Virginia Public Finance Act in Chapter 26 (Section 2600 et. seq.) of Title 15.2 of the Code of Virginia contains state law for issuances of long term and short-term debt. The Act specifies the types of debt that may be issued as well as the public notice and other requirements for the issuance of the debt.

*Special Requirement - Debt Issuances*

All debt issuances must comply with the Virginia Public Finance Act in Chapter 26 (Section 15.2-2600 et. seq.) of Title 15.2 of the Code of Virginia).

### Required Audit Procedure – Debt Issuances

Determine whether the local government issued debt during the year. Determine whether the local government complied with all relevant provisions of the Public Finance Act.

*Special Requirement - Legal Debt Margin*

No city, town, or county electing to be treated as a city under Section 15.2-2639 of the Code of Virginia, may issue bonds or other interest-bearing obligations, including existing indebtedness, which will at any time exceed ten percent of the assessed valuation on real estate as shown by the last preceding assessment for taxes. Short-term revenue anticipation bonds/notes, general obligation bonds approved in a referendum, revenue bonds, and contract obligations for publicly owned or regional projects should not be included in the debt limitation. (Sections 15.2-2634, 15.2-2635 and 15.2-2639 of the Code of Virginia).

### Required Audit Procedure – Legal Debt Margin

Obtain or prepare the locality’s Schedule of Legal Debt Margin (GASB 2800.103). Determine whether the local government has complied with Virginia's legal debt margin.

3-7 Retirement System

***Reviewed by/Date:*** *Virginia Retirement System and APA VRS audit & Local Government teams, June 2025*

***Virginia Retirement System Contacts:***

*David Porter, Controller; 804-771-7718; DPorter@varetire.org*

*Leslie B. Weldon, Chief Financial Officer; 804-771-7352; lweldon@varetire.org*

***Auditor of Public Accounts (APA) Contact:***

*Eric Sandridge, Deputy Auditor (Project Manager for VRS audit), APAVRSSupport@apa.virginia.gov*

### Background Information

*The procedures defined below are intended to assist the Auditor of Public Accounts with providing local government employers participating in the VRS retirement plan(s) and/or OPEB plans, the assurance they need to opine to pension and OPEB activity reported in accordance with GASB.*

Counties, cities, and certain towns must provide a retirement system for their officers and employees as specified by § 51.1-800 of the Code of Virginia. Local governments have the option of participating in the Virginia Retirement System (VRS) and/or establishing their own local plan(s). Most local governments participate in the Virginia Retirement System.

*Note: As set forth in §51.1-800 of the Code of Virginia, only certain constitutional officers and their employees are eligible for benefits to include: Treasurers, Commissioners of the Revenue, Attorneys for the Commonwealth, Clerks of Circuit Court, and Sheriffs. For these elected officials who are covered under VRS, the employer should begin reporting them when their respective term of office begins. Likewise, the employer should stop reporting an official whose term of office ends, unless the individual otherwise resumes VRS-covered service in a different position with your employer. Other local elected officials, such as mayors, county supervisors, county board members and town council members, are not eligible for VRS benefits, including group life insurance.*

The Virginia Retirement System (System) administers a statewide retirement plan, group and optional life insurance programs, a retiree health insurance credit program, and a short-term and long-term disability program. Effective July 1, 2017, the System will make all eligibility determinations for the Line of Duty Act (LODA) benefits, issue payments on behalf of LODA Fund participating employers, and manage the investments of the LODA trust fund for participating employers. The Department of Human Resource Management (DHRM) will administer the LODA Health Benefit Plans. School boards, local governments, and other political subdivisions are eligible to participate in these programs administered by the System. Membership and benefits are provided in accordance with Title 51.1 of the Code of Virginia. The VRS retirement plan was modified effective July 1, 2010. Members hired before July 1, 2010, who had service credits before July 1, 2010, were placed in Plan 1. Members hired on or after July 1, 2010, who had no service credits before July 1, 2010, were placed in Plan 2. The benefit provisions of Plan 1 and Plan 2 differ. On January 1, 2013, existing Plan 1 members who were not vested (had at least 5 years of accumulated service) also became Plan 2 members. In addition, a new Hybrid plan was implemented effective January 1, 2014. All newly hired employees who are not covered by enhanced benefits as hazardous duty employees are placed in the Hybrid plan. Detailed information on these differences is included in the System’s publications and in the Plan Description portion of the sample disclosures provided in Chapter 6 of the Uniform Financial Reporting Manual.

Members are required by statute to contribute 5 percent of their creditable compensation to the pension plan. Plan 1 and Plan 2 members contribute the 5 percent to their member account. With the implementation of the Hybrid plan beginning January 1, 2014, members of the Hybrid plan must contribute 4 percent of their creditable compensation to the defined benefit (DB) component of the Hybrid Plan and a mandatory 1 percent of their creditable compensation to the defined contribution (DC) component of the Hybrid plan. Members may elect to contribute up to an additional 4 percent to the DC component of the Hybrid Retirement Plan each month.

Group life insurance premiums are based on the member's creditable compensation, and optional life insurance premiums are based on the member’s age (and the spouse’s age if the spouse is covered) and amount of insurance carried. Retiree Health Insurance Credit contributions and local disability plan contributions are based on a member’s creditable compensation.

The System’s *my*VRS Navigator (VNAV) is a web-based benefits management system that allows employers to immediately access and update member and agency related retirement data. The payment process for employers is electronic and most payments are made through ACH Debit and ACH Credit. The ACH payments replaced the lockbox and monthly payment coupon method. All employers pay their contributions through ACH Credit or Debit. In limited circumstances, the System may receive checks from some employers; for example, for LODA Program payments or if there is a payroll error.

*Special Requirement - Participation in Retirement Systems*

All counties, cities, and towns with a population of 5,000 or more must provide a retirement system for their officers and employees. Local governments have the option of participating in the VRS plan and/or establishing their own local plan(s). If the local government maintains its own plan, the local retirement plan must provide a service retirement allowance to each employee who retires at age 65 or older. The allowance must equal or exceed two-thirds of the service retirement allowance to which the employee would have been entitled had it been computed under the provisions of the VRS plan (§51.1-800 of the Code of Virginia).

### Required Audit Procedure – Participation – Retirement Plan

Determine whether the local government participates in the VRS plan and/or a local retirement plan(s). Determine whether the plan(s) covers all classes of employees listed under §51.1-800 of the Code of Virginia (Refer to the additional guidance included above about local elected officials not being eligible for VRS benefits). If the local government participates in a local retirement plan, also determine whether the System approved the benefits provided under the local plan.

*Note:* *Local governments are responsible for ensuring compliance with this section of the Code. The System is not required to verify local plan compliance.*

### Required Audit Procedure – Participation – OPEB Programs

Determine whether the local government has employees who **do not** participate in a VRS retirement plan but do participate in the Group Life Insurance (GLI) OPEB program administered by the System (i.e.: GLI participation only).

Determine whether the local government has employees and volunteers who participate in LODA with benefits being paid through the VRS-administered trust fund (Refer to the additional guidance included above about local elected officials not being eligible for System benefits).

*Note: Localities may still provide benefits in compliance with the Line of Duty Act, but do not fund the benefits through the VRS-administered trust fund (i.e.: referred to as “non-participating” employers). If this is the case, the auditor should determine how the locality develops its liability for the Line of Duty Act provisions and perform any audit procedures that may be necessary in preparation of GASB No. 75.*

*A listing of the LODA participating employers is available at the Virginia Line of Duty Act website,* <https://www.valoda.org/media/valoda/pdfs/loda-fund-participating-employers.pdf>*. Any locality not included on this listing is considered a non-participating employer.*

*A listing of the LODA non-participating employers is available at the Virginia Line of Duty Act website,* <https://www.valoda.org/media/valoda/pdfs/loda-fund-nonparticipating-employers.pdf>

*Note: Localities may also participate in the Retiree Health Insurance Credit (HIC) OPEB program administered by the System. If the locality has employees who participate in a VRS retirement plan and/or Group Life Insurance (GLI), in addition to participating in HIC, the required audit procedures below for member data reporting for retirement plan(s) and GLI provide audit coverage over the census data elements for HIC.* *Accordingly, the APA has not designed separate audit procedures over HIC.*

### Member Data Reporting Requirements - Virginia Retirement System

### Audit Requirement – Retirement Plan

If the local government participates in the VRS plan, determine if the locality or school district under audit has multiple control environments supporting employee enrollment in the plan. If the locality has multiple control environments, perform the procedures below for each of the environments identified independently.

### Required Audit Procedure – Member Data Reporting – Retirement Plan

If the local government participates in the VRS plan, identify the population of employees with changes that occurred during the fiscal year under audit and who contributed to the System. Changes include new employees, terminated employees, and employees who received salary changes during the fiscal year for each control environment.

Select a sample of employees from the population for each control environment.

Note that this population is limited to VRS plan participants. For sample size determination, reference the AICPA sample design, size, and selection as defined in AU-C section 530 of the AICPA Professional Standards. In Appendix A of the accountant’s examination report (referenced at the end of this section), provide the sampling considerations and determinations (**\*This is the first section of the Appendix**).

For each employee selected, determine whether:

1. The employee contribution for pension and/or group life insurance was properly deducted from the employee's pay for member contributions paid by the employee.
2. Census data elements agree to supporting documentation based on the change (the attributes are arranged and grouped by how they appear in VNAV).

*Note: The census data elements tested below are either included as critical elements on the pension and OPEB assertions letters or help support validation of significant census data elements. While the Social Security Number (SSN) does not appear as a census data element on the assertion letters for active members, the “VNAV ID” does appear as a significant element.  Accordingly, the audit procedures below require validation of other fields that provide unique identifying information for the member, such as SSN and Name, to assist in confirming an employee’s unique assignment of the* *VNAV ID. Validating and ensuring accuracy of the SSN helps provide audit assurance to verify the unique assignment of the VNAV ID, in order for the APA’s VRS audit team to gain sufficient coverage over each member’s identifying information to support APA’s opinions over the census data. Further, the actuary’s assumptions and the* *actuarially determined amounts can be affected if an individual is recorded under the incorrect SSN.*

1. If the employee had a **salary change**, ensure the employee's creditable compensation (used in computing the contributions required for all System-administered benefits) includes all eligible salary (exclusive of overtime, supplements, extraordinary pay, acting pay, and termination pay for annual or sick leave) and is properly reflected in VNAV. For additional information, see the [Creditable Compensation Job Aid and Checklist](https://employers.varetire.org/pdfs/creditable-compensation-job-aid-checklist.pdf).

Test the following attributes in VNAV:

Other Details: Salary History

* Current Annual Salary
* Start Date
* Previous Annual Salary
* End Date

1. If the employee is **terminated** test the following attributes:

Other Details: Employment

* Organization Name
* Job Name
* Employment Status
* Start Date
* End Date

Other Details: Person Account

* Org Name
* Org Code
* Coverage Start Date
* Coverage End Date
* Status

1. If the employee is a **new hire** test the following attributes:

Person Details

* Social Security Number (see Note 1 below)
* Name
* Date of Birth
* Gender

Other Details: Employment

* Organization Name
* Job Name (see Note 2 below)
* Employment Status
* Start Date
* End Date

Other Details: Salary History

* Current Annual Salary
* Start Date

Other Details: Person Account

* Org Name
* Org Code
* Coverage Start Date
* Coverage End Date
* Status

*Note 1: To view the SSN in VNAV, the locality/employer staff member must have the “Advanced Person Processor Role.” There is no risk of inadvertent override or deletion of the SSN information in VNAV by viewing this information, as the SSN cannot be changed by employers once they have been entered in the initial enrollment process. If employers determine that an error was made when entering the original SSN, they must initiate the “Merge Person Account/SSN Correction” process in VNAV to request the System to change the SSN.*

*Note 2: When reviewing this census data element, the auditor should ensure that the most appropriate “Job Name” is selected in VNAV, as benefit eligibility in VNAV is tied to Job Name. While most employees fall under the “employee” or “teacher” job names, the auditor should review the job names available to the employer in VNAV to ensure the job name that most closely aligns with the new hire’s responsibilities is selected. Job names vary by employer type but include names such as Sherriff, Registrar, Social worker, Treasurer, etc.*

1. **Test as applicable:** If any of the employees selected in the sample have purchased service to enhance their retirement benefit during the year under audit, ensure the employee met the eligibility requirements and the employer maintained sufficient supporting documentation that proves the eligibility requirements were verified.

*Note: The purchase is called a Purchase of Prior Service in the member’s VNAV record or the employer’s contribution confirmation snapshot.*

### Required Audit Procedure – Eligibility – Retirement Plan

If the local government participates in the VRS retirement plan(s), select a sample of employees from pay periods throughout the year under audit.

This includes the full population of all employees under employment, not just VRS plan participants. For sample size determination, reference the AICPA sample design, size, and selection as defined in AU-C section 530 of the AICPA Professional Standards.

For each employee selected, determine whether the employee has been reported to the System for retirement, life insurance, retiree health insurance credit, and/or local disability coverage or satisfies the requirements for exclusion from mandatory membership. Ensure the employee is eligible for the applicable employer code (4XXXX is appropriate for teachers while 5XXXX is appropriate for other employees).

*Note: Unless the employee satisfies one of the exemptions to mandatory membership, all permanent, full-time, salaried employees of participating school boards, local governments, and other political subdivisions must participate in the VRS plan. Hourly employees may not participate in the plan.*

### Required Audit Procedure – Member Data Reporting – OPEB, Group Life Insurance

If the local government has employees who **do not** participate in a VRS retirement plan but do participate in the Group Life Insurance (GLI) other post-employment benefit program (OPEB) provided by the System, identify the population of employees for the fiscal year under audit, and select a sample of employees from the population.

Note that the population is limited to employees who **do not** participate in a System-administered pension plan, but who do participate in the Group Life Insurance System-administered OPEB. For sample size determination, reference the AICPA sample design, size, and selection as defined in AU-C section 530 of the AICPA Professional Standards.

For each employee selected, agree the census data elements from VNAV to supporting documentation (the attributes below are the minimum considerations):

**Group Life Insurance**

**Person Details:**

* First name
* Last name
* Social Security Number
* Date of Birth
* Gender

**Other Details: Salary History**

* Current annual salary (as of fiscal year end)

**Other Details: Employment**

* Current employer (as of fiscal year end)

**Other Details: Person Account**

* Status with current employer
* Retirement plan code

**Other Details: Person Account**

* Life insurance coverage start date (earliest)
* Life insurance end date (most recent)

### Required Audit Procedure – Member Data Reporting – OPEB, Line of Duty Act

*Note:* *The auditor may apply risk assessment procedures and materiality to determine whether there is a need to perform the LODA census data testwork for “participating employers” that are Towns only. However, LODA census data testing is required to be performed each year for the City and County “participating employers.”*

If the local government has employees and volunteers who participate in the LODA Program with benefits being paid through the System-administered trust fund, identify the population of active employees and volunteers. This population is defined as those who are eligible for Line of Duty Act coverage, but not currently receiving benefits as of the end of the fiscal year under audit.

Select a sample of active employees and volunteers from this population. See the related note below for information on how to determine the population. For sample size determination, reference the AICPA sample design, size, and selection as defined in AU-C section 530 of the AICPA Professional Standards. In Appendix A of the accountant’s examination report (referenced at the end of this section), provide the sampling considerations and determinations. (**\*This is the first section of the Appendix**.)

*Note: The local government should be providing this information to the System annually if benefits are being paid through the System-administered trust fund. For the LODA program, the local government should be updating and providing a roster list for participating active employees and volunteers (those defined above at the required audit procedure) to the System annually. The auditor should ensure the completeness of the roster list, particularly as it relates to the local government volunteers, in addition to active employees, who participate in the program.*

For each employee and/or volunteer selected, agree the census data elements from the roster list to supporting documentation (the attributes below are the minimum considerations):

**Line of Duty Act**

* Name (First, Last)
* Gender
* Date of Birth
* Agency
* Personnel Type

### Employer Monthly Reporting Requirements – Virginia Retirement System

*Eligibility of Newly Enrolled Members Reported to the Retirement System*

In VNAV, employers are responsible for adding newly enrolled members, maintaining employee records, as well as entering and tracking employment changes (such as salary changes, status changes, and terminations) throughout the month.

### Required Audit Procedure/Alternate Testing – Newly Enrolled Eligibility

***Alternating Testing Schedule: Part A* – *Review of Eligibility of Newly Enrolled Members Reported to the VRS***

*Note: Prior to performing these procedures, refer to the* *[APA Sample Alternating Testing Schedule- Audit SPECS procedures workbook](https://dlas-directus-prod.azurewebsites.net/assets/6BD26CC4-2893-4BEC-961C-80B378D9B69B.xlsx) (located at* [*apa.virginia.gov > Local Government > Resources > Guidelines and Manuals*](https://www.apa.virginia.gov/local-government/resources?type=guidelines-and-manuals)*). Use of the APA Sample workbook template for auditor’s documentation purposes is optional.* ***However, the auditor must review and apply the APA’s requirements for risk assessment considerations for these applicable Retirement Systems audit procedures and apply accordingly for testwork and documentation purposes.***

If the local government participates in the VRS plan, select a sample of the newly enrolled employees during the audit period from each of the control environments identified.

Note that this population is limited to VRS plan participants. For sample size determination, reference the AICPA sample design, size, and selection as defined in AU-C section 530 of the AICPA Professional Standards. In Appendix A of the accountant’s examination report (referenced at the end of this section), provide the sampling considerations and determinations. (**\*\*This is the second section of the Appendix**).

From the sample of employees, test the following:

* Determine whether all eligible employees are included on the employer’s coverage reports to the System.
* Ensure that employers are not modifying work schedules and coverage definitions to provide a means for employees who are currently retired under the VRS plan to work in covered positions without being reported as covered employees.
* Verify any employees who retired and were rehired as full-time are active in VNAV (if applicable). *Note*: *Unreported employees who have returned to work and are still drawing their retirement benefits is a compliance issue (Code of Virginia, §51.1-155(B)(1)).*

*Monthly VNAV Contribution Confirmation*

Employers produce a monthly snapshot of their contributions and are responsible for reviewing the snapshot and verifying that all the employment changes are complete and accurate. Following the snapshot, the employer runs the Contribution Confirmation report, which certifies and records the monthly data. Employers may immediately schedule payment after the contributions are confirmed. The Contribution Confirmation process must occur by the 10th of the month following month to be certified. The System requires the employers to schedule the payment immediately after confirming the contributions. The payment must be received by the System by the 10th of the month; therefore, when the employer schedules the payment it should be for at least three days prior to the 10th of the month to ensure it is received by the System. If the local government participates in the Retirement System plans/programs, the employer should reconcile the information in the entity’s payroll system to the data in the monthly contribution confirmation in VNAV each month. The contribution confirmation snapshot file reflects amounts due for the retirement, group life, retiree health insurance credit, and local disability plans. It also includes those amounts that are due to the System for the Defined Benefit component of the Hybrid plan.

Effective beginning July 1, 2024, employers began administering the Defined Contribution (DC) component of the Hybrid plan separately and independently from the Defined Benefit component. Due to this change, defined contribution data will no longer be included in the monthly VNAV snapshot (pre-July 1, 2024, historical data will still be displayed). Accordingly, auditors may determine the need to perform separate audit procedures over the employer’s payroll withholding process and reconciliation for the Defined Contribution component. Refer to the *Hybrid Plan Defined Contribution* section and Suggested Audit Procedures below.

### Required Audit Procedure/Alternate Testing – VNAV Confirmation Reconciliation

***Eligible Alternating Testing Schedule: Part B*** **– *Review of Monthly VNAV Contribution Confirmation Reconciliations***

*Note: Prior to performing these procedures, refer to the* [*APA Sample Alternating Testing Schedule- Audit SPECS procedures workbook*](https://dlas-directus-prod.azurewebsites.net/assets/6BD26CC4-2893-4BEC-961C-80B378D9B69B.xlsx) *(located at* [*apa.virginia.gov > Local Government > Resources > Guidelines and Manuals*](https://www.apa.virginia.gov/local-government/resources?type=guidelines-and-manuals)*). Use of the APA Sample workbook template for auditor’s documentation purposes is optional.* ***However, the auditor must review and apply the APA’s requirements for risk assessment considerations for these applicable Retirement Systems audit procedures and apply accordingly for testwork and documentation purposes.***

Select a sample of the monthly contribution reconciliations from each of the control environments identified. For sample size determination, reference the AICPA sample design, size, and selection as defined in AU-C section 530 of the AICPA Professional Standards. In Appendix A of the accountant’s examination report (referenced at the end of this section), provide the sampling considerations and determinations. (**\*\*\*This is the third section of the Appendix**).

From the sample selected, test the following:

1. Test the reconciliations for accuracy and ensure the employer clears reconciling items prior to confirming the contributions.
2. Determine if the employer updates VNAV through a batch process, or through online keying.

* If the employer updates VNAV through a batch process each month, the employer submits either two separate files (one file for new enrollments and one file for maintenance) or one file combining the enrollments and maintenance. For the months selected, verify the employer ensures the records in each file are free of errors and certifies the transactions are accurate before submitting the files.
* If the employer updates VNAV through online keying, ensure all changes that occurred during the months selected for testing were accurately captured on the monthly snapshot. Ensure this process occurs at least monthly and prior to confirming the monthly contributions.

1. Ensure that for the sample of monthly reconciliations selected that the employer confirmed the contributions between the 1st and the 10th of the following month.
2. Ensure the employer scheduled the payment immediately after confirming the snapshot.

*Hybrid Plan Defined Contribution (DC) Component*

*Reconciliation Process*

Given the changes with the Hybrid plan rate separation, employers no longer reconcile contributions for the DC component with the monthly VRS VNAV snapshot. Based on VRS’ payroll guidance to employers (see links to resources below), employers should review Hybrid plan member defined contributions each pay period to ensure that the percentages withheld are accurate and include the mandatory 1% from the employee, along with any voluntary contributions elected by the employee. Defined contributions are a percentage of creditable compensation for each pay period the employee receives a paycheck. The definition of creditable compensation has not changed and applies to both defined contribution deductions and defined benefit deductions. (Refer to the VRS [Creditable Compensation Job Aid](https://employers.varetire.org/media/shared/pdf/creditable-compensation-job-aid-checklist.pdf).)

Contributions submitted to the administrator and credited to the hybrid DC component must be calculated in the employer’s payroll system, spreadsheet, or internal software, reflecting the contribution rates for each DC source and based on the employee’s creditable compensation for each paycheck. Employers are responsible for regularly reconciling amounts remitted to the third-party administrator with amounts withheld in the employer’s payroll system. If a correction is required, the employer should request an adjustment review based on the VRS *Hybrid Retirement Plan Corrections Policy*.

Note that MissionSquare was the previous third-party administrator for VRS-administered DC plans; however as of January 2025, Voya is the new administrator for VRS-administered DC plans.

*Submitting Defined Contributions Payments*

Employers should ensure that employee’s defined contributions, including the mandatory 1% and any match to members’ voluntary contributions, are paid timely to the third-party administrator. Per the Code of Virginia, defined contribution deductions should be withheld and remitted **each pay period** to ensure timely investment of the member’s contributions. If contributions are delayed, the employee’s investment earnings may be impacted and the employer may have penalties assessed in accordance with the *Hybrid Retirement Plan Corrections Policy*. To submit contributions, employers should complete an online contribution submission file or a batch contribution file each time payroll is run and submit the contribution file in the administrator’s system (with Voya, this is through Sponsor Web). VRS instructs employers that they should submit defined contributions “*as soon as administratively possible following the pay date but no later than 15 business dates* *following the end of the month in which the amount is withheld from member’s pay so that the funds can be invested”* (refer to this guidance at the VRS DC Component Payroll Guide, p. 25).

***Defined Contribution Manuals and Information Resources***:

* [VRS Employer Manual: Contribution Confirmation and Payment Scheduling](https://employers.varetire.org/media/shared/pdf/er-manual-cc-and-payment-scheduling.pdf) (pp. 8-9)
* [VRS Defined Contribution Component Payroll Guide](https://dcp.varetire.org/pdf/vrs-dcp-payroll-guide.pdf)
* [Hybrid Rate Separation | Virginia Retirement System](https://employers.varetire.org/hybrid-rate-separation/)
* [DCP Support Resource Center for VRS Employers](https://dcpemployers.varetire.org/)

**Suggested Audit Procedure – Hybrid Plan Defined Contribution**

*Note: The following procedures are included as* ***suggested procedures*** *for the auditor’s risk assessment considerations. The auditor may determine it necessary to consider whether any elevated risk exists at the local employer level as a result of changes with the employer’s administration of the Defined Contribution (DC) component of the Hybrid plan, which may lead to the auditor’s conclusion for additional testing over the employer’s process.*

Select a sample of the employer’s payroll period reconciliations for the Hybrid Plan defined contributions component, and test the following:

1. Ensure the employer is reviewing the accuracy of employee member defined contributions withheld each pay period (the mandatory 1% from the employee along with any voluntary contributions elected by the employee), regularly reconciling amounts remitted to the third-party administrator with amounts withheld in the employer’s payroll system, and addressing any discrepancies or corrections as necessary.
2. Ensure the employer is timely submitting DC payments to the third-party administrator each pay period.

*VNAV Access Roles and Responsibilities*

Employers are responsible for assigning and managing access to VNAV for employees through role-based security. Roles define the data an employee is authorized to view, create, and update.

### Required Audit Procedure/Alternate Testing – VNAV Access Roles and Responsibilities

***Eligible Alternating Testing Schedule: Part C* – *Review of VNAV System Access***

*Note: Prior to performing these procedures, refer to the* [*APA Sample Alternating Testing Schedule- Audit SPECS procedures workbook*](https://dlas-directus-prod.azurewebsites.net/assets/6BD26CC4-2893-4BEC-961C-80B378D9B69B.xlsx) *(located at* [*apa.virginia.gov > Local Government > Resources > Guidelines and Manuals*](https://www.apa.virginia.gov/local-government/resources?type=guidelines-and-manuals)*). Use of the APA Sample workbook template for auditor’s documentation purposes is optional.* ***However, the auditor must review and apply the APA’s requirements for risk assessment considerations for these applicable Retirement Systems audit procedures and apply accordingly for testwork and documentation purposes.***

If the local government participates in the Retirement System plans/programs, obtain a list of employees with VNAV access during the fiscal year under review, and perform the following:

* Ensure employees with active access are currently employed.
* Determine which employees had changes to access during the fiscal year under review including terminated access, new access, or changes to access roles. For those with new access or changes to access, review the assigned roles for each employee for reasonableness in relation to their current job responsibilities. *(See Note below about sampling.)*
* Verify roles were removed in a timely manner for terminated or inactive employees.

*Note: When testing timeliness of removing access to VNAV, the auditor should consider whether the locality has implemented an internal IT policy that specifies timely deactivation of all systems access, and audit according to the locality’s internal policy. In absence of a local policy, the auditor may consider best practices and the Commonwealth’s security policy for state agencies. For example, Section PS-4 of the Commonwealth’s Information Security Standard, SEC 501, requires that organizations should “disable information system access within 24-hours of employment termination.”*

*Note: Depending on the population size of employees with VNAV, the auditor may choose to select a sample of employees with access, as appropriate. For sample size determination reference the AICPA sample design, size, and selection as defined in AU-C section 530 of the AICPA Professional Standards. In Appendix A of the accountant’s examination report (referenced at the end of this section), provide the sampling considerations and determinations.* ***(\*\*\*\*This is the fourth section of the Appendix****).*

### Auditor’s Examination Engagement Reporting

### Audit Requirement – Examination Reporting – Retirement Plan

The auditor is required to submit a report to the Auditor of Public Accounts (APA), by October 1 each year, reporting on the results of procedures performed above regarding the completeness and accuracy of the census data for local employees and teachers participating in the VRS retirement plan(s).  The procedures should be performed, and the report should be prepared as a part of an examination engagement performed in accordance with AT-C Section 205, Assertion-Based Examination Engagements (AICPA, Professional Standards).

Included with the report, the auditor shall provide an attachment which identifies the following:

* The number of control environments supporting census data reviewed during the engagement (i.e.: two environments, one for the locality and one for the school board) and the responsible party for the control environment (i.e.: the locality, the school board)

For each control environment identified and required procedure performed, note the following:

* The population size
* The sample size
* The risks and other considerations used to determine the sample size

A [sample report](https://dlas-directus-prod.azurewebsites.net/assets/9EEA8884-057E-4139-BE6F-A89299F86FF2.docx) and accompanying attachment is available on the APA website [apa.virginia.gov > Local Government > Resources > Guidelines and Manuals](https://www.apa.virginia.gov/local-government/resources?type=guidelines-and-manuals).

### Audit Requirement – Examination Reporting – OPEB Programs

The auditor is required to submit a report to the Auditor of Public Accounts, by October 1 each year, reporting on the results of procedures performed above regarding the completeness and accuracy of the census data for the local government employees and volunteers who participate in the Line of Duty Act Program with benefits being paid through the System-administered trust fund.  The procedures should be performed and the report should be prepared as a part of an examination engagement performed in accordance with AT-C Section 205, Assertion-Based Examination Engagements (AICPA, Professional Standards).

Included with the report, the auditor shall provide an attachment that identifies the following:

The number of control environments supporting census data reviewed during the engagement (i.e.: two environments, one for the locality and one for the school board) and the responsible party for the control environment (i.e.: the locality, the school board)

For each control environment identified and required procedure performed, note the following:

* The population size
* The sample size
* The risks and other considerations used to determine the sample size

A [sample report](https://dlas-directus-prod.azurewebsites.net/assets/9EEA8884-057E-4139-BE6F-A89299F86FF2.docx) and accompanying attachment is available on the APA website [apa.virginia.gov > Local Government > Resources > Guidelines and Manuals](https://www.apa.virginia.gov/local-government/resources?type=guidelines-and-manuals).

*Note: The auditor may choose to combine the attestation reporting for the results of both the VRS retirement pension plan(s) and the LODA plan into one report. If this is approach is used, the auditor should delineate any findings, if applicable, between the VRS retirement and LODA plans and also delineate the Appendix A information to clearly show the required audit procedures, population, sample size, and risk considerations for the VRS retirement plan and the LODA plan (for example, this could be shown by adding separate rows or tables for the Appendix information).*

*Note: The auditor is not required to submit a report on the results of procedures performed above for the GLI and HIC other post-employment benefit programs. However, the auditor should notify the Auditor of Public Accounts, in writing, if the auditor finds any internal control or compliance issues related to testing the census data for the GLI and HIC other post-employment benefit programs. The Auditor of Public Accounts prefers this method of communication be made through e-mail to the* [*LocalGovernment@apa.virginia.gov*](mailto:LocalGovernment@apa.virginia.gov) *and* [*APAVRSSupport@apa.virginia.gov*](mailto:APAVRSSupport@apa.virginia.gov) *email addresses.*

### Pension and Other Post Employment Benefit Resources

The APA includes the applicable Pension and OPEB schedules with audit opinions on the APA website [apa.virginia.gov > Local Government > APA Reports > Pension and OPEB Reports](https://www.apa.virginia.gov/local-government/reports?type=pension-and-opeb-reports).

In addition, the System includes a “Financial Reporting” section available for Employers at <https://employers.varetire.org/financial-reporting/>. This includes resources to assist the local government employers with financial reporting related to the System administered benefit plans for [Pension](https://employers.varetire.org/financial-reporting/vrs-guidelines-and-resources/) and [OPEB programs](https://employers.varetire.org/financial-reporting/vrs-guidelines-and-resources-opeb), such as the GASB statement information and actuarial valuation reports to include in the annual financial statements. VNAV has a GASB Validation report available, which will assist in making the audit process more efficient. The GASB Validation report will produce data for census data elements that have had changes during the most recent eighteen months. These reports are available upon request and run overnight. The reports are capable of retrieving data for one month, a period of months, or up to twelve months.

*Note: To determine the population of employees who do not participate in a VRS pension plan, but who do participate in the System-administered other post-employment benefit, Group Life Insurance, the auditor can request the employer to access the contribution confirmation snapshot in VNAV from the last month in the fiscal year. This contribution confirmation snapshot will include the population of employees.*

Employer Manuals are available for the auditor’s reference at [www.varetire.org](http://www.varetire.org) (refer to the Employers section, [Publications, VRS Employer manual](https://employers.varetire.org/publications/?ftype=manuals)). Consult with the employer for additional resources from the “VRS University” that may be useful in performing the prescribed audit procedures.

***Important financial reporting consideration regarding* *disclosing covered payroll in the required supplemental information:***GASB Statement No. 68 *Accounting and Financial Reporting for Pensions* defines the term covered-employee payroll as the payroll of employees that are provided with pensions through the pension plan. This definition differs from that of covered payroll per GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*. For guidance reference the Guide to Implementation of GASB Statement 68 on Accounting and Financial Reporting for Pensions, questions 106 and 210. GASB Statement No. 82, *Pension Issues—an amendment of GASB Statements No. 67, No. 68, and No. 73*,eliminates the use of covered-employee payroll and replaces it with covered payroll. Covered payroll is the payroll on which contributions to a pension plan are based. The System sample disclosures are updated to reflect the changes resulting from GASB Statement No. 82.

3-8 Procurement

***Reviewed by/Date:*** *APA Local Government team, June 2025*

### Background Information

The Virginia Public Procurement Act, located in Chapter 43 (§2.2-4300 et. seq.) of Title 2.2 of the Code of Virginia, contains state law on the procurement of goods and services. The Act, which was designed to maximize competition, applies to all local governments, constitutional officers, and school divisions. In accordance with §2.2-4343 of the Code of Virginia, local governments and school divisions may be exempt from certain provisions of the Act if they adopt, by ordinance or resolution, alternative policies and procedures that are based on competitive principles. Certain provisions of the Act are applicable regardless of alternate procedures adopted. Before commencing audit work, the auditor should be familiar with the requirements of the Act. The auditor also should determine whether the local government is following the practices required by the Act or has adopted alternative procurement policies.

*Procurement Policy and Public Private Education Facilities and Infrastructure Act (PPEA)*

All purchases must be in accordance with the Virginia Public Procurement Act (Chapter 43 (Section 2.2-4300 et. seq.) of Title 2.2 of the Code of Virginia) or in accordance with alternative policies that a locality has established in writing and adopted by ordinance.

Any locality or local School system that participates in a PPEA agreement must follow the requirements set forth in the Public Private Education Facilities and Infrastructure Act of 2002, Chapter 22.1 of Title 56 of the Code of Virginia (§56-575.1-575.18). As part of this Act, localities and local School systems are required to send electronic files for any PPEA agreements and supporting documents to the Auditor of Public Accounts (§56-575.18).

*Decentralized Procurement*

Auditors should be aware of the purchase of goods and services made by departments and personnel other than the locality’s central administrative office. In particular, purchases made with federal funds not meeting the Public Procurement Act requirements may result in questioned cost for the local government.

In many local governments, the procurement for service programs such as child care and foster care training is performed by the Local Department of Social Services (LDSS) rather than through a central procurement office. Eligibility and purchase orders for child care are the responsibility of the LDSS. Payments made to childcare vendors are made centrally through the Virginia Case Management System (VaCMS). The auditor should be aware of the procurement of these programs and determine whether they complied with applicable procurement regulations (the Virginia Public Procurement Act (VPPA) or local procurement policies and procedures). Refer to additional background information regarding local social service programs at Section 3-15 below.

### Required Audit Procedure

Auditors should consider the risk of material misstatements resulting from direct and material noncompliance with the Virginia Public Procurement Act (VPPA) provisions when conducting the audit, and design appropriate audit procedures accordingly to test compliance with the VPPA or with alternative policies that a locality has established in writing and adopted by ordinance.

*The auditor may consider risk assessment and materiality when designing audit procedures to test for compliance with local government Procurement.*

Note: Non-compliance with the Virginia Public Procurement Act, and the Public Private Education Facilities and Infrastructure Act of 2002 (where applicable), could result in a direct and material effect on the financial statement amounts.

### Suggested Audit Procedure- Social Services Procurement

As part of the auditor’s procedures designed to test procurement compliance, the auditor should consider testing the following for procurement related to social service programs:

* Aggregate the payments to a vendor for service program benefits processed by the LDSS to determine the applicable procurement requirements.
* Test a sample of payments to these vendors and determine if the LDSS complied with applicable procurement regulations (Virginia Public Procurement Act (VPPA) or Local Procurement Policies and Procedures). Failure to comply with procurement requirements on federal expenditures may result in questioned costs.

3-9 Unclaimed Property

***Reviewed by/Date:*** *APA Local Government team, June 2025*

### Background Information

The Virginia Disposition of Unclaimed Property Act in [Chapter 25 (§55.1-2500 et. seq.) of Title 55.1, Subtitle V.](https://law.lis.virginia.gov/vacode/title55.1/chapter25/) of the Code of Virginia sets forth procedures for unclaimed or abandoned property. As a general rule, the Act presumes abandoned any property remaining unclaimed by its owner for more than the specified period, usually five years. However, for any government, all intangible property held for the owner that remains unclaimed for more than a year is presumed abandoned (§55.1-2517). Unclaimed property may consist of outstanding checks, utility deposits, tax refunds, unpaid wages, unpaid pension benefits, unclaimed insurance demutualization proceeds (§55.1-2509) and other tangible or intangible property.

The Act requires local governments to file an annual report with the State Treasurer listing all unclaimed property. The local government must then remit the property to the State Treasurer for final disposition. The Act requires local governments to exercise due diligence, at least 60 days prior to the submission of the report, to determine the whereabouts of the owner if (1) the local government has in its records an address for the apparent owner which the holder's records do not disclose to be inaccurate and (2) the property has a value of $100 or more (§55.1-2524).

*Note: The local school division should also be submitting the required reporting and applicable property to the State Treasurer in accordance with the Unclaimed Property Act.*

*Reporting Requirement - Unclaimed Property*

Every person holding funds or other property presumed abandoned under the Act must file a report listing unclaimed property as of June 30. The report must be filed with the state Treasurer by November 1 of each year (§55.1-2524 of the Code of Virginia).

### Required Audit Procedure

Auditor should scan bank reconciliations for checks outstanding greater than one year. Auditor should also make inquiries of responsible officials as to unclaimed property and determine whether the local government has exercised due diligence as described under §55.1-2524, part E. of the Code of Virginia. If the local government (to include the school division) has unclaimed property, determine whether it filed a report on unclaimed property with the State Treasurer as required.

**PROGRAM SPECIFIC REQUIREMENTS:**

3-10 Economic Development Opportunity Fund

***Reviewed by/Date:*** *Kim Ellett, May 2025*

***Virginia Economic Development Partnership (VEDP) Contact:*** *Kim Ellett, 804-545-5618, kellett@vedp.org*

### Background Information

Local governments may receive grants or loans from the Commonwealth’s Development Opportunity Fund in accordance with Code of Virginia§2.2-115and the annual provisions of the state Appropriation Act. The fund was established to assist in the creation of new jobs and capital investment in accordance with criteria established by legislation.

Economic development opportunity funds are used to support projects that create new jobs and private investment within the locality. Projects that may qualify for funding will be those basic employers that derive more than 50% of company revenue from outside Virginia, thereby adding to the gross domestic product of the Commonwealth. Permissible uses of Commonwealth’s Development Opportunity Fund grants include (but are not limited to) utility improvements, high-speed or broadband Internet access, site preparation costs, creation of access roads or rail, training, and capital improvements to buildings. To receive funding, the following general eligibility thresholds must be met:

* 50 new jobs/$5 million capital investment; or
* 25 new jobs/$100 million capital investment
* The average annual wage for the new jobs must be at least equal to the prevailing average annual wage in the locality, excluding fringe benefits
* If the average annual wage is twice the prevailing average annual wage, the Governor may reduce the new jobs thresholds to as low as 25

Eligibility thresholds in localities with above-average unemployment **or** above-average poverty rates:

* 25 new jobs/$2.5 million capital investment
* Jobs may pay below the prevailing average annual wage in the locality but must pay at least 85% of the prevailing average annual wage.
* If the average annual wage of the new jobs is less than 85% of the prevailing average annual wage, but the customary employee benefits are offered, the Governor may still award a grant or loan, but the Secretary of Commerce and Trade must furnish a written explanation to the Chairmen of the Senate Finance and House Appropriations Committees setting forth the urgent need to provide a grant or loan to that project.

Eligibility thresholds in localities with above-average unemployment **and** above-average poverty rates:

* 15 new jobs/$1.5 million capital investment
* Jobs may pay below the prevailing average annual wage in the locality, but must pay at least 85% of the prevailing average annual wage
* If the average annual wage of the new jobs is less than 85% of the prevailing average annual wage, but the customary employee benefits are offered, the Governor may still award a grant or loan, but the Secretary of Commerce and Trade must furnish a written explanation to the Chairmen of the Senate Finance and House Appropriations Committees setting forth the urgent need to provide a grant or loan to that project.

For grants from the Commonwealth's Development Opportunity Fund, capital investment and local match requirements may be reduced or waived based on the creation of “new telework jobs” that pay an average wage of at least 1.2 times the Virginia minimum wage. "New teleworking job" is defined as a new job that is held by a Virginia resident, for which the majority of the work is performed remotely, and that pays at least 1.2 times the Virginia minimum wage, as provided by the Virginia Minimum Wage Act (Code of Virginia § 40.1-28.8 et seq.).

The 2021 legislative session (Chapter 3806) amended Code of Virginia §2.2-115, to include the following requirements:

*A business beneficiary may count “new teleworking jobs” toward the minimum number of new jobs required under the Code section 2.2-115 subdivision 1, 2, or 3, if so permitted in the contract required by section 2.2-115 subdivision F2. The minimum private investment required under the Code section 2.2-115 subdivision 1, 2, or 3 may be reduced or waived if at least 75 percent, measured against the minimum number of new jobs required, of jobs created by the business beneficiary are new teleworking jobs, if so permitted in the contract required by section 2.2-115 subdivision F 2.*

The Virginia Economic Development Partnership (Partnership) administers the economic development opportunity program. Local governments that wish to participate in the program must sign an electronic grant application; a grant application must also be completed and signed by the company. The Partnership evaluates applications in accordance with the published evaluation procedures.

The Incentives Administration Policy and Procedural Guidelines set forth the project approval procedures, program requirements, and payment procedures. Approval is required by the Partnership, the Secretary of Commerce and Trade, the Chief of Staff, and the Governor of Virginia before the grant or loan is awarded. The Opportunity Fund application outlines the nature of the project. The performance agreement, executed by the local government, the Partnership, and the company, describes the local government's matching share and the grant payment structure. Copies of these documents may be obtained from the local government or from the Partnership.

Localities must at least match dollar-for-dollar with local funds the amount requested from the Commonwealth’s Development Opportunity Fund. Previously invested local funds, grants of moneys from other government sources (with the exception of Tobacco Region Opportunity Fund moneys as noted below), and contributions from private interests which benefit from the project’s location may not be counted as part of the local match. A local match may be funded by an in-kind contribution from the locality for the direct benefit of the grantee, such as infrastructure development, fee waivers, or free or reduced-price land or buildings. Local enterprise zone incentives may be counted toward the local match where the locality makes actual expenditures after the project is announced to benefit the project. Loans to the locality from the Tobacco Region Opportunity Fund may be used to fulfill the matching funds.

For additional information refer to VEDP’s website for the Commonwealth’s Development Opportunity Fund, located at: <https://www.vedp.org/incentive/commonwealths-development-opportunity-fund-cof>

*Allowability Requirement - Program Costs*

The grant or loan proceeds may be expended only for the purpose(s) outlined in the Opportunity Fund Application and the Incentives Administration Policy and Procedural Guidelines.

### Required Audit Procedure

Select a sample of program expenditures. For each transaction selected, determine whether the expenditure was reasonable and consistent with the project specified in the Opportunity Fund Application and the Incentives Administration Policy and Procedural Guidelines.

*Matching Requirement - Local Participation*

Local governments must meet the matching requirements set forth in the Incentives Administration Policy and Procedural Guidelines and the Opportunity Fund application.

### Required Audit Procedure

Determine whether the local government has met its requirement for local participation as set forth in the Incentives Administration Policy and Procedural Guidelines and the Opportunity Fund application.

*Special Requirement - Loan Repayment*

Local governments must repay economic development opportunity fund loans in accordance with the terms of the performance agreement governing the Commonwealth’s Development Opportunity Fund grant.

### Required Audit Procedure

Determine whether loan repayments are being made in accordance with the terms of the performance agreement governing the Commonwealth’s Development Opportunity Fund loan.

3-11 Education

***Reviewed by/Date: Christina Berta, June 2025***

***Virginia Department of Education Contact:*** *Christina Berta, Chief Operating Officer; 804-225-2025, Christina.P.Berta@doe.virginia.gov*

### Background Information

The state Department of Education makes payments to local school divisions in accordance with Title 22.1 of the Code of Virginia and the Appropriation Act. Most counties and cities have their own school division. The General Assembly has also authorized certain towns to operate their own school systems.

The State Board of Education and the General Assembly prescribe the Standards of Quality (SOQ) for public schools. The SOQ designate the minimum, foundation education program that school divisions must offer, including certain staffing requirements, and a minimum amount that must be spent from state and local funds based on the number of students in average daily membership (“ADM”). Each local government must appropriate the school division local funds that meet the required local effort for the SOQ each year. All state funds received for the SOQ must be spent by the end of each fiscal year, unless carry-over is specifically authorized by the appropriation act.

Appropriations for public schools are subject to several restrictions. Section 22.1-94 of the Code of Virginia requires local governing bodies to appropriate an amount sufficient to meet the Standards of Quality described above. The Appropriation Act and the Code of Virginia (§22.1-97) requires school divisions to spend the required local share of the Standards of Quality each year. The governing body may appropriate funds to the school board in total or by the major classifications contained in §22.1-115: (1) instruction; (2) administration, attendance and health; (3) pupil transportation; (4) operation and maintenance; (5) school food services and other non-instructional operations; (6) facilities; (7) debt and fund transfers; (8) technology; and (9) contingency reserve. If funds are appropriated by major classification, the school board may switch funds within each major category but may not shift funds from one category to another without approval from the governing body. Appropriations to the school board may be made annually, semi-annually, quarterly, or monthly. Once appropriated, the governing body may not reduce funds available to the school board below the amount required to meet the division’s required local effort. Further, all funds must be appropriated to be spent.

Section 22.1-81 of the Code of Virginia requires local school boards to report revenues, expenditures, positions, and other information annually to the State Board of Education using the Annual School Report. The State Board uses this report to monitor compliance with required Standards of Quality expenditures and other federal and state regulations and reports.

*Special Requirement - Appropriations*

The school estimates, as modified by the local governing body, must be incorporated into the locality's budget and must be appropriated to be spent (§15.2-2506 of the Code of Virginia). If funds are appropriated to the school board by major classification, the school board may not shift funds from one major category to another without approval from the governing body (§22.1-89 of the Code of Virginia).

### Required Audit Procedure

Compare adjusted appropriations and expenditures in each fund and major category and determine whether disbursements were made in excess of appropriations.

*Note: When reviewing whether expenditures were made in excess of appropriations, the auditor may choose to apply judgment to review those funds considered significant and material to the financial statements.*

*Reporting Requirement - Annual School Report*

Each school board must submit an annual financial report (called the Annual School Report) to the State Board of Education on a date determined by the Superintendent of Public Instruction on forms provided by the Department of Education (§22.1-81 of the Code of Virginia). An extension of time, not to exceed fifteen days, may be granted for good cause by the Superintendent of Public Instruction for the preceding due date.

### Required Audit Procedure

Obtain the Annual School Report for the year under audit. Also, obtain (or prepare, if specified in the audit contract) a reconciliation of receipts and expenditures per the Annual School Report to the school board’s accounting records. Review reconciliation for accuracy and reasonableness. The Annual School Report format includes a tab delineated file to collect revenues, expenditures, full-time equivalent positions, and fund balances, including certain staffing requirements, and a smaller Excel file for all other data.

3-12 Children’s Services Act Funds

***Reviewed by/Date:*** *Stephanie Bacote, June 2025*

***Office of Children’s Services (OCS) Contacts:***

Stephanie Bacote; 804-662-7441; [Stephanie.Bacote@csa.virginia.gov](mailto:Stephanie.Bacote@csa.virginia.gov)

Annette Larkin; 804-662-9816, [Annette.Larkin@csa.virginia.gov](mailto:Annette.Larkin@csa.virginia.gov)

[*http://www.csa.virginia.gov*](http://www.csa.virginia.gov)

### Background Information

Code of Virginia [§2.2-5204](https://law.lis.virginia.gov/vacode/title2.2/chapter52/section2.2-5204/) of the Children’s Services Act (CSA) requires an annual audit of CSA funds by all counties and cities that receive funding pursuant to the Children’s Services Act, Chapter 52 of Title 2.2 [(§2.2-5200](https://law.lis.virginia.gov/vacode/title2.2/chapter52/section2.2-5200/)). Accordingly, the auditor must perform the procedures contained in this section regardless of materiality.

The Children’s Services Act is designed to create a collaborative system of services and funding for eligible youths and their families. Eligible youth include children with severe emotional and/or behavioral problems, including but not limited to students with disabilities in private special education facilities and youth in foster care. These eligible youth often require services from more than one local agency. The Children’s Services Act requires the local Community Services Board (CSB); local Department of Social Services; local school division; and local Court Service Unit (CSU) to work together in providing services for such youth.

Policies and procedures for implementing the Act are set forth in the Policy Manual for the Children’s Services Act (revised April 2025; <https://www.csa.virginia.gov/Resources/PolicyGuides>). The CSA is funded as a separate agency (Agency 200) with state and federal funds. Local governments receive two types of funds under the Children’s Services Act: (1) pool funds and (2) local administrative funds. Each of these funding sources is discussed briefly below.

*State Pool Funds (Section 4 of the Children’s Services Act Policy Manual)*

Pool funding is directly appropriated to Agency 200 to provide services to eligible children. Allocation of funds in the state pool to local communities is determined by a formula based on language in the Appropriation Act. Pool funds can be used to provide services to children and their families who are eligible for services as defined in [§2.2-5212](https://law.lis.virginia.gov/vacode/title2.2/chapter52/section2.2-5212/) of the Code of Virginia.

The 2021 legislative session (Chapter 70 and Chapter 71), amended Code of Virginia [§2.2-5211](https://law.lis.virginia.gov/vacode/title2.2/chapter52/section2.2-5211/) and [§2.2-5212](https://law.lis.virginia.gov/vacode/title2.2/chapter52/section2.2-5212/) related to CSA pool funds. Funds for private special education services under the Children's Services Act are required to be expended only on educational programs that are licensed by the Board of Education or an equivalent out-of-state licensing agency. Funds for private special education services may only be expended for programs that the Office of Children's Services certify as having reported their tuition rates. Code of Virginia §[2.2-5212](https://law.lis.virginia.gov/vacode/title2.2/chapter52/section2.2-5212/) also expands eligibility requirements for children and youth previously placed in approved private school educational programs to include transitional services as set forth in subdivision B.6 of [§2.2-5211](https://law.lis.virginia.gov/vacode/title2.2/chapter52/section2.2-5211/).

Pool funds are state funded with a local matching share. Variable local match rates apply to certain services/expenditure categories as specified in the Appropriation Act:

* Base Match Rate – per formula established by the Appropriation Act
* Community Based Services Rate – 50 percent of the base match rate.
* Residential Services Rate – 25 percent above the base match rate.

The funds are reimbursement based (i.e., the locality must expend funds and then will be reimbursed for the state-share of the expense by the Department of Education who serves as state Fiscal Agent). Reimbursements are requested using the electronic Pool Reimbursement Request (accessed using the CSA web <https://www.csa.virginia.gov/>) as often as monthly, but not less often than quarterly.

*Administrative Funds (Section 4.5.3 of the Children’s Services Act Policy Manual)*

Administrative funds are available to offset the added cost localities incur in implementing the Children’s Services Act. Use of these funds is flexible, and may be used for administrative and coordinating expenses, or even direct services to eligible youth and families.

*Federal Expenditure Reporting Requirements*

CSA pool funds are comprised of Federal, State, and local monies collectively. In collaboration with the Department of Education, the Office of Children’s Services provides financial reporting data that is accessible from the CSA website to each locality of their respective federal reimbursement for inclusion in their Schedule of Expenditures of Federal Awards (SEFA) under CFDA 93.667.

*Special Requirement - Separate Accounting:*

State and local revenues and expenditures applicable to the Children’s Services Act must be identified separately from other funds within the local government's accounting system. The local fiscal agent must account for CSA administrative expenditures such that they are clearly identifiable as CSA administrative expenditures (Section 4.5.3 of the Children’s Services Act Policy Manual).

### Required Audit Procedure

Determine whether the method used by the local government to account for Children’s Services Act funds is adequate to separately account for such funds.

*Allowance or Permitted Requirement - Pool Funds*

Pool funds must be expended for public or private non-residential or residential services for eligible youth and families. (Code of Virginia [§2.2-5211](https://law.lis.virginia.gov/vacode/title2.2/chapter52/section2.2-5211/)) Pool funds may only be used for services for specific eligible children and their families. Administrative costs, interagency coordinators, and services billable to other funding sources are not allowable.

### Required Audit Procedure

Select a sample of Pool Fund disbursement transactions from the year under audit. For each transaction selected, determine whether the:

1. Payment was supported by a written contract or service agreement.
2. Services were provided to a specific eligible youth or family (a single voucher may cover services for more than one youth; however, the contract or purchase order must specify a child-specific unit price).
3. Maintenance and support expenses to foster youth did not exceed the amount determined by the local social services board and is consistent with the written contract or service agreement.
4. Payment was made as authorized by CPMT policies and procedures. Ensure that local CPMT policies and procedures are consistent with the Code of Virginia statutes and the CSA Policy Manual.
5. The authorized service was not eligible for another funding source, for example Medicaid funding prior to using CSA funding to pay for the services, and
6. Expenditure appears reasonable given the purpose of the Children’s Services Act and the purpose of pool funds.

*Note: The Office of Children’s Services (OCS) has developed a “Can CSA Pay” tool to assist CPMT’s with determining the appropriate use of pool funds. Refer to Section 7 of the CSA User Guide, located at* [*https://www.csa.virginia.gov/content/doc/CSA\_User\_Guide.pdf*](https://www.csa.virginia.gov/content/doc/CSA_User_Guide.pdf)

*Eligibility Requirement - Pool Funds*

Pool funds may only be used to provide services to children/youth and their families who are eligible for services as set forth in the Code of Virginia [§ 2.2-5212](https://law.lis.virginia.gov/vacode/title2.2/chapter52/section2.2-5212/). Eligibility for CSA funding is defined by Code and governed locally by the Community Policy and Management Team (CPMT) policies and procedures. Further information on the eligible CSA population can be found in Section 4.1 (Eligible Populations) of the CSA Policy Manual.

Pursuant to SEC policy, the special education mandate cited in [§ 2.2-5211](https://law.lis.virginia.gov/vacode/title2.2/chapter52/section2.2-5211/), B1 may be utilized to fund non-residential services in the home and community for a student with a disability when the needs associated with his/her disability extend beyond the school setting and threaten the student’s ability to be maintained in the home, community, or school setting (i.e. Wrap Around Services). The state share appropriation to be allocated to localities providing Wrap-Around Services for Students with Disabilities is allocated at an amount not to exceed $2.2M for the fiscal year as stipulated in the state’s Appropriation Act (2025 Acts of Assembly, Chapter 725, Item 268, B1.f.). Only localities with approved allocations by the state office will have expenditures in this reporting category. Those localities, along with the amount of their allocations, can be identified by viewing their respective CSA Transaction History Reports.

All youth and families eligible for the CSA-funded treatment services are required to be assessed by the Family Assessment and Planning Team (FAPT) or an approved collaborative, multidisciplinary team process and shall consider the criteria set out in subdivisions A 1 and A2 of [§ 2.2-5212](https://law.lis.virginia.gov/vacode/title2.2/chapter52/section2.2-5212/). Except for cases involving only the payment of foster care maintenance that shall be at the discretion of the local community policy and management team, cases for which service plans are developed outside of this family assessment and planning team process or approved collaborative, multidisciplinary team process shall not be eligible for State pool funds. Code of Virginia [§2.2-5209](https://law.lis.virginia.gov/vacode/title2.2/chapter52/section2.2-5209/). IEP services (private school placements) may be exempt from the FAPT process, unless required by local policy (Section 3.2.2 of the CSA Policy Manual).

Section [2.2-5206](https://law.lis.virginia.gov/vacode/title2.2/chapter52/section2.2-5206/) of the Code of Virginia requires the local Community Policy and Management Team (CPMT) to develop procedures to access CSA Funds for eligible populations.

### Required Audit Procedure

Review the local government's system for determining eligibility and evaluate for adequacy. Select a sample of program participants from the vouchers supporting the Pool Reimbursement Requests tested below (or from other sources as deemed appropriate by the auditor). For each participant selected, determine whether the individual is classified on the Reimbursement Request as part of the mandated or non-mandated population pursuant to 2.2-5212. Examine documentation in the youth's case file and determine whether:

1. the youth meets the state eligibility criteria ([§ 2.2-5212](https://law.lis.virginia.gov/vacode/title2.2/chapter52/section2.2-5212/)),
2. the youth meets the state criteria for inclusion in the mandated population ([§ 2.2-5211](https://law.lis.virginia.gov/vacode/title2.2/chapter52/section2.2-5211/)), if the individual was included in the mandated population on the Reimbursement Report,
3. service plans were developed and approved by the family assessment and planning team process or approved collaborative, multidisciplinary team process per [§2.2-5209](https://law.lis.virginia.gov/vacode/title2.2/chapter52/section2.2-5209/) (except for cases involving foster care maintenance only or IEP services),
4. expenditures were authorized by the community policy and management team ([§ 2.2-5206](https://law.lis.virginia.gov/vacode/title2.2/chapter52/section2.2-5206/)), and
5. when required, service providers meet licensing requirements (Section 4.6 of the CSA Policy Manual).

*Note: CSA has developed a* [*CSA Documentation Inventory*](http://www.csa.virginia.gov/content/doc/CSA_Documentation_Inventory.pdf) *to assist CPMT’s with the development and maintenance of case documentation.*

*Reporting Requirement - Pool Reimbursement Requests*

Local governments receiving pool funds must submit electronic Pool Reimbursement Requests not less often than quarterly. Documentation must be maintained to support expenditure amounts reported, and to demonstrate that each pool fund expenditure was made on behalf of a specific eligible child (or list of specific children). The pool fund reimbursement claim should exclude any payment whose services were paid using Medicaid (or any other funding source). Cost for which reimbursement is claimed must be reported pertaining to the fiscal year in which the service was provided. Final claims for reimbursements for prior year payments will not be accepted after the first quarter (September 30) of the next fiscal year. (Section 4.5.2 of the CSA Policy Manual) Adequate separation of duties should exist between Report Preparer and Fiscal Agent and passwords should be kept confidential.

### Required Audit Procedure

Select a sample of Pool Reimbursement Requests from throughout the year under audit.

1. Determine that requests were filed at least quarterly.
2. Determine accuracy of amounts reported by tracing receipts and expenditures to the locality's general ledger or reviewing the locality's reconciliation of amounts reported to the general ledger.
3. Perform a service year test ensuring reimbursement requests pertain to the year in which the services were provided.
4. Verify that all expenditures were reported in the appropriate reporting categories.
5. Verify that the individual preparing the pool fund expenditure report is not the same individual as the locality assigned fiscal agent approver.

3-13 Highway Maintenance Funds

***Reviewed by/Date: Terry R. Short, Jr., June 2025***

***Virginia Department of Transportation (VDOT) Contact:*** *Terry R. Short, Jr.; 804-371-0505,* [*terry.shortjr@VDOT.Virginia.gov*](mailto:Russ.Dudley@VDOT.Virginia.gov)*.*

### Background Information

Sections 33.2-319 and 33.2-366 of the Code of Virginia requires an annual categorical report accounting for all expenditures of highway maintenance funds and an annual audit of this report. Accordingly, the auditor must perform the procedures contained in this section regardless of materiality.

The state Department of Transportation makes payments to all cities, certain towns, and the Counties of Arlington and Henrico for the maintenance of highways. These funds may also be used for construction and reconstruction. (Highway maintenance expenditures for purposes of this program include expenditures for maintenance, construction, and reconstruction, and therefore the term “maintenance” is inclusive of these categories of expenses.) Section 33.2-319 of the Code of Virginia establishes the criteria for determining which local governments and highways are eligible for these funds. These eligibility requirements are summarized together with the required treatment for the funds in the Urban Manual published by the Department of Transportation (refer to link below for manual). The auditor should be familiar with this manual prior to commencing test work.

* + [Urban Construction and Maintenance Program guidance (Urban Manual)](https://www.virginiadot.org/business/resources/local_assistance/Urban_Construction_and_Maintenance_Program_Urban_Manual.pdf)- Aug 2017 ver.

Local governments are required to report their highway maintenance expenditures on the U-3 financial survey. Localities annually report transportation expenditures to VDOT to report to the Federal Highway Administration. The U-3 Local Finance Survey includes the necessary categories for reporting the maintenance expenditures.

The local government is required to complete the financial survey when VDOT requests it. The survey can be completed online and is due on March 15th each year. Therefore, the auditor is responsible for performing the following audit procedures on the annual U-3 Local Finance Survey submitted for the year prior to the current audit year.

*Special Requirement - Separate Accounting*

Revenues and expenditures applicable to street maintenance payments must be accounted for in a separate fund or separate accounts within the local government's accounting system (Urban Manual).

### Required Audit Procedure

Determine whether the method used by the local government to account for street maintenance payments is adequate to separately account for such funds. Also, using the Cardinal State Disbursements Report provided by the Auditor of Public Accounts, trace all Urban Street payments to the local government's general ledger and determine proper recording.

*Allowability Requirement - Program Costs*

Costs reported on the annual U-3 Local Finance Survey must be allowable costs for the maintenance, construction, or reconstruction of eligible streets (Urban Manual).

### Required Audit Procedure

Obtain a copy of the annual U-3 Local Finance Survey for testing. Obtain a copy of, or access to, all schedules, worksheets, and other documentation supporting the costs claimed on the U-3 Local Finance Survey. Select a representative sample of charges claimed on the U-3 Local Finance Survey and examine supporting documentation to determine whether:

1. Costs were incurred for the maintenance, construction or reconstruction of the street(s) as defined by the Urban Manual,
2. Costs are "acceptable" costs under the program as defined by the Urban Manual,
3. The street is an eligible street included on the Department of Transportation's annual listing of eligible streets (Urban Inventory)
4. Determine the reasonableness of charges that have been allocated to eligible streets for maintenance, construction and reconstruction activities (i.e. time logs, equipment use logs and rental rates, indirect cost plans, etc.)

*Note: The annual listing of eligible streets (Urban Inventory) required to perform step (c) can be obtained from the local government's public works department or VDOT’s Local Assistance Division.*

*Reporting Requirement - Annual Report*

Local governments receiving street maintenance funds must submit an annual U-3 Local Finance Survey to VDOT by the requested date. The Weldon Cooper Center provides the survey to the Virginia Department of Transportation accounting for payments received and related expenditures (§33.2-319 of the Code of Virginia and Urban Manual). Payments and expenditures claimed on the annual report must reconcile to the local government's accounting system and must be supported by detailed documentation.

### Required Audit Procedure

Obtain the annual U-3 Local Finance Survey for the audit year. Also, obtain (or prepare if so specified in the audit contract) a reconciliation of revenues (total allocation) and expenditures per the U-3 Local Finance Survey to the locality's general ledger or separate highways cost accounting system (if applicable). Review the reconciliation for accuracy and reasonableness.

**Additional procedure, if applicable**: If amounts are reconciled to a separate cost accounting system, the auditor should perform appropriate risk assessment procedures to sufficiently evaluate the design of internal controls over that system.

3-14 Route 28 Highway Transportation Improvement District

***Reviewed by/Date:*** *Virginia Department of Transportation, June 2025*

***Virginia Department of Transportation (VDOT) Contact:*** *Jeff Price, Director, Financial Planning Division; 804-786-7131, jeff.price@VDOT.Virginia.gov*

**These procedures apply only to the audits of Fairfax and Loudoun counties.**

### Background Information

Title 33.2, Chapter 21, of the Code of Virginia and Section 404 of the District Contract require an annual audit of the State Route 28 Transportation Improvement District's financial obligations and revenues. Accordingly, the auditors must perform the procedures contained in this section regardless of materiality.

In accordance with §33.2-2101 of the Code of Virginia, the Fairfax and Loudoun County board of supervisors approved a resolution (called the Local Contract) to create the State Route 28 Highway Transportation Improvement District (District). The purpose of the District is to undertake the improvement of the primary highways located within its boundaries. In accordance with the Code of Virginia, a District Commission was created to exercise the powers of the District. The District Commission is made up of members of the Board of Supervisors of Loudoun and Fairfax Counties and the Chair of the Commonwealth Transportation Board.

A District Advisory Board (Advisory Board) was also created in accordance with the Code of Virginia. The Advisory Board is made up of members appointed by the two governing bodies and elected members who reside within the District. The purpose of the Advisory Board is to identify transportation needs within the District. The Advisory Board presents an annual report to the District Commission on its findings.

Because the District Commission has no taxing power, the Code of Virginia permits it to request Fairfax and Loudoun counties to levy and collect an annual special improvements tax. The proceeds are paid to the District Commission to pay for road improvements.

During 1988, the District Commission and the Fairfax County Economic Development Authority (the Authority) contracted with the Commonwealth Transportation Board to carry out its improvements (called the District Contract). The district contract was amended and restated on August 30, 2002, and again on May 1, 2012. On February 1, 2022, the District Commission, the Authority, and the Transportation Board entered into a Second Amended and Restated Agreement. In its contract with the Commonwealth Transportation Board and the Authority, the District Commission agreed to pay over all of the special improvements tax to a Fiscal Agent for use in paying the District’s obligation for the cost of the Route 28 improvements. The Commonwealth Transportation Board originally issued revenue bonds to finance these improvements. These bonds were defeased on October 10, 2002 and refunded with current interest rate refunding bonds maturing during the years 2003 through 2018. Also, in October 2002, the Board issued new money capital appreciation bonds, in accordance with Section 302(c) of the District Contract. The new bonds mature in years 2019 through 2032. In May 2012, the Commonwealth Transportation Board defeased all of the callable 2002 revenue and refunding bonds maturing during the years 2013 through 2032 and refunded with current interest rate refunding bonds. The 2002 non-callable capital appreciation bonds maturing during the years 2019 through 2027 remain outstanding. The refunding bonds issued in 2012 were redeemed in December 2022 and October 2023.

Additionally, the Authority entered into a November 2006 contract amendment to issue $87,000,000 in bonds (Authority bonds) and accept a $20,000,000 interest-free loan and a $5,000,000 grant from the Transportation Partnership Opportunity Fund (TPOF), to provide additional construction funds to complete the project (District Contract Section 302 (e)). However, during the update of the FY2008 Six-Year Improvement Program, VDOT replaced the TPOF loan in the amount of $20 million with an allocation of $23.9 million in state funds.

Chapter 770 of the Acts of Assembly of 2002 (Third District Act Amendment) provides that the District shall not be abolished as long as there is an outstanding District obligation. The auditor should familiarize himself with the District Contract, prior to commencing test work. The auditor also may want to review the Local Contract, which was also amended and restated on August 30, 2002, that initially created the District.

In February of 2014, the District Commission received an additional $5,000,000 grant from the Transportation Partnership Opportunity Fund (TPOF) to assist in constructing a bridge widening over the Dulles Toll Road.

*Contract Amendments*

The District Commission may not amend the Local Contract without approval of the other parties to the District Contract (District Contract Section 504). The parties to the District Contract are the Commonwealth Transportation Board, the Fairfax County Economic Development Authority, and the State Route 28 Highway Transportation Improvement District Commission.

### Required Audit Procedure

Determine whether the proper parties approved amendments made to the Local Contract, if any amendments have been made during the fiscal year.

*Request for Annual Special Improvements Tax Levy*

The District is obligated to pay no more than 75% of the final aggregate cost of the Rt. 28 improvements, as set forth in the district contract. In order to pay this obligation, the District Commission shall request the respective boards of supervisors by April 1 of each year to levy and collect a special improvements tax sufficient to meet the district's obligation to the Transportation Board (District Contract Sections 401, 402 and 406).

### Required Audit Procedure

Obtain the Commission's request to Boards of Supervisors for the levy of the special improvements tax and determine whether:

1. The Commission's request for the levy and collection of the special improvements tax was made by April 1 of the prior fiscal year,
2. The special assessments tax rate was sufficient to meet the district's obligation as set forth in Section 401 of the district contract, and
3. There were any zoning changes that affected the classification of property within the primary highway transportation improvement district. If so, determine whether the Commission requested the board of supervisors to adjust the rate of the special improvements tax, and increases in the rate did not exceed the maximum allowed by §33.2-2105 of the Code of Virginia.

*Annual Special Improvements Tax Levy*

Upon the request of the District Commission, the Boards of Supervisors shall levy and collect an annual special improvements tax on the assessed fair market value of the taxable real estate zoned for commercial or industrial use or used for such purposes and taxable leasehold interests in that portion of the improvement district within its jurisdiction. The tax shall be collected at the same time and in the same manner as county taxes are collected (§33.2-2105 of the Code of Virginia). As of September 2002, the Commission shall request that the counties set the special improvement tax rate at the maximum rate permissible under the Code of Virginia §33.2-2105 and district contract Section 401(b). The District Contract fixes the maximum special improvements tax rate at .20 per $100 of assessed fair market value for the term of the contract (Section 401(f)(ii)).

The special improvements tax rate shall be assessed at the maximum rate until the following two occurrences:

1. Available special tax revenues in each of the two fiscal years immediately preceding the fiscal year in which the reduction occurs have been greater than 1.1 times the combined debt service in each of those fiscal years, calculated as required in Section 401 (a) AND
2. It is anticipated by the District Commission that available special tax revenues in each subsequent fiscal year will be greater than 1.1 times the combined debt service as calculated. (District Contract Section 401 (b))

Following these occurrences, the rate may be reduced to a level sufficient, in the judgment of the District Commission, to pay 1.1 times the combined debt service.

### Required Audit Procedure

Obtain a listing of taxable real estate subject to the special improvements tax and the special improvements tax rate for the year under audit and:

1. Make an overall proof of the original levy by multiplying the assessed value of property and leasehold interests by the related special improvements tax rate. Compute the net levy by adjusting the original levy for supplemental assessments, if applicable
2. Determine whether the special improvements rate was levied at the maximum rate permissible, set at $.20 per $100 of assessed fair market value (Section 401 (f)),
3. If the special assessments tax rate was assessed at below the maximum rate, ensure the conditions set forth in the District Contract Section 401 (b) have been met, AND
4. Select a representative sample of property and leasehold interests within the primary highway transportation improvement district and determine whether the special improvements tax levy was properly assessed and collected.

*Authority Revenue Stabilization Fund*

Any available excess revenues on hand immediately after the final debt service payment in any fiscal year shall be allocated to the creation and funding of an Authority Revenue Stabilization Fund (the Fund) until the Fund reaches $8,500,000 (District Contract Section 401(c)). After all Authority Bonds have been issued, the Fund shall be increased or decreased so that it equals the maximum annual debt service on all Authority Bonds. Once the Fund is fully funded, any excess revenues will be applied to the District Project Completion Fund (District Contract Section 401).

### Required Audit Procedure

1. Determine whether excess revenues (amounts exceeding required debt service payments) were paid to the fund after the required debt service payments in a fiscal year, and
2. Determine if the fund is fully funded, determine whether any excess revenues have been applied to the District Project Completion Fund.

*Payment of Taxes to the Transportation Board*

The District shall direct Fairfax and Loudoun Counties to pay the designated Fiscal Agent all Special Tax Revenues by the first day of each month, but in no event later than 45 days after receipt. (District Contract Section 402)

### Required Audit Procedure

Determine whether the proceeds from the special improvements tax were paid to the Fiscal Agent by the first day of each month, but in no event later than 45 days after receipt.

*Reporting of Tax Revenues*

The Fiscal Agent shall maintain adequate records of the outstanding balance of the District Obligation and forward to the District Commission and the Commonwealth Transportation Board, a financial report and statement setting forth such information by February 15 and August 15 of each year. The statement shall indicate the amount of the District Obligation for the current fiscal year The Fiscal Agent shall deposit in a special account all Special Tax Revenues received. (District Contract Section 403(a))

### Required Audit Procedure

Obtain the two financial reports from the Fiscal Agent for the audit period and agree the amount of Special Tax Revenue reported on the reports to the county's records. Identify and resolve all reconciling differences.

*Annual Audit*

The District must have an annual audit of its financial obligations and revenues (District Contract Section 404).

### Required Audit Procedure

Obtain the locality prepared schedule disclosing unremitted special tax revenue at July 1, collections, transfers to the Fiscal Agent, and the unremitted balance at June 30. Determine whether amounts agree to the accounting records.

*Residential Rezoning Lump-Sum Payments*

Fairfax and Loudoun counties may change the zoning classification for any property within the District from commercial or industrial use to residential use upon the written request of the landowner. Before the county may authorize the rezoning, the landowner is required to pay a lump-sum amount representing the present value of the special improvement taxes estimated to be the lost revenues as a result of such change in classification. This lump-sum payment is assumed to mitigate the financial impact on the District’s tax base needed to pay debt service on the Route 28 Transportation Revenue Bonds. (District Contract Section 407)

### Required Audit Procedure

Obtain a list of all properties within the District for which the counties have changed zoning classifications from commercial or industrial use to residential use and:

1. Determine whether the lump-sum payments were computed and collected as prescribed in the District Contract, and
2. Obtain the locality prepared schedule disclosing discrepancies between the residential rezoning payments and the computation formula. Ensure copy of this schedule is mailed to Jeff Price, Director, Financial Planning Division, Virginia Department of Transportation, 1221 East Broad Street, 2nd Floor; Richmond, VA 23219.

3-15 Social Services

***Reviewed by/Date: VDSS June 2025***

***Department of Social Services Contact****: Ida Witherspoon, Chief Financial Officer, Division of Finance; 804-726-7220; ida.witherspoon@dss.virginia.gov*

***APA/Auditing Questions Contact****: Mike Sidell, APA Project Manager, 804-225-3350, mike.sidell@apa.virginia.gov*

**Organization of Guidance and Audit Procedures at Section 3-15**

Overall guidance, explanatory information and other information for the auditor’s consideration during their audit is included at the Background Information section below. Special requirements applicable to specific state supervised and locally administered benefit and service programs are included in Part 1 below. Discussion of Information Systems controls, risk assessment considerations, and the related required audit procedures are included at Part 2 below.In most instances, the APA has organized any applicable guidance information for special requirements and IT controls to precede the required or suggested audit procedures for each applicable area. In addition, the APA made formatting changes and reorganized the sequence of certain audit procedures; however, the overall content of the audit procedures remains the same as in prior year.During fiscal year 2024, several updates to Section 3-15 were made to permit the auditor to apply risk assessment and materiality considerations for certain procedures or to apply an alternate testing schedule of performing certain procedures over a three-year period. **These considerations are only applicable to certain areas/audit procedures as specifically indicated below.** Auditors should ensure that they document any risk assessment/materiality considerations and their testing decisions related to these applicable audit procedures at Section 3-15 in their audit documentation. Auditors may use the[*APA Sample Alternating Testing Schedule- Audit SPECS procedures workbook*](https://dlas-directus-prod.azurewebsites.net/assets/6BD26CC4-2893-4BEC-961C-80B378D9B69B.xlsx) (located at [apa.virginia.gov > Local Government > Resources > Guidelines and Manuals](https://www.apa.virginia.gov/local-government/resources?type=guidelines-and-manuals)) to assist with this documentation*.* Use of the APA Sample workbook template for auditor’s documentation purposes is optional. **However, the auditor must review the APA’s requirements for risk assessment considerations as noted at the applicable audit procedures under this Section 3-15 and apply accordingly for testwork and documentation purposes.**

**Background Information**

*Implications of COVID-19*

The local government auditors should consider guidance and resources provided by the Federal Administration for Children and Families (ACF) specific to federal funding to grant recipients in response to the COVID-19 pandemic to determine the impact on any planned audit procedures. <https://www.acf.hhs.gov/american-rescue-plan>

*Program Overview*

The VirginiaDepartment of Social Services (VDSS) oversees the operation of social service programs in accordance with Title 63.2 of the Code of Virginia. Local Departments of Social Services (LDSS), serving every county and city in the Commonwealth, administer the “Benefit” and “Service” programs under the supervision of VDSS. The Virginia model for social services delivery is “state-supervised” and “locally administered.”

Through LDSS, VDSS administers over 40 programs that provide benefits and services to eligible at-risk families, children, and adults. Federal, state, and local governments share the costs of administering these social services programs. These programs are described in further detail in the guidance below.

*Regional Offices*

VDSS has five regional offices: the Northern Virginia Office in Warrenton; the Eastern Office in Norfolk; the Central Office in Henrico; the Piedmont Office in Roanoke; and the Western Office in Abingdon. Directors in each location work collaboratively with state staff housed in both the Home and Regional Offices to support Virginia Social Services System initiatives and the local departments of social services.

*Community and Volunteer Services (CVS)*

VDSS maintains close relationships with community organizations, faith-based organizations, non-profits and local departments of social services. These relationships enable the Virginia Social Services System to pool resources to provide a safety net for services for those most in need. CVS seeks out ways to partner with the Commonwealth and, private, volunteer and community organizations to share information and fortify the Virginia Social Services System (VSSS) statewide network of services.

*Sub-recipient Monitoring (SM)*

The purpose of sub-recipient monitoring is to help ensure that VDSS awards are used in accordance with federal and state laws and regulations, and for the purpose for which they were intended. Entities that receive such awards are referred to as sub-recipients. Examples include:

* Local Departments of Social Services;
* Local and state governments agencies (e.g. counties, health departments, school systems; boards of education);
* Non-profit agencies;
* For-profit agencies;
* Colleges and universities; and
* Clients.

***VDSS monitoring efforts include:***

* Agency wide sub-recipient monitoring processes
* Annual Financial Report Submission Requirements for Local Government, Community Action Agencies and Non-Profit Organizations
* Local Government Central Service Cost Allocation Plan Reviews

*VDSS’ Agency-Wide Sub-recipient Monitoring Processes*

The Virginia Department of Social Services has financial assistance relationships with a wide variety of organizations – local government agencies, county or city local departments of social service, public authorities, non-profit and for-profit entities, as well as colleges and universities. These agencies vary from very large organizations such as a large county or city government or a state university to very small non-profit agencies. Regardless of the size or type of agency, a financial assistance arrangement exists when another entity expends state or federal funds received from the VDSS to carry-out a state or federal program. In this case, the entity receiving the funds from VDSS is known as the subrecipient.

Monitoring is the review process used to determine a sub-recipient’s compliance with the requirements of a state or federal program, applicable laws and policies/regulations, and expected results and outcomes. Monitoring also includes the review of internal controls to determine if the sub-recipient’s financial management and accounting system are adequate to account for program funds in accordance with state or federal requirements. It is the responsibility of each program area and division leadership to conduct sub-recipient monitoring.

*Audits of States, Local Governments, and Non-Profit Organizations*

The annual submission of audit reports to VDSS enables the department to assure compliance with the Single Audit Act of 1984 and its amendments of 1996, and the Uniform Guidance requirements in the [Code of Federal Regulations Part 200](https://www.ecfr.gov/cgi-bin/text-idx?tpl=/ecfrbrowse/Title02/2cfr200_main_02.tpl). It also allows VDSS to determine whether corrective action plans adequately address exceptions cited in auditor reports. Completed local government single audit reports should be emailed/sent directly to the VDSS Division of Finance – Local Review Team and single audit reports for non-profits should be emailed/sent to the contract manager to allow for a timely review.

The Office of Management and Budget’s (OMB) regulations in 2 CFR 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, or the Uniform Guidance, supersedes and streamlines requirements from the prior OMB Circulars. Under current Uniform Guidance, applicable for fiscal year July 1, 2024, through June 30, 2025 (FY2025) local audits, the threshold for completion of local government Single Audit Reports is $750,000 total federal expenditures expended in the fiscal year. Note: The 2024 Uniform Guidance revisions (subpart F §200.501) increased the Single Audit threshold to$1,000,000 in total federal expenditures expended in the fiscal year effective for fiscal years starting on or after October 1, 2024, which will be effective for fiscal year July 1, 2025, through June 30, 2026, (FY2026) local government audits.

***Benefit Programs***

Programs include Medicaid; Family Access to Medical Insurance Security (FAMIS); Supplemental Nutrition Assistance Program (SNAP); the Temporary Assistance for Needy Families (TANF) Program), which is funded by the TANF block grant and state funds and includes the work-related Virginia Initiative for Education and Work (VIEW) component and a cash assistance component; General-Relief, which is limited to unattached minors; TANF-Emergency Assistance; Energy Assistance and TANF-Unemployed Parents. LDSSs determine eligibility and provide ongoing case management. Eligibility for most benefit programs is determined at the local level using guidelines and procedures contained in the VDSS program manuals; Medicaid and FAMIS guidelines are developed by DMAS. Medicaid and FAMIS eligibility may be determined at the LDSS or at a Central Processing Unit (CPU) operated by the Department of Medical Assistance Services (DMAS); however, ongoing case management is provided by the LDSS.

Localities generally determine eligibility for benefit programs by collecting and verifying applicant data and then determining eligibility and calculating the benefit amount either manually or in an automated system, depending upon the program; the majority of eligibility (Medicaid, TANF, SNAP, Energy Assistance and Child Care Subsidy are determined by VaCMS). Eligibility for benefit programs is determined using the Virginia Case Management System (VaCMS). In addition, to enable eligibility staff to have access to historical information on closed cases that were not converted to VaCMS, a new system, ADAPT- Read Only (RO) has been developed. Assistance is paid based on eligibility information entered into VaCMS by the LDSS staff.

The actual distribution of benefits varies by program. For example, under the General Relief program, the LDSS distributes benefits directly to the recipients through the LDSS’ warrant registers. However, under the TANF and Energy Assistance programs, even though LDSSs determine eligibility, the VDSS distributes benefits to eligible households and vendors; most benefits are issued through an electronic card similar to a debit card for TANF and SNAP. Medicaid and FAMIS coverage is paid by DMAS to participating providers based on the eligibility determination performed by the LDSS or the DMAS CPU. SNAP benefit payments do not flow through VDSS. They are paid directly by the Federal Government to the recipient’s EBT Card.

While the Commonwealth of Virginia pays public assistance benefits for recipients, as discussed above, VDSS and the LDSSs share responsibility for meeting federal compliance requirements for determining recipient eligibility. As such, the local government auditor must meet their responsibilities for evaluating the requirements governing eligibility that apply to the locality and testing internal controls and compliance as required by the standards.

Materiality in a Single Audit differs from that in an audit of the financial statements. Materiality in a Single Audit is affected by the (a) nature of the compliance requirements, which may or may not be quantifiable monetarily; (b) the nature and frequency of noncompliance identified with an appropriate consideration of sampling risk; and (c) qualitative considerations, such as the needs of federal agencies and pass-through entities (such as the Virginia Department of Social Services (VDSS)). Although public assistance benefit payments are not reported on the locality’s Schedule of Expenditures of Federal Awards (SEFA), the local government auditor must consider that that the locality earns and is able to recognize the resulting revenue from the administrative expenses reported on the SEFA as an outcome of providing compliant eligibility determinations and continued case management services.

In determining if eligibility is qualitatively material to a major program and the amounts reported in the financial statements, the local government auditor should document their consideration of qualitative factors, for example, caseload information, other data and reports made available on the Virginia Department of Social Services (VDSS) website, in making their qualitative evaluation required by the standards.

To provide transparency into the benefits that each LDSS authorizes, VDSS publishes annual financial statements by locality, which provide detail of the social services expenses by category and budget line, to include the breakout between administrative funding to the LDSS and the LDSS’s portion of statewide benefit payments. These statements are available on the VDSS website at the following link: <http://www.dss.virginia.gov/geninfo/reports/agency_wide/jlarc.cgi>

In addition, the VDSS annually publishes the Local Departments of Social Services Profile information to include data related to local agency caseload and expenditure and local population demographics. This data is available on the VDSS website at the following link:

<https://www.dss.virginia.gov/geninfo/reports/agency_wide/ldss_profile.cgi>

Additionally, LDSSs are responsible for providing workforce programs to participants who do not meet the work exemption criteria in the SNAP and TANF cash assistance programs. The SNAP workforce program is called the SNAP Employment and Training (SNAPET) Program and the TANF cash assistance workforce program is called the Virginia Initiative for Education and Work (VIEW) program. Finally, LDSSs are responsible for ongoing case management activities for all benefit programs.

Child care assistance is defined as a public assistance program according to §63.2-100 of the Code of Virginia, as are the other programs supervised by the Division of Benefit Programs. The VDSS uses an automated eligibility determination system for child care assistance called the Virginia Case Management System (VaCMS). VaCMS includes the functionality of online screening and application, eligibility determination, financial management and child care vendor management.

*Service Programs*

Services programs include Adult Protective Services, Adult Services, Auxiliary Grants, Child Protective Services, Foster Care, Adoption, Prevention Interstate Compact on the Placement of Children, and other local-only programs which vary by locality. Funds for service programs are provided to LDSSs to administer the programs and provide the actual services. Therefore, localities are required to include both administrative and non-administrative costs associated with these programs in their Schedule of Expenditures of Federal Awards (SEFA). Furthermore, all expenditures related to these programs should be used in determining major programs for the Single Audit. If a service program is determined to be a major program at the local level, the auditor must test all compliance requirements that have a direct and material effect on the program.

Information on child welfare cases is recorded in the Online Automated Services Information System (OASIS) and data on Adult Services and Adult Protective Services cases can be found in the web based case management system called PeerPlace. The local Treasurer disburses checks (warrants) for these programs.

Separate warrant registers are maintained for each social services program. LDSSs maintain warrant registers to support payments they make by issuing benefit checks. The warrant registers supporting payments made by the local treasurer are totaled monthly and keyed/uploaded into the Locality Automated System for Expenditure Reimbursement (LASER).

LDSSs maintain warrant registers in a manner that is applicable to their particular accounting system. The warrants for specific social service programs can be grouped and sequenced by check number. If the checks are generated by the locality’s accounting system, the warrant register may be compiled in a different manner.

The LDSS financial/accounting department compiles the balances from the warrant registers by budget and account to be uploaded to LASER or the balances are compiled manually and the checks are reconciled to the manual system. These balances are classified into the applicable social services program account number sequence. The balances are to be footed and reconciled to the balances of the benefit checks generated either by the localities or the LDSS accounting system. The LDSS compiles the applicable expenses by budget and account number to be manually keyed or electronically uploaded to the applicable LASER accounts.

*Program Funding*

Most social services programs are funded by federal and state governments. Some programs like Adult Protective Services, Adult Services, General Relief and Auxiliary Grants for the blind, aged, and persons with disabilities, require a local match. The unemployed parent component of the TANF program (TANFUP) is funded with 100 percent state general funds to avoid having these cases counted in the federal work participation rate. The local government does not have to participate in the General Relief program. If the local government chooses to participate, it must provide a matching share (37.5 percent of the benefit costs); however, due to budget reductions, all components of the General Relief program except for Unattached Children have been discontinued. Participation in the Adult Services and Adult Protective Services Programs are mandatory to the extent funding is available. The Auxiliary Grant program is mandatory. Local governments provide a 20% matching share for this program. In addition, local governments may offer locally based social services programs.

*General Ledger Reconciliation*

Amounts reported in LASER must be reconciled monthly to be in compliance with Section 3.60 of the VDSS Finance Guidelines Manual for Local Departments of Social Service, *LASER Expenditure Reconciliation and Certification*. If the LDSSs fail to complete monthly LASER reconciliations or submit the Certification Form in a timely manner, they are subject to VDSS withholding reimbursement of administrative expenses for the following LASER period. Expenditures reported for reimbursement are reconciled by the LDSS to the system(s) that generates the checks and other applicable local source documents (i.e. general and subsidiary ledgers) used to compile the data into LASER.

*Expenditure Reimbursements and Reporting*

VDSS reimburses LDSSs for the state and federal share of expenses using LASER. LDSSs process monthly local reimbursements using information keyed/loaded into LASER. VDSS reviews the local reimbursement request online and then reimburses the locality for its share of expenditures via electronic funds transfer. In the past for the Child Care Program, LDSSs uploaded case/client expenditure information into the Interim Child Care (ICC) System to reconcile with LASER before reimbursement was approved. Using the new system, the details of expenditures are already contained within the system and VDSS issues payments directly to child care vendors.

The LASER Local Reimbursement Report is the primary financial report for all social services programs as it satisfies most federal and state reporting requirements. LASER reports can provide month-to-date and year-to-date program totals. Other LASER reports show details of expenditure variances between months, quarters, and years, which assist auditors in determining the relative materiality of each program.

VDSS publishes the *Finance Guidelines Manual for Local Departments of Social Services* that provides budget, financial reimbursement, and general service guidelines for LDSSs that administer public assistance and social services programs under the supervision of VDSS. VDSS also publishes the *LASER “How To” Instructions*, the *VaCMS User Manual*, various program manuals, and the agency also issues electronic broadcasts via FUSION that explain eligibility criteria and other program requirements for various social services programs. The auditor should familiarize him/herself with these reference materials before beginning test work.

*Improper Payments*

Occasionally, improper payments are made to individuals. Improper payments occur when payments are made (1) to an ineligible recipient, (2) in an amount greater than the recipient is entitled to (overpayment), or (3) in an amount less than the recipient is entitled to (underpayments). Payments to ineligible recipients, fraudulently obtained benefits, and overpayments must be recorded in VaCMS. Prior to implementation of the VaCMS, improper payments made in relation to the Child Care Assistance Program were entered in the Interim Child Care System and LASER. The LDSS must exercise due diligence in attempting to recover these payments. LDSSs are responsible for collecting overpayments. Certain overpayments must be repaid to VDSS as provided for in the various program manuals and the Acts of the Assembly. These requirements are set forth in Item 351 of Chapter 2 of the 2022 Acts of Assembly and Item 335 of Chapter 2 of the 2024 Acts of Assembly.

### Part 1: State Supervised and Locally Administered Benefit and Service Programs

### Required Audit Procedure – Reconciliation of Expenditures

Obtain (or prepare, if specified in the audit contract) a reconciliation of expenditures per the social services warrant registers and the LASER Local Reimbursement reports to the local government's financial records for the current fiscal year.

a) Review reconciliation for reasonableness.

b) Verify that the warrant/check registers, local reimbursement/LASER reports, and the local government’s financial records are in agreement.

c) Verify that the local matching dollars (for applicable programs) reported in LASER for the LDSS equal the local matching dollars reported in the local government’s financial records.

*Note: The Auditor may choose to apply risk assessment and materiality considerations when performing part (d) below. Based on risk assessment factors or considering materiality of the balance of reimbursed expenses by applicable cost code and account, the Auditor may consider applying audit sampling considerations to test a representative sample of applicable expenses.*

d) Test applicable expenses for appropriate documentation.

Documentation should support the LDSS’ certification that expenses are accurate, appropriate, allowable, and reasonable and necessary to provide services and financial assistance to social services clients.

### Required Audit Procedure – Virginia Initiative for Education and Work (VIEW)

Select a sample of VIEW purchased service transactions to determine whether the services are in accordance with policy and are appropriate based on the individual VIEW Participants Activity and Service Plan.

When testing the appropriateness of VIEW purchased service transactions, the auditor should consider a key control of the local DSS having appropriate supervisory review.

Note: Refer to the VDSS Finance Guidelines Manual for Local Departments of Social Services for additional details regarding allowable expenses under LASER cost codes 872XX. In addition, refer to the VIEW policy, Chapter 1000 of the TANF manual, for guidelines and limitations on allowable activities and costs.

**Suggested Audit Procedure – Improper Payments**

The auditor should consider performing procedures to review the local DSS procedures for collecting overpayments and ensuring that collected funds are promptly and properly recorded and processed, and if applicable, payments repaid to VDSS.

*Child Welfare Trust Accounts*

Local treasurers hold special welfare funds for foster children and other individuals. Section [63.2-320](https://law.lis.virginia.gov/vacode/title63.2/chapter3/section63.2-320/) of the Code of Virginia authorizes LDSSs to accept and expend funds for children placed by or entrusted to the board when there is no appointed guardian. Some of these individuals receive payments from the Social Security Administration, Veteran’s Administration, or parental support. The LDSS posts these and other payments to the individual’s account(s) and the local Treasurer posts these transactions to the local government’s account. The statute provides for final disposition of remaining funds in the child’s account when the local board discharges the child from its care. However, Section 63.2-320 does not authorize local boards to open bank accounts for these funds. Instead, local boards must follow the law provided in Section 63.2-314, which requires that local boards deposit all funds to the local Treasurers of their respective county,city or local district board. The statute further states that these moneys are not assets of the locality or the local welfare board, but rather agency or trust funds held for the children. Federal law specifies that these funds belong to the children and establishes specific guidelines on the types and titling of bank accounts.

All Child Welfare Trust accounts should be established in a bank or a savings and loan institution. Some local treasurers combine accounts and maintain detailed ledgers showing each child’s balance. Other local treasurers maintain separate accounts for each child. Either method is acceptable with one exception. The federal government requires treasurers to maintain a separate dedicated account for certain social security payments.

*Social Security Recipients*

The Social Security Administration provides two types of payments for children, regular monthly payments and back payments. The LDSS may authorize the disbursement of payments to the child or on the child’s behalf for the current or future maintenance of the child. Certain large past-due SSI payments to blind or disabled children covering more than six months of benefits must be paid directly into a separate “dedicated account” in a financial institution. The LDSS may disburse funds in the dedicated account only for limited purposes, usually education or medical, and there are no time limits on disbursing the funds. Federal law requires separate bank accounts for these two types of payments. Public Law (P.L.) 104-134, Section 1631(a)(2)(F) describes the types of accounts required and their titling. Specifically, federal law requires payees to establish and maintain a dedicated account in a financial institution for certain past-due benefit payments made on or after August 23, 1996, for persons with disabilities or blind SSI recipients under age 18. This dedicated account must be separate from the account(s) for the deposit of regular monthly SSI payments. The LDSS may not deposit any other funds into the dedicated account except certain subsequent SSI underpayments and past-due benefits. Local Treasurers must deposit the regular SSI monthly payments in the Special Welfare Account and large retroactive amounts received by a disabled child in the dedicated account.

Federal law states that SSI Dedicated Account may be a savings account; a checking account; or a money market account established in a financial institution. Although not specified in the law, the account should be interest bearing. Federal law does not permit investing in certificates of deposit, mutual funds, stocks or bonds for these funds. These instruments are not considered financial institutions’ accounts. Treasurers may set up a separate SSI Dedicated Funds Account for each child or use a collective SSI Dedicated Funds Account. However, federal law only permits collective dedicated checking or savings accounts if they meet existing federal policy and the new requirements for dedicated accounts described above.

### Required Audit Procedure – Child Welfare Trust Accounts

*Note: The auditor may apply risk assessment and materiality considerations for performing the further procedures below over Child Welfare Trust accounts for the current year audit. The Auditor must also consider all the following factors as part of the risk assessment considerations for the current year:*

*1) Determine whether any personnel changes or other significant changes in circumstances have occurred during the current year that significantly affects how the locality accounts for child welfare trust accounts and may affect the relevance and reliability to the current audit;*

*2) Determine whether there were any deviations or findings reported by the Auditor in this area in the most recent prior year audit; and*

*3) Ensure testing over these procedures has occurred at least once in every third annual audit.*

Determine how the locality accounts for Child Welfare Trust Funds. Determine whether:

1. all Child Welfare Trust Funds bank/investments accounts are under the local Treasurer’s control,
2. the local Treasurer has established separate accounts for all Child Welfare Trust funds, and these trust fund accounts are not commingled with any other funds or accounts of the locality,
3. the Treasurer either maintains separate accounts for each child or maintains detailed subsidiary ledgers to identify each child’s balance in pooled accounts,
4. all Child Welfare Trust Fund Accounts are suitably titled to indicate the children are the fund owners, and only the payee can authorize access to the child’s funds,

Below are two examples of acceptable titling.

**County Department of Social Services OR County Department of Social Services**

**for CHILD NAME for SSI Recipient**

**Trust Fund Account Dedicated Funds Account**

1. all accounts with sustained balances are interest-bearing, and
2. the local LDSS has appropriately reconciled the accounts

### Required Audit Procedure – Special Welfare and Dedicated SSI Accounts

Review the special welfare and dedicated SSI account ledgers maintained by the LDSS to identify special welfare accounts.

*Note: The auditor may apply risk assessment and materiality considerations for performing the further procedures below over Child Welfare Trust accounts for the current year audit. The Auditor must also consider all the following factors as part of the risk assessment considerations for the current year:*

*1) Determine whether any personnel changes or other significant changes in circumstances have occurred during the current year that significantly affects how the locality accounts for special welfare accounts and SSI Dedicated accounts/funds and may affect the relevance and reliability to the current audit;*

*2) Determine whether there were any deviations or findings reported by the Auditor in this area in the most recent prior year audit; and*

*3) Ensure testing over these procedures has occurred at least once in every third annual audit.*

Select a sample of cases receiving supplemental support payments from outside sources.

Determine whether:

1. the receipts are credited accurately and timely to the special welfare account or the dedicated account of the appropriate individual,
2. interest is properly credited to the account when earned,
3. the local treasurer is reimbursed monthly for program expenditures incurred in the current month, and only in the current month,
4. reimbursements are reported on LASER and/or the Local Reimbursement Reports as refunds to expenditures,
5. unexpended special welfare funds and dedicated funds are returned to individuals who leave the agency's custody, refunded to applicable funding sources (for example Social Security), or escheated to the state (unclaimed property),
6. each special welfare account and dedicated account is reconciled monthly with the treasurer’s records,
7. special welfare funds were spent in accordance with any special stipulations,
8. SSI Dedicated funds were spent in accordance with Social Security Administration stipulations (usually education or medical expenses), and
9. Special welfare accounts and SSI Dedicated accounts without recent transaction activities are necessary.

### Required Audit Procedure – Social Security Recipients

1. Determine whether the Treasurer has established a separate account(s) for SSI dedicated funds and that these funds are not commingled with other Child Welfare Trust funds or other funds or accounts of the locality.
2. Determine that SSI Dedicated funds are held in an interest-bearing savings account, checking account, or a money market account established in a financial institution.

*Note:* *Many local governments report special welfare funds as fiduciary funds in their financial statements. Other local governments may not include these funds in the financial statements. However, the Auditor should perform the required audit procedures listed above regardless of whether the funds are included in the locality's financial statements, based on the auditor’s risk assessment and materiality considerations as allowed for and outlined above.*

*EBT Staff Fraud Prevention*

Electronic benefits transfer (EBT) is the distribution of SNAP benefits with an electronic funds card. The electronic funds card is similar to a debit card in that transactions can be made electronically. However, unlike a debit card, electronic funds cards can only be used to purchase approved food items in federally approved retail outlets, Farmer’s Markets, and direct market farmers. The electronic funds card has replaced paper coupons. Conduent (formerly Xerox) is providing EBT services for SNAP in Virginia. Each LDSS is responsible for maintaining separation of duties between the Eligibility Workers, Issuance Clerks, and Fiscal Staff for EBT processes to prevent staff fraud. **Given the higher risk in this area, the auditor must perform the procedures below over SNAP EBT accounts regardless of materiality.**

### Required Audit Procedure – EBT

Determine whether the duties of eligibility workers, issuance clerks and fiscal staff are separated for each SNAP EBT account. The auditor should review the Internal Action and Vault Card Authorization (Form 032-03-387/1) EBT form for the selected SNAP cases to determine whether duties are properly separated.

*Note: See the EBT Policies and Procedures Guide, available at the local social services department, for additional information.*

*SNAPET Reporting Validation*

This requirement only pertains to localities that operate a SNAP Employment and Training (SNAPET) program. Expenditures reported in LASER for SNAPET/Transportation expenditures must be reconciled to ensure that they are captured in the proper federal reporting category. SNAPET purchased or contracted services must be reported in LASER cost code 84403. Actual SNAPET participant expenses must be reported in LASER cost code 84404. Appropriate documentation for these and all other expenditures must be retained for audit and review. See the Finance Guidelines Manual for Local Departments of Social Services for detailed requirements for cost codes 84403 and 84404.

### Required Audit Procedure – SNAPET Reporting Validation

Obtain source documentation for a sample of expenditures reported under LASER cost codes 84403 and 84404 to verify that expenditures were properly reported, in accordance with the requirements for expenses that should be reported under cost codes 84403 and 84404.

*Note: If applicable, the Auditor may choose to use the same sample selected as part of testing performed at the “Reconciliation of Expenditures” procedure above, under attribute (d), if that sample includes a reasonable and adequate selection of expenses that is representative of LASER cost codes 84403 and 84404.*

*Language Access Plan*

Item 351 C. of Chapter 2 of the 2022 Acts of Assembly sets forth requirements for VDSS to implement guidance issued by the U.S. Department of Health and Human Services concerning the obligation of recipients of federal financial assistance to comply with Title VI of the Civil Rights Act of 1964 by ensuring that meaningful access to federally-funded programs, activities and services administered by the department is provided to limited English proficient (LEP) persons. As part of this state and federal requirement for any entity receiving federal funding in the provision of services or programs, the locality/LDSS is required to establish and implement a formal Language Access Plan (LAP) to assist individuals with limited English proficiency, which also includes persons who have hearing and vision impairments. The locality’s documented Language Access Plan should meet or exceed the federal Civil Rights requirements specified by the Department of Justice.

**Suggested Audit Procedure – Language Access Plan**

The auditor should consider reviewing whether the locality/LDSS has a written, functioning Language Access Plan in place and that the LDSS is using the Plan and making it available for public use.

### Part 2: Information Systems Security Controls

### Risk Assessment Consideration – IT Controls over LDSS Local Systems

During the auditor’s audit risk assessment process to identify the risks arising from the locality’s use of IT and general IT controls that address such risks (in accordance with SAS 145), the auditor may need to consider the potential for increased risks around any locality implemented internal system(s) at the LDSS that is used to process payments and financial transactions related to federal and state programs and/or used to determine eligibility. Increased risk may exist for a local internal system that does not have VDSS oversight and is not under the governance of the Commonwealth’s Information Security Standard. The auditor may consider the need to test relevant controls over any applicable LDSS internal system that is used to process payments and financial transactions related to federal and state programs or used to determine eligibility, based on the auditor’s assessment of risk and understanding of the local DSS IT environment.

### *Guidance on Information Systems Controls Alternate Testing Schedule*

*The Auditor may apply risk assessment considerations and perform an alternate testing schedule for certain procedures below under Part 2: Information Systems Security Controls of Section 3-15 Social Services. Applicable procedures below are indicated with “Alternating Testing 1A, 1B, and 2A, 2B, 2C”.*

***To ensure adequate coverage over the ISS Controls area of Section 3-15, the Auditor is not permitted to alternate or rotate testing of all procedures below in the same fiscal year.*** *For example, if the Auditor chooses to rotate testing for Procedures 1A and 1B over user access testing, the Auditor should then perform procedures 2A, 2B, and 2C for the applicable fiscal year audit.*

*If the Auditor chooses to use an alternate schedule to rotate testing of procedures under Part 2, the* ***Auditor must ensure testing over these procedures has occurred at least once in every third annual audit.***

*The Auditor must also consider the following factors as part of their risk considerations on whether to perform an alternate testing schedule of applicable procedures for the current year:*

*1) Determine whether any personnel changes or other significant changes in circumstances have occurred during the current year that significantly affects the LDSS’ Information Systems Security Controls and may affect the relevance and reliability to the current audit; and*

*2) Determine whether there were any deviations or findings reported by the Auditor in this area in the most recent prior year audit.*

Auditors may use the[*APA Sample Alternating Testing Schedule- Audit SPECS procedures workbook*](https://dlas-directus-prod.azurewebsites.net/assets/6BD26CC4-2893-4BEC-961C-80B378D9B69B.xlsx)  to assist with this documentation (located at [apa.virginia.gov > Local Government > Resources > Guidelines and Manuals](https://www.apa.virginia.gov/local-government/resources?type=guidelines-and-manuals))*.*

### Required Audit Procedure – Local Security Officer (LSO)

Determine that the Local Department has appointed a primary LSO and at least one alternate LSO. Determine if the Local Department has a program to train both the primary and alternate LSOs in their security officer functions.

*Note: Each Local Department is required to appoint and train two Local Security Officers (LSOs) to act as the single focal point for access control. These LSOs require a working knowledge of the Local Security Manual and the Security Access Management System (SAMS).*

*Review of Users Systems Access*

### Required Audit Procedure – Annual Review of Access

*Each LSO should be annually reviewing all employees’ access to each application with employees’ supervisors to ensure that the access is properly aligned with job responsibilities.*

Determine if the LSO is annually reviewing users access to each application to ensure access granted to applicable individuals is necessary based on their roles and responsibilities.

**Required Audit Procedure/Alternate Testing 1A – User Access Request**

*Computer Access Request Forms (or equivalent, if process is automated) documenting a user’s access authority/privileges granted to the applicable system applications must be available for all users.*

1) Obtain a listing of LDSS employees/individuals with access to each system application.

*The Auditor may use judgment to determine whether it is appropriate to review 100% of the population or to select a sample for testwork at # 2) below. The Auditor may also use judgment to focus testing on LDSS individuals that had changes to access during the fiscal year under review including new access or changes to access privileges/roles, if completeness of this population can be readily determined.*

2) Review a selection of LDSS individuals with access to system applications for the following:

a) Determine if a current access request form is on file for the selected individuals

b) Determine if the user’s access in the system matches each application on the access request form

c) Verify that management approval for user’s access privileges is evident on the access request form. Verify these requests against SAMS or the applicable application (ADAPT, OASIS, VaCMS, and SPIDeR).

*Note: The LDSS may have an automated process for requesting and granting access; if applicable, the Auditor should then design relevant audit procedures to meet the objectives of this testing and review the LDSS’ process and verify management approval for user access privileges.*

**Required Audit Procedure/Alternate Testing 1B – Terminated Users**

1) From local personnel records, obtain a listing of LDSS employees/individuals that have terminated employment during the current fiscal year.

*The Auditor may use judgment to determine whether it is appropriate to review 100% of the population or to select a sample for testwork at # 2) below.*

2) Review a selection of terminated individuals to determine if their access privileges to all VDSS systems were removed within three working days of employment termination.

*Note: When an individual leaves the LDSS, their access privileges must be immediately removed from all systems they were authorized to use.*

*Acceptable Use Policy*

Each Local Department is responsible for having employees/individuals read and acknowledge their understanding of the VDSS Information Resource Acceptable Use Policy. The VDSS Acceptable Use Policy can be obtained from the State/Local Security Officer or found on the VDSS website at: <https://www.dss.virginia.gov/files/division/isrm/acknowledgementform.pdf>

In accordance with VDSS policy, employees/individuals should electronically sign the VDSS Information Security - Policy Acknowledgement and Non-Disclosure Agreement on an annual basis as part of the required Role-Based VDSS Information Security and Privacy Awareness Training. Every year when users take their role-based training, they electronically acknowledge the same agreement via an end-of-course exam. This is a risk-based approach to the VDSS Acceptable Use Policy that allows VDSS to include emerging threat/risk information in training and capture the acknowledgement online annually. Note that the annual electronic signing/acknowledgment, which is part of the role-based training, is in addition to the physical form signed for a new employee and renewed every five years. In accordance with VDSS Information Resource Acceptable Use Policy, all employees must sign the VDSS Information Security – Policy Acknowledgement and Non-Disclosure Agreement prior to requesting access. This form is renewed and signed with a “wet” signature every five years. The Local Security Officers are required to maintain copies of these forms for each employee within their office/division for five to seven years.

### Required Audit Procedure/Alternate Testing 2A – Acceptable Use Policy

Determine that the Local Department has documentation indicating that LDSS employees/individuals and volunteers have acknowledged reading and understanding the VDSS Acceptable Use Policy.

*The Auditor may use judgment to determine whether it is appropriate to review 100% of the population of LDSS employees/individuals or to select a sample for testwork.*

**Required Audit Procedure/Alternate Testing 2B – Communicating Sensitive Information**

Through observation and inquiry (and through other audit procedures performed as part of this section), determine whether management has a policy and procedures in place to communicate with employees/individuals’ user awareness and compliance with requirements specific to securely sending sensitive VDSS and client information.

*Note: Emails containing VDSS and client information must be sent via secure means. Emails containing sensitive data that are sent over the internet must be encrypted. Abusive, harassing, or threatening emails must be reported to management and should never be responded to.*

*VDSS Information Security Policy*

All employees, contractors, vendors, volunteers and work experience personnel shall receive role-based Information Security and Privacy Awareness training. This training should occur for new workers upon initial hiring within 30 days of employment. All users are required to complete the role-based VDSS annual security training at a date established by the VDSS Central Office security staff. VDSS policy requires at least one hour of training completed annually within 365 days of the last training. A worker in “good standing” has no account suspensions or locks and has completed the most recent VDSS Information Security and Privacy Awareness Training. Refer to Section 4.1 Role-Based Information Security and Privacy Awareness Training at the Information Security Policy and Program Guide located on VDSS website at: <https://www.dss.virginia.gov/files/division/isrm/policyguide.pdf>.

*Note: The Incomplete Initial and Annual training reports in SAMS are no longer created; these reports were based on a prior annual training module that has been retired. The process has now changed to an automatic process that suspends user access based on the training dates in SAMS. A batch process runs daily and suspends user accounts that are not in compliance with training requirements, and likewise removes the suspensions for users that have completed the training.*

### Required Audit Procedure/Alternate Testing 2C – Information Security Policy Training

Through observation and inquiry with the LSO (or other audit procedures the Auditor may design) verify that all applicable workers have completed the required annual security training and are in “good standing.”

If a local employee is not in “good standing”, the auditor should verify that the employee’s systems user access has been suspended (to include access to email) until the required annual security awareness training has been completed. *(See Note above.)*

*Continuity of Operations*

Each LDSS should have a documented Business Continuity Plan (aka COOP). The requirements for Business Continuity Plans for state government are managed by the Virginia Department of Emergency Management (VDEM). All state agencies must use the “VDEM Continuity Plan Template.” VDEM also offers guidance and a recommended COOP plan template for local governments. The COOP resources are available on VDEM's website, <https://www.vaemergency.gov/divisions/commonwealth-coordination-bureau/planning/plan-templates/>

### Required Audit Procedure (as applicable) – Continuity of Operations

***Note: The Auditor is not required to perform this procedure during every fiscal year audit. The Auditor should perform this procedure if the LDSS has experienced significant changes during the year that have an impact on this area; therefore, the Auditor should at least perform inquiry/observation each year to make this determination.***

If the locality has experienced any **significant changes** during the year, such as upgrades, relocation, other changes, etc. impacting essential functions, operations, services, systems, or personnel, the auditor should perform the following procedures:

1. Determine that there is a current documented Business Continuity Plan in accordance with the locality’s established policy and requirements (which may be based on the VDEM Plan Template) and that the locality has reviewed and updated the plan based on applicable changes that have occurred (updated within the previous 12 months).

*Note: The VDEM template is not required for use at the local level; rather, it is recommended. LDSSs must adhere to the locality’s established requirements for continuity planning, including format.*

1. Determine if the established COOP plan procedures address applicable types of disruptions. Determine if the locality is equipped with devices that support the established COOP plan.

*Note: VDEM requires state agencies, and therefore recommends to localities, that they plan for worst-case scenarios so that their Continuity Plans can be used as a guide to recovering from all lesser interruptions. It is more important to identify, and plan recovery for, mission/critical essential functions that are identified as a result of Business Impact Analyses (BIAs).*

1. Determine if the plan prioritizes recovery tasks and assigns responsibilities and detail procedures to implement actions to continue essential functions within the recovery time objectives established by the COOP Team to maintain essential functions for up to 30 days.

3-16 Stormwater Utility Program

***Reviewed by****/Date: APA Local Government team, June 2025*

### Background Information

Chapter 725 of the 2025 Acts of Assembly (Item 2D) requires the Auditor of Public Accounts to include requirements in the audit specifications to ensure that each local government is in compliance with provisions of the Code of Virginia for applicable local governments that have established a utility or enacted a system of service charges to support a local stormwater management program pursuant to Code of Virginia §15.2-2114.

**Note: Based on changes during the 2024 legislative session (Chapter 2 of the 2024 Acts of Assembly), local governments, which have established a stormwater utility program pursuant to the Code of Virginia §15.2-2114, are no longer required to provide the applicable stormwater utility reporting to the Auditor of Public Accounts. Accordingly, the prior audit procedure to review this reporting has been removed from the audit specifications.**

[Section 15.2-2114](https://law.lis.virginia.gov/vacode/title15.2/chapter21/section15.2-2114/) of the Code of Virginia stipulates that income derived from a utility or system of charges shall be a dedicated special revenue, may not exceed the actual costs incurred by a locality, and may be used only to pay or recover costs for the following:

* The acquisition, as permitted by §15.2-1800, of real and personal property, and interest therein, necessary to construct, operate and maintain stormwater control facilities;
* The cost of administration of such programs;
* Planning, design, engineering, construction, and debt retirement for new facilities and enlargement or improvement of existing facilities, including the enlargement or improvement of dams, levees, floodwalls, and pump stations, whether publicly or privately owned, that serve to control stormwater;
* Facility operation and maintenance, including the maintenance of dams, levees, floodwalls, and pump stations, whether publicly or privately owned, that serve to control the stormwater;
* Monitoring of stormwater control devices and ambient water quality monitoring; and
* Other activities consistent with the state or federal regulations or permits governing stormwater management, including, but not limited to, public education, watershed planning, inspection and enforcement activities, and pollution prevention planning and implementation.

The authorizing statute of section 15.2-2114 is specific to those localities that have established a qualifying stormwater **utility** program. Such stormwater utilities are a “user fee,” which allows a locality to collect fees from *property owners* for the comprehensive management of stormwater within the locality, including such initiatives as education and outreach, storm drain marking, management of existing stormwater ponds, etc. The stormwater utility under Section 15.2-2114 is different from the fee a locality may assess as authorized under the [Virginia Stormwater Management (VSMP) regulations](https://law.lis.virginia.gov/admincode/title9/agency25/chapter870/) of the Virginia Administrative Code, Title 9, Agency 25, Chapter 870. The VSMP regulations enable localities to assess fees to *developers* to pay for the cost to the locality of conducting plan reviews and other services in the administration of their local stormwater program.

**As required by the Acts of Assembly, the scope of these audit specifications extend only to the audits for those applicable localities that have established a stormwater utility program in accordance with Code of Virginia section 15.2-2114.** Any other stormwater reporting under the VSMP regulation is managed by the Virginia Department of Environmental Quality and does not fall under the scope of these audit specifications.

### Required Audit Procedure

Determine whether fees collected for the local stormwater utility program are utilized only for allowable expenses listed above in compliance with the provisions of §15.2-2114A of the Code of Virginia.

Determine that the locality has classified the income derived from a utility or system of charges as a dedicated special revenue in accordance with the provisions of §15.2-2114A of the Code of Virginia.

3-17 Fire Programs Aid to Localities

***Reviewed by/Date: Virginia Department of Fire Programs, May 2025***

***Virginia Department of Fire Programs Contact:*** *Deshaun Steele, Grants Analyst; 804-249-1954; deshaun.steele@vdfp.virginia.gov*

***Note: The Auditor may perform an alternate testing schedule to rotate the testing of the audit procedures at Section 3-17, Fire Programs Aid to Localities, for the applicable fiscal year under audit. If performing an alternate testing schedule, the Auditor must adhere to both of the following requirements:***

* **The Auditor may only alternate testing of these Section 3-17 procedures as long as there were no findings reported by the auditor in this area in the most recent prior year audit.**
* **The Auditor must ensure testing of the Section 3-17 procedures are performed at least once in every third audit.**

*Auditors should ensure that they document any risk assessment/materiality considerations and their testing decisions related to these applicable audit procedures in their audit documentation.*

### Background Information

The Virginia Department of Fire Programs (Fire Programs) provides grants and local aid assistance as directed in the Code of Virginia [§38.2-401](https://law.lis.virginia.gov/vacode/title38.2/chapter4/section38.2-401/) to the 322 counties, independent cities, and incorporated towns in the Commonwealth of Virginia. Aid to Localities (ATL) is an entitlement program that provides funding directly to localities solely for specific fire service purposes as follows:

* Training volunteer or career firefighting personnel in each of the receiving localities
* Funding fire prevention and public safety education programs
* Constructing, improving, and expanding regional or local fire service training facilities
* Purchasing emergency medical care and equipment for fire personnel
* Payment of personnel costs related to fire and medical training for fire personnel
* Purchasing personal protective equipment; vehicles or vehicular apparatus; or equipment and supplies specifically for the locality’s use for fire service purposes
* Providing training and education and purchasing products, including personal protective equipment, diesel exhaust removal systems, decontamination equipment, and commercial extractors designed to reduce the incidence of cancer among firefighters

Localities determine independently how to disburse and manage the funds within their jurisdiction. Localities may pass the funds through to fire departments or may use the funds directly depending upon the terms and conditions of the program. Funds allocated to the counties, cities and towns must not be used directly or indirectly to supplant or replace any other funds appropriated by the counties, cities or towns for fire service operations.

The distribution of Aid to Localities is made directly to the 322 counties, independent cities, and incorporated towns based on the most current published US Census population. Effective for FY2023, Fire Programs began using the most recently published 2020 U.S. Census Bureau census count results. Code of Virginia §38.2-401, paragraph B. sets the minimum allocation for towns at $4,000 and counties and cities at $10,000; however, it also authorizes the Fire Services Board to exceed the allocation amounts. During FY2022, the minimum allocation amounts were increased from $10,000 to $15,000 for Towns and from $20,000 to $30,000 for Counties and Cities. The Board voted in June 2022 to permanently increase the minimum allocations issued to the localities to these amounts. Aid to Localities is distributed to localities as one payment per fiscal year per jurisdiction on a quarterly basis during the months of September (1st quarter), December (2nd quarter), March (3rd quarter), and June (4th quarter). Based upon when localities submit their required documents, ATL funds will be disbursed accordingly.

*ATL Funds Distribution to Localities*

In order to remain eligible for ATL funds distribution, each receiving locality must complete and submit an Annual Report to the Department of Fire Programs categorizing the use of the funds allocated to it for the previous year and must provide completed Fire Programs Fund Disbursement Agreement forms. Any funds received and not spent by the Annual Report closing date must be reported as carry forward amounts into the subsequent fiscal year’s Annual Report. Beginning in FY2015 funding cycle, localities are not required to submit to VDFP the supporting documentation with their Annual Reports to validate total expenditures reported on the Annual Report, or cash carry forward balances from the immediate previous fiscal year and/or cash carry forward amounts at the end of the current fiscal year as reported on the Annual Report. However, localities are required to retain supporting documentation to validate the expenditures reported on the Annual Report for audit purposes, as required by the VDFP’s Aid to Localities policy manual.

Each receiving locality is responsible for certifying the proper use of the funds. Annual Reports and Disbursement Agreements must be certified by the County Administrator or Deputy; City Manager or Deputy; Town Mayor, Town Manager or Deputy; or other duly authorized official whereby the Report is accompanied by a copy of an Ordinance or other such instrument clearly granting that party such authority.

The Department of Fire Programs publishes on its website copies of the ATL Annual Report and the ATL Disbursement agreements that each receiving locality must complete, along with the [Aid to Localities Entitlement Program policy manual](http://www.vafire.com/content/uploads/2018/07/ATL-Policy-Updates-May-31-2018.pdf) and other resources from the program. These documents and resources are available at <https://www.vafire.com/grants-and-local-aid/aid-to-localities/>.

Page 2 of Fire Programs’ [manual](http://www.vafire.com/content/uploads/2018/07/ATL-Policy-Updates-May-31-2018.pdf) defines the following terms:

*“Annual Report” means the document that jurisdictions are required to submit to VDFP which reports on the use of the funds allocated to the jurisdiction for the previous year.*

*“Reporting Period” means the 12-month period that is documented in the jurisdiction’s annual report.*

### Required Audit Procedure

Obtain a copy of the locality’s completed Annual Report and Disbursement Agreement forms submitted to the Department of Fire Programs for the applicable fiscal year under audit. Ensure the Annual Report and Disbursement Agreement forms are properly completed in accordance with Fire Programs’ requirements. Reconcile amounts per the Annual Report to the locality’s accounting records.

*Note: For the locality’s FY2025 audit, the auditor should review the locality’s submission of the* ***FY2024*** *ATL Annual Report and the FY2025 Disbursement Agreement. In accordance with the Department of Fire Programs requirement, the locality submit its completed ATL Annual Report for the prior year (i.e.: FY2024) along with the current year Disbursement agreement for the locality to receive its FY2025 annual allocations. The Auditor can review applicable forms and reporting templates at* [*https://www.vafire.com/grants-and-local-aid/aid-to-localities/*](https://www.vafire.com/grants-and-local-aid/aid-to-localities/)*.*

### Required Audit Procedure

Select a sample of program expenditures reported on the locality’s Annual Report and agree to supporting documentation. For each invoice/transaction selected, determine whether the expenditure was reasonable and consistent with the program requirements, in accordance with Fire Programs’ Aid to Localities Entitlement Program policy manual.

3-18 Opioid Abatement Funds

***Reviewed by/Date:*** *Opioid Abatement Authority and APA Local Government team, June 2025*

***Agency Contact:*** *Adam Rosatelli, OAA Finance Director, arosatelli@voaa.us*

***APA Contact*** *(audit related questions): Rachel Reamy, Local Government manager; 804-225-3350; rachel.reamy@apa.virginia.gov*

### Background Information

Chapter 725 of the 2025 Acts of Assembly (Item 2F), requires the Auditor of Public Accounts to include in the annual Audit Specifications, audit procedures for the external auditors/CPA firms auditing localities and local government entities to ensure that each city and county and applicable local government entity comply with the provisions of the Code of Virginia § 2.2-2365 et seq., and any guidelines, procedures, and criteria set forth by the Virginia Opioid Abatement Authority relating to opioid abatement funds.

The Auditor should first review background information specific to local opioid abatement funds and Virginia’s Opioid Abatement Authority (OAA), provided in the [APA’s Locality Reporting Guidance on Opioid Settlement Funds](https://dlas-directus-prod.azurewebsites.net/assets/762ABF45-FBFE-426C-8B9A-73039934F41B.pdf) resource document. The Auditor should also review comprehensive information about the OAA’s Grants Application process located on their [Grants Portal website](https://www.oaa.virginia.gov/portal-grants/).

### Required Audit Procedure – Planning

Determine if the city or county (locality) submitted an application that was approved by the OAA for grant funded awards. The OAA publishes the following information regarding the applicable cities and counties that have been approved for grant funded awards through OAA Individual Distributions, “Gold Standard” Incentive, and/or Cooperative Partnerships:

[Summary of Cities and Counties FY2025 Grant Awards](https://www.oaa.virginia.gov/media/governorvirginiagov/oaa/img/news-and-announcements/Opioid-Abatement-Authority-Announces-22.7M-in-Annual-Grant-Awards.pdf) (grants approved May 28, 2024, see pp. 3-7)

[Summary of Cities and Counties FY2024 Grant Awards](https://www.oaa.virginia.gov/media/governorvirginiagov/oaa/pdf/June-26-OAA-Press-Release.pdf) (grants approved June 26, 2023, see pp. 2-7)

[City and County Individual Distributions approved application grants (FY2024 and prior awards)](https://www.oaa.virginia.gov/grants-portal-resources/applications/applications-from-citycounty-distributions/)

[Local Cooperative Partnerships approved application grants (FY2024 and prior awards)](https://www.oaa.virginia.gov/grants-portal-resources/applications/applications-from-cooperative-partnerships/)

The Auditor should also reference the 2025 Cardinal State Disbursement report ( [apa.virginia.gov > Local Government > Resources > Cardinal State Disbursements](https://www.apa.virginia.gov/local-government/resources?type=cardinal-state-disbursement)) as another source to review applicable localities and the funding they received from the OAA during FY2025 (refer to state disbursements under agency code 85600).

For applicable localities that have submitted an OAA application and received OAA Individual Distributions, Gold Standard Incentive funds, and/or Cooperative Partnership awards, the Auditor should perform audit procedures over the locality’s opioid-related settlement funds and applicable compliance, at this section as noted at the *Required Audit Procedures*.

**Note**: Beginning with the 2024-2025 grants application cycle, localities are now required to complete and submit all applications and documents for grant award packages, along with the OAA required annual reporting, through the OAA’s web-based Grants Portal. Accordingly, auditors may need to request the city or county provide historical copies of the completed grant award package and annual reporting documentation directly from the locality’s account access to the OAA Grants Portal. The locality can access copies of historical applications, award packages, and reporting documentation through the “Historical Downloads ” section of the Grants Portal Dashboard. Localities will complete the FY2025 Annual Reporting under the “Grants Management” section of the Grants Portal Dashboard, and a copy of the completed FY2025 reporting will also be available in the Grants Portal after submission.

The OAA provides additional information about navigating the Grants Portal at the following resources:

[Grants Portal Quick Start Guide](https://www.oaa.virginia.gov/media/governorvirginiagov/oaa/documents/Quick-Start-Guide.pdf)

[Grants Portal User Guide](https://www.oaa.virginia.gov/media/governorvirginiagov/oaa/documents/OAA-Grant-Portal-External-User-Guide.pdf)

[Training Video for Users New to OAA Awards](https://youtu.be/nAm75Mq_XfU) ([link](https://www.oaa.virginia.gov/media/governorvirginiagov/oaa/pdf/abatement-academy-presentations/October-10---Grant-Portal-Training.pdf) to slide presentation)

### Required Audit Procedure – Part 1 Individual Distributions Grant Funding

***Prior to performing testwork at this section, the Auditor should first review information at the ‘Audit Efficiencies’ Note below under Part 2 Gold Standard Incentive Grant Funding for testwork considerations if a locality received both OAA Individual Distributions and Gold Standard funding.***

Review the locality’s approved application and award package to gain an understanding of the locality’s agreement for using its OAA Individual Distributions funding and its Direct Distributions (if applicable) during fiscal year 2025. Refer to guidance at the Planning audit procedure above concerning historical grant award information available in the OAA’s Grants Portal.

Refer to further information in the following OAA documentation:

• [General Guidance Individual Distributions and Gold Standard Incentive Awards](https://www.oaa.virginia.gov/media/governorvirginiagov/oaa/documents/Guidance-Individual-Distribution-Gold-Standard.pdf)

• [Individual Distributions Terms and Conditions](https://www.oaa.virginia.gov/media/governorvirginiagov/oaa/grants/city-and-county/Individual-City--County-Grant-Awards-Terms-and-Conditions-20230201.pdf)

• [Direct Distribution Guidance](https://www.oaa.virginia.gov/media/governorvirginiagov/oaa/grants/city-and-county/Direct-Distribution-Guidance.pdf)

(a) Determine whether the locality is accounting for the funds from OAA Individual Distributions separately from the locality’s own Direct Distributions from the settlement administrators. The locality should be accounting for OAA Distributions and Direct Distributions separately on an expenditure account level and revenue source level (the locality may choose at its own discretion to account for these funds in a separate fund, though not required).

Determine whether the locality is accounting for these funds as Restricted in its financial statements.

Refer to guidance in the APA’s [Uniform Financial Reporting Manual](https://dlas-directus-prod.azurewebsites.net/assets/3A9D01DC-8718-4053-9D3D-BD57BA48081A.docx) and the [APA Locality Reporting Guidance on Opioid Settlement Funds](https://dlas-directus-prod.azurewebsites.net/assets/762ABF45-FBFE-426C-8B9A-73039934F41B.pdf).

(b) If the locality reports on its OAA application that it intends to reserve any portion of its Direct Distributions from FY2023, FY2024, and/or FY2025 for future year abatement efforts, determine whether the locality has complied with the OAA’s requirements on reserve funds as stipulated in the OAA Terms and Conditions. This will be noted by a ‘Yes’ answer indicated on the locality’s application under the “Distribution Information” section of the OAA Application for Individual Distribution awards.

Refer to additional information about reserve funds in the [OAA Terms and Conditions](https://www.oaa.virginia.gov/media/governorvirginiagov/oaa/grants/city-and-county/Individual-City--County-Grant-Awards-Terms-and-Conditions-20230201.pdf) (p. 2) and the [Individual Distributions General Guidance](https://www.oaa.virginia.gov/media/governorvirginiagov/oaa/documents/Guidance-Individual-Distribution-Gold-Standard.pdf) (p. 4).

(c) Select a sample of opioid-related transactions from the locality’s use of OAA Distribution grant funds and the locality’s own Direct Distributions and agree to supporting documentation. Determine whether costs were reasonable and consistent with allowable abatement or remediation purposes, and in compliance with the terms of the Settlement Agreement(s) and applicable state law, as specified by the requirements of the [OAA Terms and Conditions](https://www.oaa.virginia.gov/media/governorvirginiagov/oaa/grants/city-and-county/Individual-City--County-Grant-Awards-Terms-and-Conditions-20230201.pdf).

*If a locality is participating with other localities as part of an approved OAA Cooperative Partnership project, they may use their OAA Distributions and Direct Distributions as an allowable cost to provide matching funds towards the OAA Cooperative Partnership project.*

(d) Obtain a copy of the locality’s FY2025 OAA Annual Reporting submission and test for the following.

*Refer to guidance at the Planning audit procedure above concerning the annual reporting now completed in the OAA’s Grants Portal.* (1) Ensure the annual OAA reporting submission has been properly completed in accordance with the OAA’s requirements; and

(2) Ensure the financial section of the OAA reporting submission reconciles and agrees to the locality’s underlying financial records.

*Note: This reporting is applicable for new grant funds that were awarded to the locality and/or approved for carryforward from prior year awards during the grant period applicable for the fiscal year 2025. The OAA’s due date for the locality’s annual reporting submission is September 1. Accordingly, the auditor will need to wait to perform this step of the procedure after the locality has submitted its reporting in the OAA Grants Portal.*

### Required Audit Procedure – Part 2 Gold Standard Incentive Application Grant Funding

*If the locality has submitted the OAA “Gold Standard” Incentive application to receive additional incentive funds, the locality is voluntarily agreeing to also apply the requirements of Code of Virginia* [*§2.2-2370 (A)*](https://law.lis.virginia.gov/vacode/title2.2/chapter22/section2.2-2370/)*, to how it spends its Direct Distributions from the Settlement Agreements. These set of requirements are known as the “Gold Standard.” These requirements include no indirect costs, no supplanting, and funds must be used 100% for abatement purposes.*

Refer to further information in the following OAA documentation:

• [“Gold Standard” Incentive Program Policy](https://www.oaa.virginia.gov/media/governorvirginiagov/oaa/pdf/Policy-for-Gold-Standard-Incentive-to-Cities-and-Counties---Adopted-Oct-24,-2022.pdf)

• [General Guidance Individual Distributions and Gold Standard Incentive Awards](https://www.oaa.virginia.gov/media/governorvirginiagov/oaa/documents/Guidance-Individual-Distribution-Gold-Standard.pdf)

If the locality submitted an application for Individual Distributions at Part 1 above, review the application to determine if the locality also applied to receive the additional “Gold Standard” Incentive funds for prior fiscal years. If the locality applied for/accepted the terms of the Gold Standard incentive program with its Individual Distributions (at Part 1 above), OR if the locality separately submitted a “Gold Standard” Incentive application and received the additional incentive funds during the fiscal year 2025, perform the following procedures. *Refer to guidance at the Planning audit procedure above concerning historical grant award information available in the OAA’s Grants Portal*.

*Note: The opt-in process for a locality to receive “Gold Standard” Incentive awards requires a separate one-time application available in the OAA Grants Portal. Participation in this program is voluntary. Any city or county that participated in the program in FY2023 or FY2024 will need to submit the application in the Grants Portal to opt-in for FY2025 and forward; however no additional Gold Standard applications are needed for future cycles.*

***Audit Efficiencies Note****: If the locality is receiving both Individual Distributions and Gold Standard incentive funds, the Auditor may combine applicable testwork procedures (a), (b), and (c) below with the same applicable procedures at Part 1 above. When selecting a sample from the population of applicable opioid related transactions for testing procedure (b) at Part 2 along with the same testing at Part 1, the Auditor should ensure that the sample selected is representative of the population to provide adequate coverage for testing the locality’s compliance with spending OAA Gold Standard incentive funds, OAA Individual Distributions, and the locality’s Direct Distributions.*

*Additionally, the required reporting at procedure (c) below is the same reporting if the locality is also receiving OAA Individual Distributions as tested at Part 1 above. The Auditor may combine testwork for efficiency of testing the locality’s OAA Reporting submission for both OAA Individual Distributions and Gold Standard Incentive grant funding.*

(a) Determine whether the locality is accounting for funds from OAA Individual Distributions separately from the locality’s own Direct Distributions from the settlement administrators. The locality should be accounting for OAA Distributions and Direct Distributions separately on an expenditure account level and revenue source level (the locality may choose at its own discretion to account for these funds in a separate fund, though not required).

Determine whether the locality is accounting for these funds as Restricted in its financial statements.

Refer to guidance in the APA’s [Uniform Financial Reporting Manual](https://dlas-directus-prod.azurewebsites.net/assets/3A9D01DC-8718-4053-9D3D-BD57BA48081A.docx) and the [APA Locality Reporting Guidance on Opioid Settlement Funds](https://dlas-directus-prod.azurewebsites.net/assets/762ABF45-FBFE-426C-8B9A-73039934F41B.pdf).

(b) Select a sample of opioid-related transactions from the locality’s use of OAA Gold Standard incentive funds and the locality’s own Direct Distributions and agree to supporting documentation. Determine whether costs were reasonable and consistent with allowable opioid abatement or remediation purposes, in compliance with the OAA’s Gold Standard, as specified by the requirements of the [OAA Terms and Conditions](https://www.oaa.virginia.gov/media/governorvirginiagov/oaa/grants/city-and-county/Individual-City--County-Grant-Awards-Terms-and-Conditions-20230201.pdf) and the ["Gold Standard" Incentive Policy](https://www.oaa.virginia.gov/media/governorvirginiagov/oaa/pdf/Policy-for-Gold-Standard-Incentive-to-Cities-and-Counties---Adopted-Oct-24,-2022.pdf).

*If a locality is participating with other localities as part of an approved OAA Cooperative Partnership project, they may use their OAA Distributions and Direct Distributions as an allowable cost to provide matching funds towards the OAA approved Cooperative Partnership project.*

(c) Obtain a copy of the locality’s FY2025 OAA Annual Reporting submission and test for the following.

*Refer to guidance at the Planning audit procedure above concerning the annual reporting now completed in the OAA’s Grants Portal.*

(1) Ensure the annual OAA reporting submission has been properly completed in accordance with the OAA’s requirements; and

(2) Ensure the financial section of the OAA reporting submission reconciles and agrees to the locality’s underlying financial records.

*Note: This reporting is applicable for new grant funds that were awarded to the locality and/or approved for carryforward from prior year awards during the grant period applicable for the fiscal year 2025. The OAA’s due date for the locality’s annual reporting submission is September 1. Accordingly, the auditor will need to wait to perform this step of the procedure after the locality has submitted its reporting in the OAA Grants Portal. If a locality received both Individual Distributions and the “Gold Standard” Incentive awards, the locality is only required to submit* ***one****, combined annual reporting submission for these grant awards.*

### Required Audit Procedure – Part 3 Cooperative Partnership Application Grant Funding

***Note: This part applies only to an applicable locality that is acting as the fiscal agent for an OAA Cooperative Partnership grant award.***

Review the approved Cooperative Partnership application and award package to gain an understanding of the agreement managed by the locality acting as the fiscal agent for using the Cooperative Partnership grant funds awarded during fiscal year 2025.

*Refer to guidance at the Planning audit procedure above concerning historical grant award information available in the OAA’s Grants Portal*.

Refer to further information in the following OAA documentation:

• [General Guidance for Cooperative Partnership Awards](https://www.oaa.virginia.gov/media/governorvirginiagov/oaa/documents/Guidance-Cooperative-Partnerships.pdf)

• [Terms and Conditions for Cooperative Partnership Awards](https://www.oaa.virginia.gov/media/governorvirginiagov/oaa/grants/cooperative-partnerships/Cooperative-Projects-Grant-Awards-Terms-and-Conditions-20230201.pdf)

(a) Ensure that the fiscal agent locality is accounting for the funds received for the Cooperative Partnership project separately from the locality’s own OAA Individual Distributions and Direct Distributions from the settlement administrators, in accordance with the OAA’s [Terms and Conditions for Cooperative Partnership Awards](https://www.oaa.virginia.gov/media/governorvirginiagov/oaa/grants/cooperative-partnerships/Cooperative-Projects-Grant-Awards-Terms-and-Conditions-20230201.pdf).

(b) Select a sample of transactions applicable to the approved Cooperative Partnership Project and agree to supporting documentation. Determine whether the locality fiscal agent properly disbursed/spent the OAA Cooperative Partnership funds only on allowable costs that carry out the activities described in the grant application and comply with the OAA’s terms and conditions for the approved Cooperative Partnership project.

(c) Obtain a copy of the locality’s FY2025 OAA Annual Reporting submission and test for the following.

*Refer to guidance at the Planning audit procedure above concerning the annual reporting completed in the OAA’s Grants Portal.*

(1) Ensure the annual OAA reporting submission has been properly completed in accordance with the OAA’s requirements; and

(2) Ensure the financial section of the OAA reporting submission reconciles and agrees to the locality’s underlying financial records.

*Note: This reporting is applicable for new grant funds that were awarded to the fiscal agent locality and/or approved for carryforward from prior year awards during the grant period applicable for the fiscal year 2025. The OAA’s due date for the locality’s annual reporting submission is September 1. Accordingly, the auditor will need to wait to perform this step of the procedure after the locality has submitted its reporting in the OAA Grants Portal.*

### Suggested Audit Procedure – Locality’s Direct Distributions from Settlement Agreements

For any applicable city or county that has **not** elected to complete an OAA grant application as noted above, and therefore **has not received** OAA Individual Distributions and/or Gold Standard Incentive funding as pass through state funding from the Commonwealth, the Auditor may consider the need to provide audit coverage over the locality’s use of its Direct Distributions from the various settlement agreements, based on risk assessment and materiality considerations.

Refer to further information and guidance in the following documents:

• [Summary of Key Provisions of Opioid Settlements from the Office of the Attorney General (Updated 4/18/2023)](https://www.oaa.virginia.gov/media/governorvirginiagov/oaa/pdf/Office-of-the-Attorney-General's-Summary-of-Key-Opioid-Settlement-Provisions-for-Localities-(11.30.2022-final).pdf)

• [Distributors & Janssen List of Opioid Remediation Uses (Exhibit E)](https://www.oaa.virginia.gov/media/governorvirginiagov/oaa/pdf/Distributors-and-Janssen-List-of-Opioid-Remediation-Uses.pdf)

The Auditor may consider performing the following suggested procedures:

(a) Ensure the locality is properly accounting for its Direct Distributions funds received from the settlement administrators in accordance with the settlement agreements.

Determine whether the locality is accounting for these funds as Restricted in its financial statements. Refer to guidance in the [APA Locality Reporting Guidance on Opioid Settlement Funds](https://dlas-directus-prod.azurewebsites.net/assets/762ABF45-FBFE-426C-8B9A-73039934F41B.pdf).

(b) Select a sample of opioid-related transactions from the locality’s use of its Direct Distributions during the fiscal year and agree to supporting documentation.

Determine whether costs were reasonable and consistent with allowable abatement or remediation purposes, and in compliance with the terms of the settlement agreements (refer to allowable uses listed in the Exhibit E of the settlement agreements).

If the locality spent any Direct Distributions on non-remediation purposes, determine whether the locality followed the appropriate conditions of the settlement agreements to report to the settlement administrators the amounts in question and descriptions of the non-remediation purposes for which the funds were used.

*Note: The* [*Attorney General Summary document*](https://www.oaa.virginia.gov/media/governorvirginiagov/oaa/pdf/Office-of-the-Attorney-General's-Summary-of-Key-Opioid-Settlement-Provisions-for-Localities-(11.30.2022-final).pdf) *provides the following information:*

*All of the settlement agreements* ***strongly encourage*** *settlement funds to be used for abatement and remediation. The settlement agreements that permit some funds to be used for non-abatement purposes make it clear that using settlement funds in this manner is* ***strongly disfavored****.*

*The settlement agreements impose similar recordkeeping and reporting requirements in connection with any use of settlement funds for* ***non-remediation purposes****. Thus, any use of settlement funds for a non-remediation purpose must be recorded and reported to the settlement administrator and/or company. The report must include the amounts in question and descriptions of the non-remediation purposes for which they were used. The settlement agreement further states that all reports of non-remediation uses will be made publicly available.*

**SPECIFICATIONS FOR AUDITS OF COUNTIES, CITIES, AND TOWNS**

CHAPTER 4

**QUALITY CONTROL PROGRAM**

4-1 General

This chapter discusses the Auditor of Public Accounts (APA) quality control program and includes the policies and procedures the APA uses during quality control reviews. This chapter also includes procedures the Auditor of Public Accounts uses when the office finds substandard audit quality. The Auditor of Public Accounts established its quality control program to monitor the quality of local government audits. The quality control program also monitors compliance with generally accepted auditing standards, *Government Auditing Standards,* issued by the Comptroller General of the United States, and the Uniform Guidance Audit Requirements, 2 CFR Part 200—*Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards,* all of which have been incorporated by reference into these audit specifications.

4-2 Quality Control Reviews

Quality control reviews consist of a detailed review of the audit working papers of the certified public accountant (CPA) to determine adherence to applicable standards. They provide an independent review of the auditor's reports and the working papers supporting those reports.

The Auditor of Public Accounts selects a sample of audits each year for quality control reviews. All CPA firms performing local government audits are subject to review and may include audits selected for the following reasons.

* Significant or repetitive deficiencies found during the previous quality control reviews.
* Concerns raised by local government officials, state agencies, or federal agencies regarding the quality of the audit.
* Audits selected at the discretion of the Auditor of Public Accounts.

The Auditor of Public Accounts notifies firms selected for quality control reviews in writing. Firms will receive notifications as far in advance as possible to allow the firm to prepare for the review.

The APA reviewer visits the CPA firm’s office or performs a remote review in coordination with the CPA firm. The reviewer examines the auditor's working papers and certain policies and procedures developed by the CPA firm to determine whether:

1. The audit complies with the Specifications for Audits of Counties, Cities and Towns, issued by the Auditor of Public Accounts;
2. The audit complies with generally accepted auditing standards, as set forth by the American Institute of Certified Public Accountants, and Government Auditing Standards, issued by the Comptroller General of the United States;
3. The audit complies with Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards;
4. The annual financial report complies with generally accepted accounting principles for governmental entities; and
5. The auditor has performed the agreed upon procedures for the Comparative Report Transmittal Forms as set forth in the Uniform Financial Reporting Manual, issued by the Auditor of Public Accounts.

The reviewer uses a quality control program developed by the Auditor of Public Accounts to assist in the review. A copy of the review program is available upon request.

Audit documentation must meet the standards established by the AICPA and *Government Auditing Standards*. As such, audit documentation should provide a clear record of work performed and should contain sufficient information so that supplementary oral explanations are not required. Failure to document required procedures may result in a qualified opinion concerning adherence to standards.

4-3 Reporting on the Results of Quality Control Reviews

Upon completion of the initial fieldwork from the quality review, the Auditor of Public Accounts will provide draft copies of the quality control report to appropriate members of the CPA firm for review and comment. The CPA firm will have a period, not to exceed sixty days, to respond to the draft before the issuance of the final report. At the request of the CPA firm, the Auditor of Public Accounts will hold a formal exit conference to discuss any findings. The Auditor of Public Accounts will incorporate any valid changes resulting from the auditor's comments or exit conference into a second draft of the report.

The final quality control review report addresses the overall adequacy of the audit. Firms can receive a rating of pass, pass with deficiency(ies), or fail. When the Auditor of Public Accounts finds significant deficiencies based on the quality control review, the report will include the findings on matters that require corrective action.

Copies of the final reports are distributed to the CPA firm, local government officials for the applicable audit, the Virginia Board of Accountancy, and the Virginia Society of Certified Public Accountants.

The Auditor of Public Accounts maintains copies of the final quality control review reports on file as a matter of public record. The Auditor of Public Accounts publishes the quality control reports on its website, starting with the reports published for fiscal year 2012, [apa.virginia.gov > Local Government > APA Reports > Quality Control Reviews](https://www.apa.virginia.gov/local-government/reports?type=quality-control-reviews).

4-4 Procedures for Substandard Audits

The Auditor of Public Accounts will communicate all quality control review findings to the auditor. If the auditor receives a rating of fail, then the Auditor of Public Accounts will consider referral to the state or federal grantor agencies and/or the Board of Accountancy as described below.

When the Auditor of Public Accounts notifies the locality’s governing body, the notification letter will summarize the findings and identify those areas where the locality has the most risk. The letter may also recommend that the local government require the auditor to perform additional work to reduce the locality's risk.

Where findings relate to state or federal compliance issues, the Auditor of Public Accounts may notify the appropriate state or federal regulatory agencies of its findings. Again, the notification letter will attempt to identify areas where the agency is at risk.

If the Auditor of Public Accounts determines that the CPA firm has severe deviations from applicable auditing standards, they may refer the audit to the Board of Accountancy for investigation and possible action.

4-5 Relationship to Other Quality Review Programs

*Government Auditing Standards*, issued by the Comptroller General of the United States, requires organizations conducting government audits to have an external quality control review at least once every three years. This quality control review must include at least one governmental audit in its scope.

The American Institute of Certified Public Accounts (AICPA) and the Virginia Society of Certified Public Accountants (VSCPA), as an administering entity, conduct Practice Monitoring Programs (such as Peer Review) that meet the requirements of *Government Auditing Standards* for CPA firms in public practice. The quality control reviews conducted by the Auditor of Public Accounts should not be misconstrued with the AICPA, VSCPA, or other programs designed to meet the external quality control review requirements of *Government Auditing Standards*. Both the purpose of the APA’s quality reviews and the methods used to conduct the reviews differ. The programs conducted by the AICPA or VSCPA assess the adequacy of the CPA firm's overall system of quality control. They typically include a study and evaluation of the firm's quality controls and a review of selected engagements for compliance with the firm's policies and procedures. The Auditor of Public Accounts' review involves the selection of limited audits specific to local governments and determines adherence to standards rather than adherence to firm policies. Accordingly, the findings for the two reviews may differ in content and significance.

**SPECIFICATIONS FOR AUDITS OF COUNTIES, CITIES, AND TOWNS**

CHAPTER 5

**TREASURER TURNOVER AUDITS**

***Reviewed by/Date: APA Local Government and Judicial Systems team, June 2025***

*For any questions related to audit procedures at this section, please contact Laurie Hicks, APA Audit Director—Local Government and Judicial Systems; 804-362-8441;* [*laurie.hicks@apa.virginia.gov*](mailto:laurie.hicks@apa.virginia.gov)*.*

**5-1** **General**

This chapter provides background information and required audit procedures for treasurer turnover audits. Turnover audits are conducted whenever a treasurer leaves office. The purpose of the turnover audit is to establish the outgoing treasurer's accountability at the date he or she leaves office. As used in this chapter, the term "treasurer" also applies to directors of finance or other officials performing the duties of the treasurer.

Before starting the turnover audit, the auditor should become familiar with these audit specifications. The auditor also should thoroughly review the local government's most recent audit report to determine the overall scope of the treasurer's responsibilities.

Section 58.1-3136 of the Code of Virginia requires that a turnover audit be performed upon the death, resignation, removal, retirement or other termination of a county or city treasurer. The turnover audit must include all funds handled by the treasurer, although different auditors typically audit state and local funds as described below.

The Code of Virginia requires the Auditor of Public Accounts to audit state funds held by the treasurer whenever a treasurer leaves office. Accordingly, local governments should notify the Auditor of Public Accounts as soon as they become aware of the turnover. The local government hires an independent certified public accountant to audit local and other funds held by the treasurer. Other funds consist of funds for which the treasurer acts as fiscal agent or custodian that are not part of the local government.

Section 58.1-3136 of the Code of Virginia requires turnover audits performed by independent certified public accountants to be performed in accordance with the specifications of the Auditor of Public Accounts. The Auditor of Public Accounts' specifications for turnover audits are contained within this chapter.

The purpose of the turnover audit is to determine the outgoing treasurer's accountability for assets and to turn over the assets to the new treasurer. The outgoing treasurer is personally responsible for any shortages in funds over which he or she is accountable. Once the assets have been turned over, the new treasurer becomes liable for any and all assets.

Before a treasurer leaves office, he must turn over all books and records pertaining to his office to the incoming treasurer (in case of the treasurer's death, the individual representing the deceased treasurer’s estate assumes this duty.) Section 58.1-3138 of the Code of Virginia requires the incoming treasurer to issue a receipt for the records received. The turnover schedules described in this chapter constitute this receipt.

The receipts provide a permanent record of all assets and liabilities turned over to the incoming treasurer. Both the outgoing and incoming treasurers must sign the receipts. The outgoing treasurer's signature relieves them of responsibility for the assets listed. The incoming treasurer's signature indicates his or her assumption of the liability for the assets being turned over to them.

The outgoing treasurer brings this accounting to the circuit court. The clerk of the circuit court publishes a notice of final discharge in accordance with § 58.1-3145 of the Code of Virginia. After the final notice is published, the court enters an order discharging the outgoing treasurer from all liability. The incoming treasurer is then responsible for the assets turned over to him, including the collection of unpaid taxes.

The local government is responsible for hiring an independent certified public accountant to audit local and other funds held by the treasurer. Local governments often employ the auditor responsible for the financial statement audit to conduct the turnover audit. However, they may contract with other auditors.

**5-2** **Statutory Authority for Turnover Audits**

**Code of Virginia**

**§ 58.1-3136. Audits of treasurers upon termination of office.**

Notwithstanding any other provision of law, upon the death, resignation, removal, retirement or other termination of a treasurer, an audit of all accounts of his office pertaining to state funds shall be performed by the Auditor of Public Accounts at no cost to the county or city. An audit of all such accounts pertaining to local and other funds shall be performed by the Auditor of Public Accounts or an independent certified public accountant, at the option of the local governing body, and the cost thereof shall be paid by such governing body. Audits not performed by the Auditor of Public Accounts shall be performed according to his specifications and a copy of the audit report shall be filed with the Auditor for his approval.

**§ 58.1-3138. Delivery of books, tax tickets, and other materials to successor treasurer or court clerk.**

Whenever a vacancy in the office of treasurer is filled by appointment, the court or judge making the appointment shall, at the time the appointment is made, if the vacancy exists by reason of the death, resignation or removal from office of the treasurer, order such treasurer or his personal representative, as the case may be, to deliver all books and papers in his possession as treasurer, including all tax tickets for taxes and levies for the current year for which he has not accounted and paid into the treasury, to the officer so appointed. The appointed officer shall prepare and issue a receipt to such treasurer or his personal representative for the material received. When no appointment is made or the officer appointed fails to qualify, the court shall order the deposit of such materials to be made with the clerk of the circuit court, who shall give a receipt therefore and hold such materials subject to the order of the court.

When the term of office of a treasurer expires by limitation he shall deliver forthwith to his successor in office all the books and papers in his possession, including all tax tickets for taxes and levies for the current year for which he has not accounted and paid into the treasury, and take a receipt therefore. The receipt so furnished to any treasurer or his representative shall be allowed as a credit for the amount thereof in the settlement of his account and the amount of tax tickets and levies covered by such receipt shall be charged against his successor in office.

**§ 58.1-3145. How treasurer may secure final discharge from liability.**

Any treasurer or, if he has died, his personal representative, at any time after the expiration of his term shall produce before the circuit court of the county or city of which he is treasurer the respective certificates of the Comptroller, of the governing body of such county or city and of the school board of such county or city. These certificates shall show the final settlement of his account as treasurer and the proper accounting for and turning over of all the moneys or other property, including the tax tickets for the current year, that had or should have come into his hands as such treasurer during the term and the receipt of his successor in office, provided for in § 58.1-3138. The court shall then enter an order requiring the clerk of the court to publish, once a week, for four successive weeks, in some newspaper to be designated in the order and by posting at the front door of the courthouse of the county or city, a notice that such treasurer will, on the day to be named in the order, move the court to enter an order of final discharge to such treasurer. These provisions shall not apply to treasurers who retain their office at the end of the term.

**5-3** **Attestation Standards and Examination Contract**

For the treasurer turnover engagement, the Auditor must examine the Treasurer’s final settlement schedules. These schedules, included in the turnover examination report, are designed to demonstrate the treasurer's accountability at the turnover date and to provide a detailed listing of assets turned over to the incoming treasurer. Because of this special purpose, the settlement schedules are not intended to be a presentation in conformity with generally accepted accounting principles. The settlement schedules are prepared on the cash basis of accounting. The Code of Virginia prescribes the cash basis of accounting for treasurers in their capacity as custodian of local and state funds.

**Audit Requirement**

Auditors must perform the treasurer turnover audit in accordance with the Statements on Standards for Attestation Engagements (SSAE) issued by the AICPA and the Specifications for Treasurer’s Turnover Audits issued by the Auditor of Public Accounts.

*Note: The required procedures contained in this chapter do not contain the required procedures for an examination in accordance with attestation standards (AT-C Section 205 Assertion-Based Examination Engagements). Consequently, the auditor must perform such additional procedures, as the auditor deems necessary to satisfy those standards. In addition, the auditor must perform any additional procedures required by the audit contract. Auditors should obtain a mutual understanding about the objectives and subject matter of the examination with the local government. The examination contract should incorporate any additional local government expectations.*

**5-4** **Working Papers**

Turnover audits are subject to the quality control reviews described in Chapter 4 of the *Specifications for Audits of Counties, Cities, and Towns*. Auditors must make their working papers available for review by the Auditor of Public Accounts upon request.

**5-5** **Receipt of Office Assets and Cut-Off Procedures**

The auditor should make an attempt to be present on the turnover date to receipt the treasurer's assets and to ensure that a proper cutoff is achieved. An accurate cutoff is necessary to determine the outgoing treasurer's accountability at the turnover date. The outgoing treasurer should prepare deposit slips covering cash on hand to be deposited in the bank the next business day.

The treasurer is responsible for notifying the banks and other financial institutions of the turnover. The outgoing treasurer should not be permitted to sign any checks after the turnover date. As a result, it is especially important that the incoming treasurer notify the banks of the change in authorized check signers.

**Required Audit Procedure**

Verify that the treasurer has notified the banks of the turnover and change in authorized check signers.

The auditor must assure that a proper cutoff of deposits, cash disbursements (checks), and revenues has occurred as of the close of business on the outgoing treasurer’s turnover date.

The auditor must be present in the treasurer's office at, or promptly following, the turnover date to receipt all office assets. The auditor must count and schedule all cash, certificates of deposit, investments, dog tags, other tags and decals, county motor vehicle licenses, state jury warrants, paid warrants, bonds and coupons, and other assets of the treasurer (exclusive of uncollected taxes tested below). The outgoing treasurer, or his authorized representative, should be present at the time and must sign the auditor's count sheets thereby certifying to the accuracy of the count of cash and other assets.

The auditor shall obtain a listing of all banks and other financial institutions used by the outgoing treasurer. The auditor must reconcile, or test the treasurer's reconciliation, of all bank accounts used by the treasurer. The auditor also must confirm all bank accounts used by the treasurer.

The auditor should obtain the listings of unpaid taxes. In the event detailed listings of unpaid taxes are not available, the auditor may need to refer to the tax assessment books. The auditor must determine the balance of uncollected taxes.

The auditor must review or prepare the reconciliation of the detailed listing of unpaid taxes or the totals per the assessment book to the appropriate general ledger accounts. After an accurate balance is obtained, the auditor must schedule unpaid taxes by category. The outgoing treasurer, or his authorized representative, must sign the auditor's count sheets thereby certifying to the balance of unpaid taxes.

***Note: The Auditor of Public Accounts examines the state funds handled by the treasurer. The Auditor of Public Accounts will prepare the necessary schedule and provide it for the local auditor to include in the bound report.***

**5-6** **Uncollected Taxes**

Property taxes are the largest source of revenues in most local governments. Property taxes typically consist of real estate taxes, personal property taxes, machinery and tools taxes, merchants’ capital taxes, and mobile homes taxes. They also consist of real estate and personal property taxes on public service corporations.

The commissioner of the revenue maintains the original assessment books showing the value of property. The commissioner forwards copies of the assessment books to the treasurer who records the levy in the local government's books and mails the tax bills. The treasurer typically collects the taxes and maintains the subsidiary listings for taxes receivable.

Taxes receivable consist of both current and delinquent taxes. Delinquent personal property taxes typically remain on the books for five years. Delinquent real estate taxes remain on the books for twenty years or until the property is sold for back taxes.

***Note: The auditor is not required to test state taxes receivable. The Auditor of Public Accounts audits state funds handled by the treasurer and prepares the necessary schedules. At the completion of the audit, the Auditor of Public Accounts provides the schedules to the local auditor for inclusion in the bound report.***

**5-7** **Contents of the Turnover Report**

The county or city treasurer's turnover report should contain the examination report, the treasurer’s schedule of assets and liabilities, and the turnover receipts. The examination report with turnover documents must be submitted to the Auditor of Public Accounts.

Sample formats for the examination report and turnover schedules are available on the APA website, [apa.virginia.gov > Local Government > Resources > Guidelines and Manuals](https://www.apa.virginia.gov/local-government/resources?type=guidelines-and-manuals) at the following documents: [*Treasurer Turnover Report*](https://dlas-directus-prod.azurewebsites.net/assets/8110BF99-9E13-4516-AC3F-8D9E642277AB.docx)*,* [*Treasurer Turnover Schedules*](https://dlas-directus-prod.azurewebsites.net/assets/20C5BD05-7B75-4E59-B45A-8AF0F4213BC9.doc)*, and* [*Notes to Treasurer Schedules*](https://dlas-directus-prod.azurewebsites.net/assets/A1A94442-23AC-4CE0-B5CA-70857B585722.doc)*.*

Other formats are acceptable to this Office if they contain all the relevant information.

The outgoing treasurer is responsible for the final turnover schedules. However, some local governments prefer to have their auditors prepare the required schedules. When contracting for audit services, the contract documents should specify whether the auditor will prepare the required schedules or simply report on them. Regardless of who prepares the schedules, the outgoing and incoming treasurers must sign the turnover receipt documents and a notary must witness the signatures. If the outgoing treasurer has died, the turnover documents should be signed by the treasurer's representative in accordance with § 58.1-3138 of the Code of Virginia.

*Examination Report:*

The accountant’s examination report expresses an opinion on whether the turnover schedule and receipts of assets are presented fairly, in all material respects based on the subject matter evaluated during the examination.

*Turnover Schedule:*

The Schedule of the Treasurer’s Assets and Liabilities represents a summary of cash, other asset, and liability balances held by the treasurer at the turnover date.

*Turnover Receipts of Assets:*

The turnover receipts of assets provide a detailed listing of the treasurer's assets being turned over to the incoming treasurer. There are several different turnover receipts as listed below. The outgoing and incoming treasurers must sign each applicable receipt, and a notary must witness these signatures.

*Required Turnover Receipts of Assets*

* + - Turnover Receipt of Cash and Cash Items on Hand from Outgoing Treasurer to Incoming Treasurer
    - Turnover Receipt of Cash on Deposit from Outgoing Treasurer to Incoming Treasurer
    - Turnover Receipt of Cash Equivalents and Investments from Outgoing Treasurer to Incoming Treasurer
    - Turnover Receipt of Uncollected Real Estate Taxes from Outgoing Treasurer to Incoming Treasurer
    - Turnover Receipt of Uncollected Personal Property Taxes from Outgoing Treasurer to Incoming Treasurer
    - Turnover Receipt of Uncollected Public Service Taxes from Outgoing Treasurer to Incoming Treasurer
    - Turnover Receipt of Uncollected State Taxes from Outgoing Treasurer to Incoming Treasurer *(The Auditor of Public Accounts provides this Schedule)*
    - Turnover Receipt of Other Assets from Outgoing Treasurer to Incoming Treasurer
    - Turnover Receipt of Unused Receipt Books from Outgoing Treasurer to Incoming Treasurer
    - Turnover Receipt of Unsold Dog License Tags from Outgoing Treasurer to Incoming Treasurer
    - Turnover Receipt of Unsold Vehicle License Decals from Outgoing Treasurer to Incoming Treasurer

**5-8** **Completion of the Examination**

**Audit Requirement**

* The auditor must obtain or prepare turnover schedules and receipts of assets as described in section 5-7. If the treasurer prepares the turnover documents, the auditor must verify the accuracy of the schedules and receipts by agreeing them to appropriate documentation.
* The auditor must obtain the signature of the incoming and outgoing treasurers acknowledging their acceptance of the accuracy of the balances transferred between them on the turnover documents. A notary must witness the treasurers’ signatures.
* The auditor should distribute a copy of the turnover schedules and receipts to each of the treasurers. The auditor should also prepare a copy of the turnover schedules and receipts for inclusion in the turnover examination report.
* The auditor shall obtain from the Auditor of Public Accounts the turnover Audit Report that includes the Turnover Receipts of Assets from Outgoing Treasurer to Incoming Treasurer for inclusion in the turnover report.

**5-9** **Reporting**

**Audit Requirement**

The auditor should follow the Statements on Standards for Attestation Engagements (SSAE) issued by the AICPA.

One of the objectives of the attestation standards (AT-C Section 205 - Assertion-Based Examination Engagements) is for the auditor to render an opinion on the specified subject matter. For treasurer turnover engagements, the subject matter is the Schedule of the Treasurer’s Assets and Liabilities and the Turnover Receipts of Assets. In rendering this opinion, the auditor must determine whether the schedule and related turnover receipts present fairly, the treasurer's assets turned over to the incoming treasurer on the cash basis of accounting at the turnover date. The accountant’s examination report must also reference these Audit Specifications.

Additionally, the examination report should include a reference to the work of other auditors. As previously discussed, the Auditor of Public Accounts examines the Commonwealth funds held by the treasurer and issues a schedule of accountability. The auditor must include this schedule in the turnover report.

**Audit Requirement**

In the event the examination discloses fraud or illegal acts, the auditor must follow applicable GAGAS attestation standards for reporting on such instances in the auditor’s examination report relevant information about:

* Fraud
* noncompliance with provisions of laws or regulations and provisions of contracts or grant agreements that have a material effect on the subject matter or an assertion on the subject matter and any other instances that warrant the attention of those charged with governance
* abuse that is material to the subject matter or an assertion on the subject matter, either quantitatively or qualitatively

In the event the examination discloses fraud or illegal acts involving circumstances that suggest a reasonable possibility that a fraudulent transaction has occurred involving funds or property under the constitutional officer’s control and a constitutional officer or employee of the local government may be involved, the auditor must advise the local government officials to report the fraudulent transactions to the Auditor of Public Accounts, the State Inspector General, and the Superintendent of the Department of State Police in accordance with Section 30-138 of the Code of Virginia.

**Audit Requirement**

One copy of the turnover report package must be submitted to the Auditor of Public Accounts as soon as practical after the turnover audit is complete.

Refer to [Section 5-7 Contents of the Turnover Report](#ContentsOfTheTurnoverReport5).

**SPECIFICATIONS FOR AUDITS OF COUNTIES, CITIES, AND TOWNS**

CHAPTER 6

**AUDIT OF CIRCUIT COURT CLERKS**

***Reviewed by/Date: APA Local Government and Judicial Systems team, June 2025***

*For any questions related to audit procedures at this section, please contact Laurie Hicks, APA Audit Director—Local Government and Judicial Systems; 804-362-8441;* [*laurie.hicks@apa.virginia.gov*](mailto:laurie.hicks@apa.virginia.gov)*.*

**The following steps should only be performed if the firm has been engaged to complete the fiscal year audit of the locality’s Circuit Court Clerk pursuant to Section 15.2-2511 of the Code of Virginia.**

**Audit Procedures: General Environment**

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**Audit Procedures: Cases/Instruments Module**

6-11 [Civil](#Civil)

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**Audit Procedures: Documentation and Reporting**

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**General Environment**

*The circuit court is the trial court with the broadest powers in Virginia. The circuit court handles most civil cases with* claims *of more than $25,000. It shares authority with the general district court to hear matters involving claims between $4,500 and $25,000, and in civil cases for personal injury and wrongful death up to $50,000. The circuit court has the authority to hear serious criminal cases called felonies.*

*The circuit court also handles family matters, including divorce. In addition, the circuit court hears cases appealed from the general district court and from the juvenile and domestic relations district court.*

*As the court of record, the Circuit Court is responsible for filing documents that require formal recording by law. Thus, Circuit Courts in Virginia process and file marriage licenses, deeds, wills, corporate charters, and various other documents.*

*The Circuit Court Clerk is a constitutional official elected by the public for a term of eight years. (Section 24.2-217 of the Code of Virginia) The Clerk is responsible for the court’s administrative matters and acts as custodian of the court’s records. The Clerk also has the authority to probate wills, grant administration of estates, and appoint guardians. The duties and responsibilities of the clerk are outlined in Chapter 2, Article 2 of Title 17, Code of Virginia (1950), as amended.*

Manuals Available through Office of the Executive Secretary Supreme Court of Virginia;

* + - Circuit Court Financial Accounting System (FAS) User’s Guide
    - Circuit Court Case Management System (CCMS) User’s Guide
    - Deed Manual
    - Probate Manual
    - Miscellaneous Manual
    - Criminal Manual
    - Civil Manual
    - Court Appointed Counsel Guidelines and Procedures Manual
    - Chart of Allowances (allowable payments for services rendered)
    - eAccess System User’s Guide

Manuals are available at the Clerk’s office.

Individual Reports noted at audit steps are available from the Clerk in either hardcopy or electronic format.

**6–1 Planning**

Develop an understanding of the Internal Control procedures as they relate to all daily, weekly and monthly required financial procedures. Clerks of Court are responsible for having sufficient controls and procedures in place to satisfy statutory requirements and prevent fraud, misuse, or loss of funds and assets. Evaluate the efficacy of these controls within the operation of the office through discussion with management and review of applicable system manuals, to include but not limited to, the Financial Accounting Manual (provided by the Clerk) and local guidelines.

*Note: Reports referenced throughout Step 6 are specific to the financial accounting system provided by the Office of the Executive Secretary, Supreme Court of Virginia (OES). If the Clerk is using a private vendor system for the financial accounting system and/or case management system, the Auditor must discuss with the Clerk what procedures they have in place to achieve the same purpose as the OES reports and then develop compensating tests to meet specification requirements.*

Determine any reported findings from the last audit through review of the APA report located at [apa.virginia.gov > Local Government > APA Reports > Judicial Reports](https://www.apa.virginia.gov/local-government/reports?type=judicial-reports) or from other prior auditors. Plan appropriate follow up testwork.

Obtain from the Clerk any applicable locality ordinances enacted that authorize the Clerk to collect local fees as follows:

* Recordation taxes
* Probate taxes
* Probate List of Heirs/Real Estate Affidavit without Probate
* Adoption of State Traffic Laws, FAS Acct 201 and applicable town acct codes
* Criminal & Civil Costs
  + Courthouse Maintenance, FAS Acct 229
  + Law Library, FAS Acct 219
  + Courthouse Security, FAS Acct 244
  + Jail Admission Fee, FAS Acct 234
  + Courthouse Construction, FAS Acct 228
  + Local Justice Training Academy, FAS Acct 243
  + E-Summons, FAS Acct 241 and applicable town acct codes
  + School Bus Photo Monitoring, FAS Account 2SB
  + Methamphetamine Lab Clean-Up, FAS Account 151

**Audit Requirement**

All audit procedures in this Chapter are required to be addressed without regard to materiality or assessment of acceptable risk. Sample sizes, when not specified, are to be determined based on the auditor’s evaluation of the internal controls in place, volume of activity, dollar amount and considering any prior period audit recommendations.

**6–2 Conflicts of Interest**

The State and Local Government Conflict of Interests Act is contained in Chapter 31 of Title 2.2 of the Code of Virginia (§2.2-3100 et. seq.). The Act is designed to assure that the judgment of public employees is not compromised or affected by inappropriate conflicts. The Act prohibits local government officers or employees from participating in certain transactions in which they or their family members have a material financial interest. The Act absolutely prohibits other activities such as accepting bribes.

**Constitutional Officers** are required to file the State and Local Statement of Economic Interests per §2.2-3114 and §2.2-3116 of the Code of Virginia, and in accordance with the Governor's Executive Order 33.

Since constitutional officers are considered as part of the “state officers and employees” category for the annual required filings, constitutional officers must file their required disclosure form directly with the state’s Council. Auditors can retrieve copies of the constitutional officers’ electronic filing forms directly from the Council’s Conflict of Interest [Searchable Database](http://ethicssearch.dls.virginia.gov/#tabs1-conflict), by searching on the officer’s first and last name or searching generally on “constitutional officer” in the Agency/Board/Commission database field. For further information, auditors should refer to the Council’s website, under Public Information: <http://ethics.dls.virginia.gov/public-information.asp>

The Auditor should consider the following information when reviewing conflicts of interest:

* The filing deadline each calendar year is February 1. Any newly elected or appointed Clerk is required to file disclosure forms **prior to** assuming office.

*Note: The auditor should perform procedures to review the calendar year filing that are within the applicable fiscal year under audit.*

* The filer may have filed with a different locality or State Agency for another position—the auditor can review the COIA database (for state agency filings) or make inquiries as the auditor determines necessary. If a local official has already filed with a different locality or state agency for the year, the filer has met the Council’s requirement and is not required to file multiple forms.
* If a filer meets the requirements for filing both the SOEI form and the Financial Disclosure form, the filer is only required to file one form. Filing the SOEI form fulfills the Financial Disclosure requirement if the person holds more than one position that would require each.
* Departure filings are only required if the position is held through the filing deadline (there is no requirement to file if the person leaves on or before January 31).

For additional resources and guidance on Conflict of Interests, refer to the Council’s website under Filing Resources: <http://ethics.dls.virginia.gov/filing-resources.asp>

**Required Audit Procedure**

Obtain and review the annual disclosure form(s) filed by the Circuit Court Clerk (refer to guidance above). Determine completeness and timeliness of the Clerk’s filing and that the accurate form was filed according to the type of filer.

***Employment Requirement***

In accordance with §2.2-3110B of the Code of Virginia, the employment at the same governmental agency of an officer or employee and a spouse or other relative residing in the same household, who is employed in a direct supervisory or administrative position, or both, and receives an annual salary of $35,000 or more, creates a material financial interest.

Section 2.2-3101 defines a “governmental agency” as component part of the legislative, executive or judicial branches of state and local government, including each office, department, authority, post, commission, committee, and each institution or board created by law to exercise some regulatory or sovereign power or duty as distinguished from purely advisory powers or duties.

**Required Audit Procedure**

Through inquiry and observation the auditor should determine whether the Clerk has a spouse or other relative residing in the same household, who occupies a direct supervisory and/or administrative position at the same “governmental agency” and receives an annual salary of $35,000 or more. In such instances, the auditor should verify that the Clerk has disclosed this material financial interest and sought an advisory opinion/legal counsel on whether a conflict may exist in accordance with the Conflict of Interests Act.

**Financial Module**

*Clerks use automated systems consisting of multiple modules including case management, financial accounting, records management, and case imaging. These systems may be provided by the Supreme Court of Virginia, private vendors, or a combination of both. Case management (CCMS) provides an automated means of recording cases, establishing dockets, and documenting judgments. Financial accounting provides an automated accounting system (FAS) to record, adjust and report financial transactions. These financial transactions include receipts, journal vouchers, disbursements, and establishing receivable and liability accounts. Records management provides indexing and public access to recorded documents. Imaging software can be used to eliminate paper files. Users Guides for all systems provided by the Supreme Court are available through the Office of the Executive Secretary, Supreme Court of Virginia. Each clerk is responsible for access security to all systems and for all activity of their court to include personal liability for financial loss.*

*Revenue sources include taxes and fees collected on recorded deeds, fees and taxes on wills and administrations probated, fees for the processing of civil cases, fees for other services provided such as marriage licenses and secure remote access, fines, costs, and other miscellaneous collections.*

*The clerk utilizes the "cash basis" of accounting and records activities in several accounts to include:*

* *Commonwealth Revenues - Taxes on recordation, fines and costs, probate, etc.*
* *Local Revenues - Taxes on recordation and probate, fines, fees, etc.*
* *Fees – collections provided by statute for services performed by the clerk.*
* *Collections for Others - Consist of collections for officers of other localities and other miscellaneous collections.*
* *Condemnation Funds - Represent amounts paid into the court by the Virginia Department of Transportation or municipalities in settlement of condemnation suits.*
* *Monies Under the Control of the Court - Represent amounts paid into the court generally as insurance settlements or pursuant to court order to be held for infants, minors, or persons under a disability. These funds are held by the Clerk and may be disbursed only upon an order by the court.*
* *Depository Bonds - Represent amounts paid to the Clerk as surety that an individual will appear for trial, meet certain conditions such as for a marriage celebrant, perfect a civil or criminal appeal or deposit interpleader funds.*
* *Restitutions - Represent court ordered payments to be accumulated by the Clerk and paid out per Judge’s order.*
* *Unspecified funds - Moneys paid to the Clerk for which there is no supporting documentation (e. g. case paper, court order). In addition, refunds payable are classified as "unspecified funds".*
* *Non-reverting funds – Fees collected by Clerks for statutory specific use of the court to include Secure Remote Access, Officer of Court Remote Access, fees for copies, recording devices, credit card convenience fees, paper filing, and e-certification.*

*Circuit Court Clerks are required to manage accounts receivable by establishing individual accounts for all defendants’ assessed fines, costs and restitution and it is the Commonwealth Attorney’s duty to cause proper proceedings to be instituted for the collection and satisfaction of all owed amounts. If the Commonwealth’s Attorney does not undertake collection, he shall either:*

* *contract with private attorneys or collection agencies, or*
* *enter into an agreement with the local governing body, or*
* *use collection services of the Department of Taxation, or*
* *enter into an agreement with the county or city treasurer*

*If the collection agency collects the payment from the defendants, the agency remits the amount collected less any collection fee to the Clerk. The Clerk must allocate this net amount received to the various fine and cost accounts.*

*If the Clerk collects the payments from the defendants after the account has been turned over to a collection agency, the Clerk must allocate the payment to the various fines and cost accounts and disburse the collection fee to the appropriate agency.*

*All unpaid accounts are submitted to the Department of Taxation for Setoff Debt Collection for at least three years.*

**6-3 General Ledger Review and Fluctuation Analysis**

**Required Audit Procedure**

Review the *General Ledger Fiscal Year-to-Date Report* (BR-29) for the audit end date for unusual account codes, activity, or negative ending balances. Determine the need for any additional analytical reviews. Also, determine the propriety of all activity and balances in accounts 402, 995, and 999, and any accounts labeled “RESERVED”.

Compare the collection total per the BR02 for the audit end date to the ending balance in account #920 on the BR29 report. Determine the propriety of any differences noted.

Compare the prior fiscal year revenue to the current fiscal year revenue (1XX, 2XX, and 3XX accounts) and determine propriety of all accounts with variances greater than the auditor’s expectations.

Verify the balances of state and local revenues on hand at audit end date were timely disbursed to the State and Local Treasurers. (Sections § 16.1-69.48 (A) and (B) and 17.1‑286 of the Code of Virginia).

**6-4 Access Security**

**Required Audit Procedure**

Determine all the automated systems used by the Clerk and ensure the Clerk has developed and maintains adequate control and security over the Court’s automated information systems.

Verify employee access is appropriate for OES systems including FAS, CCMS, EVPS, and RMS, for other state agency system access to Cardinal and TAX, and, if applicable, outside vendor systems. Also, consider security over external access to Secure Remote Access (SRA), Officers of Court Remote Access (OCRA) or outside vendor systems.

Obtain a list of terminated employees during the audit period and verify their access was deleted from all automated systems timely. *Note: Deleting access timely for former employees is a critical internal control.*

**6-5 Accounts Receivable**

**Required Audit Procedure**

1. Test the Interface Reports (IN05 and INJ5), specifically the ‘Interface Case Not Found’ and ‘DMV Interface Exceptions’. Review these report sections for the end of the month in which the audit period ends and determine whether the Clerk is taking corrective action to clear all system errors noted.
2. Obtain the audit period end date *Individual Account Status Report (BU06)* and investigate the reason for any accounts listed as appeals, credit balances, sum uncertain restitution, or accounts under review. Determine whether the Clerk is taking corrective action as needed. For appealed cases listed, ensure the Judge ordered the costs stayed during the appeal.
3. For those Clerks without the optional Time to Pay (TTP) default feature, select a sample of cases from the *Individual Account Status Report (BU06),* ‘Missed Payments’ section, for the end of the month in which the audit period ends and determine if the Clerk is properly monitoring the report and taking corrective action.
4. Using the *Concluded Cases without FAS Receivable Report (CR32)*, test the guilty cases without corresponding FAS receivable accounts. Select a sample of cases concentrating on cases other than those identified as master or sub-accounts. Review the reason the CCMS case does not have a corresponding receivable account in FAS and determine the propriety. If the Clerk is using a private vendor system for financial accounting and/or case management, determine how the Clerk verifies all concluded guilty cases have corresponding receivable accounts. Test the Clerk’s process for propriety.
5. Review the general ledger report (BR29) to verify there is financial activity in FAS Account 405 (TSO Collections). Request the Clerk log into IRMS and provide the system generated year-to-date statistical report for the audit period. If the year-to-date statistical report shows tax set-off defaults for the audit period, determine propriety. *Note: If defaults occurred, the auditor should not be reviewing any specific taxpayer information generated by IRMS users. The auditor should rely upon the Clerk’s explanation as to why a default occurred and determine reasonableness.*
6. Determine the method of collection for delinquent accounts (Section §19.2-349 of the Code of Virginia). If the Virginia Department of Taxation, Commonwealth’s Attorney in-house collection, or local Treasurer is used, no further work is necessary.

If a private collection agent is used, perform the following test work:

A) Test collection agent weekly remittances.

* Select a sample of weekly batch reports and determine whether collections were receipted to individual accounts within two days of receipt.

B) Review the private collection agent contract as follows:

* Review the contract between the Commonwealth’s Attorney and the private collection agent and determine whether it is current.
* Determine whether the Clerk has a copy of the contract on file.
* Determine the collection fee percentage. (Should not be higher than 35 %.)
* Compare the collection fee percentage from the contract to the percentage listed on the June 30th Collection Ratios Report *(BR22*).

C) Determine whether the Clerk is disbursing accounts 412 Collection Agency Fee and 499 Collection Fee weekly to the private collection agent.

**6-6 Banking**

**Required Audit Procedure**

Identify all banks used by the Clerk and determine if they are listed on the most recent qualified depository listing maintained by the Virginia Department of the Treasury pursuant to The Virginia Security for Public Deposits Act (Section § 2.2-1815 of the Code of Virginia).

Verify all general operating accounts and a selected sample of invested funds, including trust funds, were reported as public through the SPDA Public Fund Accounts lookup tool on the Virginia Department of the Treasury website. Authorized court users can log onto Treasury’s new SPDA website and pull up the account information if the auditor does not have access to the website. *(See Note at Section 3-4 Cash and Investments above related to the Department of Treasury’s SPDA account balance and verification system.)*

If an account is not listed, advise the Clerk to immediately contact their banking institution to determine the status of the account. The Clerk should also contact the Virginia Treasury Board to report the missing account.

**If the Clerk’s bank account is not reconciled, skip to step 4 below.**

1) Select a minimum of two monthly bank statements (one of which should be the audit month end date) for each bank account and ensure:

1. The reconciliation is mathematically correct.
2. The adjusted bank balance and the system balance agree.
3. All deposits in transit were deposited timely per the subsequent bank statement.
4. The bank account was reconciled within one month of receipt of the account statement.
5. Reconciliation was reviewed and signed off by someone other than the preparer.

2) For each bank reconciliation selected for testwork, review the outstanding checks for reasonableness. Investigate any checks made payable to "cash", banks, or known employees and any other checks that appear unusual.

3) For each bank reconciliation selected for testwork, judgmentally select reconciling items to test. Determine the reasonableness and validity of the items.

Perform the following if bank account is not reconciled:

4) If the court’s bank account is not reconciled at the end of the audit period, determine and document when the account was last reconciled and whether the Clerk is receiving assistance from the Office of the Executive Secretary of the Supreme Court (OES).

Select a minimum of two months that have not been reconciled and review the bank statement for any unusual activity. Determine whether collections during the month were deposited intact, timely, and in sequence. Also, review activity or balance in account 402 (unspecified funds) and 411 to determine if adjustments have been provided by OES to assist the Clerk with reconciling the bank account (OES will sometimes provide adjustments to the Clerks who cannot identify and resolve all reconciling items when completing the monthly bank reconciliation.   The unresolved items are typically recorded in account 402 or 411).

**6-7 Daily Collections and Journal Vouchers**

**Required Audit Procedure**

1) Select a sample of days to test as follows:

1. Agree the computed revenue amount per the Cash Reconciliation Worksheet of the *Daily Report (BR02)* to the deposit per the bank statement noting the deposit was intact and timely. (Section § 17.1-271 of the Code of Virginia)
2. Verify whether the Clerk and/or other assigned supervisory personnel signed the *Cover Sheet –Daily Report (BR02)*.
3. For any days with differences between the receipts gross total (line 1 of Cash Reconciliation Worksheet) and the deposit amount, determine if the correcting journal voucher(s) was supported by proper documentation, performed correctly, and properly recorded on step 5 of the Cash Reconciliation Worksheet.
4. If the difference is the result of a voided receipt, ensure all copies of the original receipt were retained.

If the Clerk uses a separate financial accounting system to receipt taxes and fees:

1. The secondary receipting system receipt totals for the day’s collections have been entered into FAS.

2) Using all audit period month end journal voucher summary reports (*Journal Voucher Report BR40*), identify all voided receipts and select a sample to test as follows:

1. Determine if the journal voucher was supported by proper documentation, performed correctly, and properly recorded on the Cash Reconciliation Worksheet section of the *BR02*.
2. All copies of the receipt were retained.

3) If the court has a secondary receipting system, discuss and document voided receipt procedures for the secondary receipting system. Consider how voids are entered in the system, reviewed, approved, and tracked and determine whether appropriate internal controls have been implemented. Based on your inquiries make any necessary recommendations to the Clerk.

4) Scan the daily JV register for the audit period end date for any rejected journal vouchers. Document findings and make any necessary recommendations to the Clerk.

5) Review the *General Ledger Fiscal Year-to-Date Report (BR-29)* for the audit period noting if activity existed in the Account 411 Cash Over/Short. Based on the activity and any trends noted in the account, determine whether selecting a sample of transactions is necessary. If needed, select a sample and test individual transactions for propriety.

**6-8 Non-Reverting Funds**

**Required Audit Procedure**

Determine which of the following non-reverting funds are used by the Court and discuss procurement procedures with Clerk.

* Account 407 CONVENIENCE FEE
* Account 410 MACHINE RECORDING FEE
* Account 415 SECURED REMOTE ACCESS
* Account 416 OCRA
* Account 423 E-RECORDING DEED PAPER FILING
* Account 425 CERT DIGITAL COPY
* Account 426 PAPER SUBMISSION/COPY FEE
* Account 495 OPERATIONAL EXPENSE

Using all audit period month-end *Disbursement Register Reports* (BR41), select a sample of non-reverting fund disbursements throughout the audit period and ensure the disbursement is supported by proper documentation.

The auditor should obtain a list of employees from the Clerk and determine if the Clerk disbursed any non-reverting funds directly to employees as cash bonuses or payroll. Select a sample and test as follows:

1. Clerk obtained an appropriation from the locality.
2. Clerk withheld applicable federal, state, social security, and Medicare taxes.

Using all audit period month-end *Journal Voucher Register Reports* (BR40), determine if the Clerk entered any material journal vouchers using non-reverting funds.

Determine if a sample of journal vouchers should be tested. Verify the selected journal vouchers are supported by proper documentation.

If the Clerk is using a credit card to make purchases paid with non-reverting funds, review applicable credit card statements to select a sample of purchases and ensure the purchase is supported by proper documentation.

**6-9 Disbursements**

**Required Audit Procedure**

1. Using all audit period month-end Disbursement Register Report (BR41), select a sample of disbursements throughout the audit period (excluding non-reverting and trust funds) and test as follows:

* The disbursement is coded to the proper account.
* The disbursement is supported by proper documentation and appropriate procedures (case papers, transmittal).
* If the Clerk uses a manual check-writing system, the disbursement was recorded in FAS timely.

2. Using all audit period month-end Disbursement Register Reports (BR41), select a sample of monthly remittances of sheriff’s service fees, account 206, to the local Treasurer and determine if the fees are remitted within the first ten days of the month. (Section § 15.2-1609.3 of the Code of Virginia)

3. Scan the daily disbursement register for the audit period end date for any rejected disbursements, document findings and make any necessary recommendations to the Clerk.

**6-10 Manual Receipts**

**Required Audit Procedure**

1) Evaluate the overall security and use of manual receipts to include:

* Determine the adequacy of security over the unused manual receipts.
* Determine the adequacy of supervisory review of manual receipts.

2) Select a sample of manual receipts and test as follows:

* Trace to subsequent entry in FAS and ensure entry agrees to the manual receipt (§ 19.2-360 of the Code of Virginia).
* Ensure receipt is entered no later than the next business day.

**Cases and Instruments**

*Criminal Cases originate in the District Courts and move to the Circuit Court through appeal, certification or through Direct Indictments filed by the Commonwealth Attorney. Upon conviction, all appropriate costs and fines are assessed to the defendant, including applicable costs from lower court. Jurisdictional designations determine the account codes used for fines and attorney costs. All unpaid amounts are recorded as judgments in favor of the jurisdiction cited.*

*Civil cases appealed from District Courts and cases originating in the Circuit Court must have filing fees and taxes paid before they can be placed on the docket.*

*Clerks are charged with the recording and maintenance of all writings relating to or affecting real estate, all writings relating to or affecting personal property, and instruments affecting liens. Documents relating to land records cannot be recorded until all taxes and fees have been paid based on the type and amount of the document.*

*Clerks of Court are given quasi-judicial powers in matters of probate and in the qualification of fiduciaries. Duties include (but are not limited to) probate, recordation, retention, indexing, and qualification of personal representatives, guardians, conservators and trustees. Each of these duties has specific requirements as well as multiple recordable documents with fees and taxes associated. No documents can be recorded or personal representative qualified until all taxes and fees have been paid.*

**6-11 Civil**

**Required Audit Procedure**

Select a sample of civil cases filed during the audit period and, using the FAS manual Appendix C, Civil Actions section for reference, test as follows:

1. Taxes and fees were assessed and collected based on file type and/or amount of the suit. ([OES Civil Filing Fee Calculator and Individual Court Fee Schedule](http://webdev.courts.state.va.us/cgi-bin/DJIT/ef_djs_ccfees_calc.cgi))
2. Taxes and fees were receipted timely.

*Note: An exemption may exist for paying the above taxes and fees as allowed by Section §17.1-606 of the Code of Virginia.*

**6-12 Criminal**

**Required Audit Procedure**

1) Obtain concluded criminal caseload statistics from the Clerk for the audit period and select a sample from throughout the audit period of criminal cases with guilty findings and test as follows:

|  |  |
| --- | --- |
| **Criminal Cases Concluded** | **Number of Cases to Test** |
| 1 – 1,000 | 20 |
| 1,001 – 4,999 | 25 |
| Greater than 5,000 | 30 |

Auditor should consider increasing the number of cases tested if exceptions are noted.

Using the FAS Manual, Appendix C, Criminal Costs section for reference, test as follows:

Verify proper assessment and entry into FAS for:

1. Fines or Civil Penalty
2. Appropriate Circuit Court Fixed Fee
3. Court-appointed attorney/public defender fee
4. Additional Circuit Court Commonwealth Costs, as applicable

* Boating Education Civil Penalty
* DUI Convictions
* Ignition Interlock Device
* Trauma Center Fund
* Felony Drug Offender Fee
* Jury
* Internet Crimes Against Children
* Extradition
* Methamphetamine Cleanup Fund
* DNA
* Psychiatric Evaluation Costs
* Appellant Costs

1. Additional Locality Costs, as applicable

*(Note: A local ordinance is required for all the fees except the DNA fee.)*

* Courthouse Security
* Jail Admission Fee
* E-Summons
* Local Justice Training Academy
* Courthouse Construction Fee
* DNA
* School Bus Photo Monitoring

1. Restitution
2. Certified lower court costs
3. Unpaid amounts were entered into the Judgment Docket without delay (Section §8.01-446 of the Code of Virginia)
4. For cases paid in full, a satisfied judgment was entered into the Judgment Docket. (Section § 8.01-446 of the Code of Virginia)

Note: The Clerk will docket judgments for unpaid restitution if it is ordered by the court.

If time to pay is granted:

1. CC1379 establishing due date was completed and signed by defendant.
2. For a deferred payment plan, the due date was properly entered in FAS. (Section § 19.2-354 of the Code of Virginia)
3. For a partial payment plan, all applicable fields were properly completed in FAS (e.g. TTP Start, Term, Amount, and Incarcerated status).

2) Obtain all audit period *Court Appointed/Public Defender Reports (CR42*) and select a sample of local cases from throughout the audit period and test as follows:

1. Fine was properly assessed and entered into FAS. (Section § 19.2-340 of the Code of the Virginia)
2. The court-appointed attorney/public defender fee was properly assessed and entered into FAS.
3. The locality was billed for the public defender fee or paid the court-appointed attorney DC-40 invoice. (Section § 19.2-163 of the Code of Virginia)

3) Obtain a listing of all criminal juries commenced in the audit period (Clerks with CCMS can run a search for criminal cases with type ‘jury’ and impaneled ‘Y’) and select a sample of those with guilty disposition. Verify defendant was appropriately assessed jury costs, acct 181.

**6-13 Deeds / Land Records**

**Required Audit Procedure**

Select a sample of deeds / land records recorded during the audit period and, using the deed calculator, test as follows.

[Link to the OES Deed Calculator and Locality Deed Fee Schedule](http://ccdeedcalc.courts.state.va.us/)

1. State taxes have been properly assessed and collected based on the greater of the assessed value or the consideration paid for the property conveyed. (Section 58.1-801 et.al., Code of Virginia)
2. Local taxes have been properly assessed and collected in an amount equal to one-third of the amount of state recordation tax. (Section 58.1-814, Code of Virginia and locality ordinance).
3. Additional tax has been properly assessed and collected on deeds of conveyance based on the greater of the assessed value or the consideration paid. (Section 58.1-802, Code of Virginia).
4. Clerk's fees for recording, indexing, and plat fees were properly charged and collected (Section 17.1-275A (2), Code of Virginia).
5. Fees for transferring land were properly assessed and collected (Section 58.1-3314(3), Code of Virginia).

If the Clerk uses a separate financial system to receipt taxes and fees on Deeds:

1. The secondary receipting system receipt totals for the day’s deed collections were entered into FAS.

**6-14 Wills and Administrations**

**Required Audit Procedure**

1. Select a sample of wills / administrations recorded during the audit period and, using the FAS Manual Appendix C, Probate – Wills and Administration section for reference, test as follows:
2. State tax was assessed and collected based on the value of the estate as recorded on the confidential Probate Tax Return. (Section 58.1-1712, Code of Virginia)
3. Local tax was assessed and collected based on the value of the estate as recorded on the confidential Probate Tax Return. (Section 58.1-1718, Code of Virginia and locality ordinance)
4. Clerk’s fees were assessed and collected for recording and indexing in the Will Book based on the number of pages recorded (Section 17.1-275A (2), Code of Virginia)
5. Clerk’s fees were assessed and collected for appointing and qualifying any personal representative, committee or other fiduciary (Section 17.1-275A (3), Code of Virginia).

*Note: No one shall be permitted to qualify and act as an executor or administrator until the tax imposed by Section 58.1-1712 has been paid (Section 58.1-1715). Ensure that fees were receipted at the time of qualification, not after.*

1. Fees for transferring land were assessed and collected (section 58.1-3314(3), Code of Virginia).
2. Additional tax was properly calculated, billed, and receipted on final inventories (Section 58.1-1717, Code of Virginia.
3. If the Clerk uses a separate financial system to receipt taxes and fees on wills, the secondary receipting system receipt totals for the day’s probate collections were entered into FAS.

2. Using the court’s records management system, conduct a search for final inventories filed during the audit period and test a sample of no more than ten to determine if additional taxes were properly calculated, billed, and receipted (Section 58.1-1717, Code of Virginia).

**Liabilities/Trust Funds**

*In addition to the collection of fines, costs, fees, taxes and the funds held as bonds in criminal and civil cases, the Clerk is responsible for other funds since the Circuit Court has jurisdiction over all equity matters. These include, but are not limited to, divorce cases, disputes concerning wills and estates, and controversies involving property. The remedy sought in these actions involves the right to recover damages, usually in monetary terms. Thus, the Clerk of Court is responsible for holding funds for other parties both temporarily and long term. For funds deposited with the Clerk as Trust Fund Administrator or General Receiver, to be held under the control of the court pursuant to Va. Code §8.01-582 or 8.01‑600, the Clerk must invest, disburse, account for and otherwise properly manage the funds as they represent a personal liability to the Clerk. The Clerk must hold funds as directed by court order and escheat all funds that become unclaimed.*

**6-15 Liabilities**

**Required Audit Procedure**

1) Using the audit period end date Liabilities Index (BR008) report, select a sample from each 5XX series (excluding those with future court dates and Account 511 Trust Funds).

**5XX Series**

* FAS 501 🡪 Collections for Others
* FAS 502 🡪 Criminal Bonds (Code of Virginia §19.2-143; does not require a court order to disburse.)
* FAS 503 🡪 Civil Bonds
* FAS 509 🡪 Escrow
* FAS 515 🡪 Refunds
* FAS 517 🡪 Condemnation Funds (Clerk is not obligated to escheat these funds if held over one year)
* FAS 518 🡪 Fiduciary
* FAS 520 🡪 Restitution
* FAS 521/522 🡪 Chancery/Law Deposits
* FAS 523 🡪 Garnishments

A) Determine the status of the account and whether the Clerk is justified in holding the funds based on approved court orders, established retention requirements, or other special circumstances.

(Note: If the case is ended and the funds have been held over one year or have not been disbursed per court order, the Clerk is not justified in holding the funds.)

B) If the funds are court ordered to be invested or the Clerk has elected to invest the funds, trace and agree the FAS account balance to the applicable bank statement. Determine if the Clerk is properly identifying the invested funds on the liabilities index report and the general ledger as being invested. Note: Invested funds normally appear on the general ledger in the 95X and 96X accounts. Condemnation funds shall be invested in accordance with §25.1-237 of the Code of Virginia.

C) Determine if the BR08 report contains any warning messages about the BR29 general ledger balance not being equal to the BR08 report sub-totals.

2) Obtain the audit period June 30th *Property Unclaimed Over One Year Report (BR16)* and the Clerk’s Unclaimed Property Report submitted to the Division of Unclaimed Property. Compare the reports and select those accounts and outstanding disbursements – non-restitution listed on the BR16 that were not escheated. Determine whether the Clerk is justified in not escheating these accounts based on court order, established retention requirements, pending case (future court date assigned) or other special circumstances.

3) Obtain the June 30th *Property Unclaimed Over One Year Report (BR16*) and the *Clerk’s Unclaimed Restitution Report* submitted to the Victim Witness Fund. Compare the reports and select those outstanding disbursements - restitution on the BR16 that were not escheated. Determine if they were appropriately re-issued to the victim.

4) Obtain the June 30th *Liabilities Index (BR08)* and the Clerk’s Unclaimed Restitution Report submitted to the Victim Witness Fund. Compare the restitution accounts (account 520) with balances listed on the BR08 report to the Unclaimed Restitution Report and select a sample of those not escheated. Determine if the funds were appropriately disbursed. *Note: If they were not disbursed and funds have been held over one year, the Clerk is not justified in holding the funds.*

**6-16 Trust Funds**

**Required Audit Procedure**

1) Obtain a copy of the annual trust fund report filed during the audit period and ensure:

* It is included in the Trust Fund Order Book or scanned appropriately for public access.
* It was filed with the court by the October 1st deadline.
* It conforms to Code of Virginia §8.01-600 (G) requirements.
* It only contains public information.

**The remainder of this step is not applicable if the Court has appointed a General Receiver who is not the Clerk.**

2) Perform the following procedures for the Trust Fund Annual Report filed during the audit period:

1. Agree the Annual Report balance to the FAS 9XX accounts where the funds are recorded and Account 511 Trust Funds balance. Investigate any negative ending balances in any of the 9XX series accounts.
2. Agree the Annual Report ending balance to applicable bank statement balance(s). If this does not agree, then select a sample of individual accounts from the Annual Report and agree the system balance to the bank balance.
3. Determine propriety of inactivity in individual accounts – i.e., a lack of interest postings.
4. For accounts with past due expected disbursement dates, determine if the Clerk is justified in holding the funds. (Note: The clerk is not justified in holding the funds if a court order has been entered to disburse or the funds have been unclaimed over one year since infant turned 18).

3) Using the Annual Report, select a sample of new accounts and test as follows:

1. The receipt amount agreed to the court order.
2. The court order is included in the Order Book (hardcopy or digital) and does not contain confidential information.
3. The account is traceable to the Annual Report by name or case number.
4. Appropriate Clerks fees were deducted.
5. Funds were invested within 60 days of receipt (Code of Virginia §8.01-600 (F)).
6. The account is being held pursuant to the Code of Virginia §8.01-600.
7. The account was reported as public funds (Authorized court users can log into Treasury’s new SPDA website and pull up the account information if the auditor does not have access to it).
8. The distribution date is appropriate.

4) Select a sample of individual accounts and using the detailed individual account section of the BR30, test as follows:

1. The correct amount of interest, per the bank statement, was posted to the account. (If the Clerk consolidates funds, re-calculate the interest allocation.)
2. Interest was posted promptly.
3. If the Clerk collects 5% of interest as Clerk’s fees, the 5% was calculated correctly.

5) Using the detailed individual account section of the BR30, select a sample of those accounts disbursed during the audit period and test as follows:

1. The disbursement agrees to the court order.
2. The check was posted to the proper subsidiary trust fund account.
3. Appropriate Clerk’s fees were deducted.
4. Deducted fees agree to the journal voucher or disbursement recording the deduction.
5. Funds were paid out within 60 days of the court order (Section §8.01-600(F) of the Code of Virginia).

*NOTE: If the Court has ordered a financial institution to act as the General Receiver since the last audit, notify the Local Government and Judicial Systems Audit Director at the Auditor of Public Accounts.*

**6-17 Audit Documentation Confidentiality**

As indicated by auditing standards, the auditor has an ethical and, in some situations, a legal obligation to maintain the confidentiality of client information. Since the Circuit Court Clerk’s records contain confidential and personally identifiable information, the auditor should adopt reasonable procedures to maintain confidentiality of the Clerk’s records.

**6-18 Reporting Requirements**

**Audit Requirement**

The auditor is required to submit a letter to the Auditor of Public Accounts, by March 31 each year for all Circuit Court Clerks. The auditor is required to provide assurance as to whether the Clerk accurately recorded transactions on the Court’s financial accounting system, whether the Clerk has maintained a proper system of internal controls and records in accordance with the Code of Virginia, and whether the Clerk has complied with significant state laws, regulations, and policies.

In the letter, the auditor should identify which reported findings, if any, represent a material weakness. In regard to the audit of the Circuit Court Clerk, a material weakness includes an internal control weakness that could lead to the loss of revenues or assets or otherwise compromise fiscal accountability. The report should indicate whether the finding is new or a repeat finding from the prior year audit.

If the auditor’s letter on the results of the audit includes internal control matters that could be reasonably expected to lead to the loss of revenue or assets, or otherwise compromise fiscal accountability, the auditor should obtain a written corrective action plan from the Clerk. The auditor should submit a copy of the corrective action plan with the letter to the Auditor of Public Accounts. (See Chapter 2 of the 2022 Acts of Assembly, Item 77, H.2.)

A sample letter is available on the APA website at [apa.virginia.gov > Local Government > Resources > Guidelines and Manuals](https://www.apa.virginia.gov/local-government/resources?type=guidelines-and-manuals), [Circuit Court Clerk’s Audit – Sample Letter](https://dlasprodpublic.blob.core.windows.net/apa/5A6839E5-B263-4555-8764-3B8FB7B5D73F.docx). Please ensure that the name of the locality is specified in the letter.

**Note: The Auditor should not include the specific names of the systems in use by the Court. Instead, use a generic reference such as “financial accounting system,” “case management system,” or “records management system.”**

**SPECIFICATIONS FOR AUDITS OF COUNTIES, CITIES, AND TOWNS**

CHAPTER 7

**TURNOVER AUDIT OF CIRCUIT COURT CLERKS**

***Reviewed by/Date: APA Local Government and Judicial Systems team, June 2025***

*For any questions related to audit procedures at this section, please contact Laurie Hicks, APA Audit Director—Local Government and Judicial Systems; 804-362-8441;* [*laurie.hicks@apa.virginia.gov*](mailto:laurie.hicks@apa.virginia.gov)*.*

**7-1 General**

The purpose of a turnover audit is to determine the accountability of the outgoing Clerk upon death, resignation, removal, or retirement and to turn over the assets and liabilities to the incoming Clerk. During a turnover audit, the auditor should prepare schedules designed to demonstrate the clerk’s accountability at the turnover date and provide a detailed listing of assets and liabilities turned over to the incoming Clerk. Because of this special purpose, the schedules are not intended to be a presentation in conformity with generally accepted accounting principles. The schedules are prepared on the cash basis of accounting.

Upon completion of the audit, the auditor is required to provide prepared Turnover Statements to *both* the *incoming and outgoing* Clerks. The auditor should retain copies of this information in the work papers and send copies to the Auditor of Public Accounts.

An auditor should be in the office of the Clerk at, or promptly following, the close of business under the outgoing Clerk for the purpose of scheduling all cash, cash items, certificates of deposit, and investments. Both the outgoing and incoming Clerks should be present at the time and should certify to the accuracy of the count of cash and other assets. Prepared Turnover Statements serve as Receipts and should be executed by the outgoing and incoming Clerks for all assets turned over to the incoming Clerk.

Turnover audits are subject to the quality control reviews described in Chapter 4 of the Specifications for Audits of Counties, Cities, and Towns. Auditors must make their working papers available for review by the Auditor of Public Accounts upon request.

**7-2 Cut Off Procedures**

The auditor should make an attempt to be present on the turnover date to receipt the clerk’s assets and to ensure that a proper cutoff is achieved. An accurate cutoff is necessary to determine the outgoing clerk’s accountability at the turnover date. The outgoing clerk should prepare deposit slips covering cash on hand to be deposited in the bank the next business day.

The clerk is responsible for notifying the banks and other financial institutions of the turnover. The outgoing clerk should not be permitted to sign any checks after the turnover date. As a result, it is especially important that the incoming clerk notify the banks of the change in authorized check signers.

**Required Audit Procedure**

* Determine the reason for turnover (i.e. retirement, resignation, death) and the last business day of the outgoing clerk.
* Verify the outgoing clerk’s access to all automated systems has been properly deleted.
* Verify the outgoing clerk has been removed as a signatory from all bank accounts used.
* Verify the outgoing clerk no longer has access to the post office box, if applicable.
* Verify the teste stamps used in the office bearing the outgoing clerk’s name have been properly destroyed or modified and new stamps have been received / ordered.
* Determine whether there is a balance in FAS account codes 999, 997 or 399. Determine propriety and possible clerk liability.
* Prepare a schedule of unused manual receipts and unused checks on hand.
* For the last month of the outgoing clerk’s tenure, the auditor should review the month end journal voucher report (BR40) and the month end disbursement report (BR41) for any unusual material entries and trace to supporting documentation.

**7-3 Cash in Office**

**Required Audit Procedure**

1. As of the close of business on the turnover date, agree the court prepared deposit slip for collections to the end of day PCR Report.
2. Count all cash and cash items in the office. Observe vault and office area for any un-deposited funds (including checks attached to instruments that have not been recorded, civil cases not yet entered and garnishment checks awaiting distribution.)
3. Prepare a schedule of cash and cash items on hand.

**7-4 Cash in Banks**

**Required Audit Procedure**

1. Compare bank statement balances to FAS balances for all bank accounts used by the Clerk. Review the most recently completed bank reconciliations and obtain copies of bank account statements through the last business day of the audit period for invested funds and non-invested funds. Determine propriety of any differences.
2. Prepare a schedule of cash in the bank.

**7-5 Trial Balance**

**Required Audit Procedure**

Prepare a “Statement of Assets and Liabilities” as of the turnover date using FAS Reports Financial Update Summary (FUS3) and Trial Balance Reports (BR07 and BU11) in conjunction with the schedule of cash and cash items on hand and the schedule of cash in the bank prepared above.

**7-6 Accounts Receivable**

**Required Audit Procedure**

Prepare a schedule of accounts receivable.

**7-7 Reporting Requirements**

**Audit Requirements**

The outgoing and incoming Clerks as well as the auditor should sign and retain a copy of each of the signed turnover schedules to include (but not limited to):

* “Schedule of Unused Manual Receipts and Unused Checks”
* “Schedule of Cash and Cash Items on Hand”
* “Schedule of Cash in Bank”
* “Schedule of Accounts Receivable”
* “Statement of Assets and Liabilities”

In the event the turnover engagement discloses fraud or illegal acts involving circumstances that suggest a reasonable possibility that a fraudulent transaction has occurred involving funds or property under the constitutional officer’s control and a constitutional officer or employee of the local government may be involved, the auditor must advise the local government officials to report the fraudulent activity to the Auditor of Public Accounts, the Superintendent of the Department of State Police, and the State Inspector General in accordance with Section 30-138 of the Code of Virginia.

The auditor should submit one copy of the auditor’s report with turnover documents to the Auditor of Public Accounts as soon as practical after the audit is complete.

Sample formats for the turnover report and turnover schedules are available on the [apa.virginia.gov > Local Government > Resources > Guidelines and Manuals](https://www.apa.virginia.gov/local-government/resources?type=guidelines-and-manuals), under[Sample Circuit Court Clerk Turnover Report](https://dlas-directus-prod.azurewebsites.net/assets/B9EA17AB-8D66-461A-8AE4-60B03CA54CF6.docx) *and* [Circuit Court Turnover Schedules](https://dlas-directus-prod.azurewebsites.net/assets/194B77CA-27AF-4E8C-9C49-08C14C96D386.docx).

Other formats are acceptable to this office if they contain all of the relevant information.