



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

In connection with our audit of the financial statements of the County of Rockingham, Virginia (County) for the year ended June 30, 2017, we have the following comments and suggestions for your consideration.

County

Compliance with the State and Local Government Conflict of Interest Act

The *State and Local Government Conflict of Interest Act* is designed to ensure the judgment of public employees is not compromised or affected by inappropriate conflicts. The *State and Local Government Conflict of Interest Act*, contained in Chapter 31 (Section 2.2-3100 et. seq.) of Title 2.2 of the *Code of Virginia*, prohibits local government officers or employees from participating in certain transactions in which they or their family members have a material financial interest. Certain local government employees are required to file Statements of Economic Interest forms with their respective local body. Submissions were due January 15, 2017.

During the current year audit, we noted one statement was not filed by the due date by a member of the Economic Development Authority and one statement was not filed by the due date by a member of the Planning Commission. We recommend the County be more diligent in ensuring all members have filed the necessary statements of economic interest in a timely manner.

School Board

Mid-month payroll timesheets and pay rates

During the current year audit, we noted one instance where an employee submitted the same timesheet for approval and payment twice during the fiscal year. Both submitted timesheets were separately approved by the employee's supervisor before being forwarded to the County Finance Department for processing and payment. Submission of this duplicated timesheet ultimately resulted in the same employee being paid twice for the same time worked. Once it was determined the employee was paid twice for the same time worked, steps were taken to remedy the overpayment, and the employee reimbursed the School Board for the overpayment.

During the current year audit, we also noted a lack of consistency of supporting documentation provided to the County Finance Department to support pay code information for part-time employees pay wages and rates. We noted instances where pay codes and rates were communicated to the County Finance department via personnel action entry forms and other instances where pay codes and rates were communicated via email. We also noted at times, pay codes were not previously setup within the accounting system prior to payroll processing, resulting in the need for additional communication between County Finance and the School Board's Human Resources Department in order to properly setup the employees' pay codes so payroll processing could continue.

Based on the items noted above regarding the School Board's part-time payroll process, we recommend additional communications be made to all supervisors responsible for the initial review and approval of part-time timesheets. It is crucial supervisors charged with the review and approval of timesheets be diligent in ensuring duplicate timesheets are not submitted for payment. Additionally, we recommend approved pay code and rate changes be consistently documented on personnel action entry forms. Pay codes should be entered within the accounting system upon approval of the employee's position, and the approved pay code and rate information should be immediately communicated to County Finance.

Social Services

Supporting documentation in case records

While testing internal controls related to the Adoption Assistance Program in the current year, we noted one of the 40 case files tested did not contain a final adoption order in the case file. Based on further discussions with Social Services personnel, significant efforts were made to locate the final adoption order, including reaching out to the attorney and the Circuit Courts, neither of whom were able to locate a copy of the final adoption order.

We recommend Social Services be more diligent in ensuring all necessary case file information is appropriately filed in the related case file.

Status of Previous Management Advice

In our letter dated November 28, 2016, we recommended the following comments which have not been implemented or have been partially implemented:

County Payroll Reconciliations for Full-Time Payroll

During the fiscal year 2016 audit, we noted the County's Finance Department was no longer reconciling County full-time gross payroll wages from one pay period to the next pay period. In past fiscal years, gross wages for full-time employees were reconciled from one payroll run to the gross wages of the prior payroll run during payroll processing. Performing the reconciliation assisted in identifying changes between the payroll runs, with verification of any differences being due to new hires, promotions and terminations.

We noted the County Finance Department resumed performing these suggested reconciliations in January 2017. We recommend the County Finance Department continue to be diligent in performing the reconciliation of full-time gross payroll wages each pay period to the prior pay period to ensure all changes have been input correctly and properly approved. The County Finance Department should also maintain copies of the reconciliations performed.

Schools Payroll Reconciliations for Contract Payroll

During the fiscal year 2016 audit, we noted the County's Finance Department was no longer reconciling the School Board's contract employee gross payroll wages from one pay period to the next pay period. In the past fiscal years, gross wages for contract employees were reconciled from one payroll run to the gross wages for contract employees of the prior payroll run during payroll processing. Performing the reconciliation assisted in identifying changes between the payroll runs, with verification of any differences being due to new hires, promotions and termination.

We noted the County Finance Department resumed performing these suggested reconciliations in January 2017. We recommend the County Finance Department continue to be diligent in performing the reconciliation of contract employee payroll wages each pay period to the prior pay period to ensure all changes have been input correctly and properly approved. The County Finance Department should also maintain copies of the reconciliations performed.

School Board VRS Reconciliations

Section 3-7 of the *Specifications for Counties, Cities, and Towns* issued by the Auditor of Public Accounts of the Commonwealth of Virginia require monthly reconciliations be performed between the monthly contributions made to the Virginia Retirement System (VRS) and the County's payroll records. During the fiscal year 2016 examination, it was noted the School Board's VRS monthly contributions were not being reconciled to payroll records in a timely manner by the County Finance Department. Reconciliations for the months of July 2015 through December 2015 were not started until December 2015. As of June 30, 2016, contributions through April 2016 had been reconciled.

During the fiscal year 2017 examination, it was noted reconciliations for the months of July 2016 through January 2017 were not performed. Reconciliations were performed for the months of February 2017 through June 2017, and the reconciliations appeared timely. We recommend the County Finance Department continue to be diligent in performing the reconciliations on a monthly basis prior to confirming the monthly VRS Snapshot to ensure amounts being paid to the VRS are proper and agree with payroll records. Records should also be maintained of these reconciliations to ensure proper procedures are performed on a monthly basis.

County's Purchase Card Policy

During fiscal year 2016, the County issued purchase cards to certain department heads. All card holders were required to sign a form agreeing to the policies and procedures to be followed when making purchases with the card. In testing purchase card transactions and based on discussions with the Finance Department personnel, it did not appear as though the department heads were required to obtain a secondary approval of purchases made with the purchase cards. Additionally, the purchase card policies and procedures did not address repercussions if there was a lack of supporting documentation for purchases.

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

In testing purchase card transactions during the fiscal year 2017 audit, we noted the County Administrator reviewed and approved purchase card statements for various purchase card holders throughout the year. While there were no revisions to the current purchase card policies and procedures, we noted revisions are in process based on discussions with Management.

Uniform Grant Guidance

During the fiscal year 2016, the County was required to implement the Uniform Guidance (2 CFR 200), which superseded OMB Circular A-133. As part of the new Uniform Guidance requirements, we recommended the County (including the School Board and Harrisonburg-Rockingham Social Services District) adopt or amend the current policies and procedures to address these new or revised rules and regulations:

Procurement Policy

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

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

These procurement standards must be implemented by the County (including the School Board and Harrisonburg-Rockingham Social Services District) for its fiscal year beginning July 1, 2018.

Schools Leave Tracking Software

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

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

It was noted beginning in May 2017, the remaining departments began the process of transitioning from the use of paper leave slips to using the leave tracking software. The software was anticipated to be fully implemented within these departments by August 1, 2017. Additional documentation was also provided regarding the use of the system and how the system is to be used for each School Board department. Lastly, beginning July 1, 2017, leave balances were no longer housed in this software, but instead maintained in the School Board's accounting software. We recommend the School Board continue to be diligent in documenting changes in the use of the system as they occur.

Information Technology

Due to the implementation of new accounting system software during fiscal year 2015, an Information Technology (IT) Specialist of PBMares, LLP was used to examine the accounting system, as well as user rights within the system. The IT Specialist examined various user accesses within the system to determine user access rights and to assess what rights the users should have. The overall results of the testing performed indicated user rights have been appropriately restricted. Certain user rights that should be monitored and adjusted prospectively include access to the payroll system for employees who are currently in transition between positions. We recommend the County continue to be diligent in monitoring user accesses and continue to update and change those user access rights as roles change. Restricting certain user rights within the system can enhance internal controls. As roles change, the County should continue to ensure certain segregation of duties are maintained.

New GASB Pronouncements

At June 30, 2017, the Governmental Accounting Standards Board (GASB) had issued several statements not yet implemented by the County. The statements which might impact the County are as follows:

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

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

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

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

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

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

GASB Statement No. 83, *Certain Asset Retirement Obligations*

This Statement addresses accounting and financial reporting for certain asset retirement obligations (ARO). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible assets should recognize a liability based on the guidance in this Statement.

This Statement will enhance comparability of financial statements among governments by establishing uniform criteria for governments to recognize and measure certain AROs, including obligations that may not have been previously reported. This Statement will also enhance the decision-usefulness of the information provided to financial statement users by requiring disclosures related to those AROs.

The requirements of Statement No. 83 are effective for financial statements for fiscal years beginning after June 15, 2018.

GASB Statement No. 84, *Fiduciary Activities*

The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists.

An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. Governments with activities meeting the criteria should present a statement of fiduciary net position and a statement of changes in fiduciary net position. An exception to that requirement is provided for a business-type activity that normally expects to hold custodial assets for three months or less.

The requirements of this Statement will enhance consistency and comparability by (1) establishing specific criteria for identifying activities that should be reported as fiduciary activities and (2) clarifying whether and how business-type activities should report their fiduciary activities. Greater consistency and comparability enhances the value provided by the information reported in financial statements for assessing government accountability and stewardship.

The requirements of Statement No. 84 are effective for financial statements for fiscal years beginning after December 15, 2018.

GASB Statement No. 85, *Omnibus 2017*

The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and OPEB).

The requirements of this Statement will enhance consistency in the application of accounting and financial reporting requirements. Consistent reporting will improve the usefulness of information for users of the County's financial statements.

The requirements of Statement No. 85 are effective for financial statements for fiscal years beginning after June 15, 2017.

GASB Statement No. 86, *Certain Debt Extinguishment Issues*

The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources – resources other than the proceeds of refunding debt – are placed in an irrevocable trust for the sole purpose of extinguishing debt. The Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance.

Statement No. 7, *Advance Refundings Resulting in Defeasance of Debt*, requires that debt be considered defeased in substance when the debtor irrevocably places cash or other monetary assets acquired with refunding debt proceeds in a trust to be used solely for satisfying scheduled payments of both principal and interest of the defeased debt. The trust also is required to meet certain conditions for the transaction to qualify as an in-substance defeasance. This Statement establishes essentially the same requirements for when a government places cash and other monetary assets acquired with only existing resources in an irrevocable trust to extinguish the debt. In financial statements using the economic resources measurement focus, governments should recognize any difference between the reacquisition price and the net carrying amount of the debt defeased in substance using only existing resources as a separately identified gain or loss in the period of defeasance.

Governments that defease debt using only existing resources should provide a general description of the transaction in the notes to financial statements in the period of the defeasance. In all periods following an in-substance defeasance of debt using only existing resources, the amount of that debt that remains outstanding at period-end should be disclosed.

The requirements of Statement No. 86 are effective for financial statements for fiscal years beginning after June 15, 2017.

GASB Statement No. 87, *Leases*

The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. A lease is defined as a contract that conveys control of the right to use another entity's nonfinancial asset as specified in the contract for a period of time in an exchange or exchange-like transaction. Examples of nonfinancial assets include buildings, land, vehicles, and equipment. Any contract that meets this definition should be accounted for under the leases guidance, unless specifically excluded in this Statement.

The requirements of Statement No. 87 are effective for financial statements for fiscal years beginning after December 15, 2019.

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

If you have any questions concerning any of these items, or if we can be of further assistance, please contact us. We thank you for the opportunity to conduct your audit for the year ended June 30, 2017 and express our appreciation to everyone for their cooperation during this engagement.

Pratt, J. J.

Harrisonburg, Virginia
November 6, 2017