



ROBINSON, FARMER, COX ASSOCIATES, PLLC

Certified Public Accountants

DATE: November 30, 2019

MEMORANDUM TO: Evan Vass, County Administrator
County of Shenandoah, Virginia

FROM: Robinson, Farmer, Cox Associates

In planning and performing our audit of the financial statements of the County of Shenandoah, Virginia for the year ended June 30, 2019, we considered the County's internal controls to plan our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal controls.

However, during our audit, we noted certain matters involving the internal controls and other operational matters that are presented for your consideration. This letter does not affect our report dated November 30, 2019, on the financial statements of the County of Shenandoah, Virginia. Our comments and recommendations, all of which have been discussed with appropriate members of management, are intended to improve the internal controls or result in other operating efficiencies. We will be pleased to discuss these comments in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Audit Adjustments

During the normal course of an audit, it is customary that a reasonable number of audit adjusting entries will be necessary to properly present the locality's financial statements. However, during our audit we proposed 15 adjusting journal entries to properly reflect account balances in the audited financial statements. While not egregious, we would like to see the number of audit entries necessary decrease significantly for the next annual audit to mitigate the possibility of a significant deficiency in the County's internal control system being reported in the annual financial report. Additionally, a reduction in required adjusting entries will mitigate the potential perception that our firm is auditing its own work.

Uniform Guidance Policies and Procedures

The Office of Management and Budget (OMB) issued new guidance on Administrative Requirements, Cost Principles, and Audit Requirements for Federal awards. The new Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Financial Awards (The "Super Circular", or "Uniform Guidance") requires some major policy reforms which are required to be implemented by all entities receiving federal funding effective January 1, 2019 for entities with a December 31 fiscal year end and July 1, 2019 for entities with a June 30th fiscal year end. These policy reforms should be implemented as soon as possible in order to avoid noncompliance with the terms and conditions of current federal awards and the direct and material compliance requirements for federal awards. The following sections of the Uniform Guidance require nonfederal entities that receive federal awards to establish written policies, procedures, or standards of conduct:

- Conflict of Interest (§200.112)
- Financial Management (§200.302)

- Payment (§200.305)
- General Procurement Standards (§200.318)
- Competition (§200.319)
- Methods of Procurement to be Followed (§200.320)
- Compensation – Personal Services (§200.430)
- Compensation – Fringe Benefits (§200.431)
- Relocation Costs of Employees (§200.464)
- Travel Costs (§200.474)

In order to ensure that your policies and procedures meet these new requirements, we recommend that you review the new requirements in detail and revise your current policies, as necessary. **These policies were implemented in November of 2019.**

Governmental Accounting Standards Board Pronouncements

In order to assist your staff in preparing for upcoming accounting changes, we have included the following summaries of Governmental Accounting Standards Board (GASB) pronouncements that will affect the County in upcoming years.

Statement No. 84, Fiduciary Activities, establishes criteria for identifying fiduciary activities of all state and local governments. 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. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. This Statement describes four fiduciary funds that should be reported, if applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. This Statement also provides for recognition of a liability to the beneficiaries in a fiduciary fund when an event has occurred that compels the government to disburse fiduciary resources. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019.

Statement No. 87, Leases, 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. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019.