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

In connection with our audit of the financial statements of the County of Orange, 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 timely and one statement was not signed. We recommend all statements be signed and filed timely to ensure compliance with state requirements.

Information Technology

We provided certain recommendations to the County regarding strengthening controls over user access rights to ensure certain segregation of duties are maintained.

School Board

Credit Card Policy

In testing credit card transactions during the current year, we noted inconsistencies in the use of the School Board's credit card authorization form, which is to be used for all credit card purchases. Based on discussions with School Board personnel, we noted there is no formal policy in place for such credit card purchases.

To strengthen internal controls over credit card purchases, we recommend a policy be created to address when credit cards should be used for purchases and the supporting documentation required for such purchases, including the proper use of the credit card authorization form.

Documentation of Employee Time and Effort for Title I and Special Education Programs

The Uniform Guidance specifies standards of documentation of personnel expenses. 2 CFR section 200.430(i)(1) states, "Charges to Federal awards for salaries and wages must be based on records that accurately reflect the work performed. These records must: (i) Be supported by a system of internal control which provides reasonable assurance that the charges are accurate, allowable, and properly allocated; (ii) Be incorporated into the official records of the non-Federal entity; (iii) Reasonably reflect the total activity for which the employee is compensated by the non-Federal entity, not exceeding 100% of compensated activities; (iv) Encompass both federally assisted and all other activities compensated by the non-Federal entity on an integrated basis, but may include the use of subsidiary records as defined in the non-Federal entity's written policy; (v) Comply with the established accounting policies and practices of the non-Federal entity; and (vii) Support the distribution of the employee's salary or wages among specific activities or cost objectives if the employee works on more than one Federal award; a Federal award and non-Federal award; an indirect cost activity and a direct cost activity; two or more indirect activities which are allocated using different allocation bases; or an unallowable activity and a direct or indirect cost activity."

For employees who charge 100% of their time to a federal grant, the Virginia Department of Education allows for the use of time certifications, which are to be completed semi-annually by all staff whose entire salary is charged to a federal program. For employees whose time is split amongst programs or activities, time and effort distribution records must be maintained in accordance with 2 CFR section 200.430(i)(1)(vii), that support the portion of time and effort dedicated to the consolidated cost objective and each program or other cost objective supported by non-consolidated Federal funds or other revenue sources.

Based on the testing of teachers whose entire salaries were charged to the Title I Grants to Local education Agencies (CFDA Number 84.010) program, it was determined time certifications were completed on an annual basis, instead of a semi-annual basis. Furthermore, it was determined adequate time and effort records were not prepared by a teacher whose time was only partially charged to the grant. Based on the testing of teachers whose entire salaries were charged to the Special Education Cluster (CFDA Numbers 84.027 and 84.173), it was determined time certifications were completed on an annual basis, instead of a semi-annual basis.

We recommend the School Board develop procedures to ensure employees maintain adequate time and effort records to substantiate the employees' time that is charged to such federal programs as required by 2 CFR section 200.430(i)(1).

Cafeteria Budget

According to Section 15.2-2506, *Publication and notice; public hearing; adjournment; moneys not to be paid out until appropriated*, of the *Code of Virginia*, moneys shall not be paid out until there has been an appropriation for such expenditure by the governing body.

It was noted when performing fieldwork in the School Cafeteria Fund that expenditures exceeded appropriations by approximately $129,000. We recommend management evaluate budget to actual expenditures on an ongoing basis and make additional appropriation requests before actual expenditures exceed budgeted expenditures.

Status of Previous Management Advice

In our letter dated February 17, 2017, we recommended the following comments which have not been implemented or have been partially implemented:

Cafeteria Collections

Cafeteria collections are supported by daily Manager Money Count Sheets which are signed by the Cafeteria Manager and Cashier in order to ensure both employees agree with the funds collected for the day. In testing collections during fiscal year 2016, we noted of the twenty-seven sheets sampled, eight contained only one signature and three were unsigned. In testing collections during fiscal year 2017, we noted of the twenty-seven sheets sampled, three contained only one signature, five contained the same individual signing on behalf of the Cashier and Cafeteria Manager, and three were unsigned.

We recommend Count Sheets be signed by both the Cafeteria Manager and Cashier in order to provide proper segregation of duties and reduce the risk of misappropriation of cafeteria collections.

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 Social Services) 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 Social Services) for its fiscal year beginning July 1, 2018.

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.

This report is intended solely for the information and use of management, the Board of Supervisors, School Board, Department of Social Services, 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.

PBMares, LLP

Harrisonburg, Virginia
November 27, 2017