



Auditor of Public Accounts Note: This letter contains redacted information which refers to details of control weaknesses that were communicated to locality management and governance but are FOIAE under Code of Virginia §2.2-3705.2 due its sensitivity and description of security controls or mechanisms.

October 29, 2018

To the Board of Directors  
Upper Occoquan Service Authority  
Centreville, Virginia

In connection with our audit of the financial statements of the Upper Occoquan Service Authority (UOSA) for the year ended June 30, 2018, we have the following comments and suggestions for your consideration.

### ***Review of Policy***

In performing our audit procedures over internal controls, we noted several policies that were approved several years ago. While those policies may not need to be modified, there is no indication they have been reviewed since adoption. We recommend you begin the practice to have a continuing review of policies to ensure they are up to date and still applicable.

We recommend UOSA implement procedures to ensure all policies are reviewed and document the review at least every three years.

### ***Fraud Policy***

During our review of policies and procedures, we noted there is no official fraud policy. However, it was noted there is a "Data and Record Integrity Policy" which has many aspects of a fraud policy. A fraud policy should also discuss how an individual should report any potential fraud or abuse, which is not included on the "Data and Record Integrity Policy."

We recommend UOSA adopt an entity-wide fraud policy and consider implementing a way to anonymously report fraud or abuse. We think the development and implementation of a formal fraud policy is an integral part of sound policies and internal control.

### ***General Controls over Information Technology***

While updating our understanding of internal controls over the information technology environment, we noted there is no formal information technology training for UOSA employees. Employee actions or mistakes remain the number one cause of security breaches and/or data loss across the United States. A majority of these incidents are affected by targeting employees with access to the system by means of social engineering, phishing, or spear-phishing scams.

In order to reduce UOSA's risk to these types of threats and breaches, we recommend UOSA institute a formalized training program for all employees. We recommend this training be mandatory for all new employees and recertification be performed on an annual basis for current employees.

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### ***New GASB Pronouncements***

As of June 30, 2018, the Governmental Accounting Standards Board (GASB) had issued several statements not yet implemented by UOSA. The statements which might impact UOSA are as follows:

#### **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.

#### **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.

**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.

**Statement No. 88, *Certain Disclosures Related to Debt***

The primary objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt.

This Statement defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established.

This Statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses.

For notes to financial statements related to debt, this Statement also requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt.

The requirements of Statement No. 88 are effective for financial statements for fiscal years beginning after June 15, 2018.

**Statement No. 90, Majority Equity Interests – An Amendment of GASB Statements No. 14 and No. 61**

The primary objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value.

For all other holdings of a majority equity interest in a legally separate organization, a government should report the legally separate organization as a component unit, and the government or fund that holds the equity interest should report an asset related to the majority equity interest using the equity method. This Statement establishes that ownership of a majority equity interest in a legally separate organization results in the government being financially accountable for the legally separate organization and, therefore, the government should report that organization as a component unit.

This Statement also requires that a component unit in which a government has a 100 percent equity interest account for its assets, deferred outflows of resources, liabilities, and deferred inflows of resources at acquisition value at the date the government acquired a 100 percent equity interest in the component unit. Transactions presented in flows statements of the component unit in that circumstance should include only transactions that occurred subsequent to the acquisition.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2018.

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This report is intended solely for the information and use of management, the Board of Directors of UOSA, and others within the organization 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, 2018 and express our appreciation to everyone for their cooperation during this engagement.

*PBMares, LLP*

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