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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 30, 2018

To the Honorable Operations Board Members and Commissioners
The Virginia Railway Express
The Northern Virginia Transportation Commission
The Potomac and Rappahannock Transportation Commission

In connection with our audit of the financial statements of the Virginia Railway Express (VRE) for the year ended June 30, 2018, we noted the following control deficiency.

Accrued Expenses

During our audit of accrued expenses, it was noted one transaction was omitted from the year-end accrual for expenses. The transaction omitted was for the accrual of expenses related to Progress Rail. Circumstances surrounding the omission of the transaction were unique and isolated to this specific transaction. Members of management were in the process of contesting the transaction, which related to expenses occurred during January and March of 2018. Final resolution related to the expense being contested was not reached until late August. While we recognize members of management were in the process of contesting the transaction, the finance staff needs to be made aware of such contested transactions. This will allow for the finance staff to determine the proper accounting treatment for the transaction, including which fiscal year the transaction should be reflected in. Subsequent to the adjustment, management has implemented procedures to ensure transactions such as this have been addressed and communicated to finance staff.

The following comment is offered as a constructive suggestion is for your consideration.

Cyber Security

Cyber security is now widely considered one of the most significant risks affecting businesses and organizations today as a result of the increasing reliance on technology, the increase in the number of confidential records being transmitted and stored electronically (external and internal), and an ever increasing array of cyber-attacks (malware, ransomware, etc.). [redacted]

The following are new Governmental Accounting Standard Board (GASB) pronouncements we think should be communicated to VRE.

New GASB Pronouncements

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

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 the financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities entities 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. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*

The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period.

This Statement establishes accounting requirements for interest cost incurred before the end of a construction period. Such interest cost includes all interest that previously was accounted for in accordance with the requirements of paragraphs 5–22 of Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which are superseded by this Statement. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund.

The requirements of Statement No. 89 are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged. The requirements of Statement No. 89 should be applied prospectively.

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This communication is intended solely for the information and use of management, Board Members and others within the VRE 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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