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

In connection with our audit of the financial statements of the County of Goochland, Virginia (County) for the year ended June 30, 2016, we have the following comments and suggestions for your consideration.

Cutoff Procedures Surrounding Accounts Payable

In performing our audit procedures over accounts payable in the Office of Children's Services Fund, we noted seventeen invoices that were incorrectly posted to accounts payable and the related expense accounts. The result of this error was an immaterial overstatement of current liabilities and expenditures in the Office of Children's Services Fund.

To prevent future errors of this nature, invoices received close to the fiscal year-end should receive additional scrutiny by staff prior to processing these invoices. As part of this process, invoices should be clearly marked as to which fiscal year they relate. This will help to ensure these transactions are being recorded in the appropriate period. Additionally, a subsequent review of the postings should be performed to ensure these items were properly included or excluded from the appropriate fiscal year within the accounting software. We also recommend, in the time leading up to the end of the fiscal year, the finance department review these procedures with the Office of Children's Services Fund's applicable staff, ensure there is a complete understanding of these procedures, and emphasize the importance of these procedures over accurate financial reporting.

Uniform Grant Guidance

During the current fiscal year, the County was required to implement the Uniform Guidance (2 CFR 200), which superseded OMB Circular A-133.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

Uniform Guidance Cost Principles

Cost Principles under OMB Circular A-87 have been superseded by the Uniform Guidance Cost Principles (2 CFR 200, Subpart E – Cost Principles). We recommend the County maintain printed copies of the new Cost Principles, formally adopt as policy, and refer to them when expending federal awards.

Conflicts of Interest Policy

According to 2 CFR §200.112, "The Federal awarding agency must establish conflict of interest policies for Federal awards. The non-Federal entity must disclose in writing any potential conflict of interest to the Federal awarding agency or pass-through entity in accordance with applicable Federal awarding agency policy." 2 CFR §200.113 further notes, "The non-Federal entity or applicant for a Federal award must disclose, in a timely manner, in writing to the Federal awarding agency or pass-through entity all violations of Federal criminal law involving fraud, bribery, or gratuity violations potentially affecting the Federal award. Failure to make required disclosures can result in any of the remedies described in §200.338, *Remedies for Noncompliance*, including suspension or debarment."

Cash Management Policy

Under the new Uniform Guidance rules, there are documentation requirements related to cash management as it pertains to receiving federal funds in advance of expenditures occurring. We recommend the County adopt a Cash Management policy that addresses when the County receives federal funding in advance of payment of related federal expenditures. The County will need to document compliance with 2 CFR §200.302, which requires the financial management system of each non-federal entity to provide written procedures to implement the requirements of §200.305, *Payment*.

Procurement Policy

Non-federal entities are required to comply fully with the procurement rules in the Uniform Guidance. The County should examine the 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*

General Controls over the Information Technology Environment

While updating our understanding of the County's internal controls over its information technology environment, we noted several areas of weakness that may increase the County's exposure to cyberattacks and other external or internal threats.

Employee actions or mistakes remain the number one cause of security breaches and/or data loss across the United States. 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 the County's risk to these types of threats, we recommend the County 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.

A disaster recovery plan (DRP) is defined as a documented process or set of procedures to recover and protect a business IT infrastructure in the event of a disaster. The primary objective of the DRP is to protect the County in the event that all, or part, of its operations and/or computer services are rendered unusable. The DRP formally documents a Recovery Time Objective (RTO) and a Recovery Point Objective (RPO). These objectives establish an expected downtime and the amount of data that will need to be restored, respectively. This plan should be re-evaluated on an ongoing basis and annual testing of the DRP should be performed to ensure relevant staff is adequately trained and the current DRP corresponds to existing software and procedures. Our recommendation is for the County to develop a formalized disaster recovery plan in order to increase its preparedness in case of a catastrophe or major incident.

Cyber Audit and Cyber Risk Assessment

Cyber security continues to be an area of concern for all businesses, including localities. Cyber threats are prevalent in today's technologically dependent world. In discussing cyber security with the Director of Information Technology, we believe the County would benefit from a formal cyber audit and cyber risk assessment.

A cyber audit would consist of the following:

- An External Vulnerability Assessment to test and identify vulnerabilities to outside attacks through public-facing connectivity and network weaknesses. This scan may be conducted during non-working hours to limit impact on network systems.
- An Internal Vulnerability Assessment to find weaknesses and possible compromised systems or software within an organizations network infrastructure. This effort scans for thousands of vulnerabilities currently exploited by hackers, and a security engineer personally oversees the internal scan and adjusts the focus as needed based on findings and network configuration.
- Concurrent to the Internal Vulnerability Assessment, a security engineer will conduct a physical security review of specific compliance criteria and industry best practices applicable to the County. These criteria / best practices will be drawn from applicable standards. The purpose of this review is to evaluate overall adherence to physical compliance and/or industry best practices and identify those security areas that may need additional attention by the host organization.

Subsequent to a cyber audit, a cyber risk assessment could be performed, which could consist of collecting data, identifying and documenting vulnerabilities, assessing current security measures, determining the County's risk level and providing recommendations as part of a short-term and long-term strategy for continuous security improvement.

New GASB Pronouncements

At June 30, 2016, 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. 77, *Tax Abatement Disclosures*

The objective of this Statement is to improve financial reporting by giving users of financial statements essential information that is not consistently or comprehensively reported to the public at present. Disclosure of information about the nature and magnitude of tax abatements will make these transactions more transparent to financial statement users. As a result, users will be better equipped to understand *(1)* how tax abatements affect a government’s future ability to raise resources and meet its financial obligations, and *(2)* the impact those abatements have on a government’s financial position and economic condition.

Financial statement users need information about certain limitations on a government's ability to raise resources. This includes limitations on revenue-raising capacity resulting from government programs that use tax abatements to induce behavior by individuals and entities that is beneficial to the government or its citizens. Tax abatements are widely used by state and local governments, particularly to encourage economic development. For financial reporting purposes, this Statement defines a tax abatement as resulting from an agreement between a government and an individual or entity in which the government promises to forgo tax revenues and the individual or entity promises to subsequently take a specific action that contributes to economic development or otherwise benefits the government or its citizens.

Although many governments offer tax abatements and provide information to the public about them, they do not always provide the information necessary to assess how tax abatements affect their financial position and results of operations, including their ability to raise resources in the future. This Statement requires disclosure of tax abatement information about *(1)* a reporting government's own tax abatement agreements, and *(2)* those that are entered into by other governments and that reduce the reporting government's tax revenues.

This Statement requires governments that enter into tax abatement agreements to disclose the following information about the agreements:

- Brief descriptive information, such as the tax being abated, the authority under which tax abatements are provided, eligibility criteria, the mechanism by which taxes are abated, provisions for recapturing abated taxes, and the types of commitments made by tax abatement recipients;
- The gross dollar amount of taxes abated during the period; and
- Commitments made by a government, other than to abate taxes, as part of the tax abatement agreement.

Governments should organize those disclosures by major tax abatement programs and may disclose information for individual tax abatement agreements within those programs.

The requirements of Statement No. 77 are effective for financial statements for periods beginning after December 15, 2015.

GASB Statement No. 78, *Pensions Provided through Certain Multi-Employer Defined Benefit Pension Plans*

This Statement amends the scope and applicability of Statement No. 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that (1) is not a state or local governmental pension plan, (2) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (3) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). This Statement establishes requirements for recognition and measurement of pension expense, expenditures, and liabilities; note disclosures; and required supplementary information for pensions that have the characteristics described above.

The requirements of Statement No. 78 are effective for reporting periods beginning after December 15, 2015.

GASB Statement No. 80, *Blending Requirements for Certain Component Units – an amendment of GASB Statement No. 14*

The objective of this Statement is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. This Statement amends the blending requirements established in paragraph 53 of Statement No. 14, The Financial Reporting Entity.

The requirements of Statement No. 80 are effective for reporting periods beginning after June 15, 2016.

GASB Statement No. 82, *Pension Issues – an amendment of GASB Statements No. 67, No. 68, and No. 73*

The objective of the Statement is to address certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans, No. 68, Accounting and Financial Reporting for Pensions, and No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

The requirements of Statement No. 82 are effective for reporting periods beginning after June 15, 2016 except for the requirements of this Statement for the selection of assumptions in a circumstance in which an employer’s pension liability is measured as of a date other than the employer’s most recent fiscal year-end. In that circumstance, the requirements for the selection of assumptions are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017.

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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, 2016 and express our appreciation to everyone for their cooperation during this engagement.

PBMares, LLP

Harrisonburg, Virginia
November 17, 2016