

ROBINSON, FARMER, COX ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

A PROFESSIONAL LIMITED LIABILITY COMPANY

Date: February 10, 2014

Memorandum To: County of Amherst, Virginia

From: Robinson, Farmer, Cox Associates

Regarding: Audit for year ended June 30, 2013

In planning and performing our audit of the financial statements of County of Amherst, Virginia as of and for the year ended June 30, 2013, in accordance with auditing standards generally accepted in the United States of America, we considered the County's internal control over financial reporting (internal control) as a basis for designing auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control. Accordingly, we do not express an opinion on the effectiveness of the County's internal control.

However, during our audit, we became aware of deficiencies in internal control and matters that are opportunities for strengthening internal controls and operating efficiency. This letter does not affect our report dated February 10, 2014, on the financial statements of County of Amherst, Virginia.

We have already discussed (and have previously communicated through the prior year management letter) many of these comments and recommendations with appropriate members of management. 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.

ENVIRONMENT

Personnel

County of Amherst, Virginia operates certain accounting functions at the minimum staffing levels necessary for efficient and effective controls. Currently, there are only two trained general ledger accountants for the School Board and County Finance departments. With limited resources, accepting special requests and cooperating with special reviews have exacerbated the work overload for these employees. We believe it is imperative to increase personnel within these departments.

Communication

To enhance the County's financial reporting and controls, a significant focus should be placed on improved communication between management and staff across all departments. We believe the communication between the County's departments has improved. We suggest that a finance group meet quarterly to confirm the status of work. A typical example of matters to consider would be:

- Confirm bank and general ledger reconciliations
- Review budget variances
- Discuss changes in laws applicable to local government Finance

ENVIRONMENT (Continued)

Formal Policies

The County does not have written policies or procedures to report concerns of employee misconduct nor is there a code of ethics or business conduct. The absence of formal or written policies and procedures to address these concerns may result in the non-reporting of such matters due to fear of retribution by management or supervisory personnel. Consideration should be given to formal policies on fraud, considering whistleblower protection, and a code of ethics or business conduct.

GENERAL

Segregation of Duties

Due to a lack of segregation of duties, the School Accounting Manager processes accounts payable and receipts, prepares reimbursements requests, and processes payroll, if necessary. There is no cross-training and the number of tasks being performed routinely requires working hours well beyond normal business hours. To mitigate the risk of segregation of duties, several procedures are employed to create checks and balances through other personnel, including accounts payable and payroll processing at the County level by the County's accounting department, checks being printed by the County's Information Technology department, etc. However, the greatest risk is related to turnover or an extended leave of absence due to illness or other unforeseen circumstance. The County Accounting Manager is in a similar situation putting the County at risk in the event of turnover or an extended leave of absence due to illness or other unforeseen circumstances. The County and School Board should implement cross-training and consider hiring at least two additional staff to alleviate this risk and eliminate some of the burden currently on these two individuals.

General Ledger

There are numerous funds that are active in the accounting system with little or no activity. We recommend analyzing the funds in use and eliminating any governmental funds that are no longer useful, efficient, or required by legal statute, such as the Internal Service Fund and Textbook Fund. The E911Fund should be renamed to reflect that it is in use to account for PSAP wireless activity, restricted in its use.

Federal grants are typically passed through state agencies causing confusion about the proper classification as state or federal revenue. Due to the stringent audit requirements, federal revenue must be properly identified in the general ledger. Upon the application for and award of federal grants, individual department personnel responsible for the grant should provide the grant agreement and acceptance to the accounting department for financial reporting purposes. This information will assist with properly classifying revenue within the general ledger and in identifying CFDA numbers that must be reported in the annual financial statements.

At year-end several funds were out of balance and beginning fund balances did not reconcile to the prior year. On a monthly and annual basis, during the general ledger closing procedures, the individual funds should be reviewed to verify they are in balance and that all transactions were properly recorded. The funds should also be reviewed against the treasurer's accountability fund to ensure they are in balance with the control account. In one instance, a journal entry debited two accounts instead of debiting one account and crediting the other. Before posting entries, edit reports should be reviewed for errors.

Several journal entries to record accruals and related items are required during the year-end closing procedures. Any entries made during the year-end closing procedures, including audit entries, should be analyzed and reversed, as appropriate, in the following fiscal year. These reversing entries should be recorded soon after the close-out/audit so that the general ledger shows an accurate depiction of balances and transactions related to the operating year underway.

GENERAL (Continued)

General Ledger (Continued)

The School Board operates an accounting system independent of the County. This accounting system facilitates preparation of the annual school report and is used by the School Board for internal reporting and decision-making. The School's information is also incorporated into the County's general ledger, which is used for financial statement preparation and reporting. The School and County accounting managers work closely together to monitor activity related to the School Board. We recommend County reports be provided to the School Board Accounting Manager on a monthly basis to ensure the two systems are in agreement. These reports should be reviewed on a monthly basis for consistency and any issues communicated back to the County Accounting Manager. This will allow any inconsistencies to be researched and corrected in a timely manner. Another alternative is to transition to the use of one accounting system, to avoid duplication and redundancy.

Payroll Transactions

Due to the nature and volume of payroll checks, it is recommended that management consider processing these transactions by direct deposit as opposed to issuing physical checks. Numerous entities now require employees to participate in direct deposit, which has resulted in more efficient bank reconciliation procedures and a cost savings due to a reduction in check stock, etc. In addition, management should consider using the accounts payable process instead of Treasurer's checks to process advance payments.

A clothing allowance of \$300 is provided to undercover officers who wear civilian clothing during the performance of their normal duties. The allowance does not specify the type of clothing required nor does it require an inventory or itemization of items purchased. In order for the amounts to be nontaxable, IRS guidelines state that work clothes and uniform allowances and reimbursements must meet the accountable plan rules and 1) be specifically required as a condition of employment; 2) not be adaptable to general usage as ordinary clothing; and 3) not worn for general usage. We recommend the clothing allowance be reported on W-2s and taxed according to IRS guidelines.

Inmate Trust Bank Reconciliation - Outstanding Checks and Unclaimed Property

Several checks on the inmate account bank reconciliation have been outstanding for more than one year. The Virginia Unclaimed Property Act requires that checks outstanding in excess of one year be remitted to the Virginia Treasury as unclaimed property. The reconciliation also includes two entries dated December 1, 1996 with no payee listed. We recommend that staff review the bank account for checks outstanding greater than one year, perform due diligence related to contacting payees, and where applicable, remit the funds to the State in accordance with the Unclaimed Property Act. Staff responsible for preparing or reviewing bank reconciliations should periodically review the status of outstanding checks and verify the County is in compliance with requirements of the Unclaimed Property Act.

Bank reconciliations are becoming more efficient as the Treasurer's office continues to review and improve related procedures. While the number of outstanding checks has greatly diminished, staff should continue to perform due diligence and follow up on these items in order to become compliant with the Unclaimed Property Act.

Treasurer's Checks

Treasurer's checks require only one signature. Their use should be restricted for special circumstances, as provided by Statute. We recommend that payroll advances and local sales tax payments to Towns be issued through the Accounts Payable module in the accounting department.

GENERAL (Continued)

Reconciliation of Bank Accounts

In 2013, the Treasurer continued in his efforts to implement a reconciliation monitoring process, which included the addition of a bookkeeper and revised reconciliation procedures. These efforts resulted in a marked improvement of bank account reconciliations by the Treasurer's office over previous years. However, since the procedures were not fully implemented until later summer of 2013, bank reconciliations through September 2013 included various reconciling items that were not cleared from reconciliations in a timely manner. For example, a deposit received in March 2013 was un-identified by staff in the Treasurer's Department and carried as a reconciling item through the date of audit fieldwork. Upon inquiry and research by the School Accounting Manager, this was identified as school funding and recorded as revenue at that time. Several procedures have been implemented to reconcile bank accounts including the use of positive pay. We recommend the Treasurer continue to focus on reconciling bank accounts so that they are completed in a timely manner. Any unreconciled differences should be researched and measures taken to identify and correct them before the following month's bank reconciliation.

Printing of Checks

Complicating the reconciliation of bank accounts, the Information Technology department has printed County and School checks on the wrong sequence or check stock. Careful attention should be given to the checks being printed so that the batches agree to payments made by the bank accounts.

Sheriff Credit Card Charges

The Sheriff credit card and travel transactions tested were not fully supported by itemized receipts. On the November 16, 2012 BB&T credit card statement, several meal charges were not supported by itemized receipts. We recommend that staff obtain and remit itemized receipts upon use of the credit cards. The receipts should be reviewed for reasonableness when reconciling credit card statements and filed accordingly. However, new procedures were implemented toward the end of fiscal year 2013 to address this issue.

Small Purchase Policy

The purchasing policy requires a minimum of three telephone quotes be obtained and recorded with dates, vendor name, contact name, and telephone number for purchases of goods and services between \$300 and \$2,500. We recommend consideration be given to raising the minimum threshold requiring telephone quotes. In addition, the County should evaluate the effectiveness of issuing purchase orders for small or incidental amounts.

School Cafeteria Cash Receipts

One item was deposited after being held over seven days. We recommend daily deposits unless a minimum threshold is met (to be established by policy) or every Friday if the minimum threshold is not met.

Cancellation of School Board invoices

School Board invoices are not cancelled to document that payment has been made. As an internal control measure, we recommend cancellation of invoices with documented payment information to avoid duplicate payments or unprocessed bills.

Department of Social Services Computer Access

The Virginia Department of Social Services requires that computer access request form be used to document access privileges. When a user leaves the local department, their access privileges must be immediately removed from all systems they were authorized to use. In fiscal year 2013, the separation checklist was not completed for terminated employees. We recommend the use of this checklist going forward.