



COUNTY OF FAUQUIER  
OFFICE OF THE COUNTY ADMINISTRATOR

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**To:** Chairman and Members of the Board of Supervisors  
Chairman and Members of the School Board  
County Administration  
Schools Administration

**From:** Paul McCulla, County Administrator 

**Subject:** Corrective Action Plan: FY 2007 Management Letter

**Date:** *December 10, 2007*

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On behalf of all those involved in the financial statement preparation for Fauquier County, we appreciate the suggestions given by the County's Independent Auditor for improvements. We have reviewed the Audit Management Letter, and present our strategies to enhance the quality of our processes. In the attached memorandum that follows we have outlined our responses to the Auditor's recommendations.

**County of Fauquier, Virginia**

Letter on Internal Control,  
Significant Matters Relating  
to the Audit,  
and Other Information

June 30, 2007

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The Honorable Members of the Board of Supervisors  
County of Fauquier  
Warrenton, Virginia

In planning and performing our audit of the financial statements of the County of Fauquier, Virginia (the "County") as of and for the year ended June 30, 2007, 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 our auditing procedures 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 organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the County's internal control.

The County's internal control structure consists of policies established by management to provide reasonable, but not absolute, assurance that the financial data is recorded, processed, summarized, and reported consistent with the assertions embodied in the financial statements. In establishing those policies and procedures, management assesses their expected benefits and related costs. Because of the inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any assessment of the internal control structure to future periods is subject to the risk that policies or procedures may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the organization's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

During our audit, we noted several matters that are opportunities for strengthening internal controls and operating efficiency. We have discussed these comments and suggestions with County personnel, and we will be pleased to discuss them in further detail at your convenience, or to perform any additional study of these matters.

This report is intended solely for the information and use of the Board of Supervisors, management, and others within the organization and is not intended and should not be used by anyone other than these specified parties.

We would like to acknowledge the assistance received from the Finance Department and other County personnel during the course of our audit.

*Cherry, Bekaert & Holland, L.L.P.*

Richmond, Virginia  
November 14, 2007

### Management Comments

**Application System Contracts** The County could not locate a copy of the contract for its current financial system. We recommend the County obtain documentation of its rights to financial system source code in the event their existing vendor discontinues business. We recommend the County evaluate all systems to identify critical applications(including non-financial applications), ensure copies of current contracts are being maintained, and verify its rights to system source code.

**Management's Response:**

Currently the County requires that all original signed contracts be maintained in the original solicitation files, by the County's Procurement Division, for all purchases including software programs. The contract with Bright Associates Incorporated (BAI) for the financial reporting system software which was purchased in the 1990s predates this policy and can not be located. On November 29<sup>th</sup> a conference call was conducted with BAI, and County representatives to address the essential elements for re-establishing a contract including the rights of the County to the system source code.

The County will perform an assessment of all systems to confirm that agreements are being properly maintained and to verify the County's rights to the source code.

**Financial System Updates** Vendor for financial system software provides periodic updates during the year. There is no "test box" capability for users to evaluate vendor software updates prior to bringing system updates into production. We recommend the County evaluate alternatives to test financial system application updates prior to making changes to production applications.

**Management's Response:**

In the past, changes to the Bright system were reviewed by Fauquier County by using a test company on the production AS400. As demands for production capacity increased and the amount of system changes decreased, the test system was abandoned. Funding will be requested from the Board of Supervisor to re-establish a test system..

**Disaster Recovery Plan** There is no formal disaster recovery plan for recovering from a disaster affecting data processing services and the loss of financial systems and data. Statistics show that companies without a disaster recovery plan incurred higher costs and take longer to recover from a disaster than companies with a written and tested disaster recovery plan. We recommend the County complete and formalize their plan. The plan should include:

- Alternative processing site consideration
- Methodology to recover data
- Priority of business functions for restoration
- Coordination with user department operational recovery plans
- Annual plan implementation testing, with consideration of potential updates

**Management's Response:**

2005 PARTIALLY IMPLEMENTED - Through the Technology Review Board, the Information Technology Department has begun the process of developing a disaster recovery plan. Development and implementation of this plan will be a multi-year effort. The first step in developing a disaster recovery plan is identifying the most likely causes of failure and addressing them in priority. Creating the proper environment for information technology equipment has been identified as the most critical issue in preventing system failure and is being addressed through the County's Facilities Planning and Implementation Committee. In conjunction with preventive efforts, mission critical individual systems will need to be identified and prioritized for disaster recovery before a formal plan can be prepared. To achieve the goal of developing a disaster recovery plan it is essential to consider both existing technology and future acquisitions. For existing technology, the cost to correct any deficiencies will need to be

evaluated relative to the benefit gained. For future acquisitions, disaster recovery issues will need to be incorporated in the planning phase of any new technology systems.

In the interim period several steps have already been taken to provide backup in the event of system failures. The next step is to form a Disaster Recovery Team to identify disaster recovery for business operations which goes beyond information technology. The disaster recovery plans should include contingency procedures in the event technology is not available potentially disrupting business operations. For example, the inability to access office files, due to the closure of a building from a structural building problem or event of nature. The final stage would be to formally document the recovery plan.

2006 PARTIALLY IMPLEMENTED – The design and approval of the data center construction process consumed most of FY2006. Construction began in June of 2006 and is scheduled to be completed by the end of January, 2007. A similar construction project is now underway at the Sheriff's Office which will improve the environment for the data equipment that is located in that facility.

As mentioned in last year's response, backups are performed on a regular basis for mission critical data and taken to an offsite location. The combination of critical system back-ups and improving the environment completes the first part of our Disaster Recovery efforts. The next step in Disaster Recovery planning for Fauquier County would be to form a project team consisting of key business unit personnel to define their requirements for recovery. Although the IT Department needs to be involved in this process, this should not be considered an IT project.

2007 PARTIALLY IMPLEMENTED - As mentioned in last year's response, backups are performed on a regular basis for mission critical data and taken to an offsite location. The combination of critical system back-ups and improving the environment completes the first part of our Disaster Recovery efforts. The next step in Disaster Recovery planning for Fauquier County would be to form a project team consisting of key business unit personnel to define their requirements for recovery. Funding was requested in the FY09 budget for a consultant to begin the planning process.

The County is currently evaluating the Virginia Department of Emergency Management's Local Government Coop Planning Process. This process was developed to provide guidance to local governments for the development and maintenance of Continuity of Operations (COOP) plans. If acceptable this process will be used to create and implement disaster recovery plans initially for county departments deemed critical to include the Treasurer and Commissioner of Revenues Offices and the County's Finance Department. Once plans have been developed for these entities the County will continue developing plans for all other county departments.

**Security Policy** A formal security plan should be developed and documented to outline the security policies of the organization to restrict physical and logical access to sensitive data as well as network security. The program should be reviewed and updated annually to accurately reflect changes in the information systems environment. Considerations to document include:

- Require annual penetration and vulnerability test on the network by a third party to help identify and address possible gaps in security.
- Access to systems and hardware for vendors is monitored,
- IT security awareness training for employees at hire and on an ongoing basis. Training can be provided via the web, through staff meetings, and through emails or handouts.
- Establish timed lockout feature to protect system access after a period of inactivity of 10-15 minutes by individual users.
- Verification that fire suppression system is rated safe for use on computer equipment.

**Management's Response:**

Current staffing levels do not allow for this level of focus on security. Although the IT Department considers security implications in network and application design, in order to effectively implement this recommendation, a new position would need to be added to the IT staff to focus primarily on security. The recommendation will be submitted to the Board of Supervisors as part of the County's budget process to determine whether the Board of Supervisors will allocate funding to address these issues either through a new internal staffing position or through the purchase of consultant services.

**School Cafeteria On-line Sales** School food service meal credit can be purchased online at 'mylunchmoney.com'. The School Nutrition Office reports payments to be recorded in the general ledger. The Treasurer's Office matches reported online sales to subsequent bank deposit and has noted routine overages for funds deposited versus reported sales. The School Nutrition Office is not reconciling to identify differences and make necessary corrections to the general ledger. We recommend Schools establish a daily reconciliation process to ensure on-line payments are properly recorded in the general ledger, and reconciled to deposit and meal credit granted.

**Management's Response:**

The School Budget Office concurs with the audit finding and the School Nutrition Manager will be working with the Treasurer's Office to resolve reconciliation issues by January 2008.

**Capital Budgets in Financial System** The County has significant expenditures on multi-year construction projects and the current financial system does not provide multi-year project reporting. This requires manual processes and spreadsheets for project management, budget carryover, and financial reporting. Capital project appropriations remaining at fiscal year end are carried forward to the next fiscal year for projects in progress distorting the budget history for these projects. The County should consider financial system enhancements to provide multi-year project reporting.

**Management's Response:**

The County concurs with this audit finding and has been pursuing alternatives to decrease the risk associated with the lack of multi-year reporting for construction projects which has resulted in significant manual processing and maintenance of numerous spreadsheets. In April 2007, the County's current financial reporting vendor was provided with a list of the top twelve essential improvements to the system. This was the number one item on the list. The vendor has informally replied that they should be able to develop life-to-date reporting for a cost of \$30,000. In addition, the County has issued a request for information to financial reporting vendors with life to date capital projects as an essential element for consideration. Several of the vendors proposals include life-to-date reporting as a standard feature of their systems.

**Capital Asset Procedures** County Finance uses a combination of spreadsheets, system capital asset application, and general ledger for capital asset financial reporting and control purposes. The current process is cumbersome, requires duplicate entry, and is difficult to review to ensure accuracy. The current accounting system reports expenditures on an annual basis, requiring use of spreadsheets to accumulate construction in progress until project completion.

We recommend the County evaluate possible system solutions to automate the identification, recording, monitoring and reporting of capital assets. We recommend procedures for capital assets be enhanced to separately identify "transfer" items from current year acquisitions and donations to simplify comparison to financial statements.

**Management's Response:**

The County agrees with this audit finding as it relates to the risks associated with numerous manual processes required to ensure financial reporting compliance, especially for transfer items. However, the spreadsheets that have been developed to track construction in progress by Finance staff were created to ensure financial reporting compliance as the current financial reporting system does not provide multi-year project costs used for capitalization requirements for capital improvement projects.

In the November 29<sup>th</sup> conference call with BAI, functionality of the capital asset interface from accounts payable to the capital asset module has been confirmed and Finance will explore the potential implementation of the interface by January 30, 2008.

**Contributions to volunteer organizations** The County has an agreement with the Fauquier Fire and Rescue Association and its member volunteer companies for the provision of fire, rescue, and emergency services. The County appropriates contributions to the volunteer companies as part of the annual budget process. The agreement acknowledges that the County is required to ensure that public funds, which it disburses, are expended properly for their intended purpose. Each company that receives public funds provided from Federal, State, or local government sources must maintain records of receipt and expenditure of such funds so as to document proper use of said funds for the intended purposes. The County also has the right to audit the records of expenditure of public funds by the Company and the Association if deemed necessary.

The County contributed \$2.5 million from the Fire and Rescue Fund to volunteer companies during fiscal year 2007. Individual companies provide the Volunteer Fire and Rescue Association with an unaudited list of expenses for "County" fund uses. However there is no formal verification by the County, or an audit requirement for the other organizations' use of funds provided. We recommend the County obtain additional assurance that County funds are being spent for their intended purpose. There are a number of ways that localities accomplish this, from requiring an audit of the organization to an internal report that only identifies County funds spent. The method chosen would depend on the relative size and risk of the contribution. If the County cannot find a way to gain assurance that appropriated funds are being spent as intended by indirect means such as described above, then we would recommend that the contribution be treated like all other expenditures and require that approved invoices be submitted before payment is made.

**Management's Response:**

The County's Finance Department and Fire and Rescue Association have been working on developing a multi-year process to enhance assurance that public funds disbursed to the volunteer fire and rescue companies can be audited in the future. A detailed report was provided for the July 11, 2007 Board of Supervisor's Finance Committee meeting addressing the challenges associated with formal external audits of the association at this time. Currently each company provides IRS Form 990s, which are unaudited tax returns, to the Finance Department. These reports are an essential first step in developing an audit process for the future. The following is a summary of the multi-year plan:

1. The Fire and Rescue Association Treasurers have been meeting since July 2007 to develop a standard chart of accounts to be used for standardized reporting and for internal audit purposes. By

- December 31, 2008 standard reports will be developed which will produce at a minimum check registers used to verify disbursement of County contributions to each company.
2. By March 1, 2009, each company will provide the Finance Department with a list of disbursements from January 1, 2008– December 31, 2008. The Finance Department will perform internal audits limited to check disbursements starting in the Spring of 2009. The completion of successful internal audits is the minimum acceptable standard for disbursement of public funds.
  3. The Catlett Volunteer Fire Company contracted with an external certified public accountant who has successfully completed a “compilation” of its financial statements on an accrual basis which can be audited in the future. The Association will be considering whether to expand the development of accrual based “compiled” financial statements to all companies in the future. The Association will also consider whether or not audits of “compiled” financial statements will be performed in the future.

**Environmental Services receivables** Environmental Services provide customer billing information from their separate receivable system to the Treasurer's Office which is used for processing collections. Customers remit payments to the Treasurer's Office and the Treasurer's Office provides information to Environmental Services to update customer accounts receivable. The accounts receivable for the Environmental Services enterprise fund that is used for billing and financial reporting was \$1,095,100 at June 30<sup>th</sup> which reconciles to the County's financial reporting system. However, the receivable is not reconciled to the corresponding Treasurer's fund \$2,141,225 receivable used for initial processing of payments. The Treasurer's Office has requested assistance from Environmental Services in reconciling and identifying corrections for the \$1,046,125 difference. We recommend Environmental Services develop a monthly reconciliation procedure with the Treasurer's Office to ensure accuracy of receivable balances used for receipt processing.

We also noted credit memo adjustments to accounts are made by someone in the billing department and do not originate outside the department. We recommend developing procedures to provide an independent approval of billing adjustments.

#### **Management's Response:**

The Environmental Services Department has been working toward reconciling each customer account in the Treasurer's fund to the individual customer accounts in the WasteWORKS billing system which is a very detailed process. To date Environmental Services staff has reconciled and adjusted \$700,000 of the \$1,046,125 difference. Environmental Services goal is to have the remaining balance reconciled and adjusted by June 2008 and establish a monthly reconciliation process going forward. Environmental Services staff will be preparing written procedures and monitoring compliance to ensure that the two systems are reconciled on a monthly basis in the future.

Because the WasteWORKS system has been reconciled to the Bright financial reporting system, there will be no impact on the financial statements related to the \$1 million reconciling item. The primary reason for the \$1 million difference between the Treasurer's Fund and WasteWORKS relates to credit memorandums which were not reflected in the Treasurer's Fund.

In regards to credit memos, the current policy and procedure permits ticket corrections be processed on accounts to correct Material, Origin, or Destination information on the tickets. The Scale House Supervisor reconciles the tickets and makes corrections and the Environmental Services Accounting Manager verifies the accuracy. Other corrections that are made to other accounts are usually a result of operator/driver error; again the Accounting Manager verifies the correction that the Supervisor is requesting. These items are under \$500. Any credit memos for \$500 or more have been approved either through the Department Director or Deputy County Administrator.

Effective December 1, 2007 all credit memos up to \$100 will be approved by the Environmental Services Accounting Manager; credit memos from \$101 - \$500 will be approved by the Department Director and credit memos over \$500 will be approved by the Deputy County Administrator prior to posting to the WasteWORKS system. This will provide increased controls over credit memos.

**Fleet Maintenance Inventory** Fleet Maintenance maintains a parts inventory for servicing County vehicles. The parts inventory system is not intergrated with the general ledger. Additions to inventory during the year are recorded in the general ledger as expenditures, with the general ledger inventory balance updated annually for financial reporting purposes. Although test counts are performed throughout the year, they are not performed by someone independent of the Parts Manager who has inventory system access. We recommend procedures be modified to provide for independent test counts.

**Management's Response:**

Currently the physical inventory of parts is performed on a weekly basis by the Parts Manager. A list is generated by the Faster System for the physical inventory. Effective December 1, 2007 the Fleet Maintenance Department will have either the Fleet Maintenance Manager or the Fleet Maintenance Shop Foreman complete the inventory counts and reconcile to the Faster System.

## **Communication of Significant Audit Matters**

### **Our Responsibility Under GAAS and OMB Circular A-133**

As stated in our engagement letter dated September 24, 2007, our responsibility, as described by GAAS, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements of the County are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because an audit is designed to provide reasonable, not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

In planning and performing our audit, we considered the County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether the County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about the County's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement applicable to each of its major federal programs for the purpose of expressing an opinion on the County's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the County's compliance with those requirements.

### **Mountain Vista Regional Governor's School**

As described in note 19 to the financial statements, the County is fiscal agent for the Mountain Vista Regional Governor's School. Our consideration of the Governor's School was limited to evaluating the balance in the agency fund under the School Component Unit in County's CAFR, based on the County's role as fiscal agent. We did not audit the financial statements of the Governor's School.

### **Independence**

We are familiar with Rule 101 of the AICPA's Code of Professional Conduct, and its interpretations and rulings. As far as the County is concerned, our firm has been, for the period covered by the financial statements under report and thereafter to date, in fact independent as contemplated by such Rule.

### **Significant Accounting Policies**

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. Note 1 to the basic financial statements of the County contains a summary of significant accounting policies. During the year ended, June 30, 2007, the County early implemented GASB Statement No. 48, "*Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues.*" This statement establishes accounting and financial reporting standards for transactions in which a government receives, or is entitled to, resources in exchange for future cash flows generated by collecting specific receivables or specific future revenues. This statement had no effect on the County.

No other new significant accounting policies were adopted and the application of existing policies was not changed. We noted no transactions entered into by the County during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or any significant transactions for which there is a lack of authoritative guidance or consensus.

### **Management Judgments and Accounting Estimates**

Accounting estimates are an integral part of the financial statements prepared by management and are based upon management's current judgments. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgments. The landfill closure and post-closure liability, allowance for doubtful accounts for accounts and taxes receivable, IBNR and depreciation are estimates in the June 30, 2007 financial statements.

### **Significant Audit Adjustments**

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the County's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by the County, either individually or in the aggregate, indicate matters that could have a significant effect on the County's financial reporting process.

### **Summary of Audit Differences**

There were no financial statement misstatements aggregated during our audit of the County's financial statements for the period ended June 30, 2007 that were not corrected by management.

### **Future GASB Statements Required To Be Implemented**

**GASB Statement No. 45 “Accounting and Financial Reporting by Employers for Post-employment Benefits Other Than Pensions”** will be phased in over three years in the same manner as GASB Statement 34. The County is required to implement this standard for the year ending June 30, 2009.

OPEB includes post-employment healthcare, as well as other forms of post-employment benefits (for example, life insurance) when provided separately from a pension plan. This Statement establishes standards for the measurement, recognition, and display of OPEB expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information (RSI) in the financial reports of state and local governmental employers.

Under current standards, local governments need only report the amounts paid for OPEB during the current year. The new standard requires that OPEB be accounted for on an accrual basis in essentially the same manner as pension benefits with liabilities recorded for unfunded future benefits. It requires localities to provide relevant information about:

- actuarial accrued liabilities for promised benefits associated with past service,
- the annual cost of OPEB, and
- the progress made in funding the plan

**GASB Statement No. 51 “Accounting and Financial Reporting for Intangible Assets”** will require intangible assets not specifically excluded by its scope provisions be capitalized as capital assets. The objective of this Statement is to establish accounting and financial reporting requirements for intangible assets to reduce inconsistencies and enhance comparability of the accounting and financial reporting of such assets among state and local governments. The County’s Purchase of Development Rights expenditures are an example of items that will need to be evaluated for potential capitalization when the County is required to implement this standard for the year ending June 30, 2010.

We would be pleased to discuss or elaborate on any items covered in this report or in the financial statements and report thereon.