



COUNTY OF FAUQUIER
OFFICE OF THE COUNTY ADMINISTRATOR

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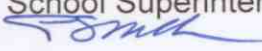
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TO: Board of Supervisors of Fauquier County
Fauquier County School Board
Jonathan Lewis, School Superintendent

FR: Paul S. McCulla 

DATE: December 3, 2008

RE: Corrective Action Plan: FY2008 Management Letter

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.



November 10, 2008

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

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the County of Fauquier, Virginia (the "County") for the year ended June 30, 2008, and have issued our report thereon dated November 10, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibilities under U.S. Generally Accepted Auditing Standards and OMB Circular A-133

As stated in our engagement letter dated October 1, 2008, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

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 opinions 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.

Other Information in Documents Containing Audited Financial Statements

Our responsibility for other information in documents containing the County's financial statements and report does not extend beyond the financial information identified in the report. We do not have an obligation to perform any procedures to corroborate other information contained in these documents.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

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. The significant accounting policies used by the County are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2008. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. 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 significantly from those expected.

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. The following material misstatement detected as a result of audit procedures was corrected by management. Capital assets were overstated for the statement of net assets and education expenses were understated on the statement of activities by approximately \$2.5 million as a result of the Kettle Run High School land asset that was capitalized in fiscal year 2007 being recaptured during fiscal year 2008 when Kettle Run High School was completed and capitalized. Our *Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards* dated November 10, 2008 contains a significant deficiency (finding 2008-01) with additional detail related to this item.

Response to 2008 Significant Deficiency

CONCUR -- The County agrees with this significant deficiency as it relates to the risks associated with the numerous manual processes required to ensure financial reporting compliance, especially for CIP transfer items and land purchases. In addition, the current financial reporting system does not have an automated interface between accounts payable and the capital asset system. Numerous spreadsheets have been developed by Finance staff to track capital assets and construction in progress 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 interim until funding is available for a new system options to restructure the CIP will be evaluated and when appropriate will be implemented.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated November 10, 2008.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

Comment 1: Change Management and Systems Development Life Cycle Controls. The 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. This is a repeat management comment from fiscal year 2007. We recommend the County evaluate alternatives to test financial system application updates prior to making changes to production applications. In addition, we recommend documenting a formal policy for change management and systems development life cycle controls to ensure application software adequately supports financial reporting objectives.

2007 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.

2008 Management's Response:

CONCUR - The test environment is appropriate and beneficial to ensure that any changes to the system are tested before loading into live production. The County will task its Finance and IT departments to determine whether a test environment can be developed and implemented in an economically feasible manner.

Comment 2: 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. This is a repeat management comment from fiscal year 2007. During the past year the County has taken additional steps to evaluate and implement a formal disaster recovery plan. We recommend the County complete the evaluation process and formalize a disaster recovery plan.

2005 Management's Response:

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 Management's Response:

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 Management's Response:

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.

2008 Management's Response:

CONCUR – The County continues to work on the development of a disaster recovery plan for the financial system.

In the spring of 2008, the COOP forms were piloted with some key departments, to obtain their feedback on how long it will take to complete the forms, and to find out frequently asked questions, so when the forms are disseminated to all departments reasonable explanations of expectations can be provided. Some of the pilot departments have yet to return their forms but some feedback on the forms has been obtained.

The County will continue to move this project forward.

Comment 3: 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. This is a repeat management comment from fiscal year 2007.

2007 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.

2008 Management's Response:

CONCUR – The County's Information Technology Director supports best practices for security. However the development of a plan will require additional funding.

Comment 4: 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. This is a repeat management recommendation from fiscal year 2007. Since last year the County pursued possible system enhancements from the current financial system vendor, and evaluated other financial system packages. However, a system enhancement or replacement is not currently planned. We recommend the County continue to pursue options to provide system multi-year project tracking that reduces need for manual processes and spreadsheets.

2007 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.

2008 Management's Response:

CONCUR– The County will task its Finance and IT departments to determine whether a multi-year reporting system can be developed and implemented within the current financial system environment in an economically feasible manner.

Comment 5: 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 the County is required to ensure that public funds, which it disburses, are expended properly for the 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 \$1.1 million from the Fire and Rescue Fund to volunteer companies during fiscal year 2008. 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.

This is a repeat management comment from fiscal year 2007. The County's Finance Department and Fire and Rescue Association are developing a monitoring process planned for fiscal year 2009 implementation that includes a standard chart of accounts, installation of a uniform financial reporting software, and development of monthly reports. We recommend the County implement a process to ensure public funds disbursed to volunteer fire and rescue companies are expended properly for the intended purpose.

2007 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.

2008 Management's Response:

Substantial progress has been made toward the multi-year goals established in 2007. The Fire and Rescue Association appointed a Finance Committee chairperson who has taken the lead on the development of the standard chart of accounts; installation of the uniform financial reporting software and development of monthly reports. The project is on target for each company to provide to the County Finance Department calendar year 2008 disbursement checks in early 2009. The County's Finance Department will develop an audit work program and perform internal audits of check disbursements in the spring of 2009.

Three of the companies have accepted USDA grant/loan funds to construct their facilities. One of the audit requirements is to provide audit reports to USDA. In 2007 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. The Fire and Rescue Association will be coordinating with the accountant that prepared Catlett's compiled financial statements to provide compilation services to the other companies over a multi-year phased-in based on starting with the companies that have accepted USDA funds. The compiled statements will provide in the future for audits of the individual companies.

In calendar year 2009, an audit is expected to be conducted for Catlett Volunteer Fire Company. In calendar year 2009 Warrenton Volunteer Fire Company and Remington Volunteer Fire and Rescue Company will have compiled financial statements produced for 2007 and 2008 and work toward audited financial statements in calendar year 2010 in connection with their USDA audit requirement. New Baltimore is in the process of working with the Fire & Rescue Association accountant to have 2007 and 2008 statements compiled for audit in the spring of 2009.

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of management, the Board of Supervisors, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

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

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Richmond, Virginia