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SPECIFICATIONS FOR AUDITS OF COUNTIES, CITIES, AND TOWNS
CHAPTER 1
INTRODUCTION

1-1 Introduction

The *Specifications for Audits of Counties, Cities, and Towns* sets standards for audits of local governments in Virginia. The specifications in this manual apply to all audits of counties, cities, towns with populations of 3,500 or more, and towns operating a separate school division. The Code of Virginia does not require towns with populations of less than 3,500 without a separate school division to have an audit in accordance with these specifications. However, nothing prevents these towns from having an audit in accordance with these specifications at their option.

This 2011 revision of the *Specifications for Audits of Counties, Cities, and Towns* completely supersedes the prior revision. The 2011 revision is effective for audits of fiscal years ending on or after June 30, 2011.

No manual defining audit specifications can meet all the present and future needs of local governments or their auditors. Changes will occur with the issuance of new accounting and auditing pronouncements or as problems emerge. The Auditor of Public Accounts will periodically update this manual as changes occur. However, responsibility for complying with professional standards remains with the auditor, and the auditor should follow all new pronouncements.

1-2 Organization of the Manual

The *Specifications for Audits of Counties, Cities, and Towns* has five chapters, including this introduction. Besides the introduction, the audit specifications include *Audit Procedures* in Chapter 2; *Virginia Compliance Supplement* in chapter 3; *Quality Control Program* in chapter 4; and *Treasurer's Turnover Audits* in chapter 5.

Chapter 2, *Audit Procedures*, has some specific audit procedures unique to local government audits in Virginia. The Code of Virginia gives the Auditor of Public

Accounts authority to issue audit specifications to help ensure the quality of local government audits. Additionally, the current auditing literature encourages governmental officials to provide auditors information on statutory or accounting requirement unique to a peculiar state or local government.

Chapter 3, *Virginia Compliance Supplement*, has required audit procedures for determining compliance with certain state laws, regulations, and policies. State agencies need assurance about the proper utilization of assets provided to local governments and that localities have complied with applicable laws and regulations. The chapter addresses some laws and regulations that an auditor may need to address regardless of materiality due to the nature of the statute or regulation. Accordingly, this chapter requires auditors to test and report on state compliance as part of the local government audit.

Chapter 4, *Quality Control Program*, discusses the Auditor of Public Accounts' quality control program. It includes the policies and procedures the Auditor of Public Accounts uses during desk and quality control reviews. This chapter also includes procedures the Auditor of Public Accounts uses if we find an audit of substandard quality.

Chapter 5, *Treasurer's Turnover Audits,* includes accounting and auditing specifications required to be performed when a county or city treasurer leaves office. The turnover audit must include all funds handled by the treasurer.

1-3 Revisions to the Audit Specifications

This 2011 revision of the *Specifications for Audits of Counties, Cities, and Towns* reflects existing professional literature at the time of issuance. However, as new accounting and auditing pronouncements emerge, the manual will need to change. The Auditor of Public Accounts will periodically review the audit specifications to identify changes that may be required. The Auditor of Public Accounts will distribute these changes to local governments and their auditors.

1-4 Relationship to Other Standards

The procedures in this manual are not intended to constitute, and do not constitute, an audit in accordance with generally accepted government auditing

standards or OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. The procedures in this manual are additional work not necessarily required by those standards.

Some of the required procedures may provide the auditor with evidence useful in conducting the audit of the financial statements and the Schedule of Expenditures of Federal Awards. However, performance of these procedures alone will not satisfy the standards mentioned above. As a result, the auditor must perform such additional procedures as deemed necessary to satisfy those standards.

The Auditor of Public Accounts designed these specifications to help ensure the quality of local government audits and ensure compliance with state laws and regulations. Accordingly, the auditor must perform the required procedures in this manual; however, auditors may use judgment to set sample sizes. The auditor's determination that certain procedures do not apply requires documentation in the working papers.

The Code of Virginia requires local governments to obtain an audit in accordance with the specifications of the Auditor of Public Accounts. In addition, most audit contracts incorporate a reference to these specifications. As a result, due professional care requires the auditor to follow all applicable standards in conducting local government audits, including the requirements of these specifications.

1-5 Informational Resources

There are many sources available to obtain information related to Virginia local governments. The following is a list of some of the organizations with their Internet site address. These sites include information on ordering handbooks and manuals for Virginia local government officials.

- Virginia Association of Counties - http://www.vaco.org/
- Virginia Municipal League - http://www.vml.org/
- Virginia Government Finance Officers' Association – http://www.vgfoa.org/

SPECIFICATIONS FOR AUDITS OF COUNTIES, CITIES, AND TOWNS
CHAPTER 2
AUDIT PROCEDURES

2-1 General

This chapter contains required audit procedures for local government audits made pursuant to §15.2-2511 of the Code of Virginia. Chapter 3 contains additional procedures that localities agree to have performed, when they accept state grants, contracts or other state funding. The degree of testing on these state compliance issues may depend on the terms of the state law, agreement or other requirements of the program.

Auditors should be thoroughly familiar with this chapter before planning and performing the audit and should incorporate these considerations into the auditor's plan and programs. The procedures contained in this chapter do not constitute an audit in accordance with *Government Auditing Standards.* The auditor should perform such additional procedures, as he deems necessary to satisfy those standards.

Where appropriate, the auditor must meet the requirement of the Single Audit Act Amendments of 1996 and United States Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments and Non-Profit Organization.*

No manual defining audit specifications can meet all the present and future needs of local governments or their auditors. Changes will be needed as new accounting and auditing pronouncements and/or as problems emerge. The Auditor of Public Accounts will periodically update these specifications as changes occur. However, responsibility for complying with professional standards remains with the auditor and the auditor should follow all new pronouncements.

The auditor should familiarize himself with Virginia local governments including internal control and compliance issues. Available informational resources are provided in Chapter 1.

Requirement: The auditor must document in the working papers the justification for changing specifically required audit procedures.

2-2 Auditing Standards and the Audit Contract

Requirement: Auditors must conduct their audit in accordance *Government Auditing Standards* issued by the Comptroller General of the United States, and the *Specifications for Audits of Counties, Cities and Towns* issued by the Auditor of Public Accounts. The auditor must follow *Government Auditing Standards* on every audit, regardless of whether the local government received federal financial assistance.

Requirement: Auditors must discuss materiality, the anticipated nature and scope of the audit, and the planned work on internal controls and compliance during the procurement process and with management and the governing body before the start of the engagement each year. If a locality has an audit committee the discussion with this committee will meet this requirement. The auditor should document these discussions in the working papers. To the extent the governing body's expectations exceed professional standards, the auditor should incorporate these additional requirements into the contract documents. The auditor is then responsible for performing the audit in accordance with applicable standards and the terms of the audit contract.

2-3 Audit Scope

The audit must include all component units of the local government, unless the audit contract indicates that other auditors will audit them.

Requirement - Audit Scope

The audit must include the offices of each of the constitutional officers. Auditors must include in the audit all funds received from the Compensation Board and expenses paid by the local government for the constitutional officers, including the clerk of the circuit court, if the local government directly pays the expenses of this office. The local audit must also include trust and canteen funds held by the sheriff, even if the

locality's financial statements do not report such funds. The auditor should also determine if any constitutional officers other than the clerk of the circuit court are holding funds for others even under court order and where appropriate consider their impact on the financial statements.

Auditors do not need to audit the collections of the clerk of the circuit court, nor do they need to audit any disbursements made by the clerk of the circuit court including office expenses and salaries, if the clerk makes these payments directly. The Auditor of Public Accounts will annually audit these collections and disbursements and any funds held by the clerk in his official capacity and the state funds held by the local treasurer.

2-4 Property Taxes and Property Taxes Receivable

Background Information

Property taxes are the largest source of revenues in most local governments. Property taxes typically consist of real estate taxes, personal property taxes, machinery and tools taxes, merchants' capital taxes, and mobile homes taxes. They also consist of real estate and personal property taxes on public service corporations. The State Corporation Commission assesses property owned by public service corporations and sends the valuation to the local commissioner of the revenue for use in the assessment process.

The commissioner of the revenue maintains the original assessment books showing the value of property. The commissioner forwards copies of the assessment books to the treasurer who records the levy in the local government's books and mails the tax bills. The treasurer collects the taxes and maintains the subsidiary listings for taxes receivable. Taxes receivable consist of both current and delinquent taxes.

The governing body has the authority to hear complaints from taxpayers and to revise individual assessments either up or down. When property values are revised upward, the commissioner or other assessing officer must prepare supplemental assessments. These assessments constitute an additional charge to the treasurer for collection and should be accounted for in the same manner as the original tax assessment.

When property values are revised downward or when mistakes come to the commissioner of the revenue's attention, the commissioner corrects his assessment books and completes an exoneration (abatement) form to correct the error. The commissioner forwards the approved exoneration form to the treasurer who writes off the taxes. The Code of Virginia prohibits the treasurer from adjusting the land books without authorization from either the commissioner of the revenue or the governing body. If the taxpayer has already paid the tax, the governing body must authorize the treasurer to make a refund for taxes already paid.

Most local governments offer some form of tax relief for the elderly or handicapped. The commissioner of the revenue records the valuation of these properties in the land book. However, the treasurer is not charged with the collection of these assessments and the treasurer does not record these amounts in his ledgers.

Delinquent personal property taxes typically remain on the books for five years. During this time, the treasurer or other collecting official is responsible for collecting the taxes. After five years, the treasurer returns the listing of delinquent personal property taxes to the governing body. Delinquent real estate taxes remain on the books for twenty years or until the property is sold. After the first year, the treasurer records the amount in the delinquent tax books and records a lien on the property. On December 31 following the third anniversary of the due date, the treasurer may implement proceedings to sell the property.

Delinquent real estate taxes are subject to special audit procedures to help ensure that payments on delinquent taxes are properly recorded. Because unpaid property taxes may result in a lien against the property or even sale of the property, it is imperative that the treasurer properly record payments in the tax records. Although most taxpayers do not respond to confirmation requests for delinquent taxes, direct confirmation is still the best way to detect unrecorded receipts.

Requirement - Property Taxes and Taxes Receivable

1. The auditor must trace the original and supplemental assessments per the assessing officer's records to the treasurer's general ledger.

2. The auditor must obtain the State Corporation Commission's report showing the valuation of public service corporation property. The auditor must agree the Commission's valuations for real estate and personal property to the assessing officer's assessment sheets.

3. The auditor must select a sample of exoneration forms and determine whether they have been properly approved. The auditor also must verify that the treasurer has properly recorded the exoneration in the general ledger and subsidiary assessment records.

4. If the local government has assessed special levies for school, debt service, or other purposes, the auditor must verify that the local government distributed collections to the proper fund(s) for those levies.

5. The auditor must select a sample of delinquent taxes for direct confirmation or document the reason why confirmations are not requested.

2-5 Intergovernmental Revenues

Background Information

Intergovernmental revenues are a significant revenue source in most local governments. Local governments receive money from the Commonwealth to assist in operating education, social services and other state programs. Local governments also receive money to pay a portion of the constitutional officers' salaries.

Most local governments also receive revenues from the federal government. The federal government may disburse the funds directly to the local government or may disburse them to a state agency, which then passes them through to the local government. Some local governments also participate in non-cash assistance programs such as loan guarantee, food stamps or commodities programs.

The Auditor of Public Accounts produces a Schedule of State Disbursements to Localities. This report is provided to local government officials and their auditors annually. The report shows most disbursements from state agencies to local governments and serves as a revenue confirmation. The Schedule of State

Disbursements distinguishes between state assistance and federal pass-through assistance. The state assigned fund numbers for federal pass-through assistance vary, but the Disbursement Report may be used in conjunction with the APA's annual Federal Programs Index and information received directly from the state agencies to test proper classification of intergovernmental revenues and to assist in determining the completeness of the schedule of expenditures of federal awards. In the event the auditor has questions or concerns about the accuracy of data contained in the Schedule of State Disbursements, he should contact the state agency that remitted the funds to the local government.

Requirement - Intergovernmental Revenues

The auditor must reconcile remittances of state disbursements and federal pass-through assistance appearing on the Schedule of State Disbursements to Localities to the local government's records. The auditor can perform this procedure either by selecting a sample of remittances and tracing them into the local government's accounting records, or by reconciling total remittances to the local government's records. In performing this procedure, the auditor should ensure both proper recording and proper classification (as either a state or federal revenue).

2-6 Intergovernmental Agreements

Background Information

The Code of Virginia encourages local governments to cooperate with each other through intergovernmental agreements for services (fire, police, sanitation, maintenance, water and sewer, etc.). For example, Section 15.2-3830 of the Code of Virginia requires cities of the second class to share court services with the adjoining county. Many local governments enter into intergovernmental agreements for the operation of regional libraries, jails, community service boards, and schools. Local governments also may enter into governmental agreements with other states or with the federal government.

Requirement - Intergovernmental Agreements

The auditor must identify intergovernmental agreements through inquiry, inspection, investigation, and knowledge of local government laws. If the local government uses

intergovernmental agreements, the auditor must obtain a copy of the agreement and determine the local government's compliance with the agreement.

2-7 Inmate Canteen and Other Auxiliary Funds

(Contact: Compensation Board; Robyn DeSocio, Executive Secretary; Phone – 804.225.3439 [robyn.desocio@scb.virginia.gov] [No Change for FY 2011]

Background Information

Most local correctional facilities, including jails, offer canteen services to their inmates. Facilities use various methods to sell these items to inmates, depending on the size of the facility and the number of times each week canteen services are offered. Any profits from the canteen operations must benefit the inmates in the custody of the Sheriff or Regional Jail Superintendent.

Some Sheriffs also receive funds from other sources directly related to jail operations. These include telephone commissions, inmate medical co-payments, work release and other fees collected from inmates.

The inmate canteen accounts and telephone commissions are public funds. The Code of Virginia requires that these funds be used within the jail facility for purposes to benefit the inmates. The funds should not be used for the sheriff's personal gain or convenience.

Some jails have established work release and medical treatment programs where inmates contribute to the costs. Inmate co-payments for medical services are a set fee that covers only a portion of the costs of the services. The medical co-payments should directly off set the costs for medical programs.

Annually the Compensation Board prepares a Jail Cost Report on jail revenue and expenditure data from all local and regional jails and jail farms that receive funds from the Compensation Board. Beginning with the collection of data for fiscal year 2002, the jails must include an audited statement of revenues and expenses for inmate canteen accounts, telephone commission funds, inmate medical co-payment funds, any other fees collected from inmates, and investment/interest monies for inclusion in the report. See additional information on the Compensation Board internet site at

http://www.scb.virginia.gov; follow the link for Publications and Forms (Jail Canteen Funding Audit Information)

Allowability Requirement – Inmate Canteen Accounts

In accordance with Section 53.1-127.1, the inmate canteen account profits are required to be used for purposes to benefit the inmates under the jurisdiction of the Sheriff or Regional Jail Superintendent. Allowable expenses include:

- Commissary-services, supplies, furnishings, equipment, training. Also, personnel services for time spent directly guarding or working in the commissary. [Note: These are all direct costs of the canteen.]

The profits from the inmate canteen should not be used to fund the normal operations of the jail. They may be used for:

- Education-services, supplies, equipment, furnishings, training.
- Recreation-services, supplies, equipment, furnishings.
- Library-services, supplies, furnishings, equipment, books, magazines, periodicals, newspapers.
- Indigent Inmate Care-stamps, clothing, personal hygiene items, vision, dental, medical, commissary items.
- Inmate care/programs-safety equipment, workforce clothing, workforce tools, laundry equipment, supplies, hygiene items, medical equipment.
- Special Food Service-special meals or food items associated with holidays and/or specific events/occasions.
- Special Counseling/Pastoral Care-services, supplies, equipment, furnishings, training.

The above allowable expenses are not considered all inclusive and funds should not be used for goods or services that can be provided to the jail at no cost. Additional expenses may be approved at the sole discretion of the Sheriff/Regional Jail Superintendent, provided that the expense is for the care and welfare of inmates. **No expense shall be for the personal gain, benefit, consumption or use of any individual other than jail inmates.**

Allowability Requirement – Telephone Commissions

Commissions on inmate telephone calls preferably go directly to the local treasurer and are used to defray the cost of the jail operations. In some localities, the commissions are received directly by the Sheriff and are included in the canteen proceeds accounts. The allowable costs for telephone commissions that are received in the inmate canteen account are described above.

Allowability Requirement – Inmate Medical Co-payment Funds

The inmate medical co-payment funds should directly off set the costs for medical programs.

Allowability Requirement – Other Inmate Fees (Work Release, RAID and HEM monies) and Investment/Interest Monies

All fees collected from inmates and all interest earned on inmate accounts must be used for the benefit of the inmates or deposited with the Treasurer and used to defray the cost of jail operations.

Requirement - Inmate Canteen and other Auxiliary Funds

The auditor must obtain the Jail Canteen Fund Activity Report for the fiscal year under audit and perform the following:

- Agree the revenue and expense amounts from the Jail Canteen Fund Activity to the accounting ledger.
- Select a sample of disbursement transactions from the inmate canteen accounts. For each transaction selected, determine whether the disbursement benefited the inmates based on the allowable costs described above.
- Select a sample of inmate medical co-payment fees. Trace each fee to the general ledger to determine whether it defrayed the inmate medical program costs.
- Select a sample of other fees collected from inmates, and investment/interest monies. For each transaction selected, determine whether the disbursement benefited the inmates.

2-8 Sheriff Office Internal Controls

All sheriffs are responsible for having sufficient controls and procedures in place to satisfy statutory requirements and prevent fraud, misuse, or loss of funds and assets.

The Sheriff's office must deposit all sources of funds in an official bank account and these funds are subject to the auditor's review. The *Virginia Sheriffs Accounting Manual,* issued by the Auditor of Public Accounts, has recommended guidelines including aspects of sheriffs' internal control environment. There are three major accounting areas in a Sheriff's office: jail operations, law enforcement; and court support services. The accounting procedures in the manual serve as a guide to sheriffs for developing individual accounting and control procedures appropriate for the functions within these areas.

Chapter 890 of the 2011 Acts of Assembly includes audit requirements for any funds received by the local Sheriff. The locality's independent auditor is required to submit a letter to the Auditor of Public Accounts annually providing assurance as to whether the sheriff has maintained a proper system of internal controls and records in accordance with the Code of Virginia.

Required Audit Procedures:

Gain an understanding of the Sheriff's operations and determine whether there are actions that locality's general administration typically performs. Consider such things as:

- Procurement - the Sheriff must meet the minimum standards of the Virginia Public Procurement Act when contracting for goods and services directly. For services, the value of the contract is a measure of the estimated gross amount of collections, not just the net profits. Examples include food services; inmate medical care; telephone services; canteen operations, etc.

- Personnel systems that account for special incentives, bonuses, etc. for deputies and other staff.

Determine whether the Sheriff is in compliance with applicable state and federal regulations and Sheriff's internal policies and procedures.

Required Audit Procedure:

Identify all sources of funds of the Sheriff's office and determine whether there are adequate internal controls. Additionally, determine whether the Sheriff is depositing

all funds in an official account or remitting the funds to the local Treasurer as required.

Required Audit Procedure:
Determine whether the internal controls are functioning as intended and are adequate to:

- comply with the *Virginia Sheriffs Accounting Manual*
- comply with the Code of Virginia, Sections 15.2-1609 through 15.2-1625
- safeguard all money
- ensure proper accountability of funds and their disbursement

The auditor is required to perform these procedures regardless of the actual accounts held by the Sheriff.

Required Audit Procedure:
The auditor is required to submit a letter to the Auditor of Public Accounts, by November 30 each year for all local sheriffs. The auditor is required to provide assurance as to whether the sheriff has maintained a proper system of internal controls and records in accordance with the Code of Virginia. A sample letter is available on the APA website at
http://www.apa.virginia.gov/LocalGovernment/guidelines.cfm.

2-9 Reporting

Background Information
Local governments prepare the annual financial report in accordance with pronouncements of the Governmental Accounting Standards Board (GASB).

Auditors should follow the requirements of Government Auditing Standards and OMB Circular A-133 in reporting weaknesses in internal controls and noncompliance with laws and regulations. Auditors should use special care in determining whether to report noncompliance with state laws and policies, particularly with those issues tested in Chapter 3. Some state agencies rely on the auditor's reports to meet their

sub-recipient monitoring responsibilities; accordingly, an "immaterial" instance of noncompliance may be significant to the state agency, particularly if other local governments are having similar problems. Auditors should contact the agency contact person included in the contact list provided by the Auditor of Public Accounts each year if they have any questions about whether the state noncompliance is significant enough to include in the annual financial report. **Additionally, if the auditor reports state noncompliance in the annual financial report, they must also send a copy of the report to the applicable state agency.** (See agency contact list on the APA website.)

Auditors should disclose any questioned costs involving federal funds in accordance with the provisions of OMB Circular A-133 and the AICPA Audit and Accounting Guide for Audits of State and Local Governmental Units, as amended. In addition to questioned costs of federal funds, the auditor should identify state "questioned costs" that are material to the financial statements. Specifically, the auditor should "question" unallowable, undocumented, unapproved, or unreasonable costs charged to state programs. Auditors should disclose state "questioned costs" in the auditor's report on compliance performed in accordance with Government Auditing Standards or in the Schedule of Findings and Questioned Costs. If the auditor includes them in the Schedule of Findings and Questioned Costs, the schedule should clearly distinguish between federal and state findings.

Auditor reports should be based on the requirements of the AICPA Audit and Accounting Guide for Audits of State and Local Governmental Units, as amended.

The local government, or the auditor if so specified in the audit contract, must submit the data collection form and the reporting package to the Federal Clearinghouse as required by OMB A-133.

Requirement: The auditor must render an opinion on the financial statements and provide the other appropriate reports required by Government Auditing Standards issued by the Comptroller General of the United States. The Auditor of Public Accounts also requires that the opinion(s) reference these Specifications.

Requirement: In the event the audit discloses fraud or illegal acts, in addition to applicable auditing standards, the auditor must also report fraudulent transactions to

the Auditor of Public Accounts and the Department of State Police in accordance with Section 30-138 of the Code of Virginia, and advise local government officials accordingly.

Requirement: The local government, or the auditor if so specified in the audit contract, must submit the audited financial report to the Auditor of Public Accounts by November 30 of each year in accordance with Section 15.2-2510 of the Code of Virginia. Any separately issued management letters referred to in the auditor's report(s) must accompany the report. If the local government elects to prepare a separate single audit report, they are also required to submit that to the Auditor of Public Accounts by the November 30 deadline. The auditor must present the audited financial report to the local governing body at a public session as required by Section 15.2-2511 of the Code of Virginia.
See additional reporting instructions in the Reporting Requirements and Distribution document on the Auditor of Public Accounts website at http://www.apa.virginia.gov/LocalGovernment/guidelines.cfm.

2-10 Comparative Reporting

Background Information

The Code of Virginia requires the Auditor of Public Accounts to prepare an annual report showing comparative data for local governments in Virginia. To prepare this report, the Auditor of Public Accounts requires local governments, or their auditors if so specified in the audit contract, to submit data using Comparative Report Transmittal Forms. Copies of the transmittal forms, including the auditor's report on the forms, must be submitted to the Auditor of Public Accounts by November 30 of each year in accordance with § 15.2-2510 of the Code of Virginia.

The Uniform Financial Reporting Manual specifies the format and contents of the transmittal forms. Much of the information contained in the transmittal forms comes from the audited financial statements. However, to make the report comparable between local governments, certain adjustments must be made to the data. These special reporting requirements apply only to the transmittal forms and do not alter the requirement to prepare the annual financial report in accordance with generally accepted accounting principles.

Requirement - Comparative Reporting

Auditors must perform agreed-upon procedures on the transmittal forms as set forth in the Uniform Financial Reporting Manual. Auditors must then report on the results of the agreed-upon procedures in accordance with the Uniform Financial Reporting Manual.

SPECIFICATIONS FOR AUDITS OF COUNTIES, CITIES, AND TOWNS
CHAPTER 3
VIRGINIA COMPLIANCE SUPPLEMENT

3-1 General

This chapter includes required audit procedures for determining compliance with certain state laws and regulations. The required procedures contained within this chapter relate to all local government audits conducted pursuant to Section 15.2-2511 of the Code of Virginia. Chapter 2 contains additional required procedures related to local government audits.

The Auditor of Public Accounts has established these procedures in conjunction with the various state agencies named within this chapter. State agencies providing funds to local governments need assurance that the locality has complied with applicable laws and regulations. To this end, the Governor of Virginia has asked state agencies to work with the Auditor of Public Accounts to develop audit requirements related to state programs. This compliance supplement is a direct result of that request.

Many state programs require audits to determine the proper management of their programs and funds. Combining audit requirements for these state programs into the local government audit streamlines the audit process and ensures uniformity. The Auditor of Public Accounts believes that the incorporation of compliance procedures into the local government audit will increase audit efficiency and ultimately reduce audit costs.

The required procedures also may provide evidence for the auditor's report on compliance in accordance with Government Auditing Standards. Generally accepted government auditing standards require the auditor to identify and test those items of law that may have a material effect on the local government's financial statements. This chapter contains those provisions of state laws, regulations, and policies considered material by the Auditor of Public Accounts and the various state agencies that assisted in the development of this chapter.

Although performance of the required procedures may help satisfy the requirements of certain standards, the procedures contained in this chapter do

not constitute an audit in accordance with generally accepted government auditing standards or the Single Audit Act Amendments of 1996. The auditor must perform such additional procedures, as he deems necessary to satisfy those standards. In addition, the auditor must perform any additional procedures required by the audit contract.

This chapter contains all of the Auditor of Public Accounts' requirements at the time of issuance of these specifications. The Auditor of Public Accounts will continue to work with state agencies to develop compliance requirements. The Auditor of Public Accounts will distribute additional requirements to local governments and their auditors as they arise. The auditor should follow generally accepted auditing standards and the terms of individual grant agreements in determining whether to perform tests of compliance for state programs not included in the current specifications.

Specific questions regarding the requirements contained within this chapter should be addressed to the related state agency. General questions regarding the audit specifications can be directed to the local government section of the Auditor of Public Accounts.

3-2 Using the Virginia Compliance Supplement

This chapter has two parts: general requirements and program specific (agency requirements). Sections 3-3 through 3-9 contain generally applicable requirements that the auditor must consider on every audit. Generally applicable requirements are provisions of state law that affect all or most local governments. Consequently, the auditor must perform the required procedures on every audit, regardless of materiality.

The remainder of the chapter contains program specific requirements. Program specific requirements must be tested for all material state programs. Auditors shall determine whether a program is material by comparing total program expenditures to the materiality levels established in the planning stage for the applicable reporting level. The separate reporting levels for materiality purposes are defined by the AICPA's Audit and Accounting Guide, Audits of State and Local Governments. If program expenditures are material to the reporting level, the auditor must perform the required procedures set forth in this chapter. If the

program expenditures are not material to the reporting level, test work relative to that particular state program is optional, unless the program has an annual audit requirement. If the state grantor agency requires an annual audit, the auditor must perform the required procedures contained in this chapter regardless of materiality. Once the auditor determines which state programs must be tested, the auditor must perform all of the required audit procedures for that program.

Although the required procedures are mandatory, auditors may apply professional judgment in determining sample sizes. Auditors should consider factors such as the amount of program expenditures, the newness of the program or changes in its conditions, prior experience with the program, and the expectation of adherence or lack of adherence to the program requirements and standards in determining the number of transactions to be tested. The auditor also should review the contract or grant agreement to identify requirements specific to the local government under audit.

Auditors should disclose findings related to state programs (including any questioned costs) in accordance with requirements contained in Section 2-9. Generally, any unsupported costs, unapproved costs, or missing documentation related to eligibility is considered noncompliance and must be reported. Inability to obtain or prepare required reconciliation is also noncompliance that must be reported.

Two or more local governments may jointly operate some state programs. For example, a city and a county may share a social services board. In cases of joint programs, the fiscal agent should arrange for the program audit. In some cases, the program audit may be a part of the local government audit in accordance with these audit specifications, or separately in accordance with the Specifications for Audits of Authorities, Boards and Commissions. If the program is a part of the local government audit, the auditor must include any findings in the locality's audited financial report in accordance with requirements contained in Section 2-9. If a program has a separate audit, the auditor must include any findings in the separate report on the joint activity. Regardless of program structure, the auditor should audit all of the programs annually in accordance with the specifications of the Auditor of Public Accounts.

GENERAL REQUIREMENTS:

3-3 Budget and Appropriation Laws

The annual budget and appropriation process control local expenditures. The Staff propose a budget and the governing body then has a series of public hearings to obtain the public's comments on the proposal. The board of supervisors or other governing body will review and approve a final budget and must appropriate the funds so they can be spent.

Special Requirement - Public Notice

The governing body must hold public hearings on the budgetary process and proposed tax increases in accordance with Sections 15.2-2506 and 58.1-3321 of the Code of Virginia. There must be a Notice of public hearings published in a newspaper having general circulation.

Required Audit Procedure: Obtain and review copies of the published notices. Review board minutes from the date of the hearing. Determine if the required public hearings on the budget and proposed tax increases were properly advertised and subsequently held.

Special Requirement - Appropriations

No money may be paid out for any expenditure unless and until the governing body has made an appropriation for the expenditure (Sections 15.2-2506 and 58.1-3001 of the Code of Virginia).

Required Audit Procedure: Compare adjusted appropriations and expenditures in each fund and determine whether disbursements were made in excess of appropriations.

Special Requirement - Availability of Cash

Warrants may not be drawn on any fund unless cash is available with the treasurer to pay the warrant (Section 15.2-1244 of the Code of Virginia, is applicable to counties). Overnight investments (i.e., repurchase agreements, certificates of deposit, etc.) held by the same bank may be considered in computing available cash.

Additionally, there must be sufficient cash in the bank at the time the Treasurer (or their designee) issues any check.

Special law or city or town ordinance may have similar provisions requiring that sufficient funds are available for all disbursements. The auditor should be aware of these provisions.

Required Audit Procedure: The auditor needs to determine whether the Treasurer has appropriate internal controls to ensure cash is available in the bank for all checks issued. Also, determine whether appropriate internal controls are in place to ensure Treasurer has sufficient funds available for bank warrants and drafts. Issuing checks or warrants without having cash or other assets is the equivalent of incurring unapproved debt.

3-4 Cash and Investments

(Contact: Department of the Treasury; Kristin Reiter; 804-225-3240; Kristin.Reiter@trs.virginia.gov)

The Code of Virginia contains various requirements designed to safeguard state and local funds. Collections must be secured in accordance with the Virginia Security for Public Deposits Act (Section 2.2-4400 et. seq. of the Code of Virginia). The Act requires governments to use bank and financial institutions that meet specific collateralization requirements. The Code of Virginia also places restrictions on the types of investments a local government may invest in.

The state Department of the Treasury makes available a monthly listing of qualified depositories. The listing may be obtained from Treasury's website at www.trs.virginia.gov (Operations - SPDA).

Special Requirement - Petty Cash Funds

The board of supervisors of any county may by resolution establish one or more petty cash funds not to exceed $5,000 each (Section 15.2-1229 of the Code of Virginia). [Note: requirement does not apply to cities or towns.]

Required Audit Procedure: Obtain or prepare a listing of all petty cash funds maintained by the county. Examine the board resolution establishing the fund(s). Determine whether any funds are in excess of $5,000.

Special Requirement - Public Depositories

All public deposits must be made into a qualified public depository in accordance with the Virginia Security for Public Deposits Act (Section 2.2-4407 of the Code of Virginia). Treasurers must ensure the qualified depository identifies the account(s) as public deposits. Public deposits include all moneys of the Commonwealth, local governments, or constitutional officers of local governments, including any canteen and inmate trust funds held by the sheriff.

In the Security for Public Deposits Act amendments, effective July 1, 2010, the definition of "public deposit" is redefined to "mean moneys held by a public depositor who is charged with the duty to receive or administer such moneys and is acting in an official capacity, . . . " Application of this revised definition of "Public Deposit" may allow for the inclusion of school activity funds and other funds held by a public entity as public deposits that may have previously been excluded.

Under the Act, banks and savings and loans holding public deposits in excess of the amounts insured by FDIC must pledge collateral to secure those public deposits in amounts set by regulations or action of the Treasury Board. Banks and savings and loans holding public deposits have two methods to secure Virginia public deposits: the dedicated method or the pooled method.

Under the dedicated method, public depositories can secure public deposits without accepting the contingent liability for the losses of public deposits of other qualified public depositories. Because the Commonwealth can only look to the collateral pledged by the depository choosing the dedicated method to cover any losses of deposits if the depository fails, the collateral required to be pledged and the reporting requirements under the dedicated method are more stringent than under the pooled method. Depositories choosing the dedicated method must pledge collateral between 105% to 130% of their public deposit balances net of FDIC based on the financial condition of the depository. Dedicated depositories are required to report their public deposit balances and the market value of pledged collateral on a weekly basis.

Under the pooled method, public depositories accept a contingent liability for the possible loss of public deposits from the failure of other public depositories that choose the pooled method. In the event of the failure of a pooled depository, the

Treasury Board would first look to the collateral pledged by the failed depository to recover the loss of public deposits. If the realized value of the pledged collateral of the failed depository is not sufficient to cover the loss of public deposits at the failed depository, the Treasury Board will assess the remaining loss against the other depositories in the pool based on average public deposit balances held by pooled depositories during the previous twelve months.

For pooled banks and savings and loans, the collateral requirements approved by the Treasury Board in February 2009 are now effective. For the first $50 million in public deposits, the bank is required to pledge 50 percent collateral. For public deposits between $50 million and $250 million, the bank is required to pledge 75 percent collateral. For public deposits over $250 million, the bank is required to pledge 100 percent collateral.

The Treasury Board is responsible for monitoring compliance with the collateralization and reporting requirements of the Act and for notifying local governments of compliance by banks and savings and loans.

Required Audit Procedure: Auditor must comply with auditing standards on confirmations as required by the AICPA.

In Virginia, the auditor has additional responsibility with regards to cash accounts held in banks and other financial institutions. The auditor shall determine the following:

- whether the balances in all official bank accounts held by the Treasurer, Director of Finance, or other Constitutional Officers are appropriately reported in the locality's annual financial statements.
- whether all the locality's public funds held by the Treasurer, Director of Finance, or other Constitutional Officer are properly insured against loss in accordance with current FDIC coverage for demand and savings accounts and the Virginia Security for Public Deposits Act. As the FDIC coverage limits have continued to change over the last few years, please refer to guidance on insurance coverage for governmental units at FDIC's website: http://www.fdic.gov/deposit/deposits/factsheet.html. Balances in excess of the FDIC limits are covered under Virginia's Security for Public Deposits Act. Under the Virginia Security for Public Deposits Act, balances in

excess of the FDIC limit are covered if the local official properly identifies the funds as public funds and holds them in a Virginia qualified public depository.

To determine whether the locality has adequate protection against loss for bank balances in excess of the FDIC limit, the auditor may obtain confirmations, review contracts with banks, or perform other procedures as determined appropriate for this requirement.

The Treasury Board has a new feature to confirm that a Virginia governmental unit's public deposits are being reported as public deposits and collateralized by the governmental unit's public depository in accordance with the Security for Public Deposits Act. The Public Fund Search application is located on the Department of the Treasury's website under the Operations Division page at the following link URL: https://spda.trs.virginia.gov/quarterlysearch.aspx. The application allows governmental units to quarterly ensure that their depositories are accurately reporting the unit's public deposit accounts to the Treasury Board. Public account balances at June 30th should be able to be verified via this website application.

NOTE: Auditors should encourage localities to contact their local bank's customer relations manager to negotiate potential reduced or waived confirmation request fees.

Special Requirements – SNAP Accounts

Sections 2.2-4700 through 2.2-4705 of the Code of Virginia, the Government Non-Arbitrage Investment Act, authorizes the Virginia Treasury Board to provide assistance to local governments in the management of and accounting for their bond funds including, without limitation, bond proceeds, reserves, and sinking funds, and the investment thereof.

Following the passage of the Tax Reform Act of 1986, which placed arbitrage restrictions and additional reporting requirements on issuers of tax-exempt municipal bonds, a group of local finance officials, working together with the Virginia Department of the Treasury introduced legislation authorizing the

Treasury Board of Virginia to implement the State Non-Arbitrage Program® (SNAP).

Since 1989, the Treasury Board has sponsored the SNAP Program to provide comprehensive investment management, accounting and arbitrage rebate calculation service for proceeds of tax-exempt financing of Virginia issuers through the hiring of a program/investment manager, rebate calculation agent, central depository and legal counsel.

Participation, initially limited to general-obligation bonds issued by Virginia's localities, has been expanded to allow for the participation of the Commonwealth of Virginia itself as well as its boards and authorities and those of local governments. The Program now accepts proceeds of G.O. and revenue bonds.

Entities can participate in the Program by opening a Pool account or a Pool account accompanied by an Individually Managed Portfolio. Entities that open a Pool account have their bond proceeds invested in the investment pool and must select a predefined draw schedule. Entities that open a Pool account accompanied by an Individually Managed Portfolio define their own draw schedule. The Program investment manager develops a customized portfolio model to meet the draw schedule.

Pool Accounts

Entities that open a Pool account buy into a fund that is managed like a SEC defined 2a7 money market mutual fund. The Pool is managed to maintain a dollar weighted average maturity of 90 days or less and maintains a constant net asset value of $1 per share. The Program makes all investment decisions and purchases. The Program provides monthly reports to the account holder. The SNAP Program Administrator obtains an annual independent audit that includes all Pool Accounts.

Local auditors should confirm asset balances by contacting the SNAP program administrator. (www.vasnap.com) In addition, local auditors should review the most recent arbitrage report to determine potential financial statement reporting and/or disclosures.

Individually Managed Portfolios

Entities that open a Pool account accompanied by an Individually Managed Portfolio make all investment decisions and purchases independent of the SNAP Pool and the SNAP Program administrator. The model portfolio is considered investment guidance only. Entities are required to select a master custodian; one is available through the Program administrator. The Program Administrator is given access to the entity's account at the custodian to provide additional investment guidance.

Localities are required to participate in the SNAP Fund (pool account) in order to also have an Individually Managed Portfolio. As a control measure, funds cannot be wired out of individual portfolio accounts. Monies must be transferred to a pool account and then wired out. This procedure provides a clear audit trail because all cash movements are recorded in the mutual fund accounting system and shown on monthly pool reports to participants. In addition it assures that maturities and coupon payments are invested at all times.

Participants in the Individually Managed Portfolios are also required to submit additional documentation to the Program's Investment Manager: a completed W-9 form for the custodian bank, to establish a custody account in the name of the public entity; and a determination how fees associated with the individual portfolio for investment advisor and custody are to be paid, either by check or automatic payment from the participant's associated pool account.

Local auditors must audit SNAP Individually Managed Portfolios just like any other investment portfolio held by the local government. The SNAP Individually Managed Portfolios are not audited by any other party.

Local government auditors can confirm balances by contacting the master custodian. In addition, the auditor should consider reviewing the master custodians Service Organization Control reports (formerly SAS 70) for custodial services. Local government auditors should ensure the local government has adequate expertise and internal controls to authorize, execute and monitor investment activity.

Required Audit Procedure: for SNAP Pool Accounts confirm asset balances with SNAP (See vasnap.com for address).

Required Audit Procedure: for SNAP Pool Accounts accompanied by Individually Managed Portfolios, confirm asset balances with SNAP (see vasnap.com for address) and the master custodian respectively. Document the source of the confirmations.

Suggested Audit Procedure: for both Pool Accounts and Pool Accounts accompanied by Individually Managed Portfolios, review the most recent arbitrage report to determine if the government is properly managing arbitrage and if there is any necessity for financial statement reporting and/or disclosure.

Suggested Audit Procedure: for Individually Managed Portfolios, consider the locality's methodology and procedures to determine whether they are appropriate for managing spending requirements and arbitrage.

Suggested Audit Procedure: for Individually Managed Portfolios, document the locality's internal controls for authorizing, executing, and monitoring investment activity.

Suggested Audit Procedure: for Pool Accounts and Pool Accounts accompanied by Individually Managed Portfolios, document the locality's internal controls over drawing down bond proceeds. Determine how the locality prevents unauthorized transfers.

Special Requirement - Legality of Investments

All investments must be legal investments as defined by Chapter 45 (Section 2.2-4500 et. seq.) of Title 2.2 of the Code of Virginia. Generally, local governments may invest in obligations of the United States or agencies thereof, obligations of the Commonwealth of Virginia or political subdivisions thereof, obligations of the International Bank for Reconstruction and Development (World Bank), the Asian Development Bank, the African Development Bank, commercial paper rated A-1 by Standard and Poor's Corporation or P-1 by Moody's Commercial Paper Record, banker's acceptances, repurchase

agreements, and the State Treasurer's Local Government Investment Pool (LGIP).

Required Audit Procedure: Obtain or prepare a listing of all investments held by the local government during the year. Determine whether investments constitute legal investments as defined by Chapter 45 (Section 2.2-4500 et. seq.) of Title 2.2 of the Code of Virginia.

3-5 Conflicts of Interest

The State and Local Government Conflict of Interests Act is contained in Chapter 31 (Section 2.2-3100 et. seq.) of Title 2.2 of the Code of Virginia. The Act is designed to assure that the judgment of public employees is not compromised or affected by inappropriate conflicts. The Act prohibits local government officers or employees from participating in certain transactions in which they or their family members have a material financial interest. The Act absolutely prohibits other activities such as accepting bribes.

The Act requires local government officials to file a statement of economic interests with the clerk of the governing body annually. The Act sets out the format of this statement, which involves extensive disclosure of personal financial interests that may cause conflicts.

Reporting Requirement - Disclosure Forms

Local officials must file an annual disclosure form (Section 2.2-3115 of the Code of Virginia).

Required Audit Procedures: Obtain and review disclosure forms filed by local officials pursuant to Section 2.2-3115 of the Code of Virginia. Determine timeliness of submission.

Employment Requirement

In accordance with Section 2.2-3110B of the Code of Virginia, the employment of a spouse or other relative residing in the same household, for an annual salary of $35,000 or more creates a material financial interest if the person is employed in a direct supervisory or administrative position, or both.

Required Audit Procedures: Through inquiry and observation the auditor should verify that local officials meet this requirement of the Conflict of Interests Act.

Suggested Audit Procedure: When obtaining an understanding of the entity and their internal controls, the auditor should assess the risk of the locality entering into illegal contracts based on third party relationships with members of the governing body. The locality should have procedures in place to ensure disclosure and appropriate response to third party relationships in areas such as contract negotiations, grant recipient selections, and related party board appointees.

3-6 Debt Provisions

The Virginia Public Finance Act in Chapter 26 (Section 2600 et. seq.) of Title 15.2 of the Code of Virginia contains state law for issuances of long term and short-term debt. The Act specifies the types of debt that may be issued as well as the public notice and other requirements for the issuance of the debt.

Special Requirement - Debt Issuances

All debt issuances must comply with the Virginia Public Finance Act in Chapter 26 (Section 15.2-2600 et. seq.) of Title 15.2 of the Code of Virginia).

Required Audit Procedure: Determine whether the local government issued debt during the year. Determine whether the local government complied with all relevant provisions of the Public Finance Act.

Special Requirement - Legal Debt Margin

No city, town, or county electing to be treated as a city under Section 15.2-2639 of the Code of Virginia, may issue bonds or other interest-bearing obligations, including existing indebtedness, which will at any time exceed ten percent of the assessed valuation on real estate as shown by the last preceding assessment for taxes. Short-term revenue anticipation bonds/notes, general obligation bonds approved in a referendum, revenue bonds, and contract obligations for publicly owned or regional projects should not be included in the debt limitation. (Sections 15.2-2634, 15.2-2635 and 15.2-2639 of the Code of Virginia).

Required Audit Procedures: Obtain or prepare the locality's Schedule of Legal Debt Margin (GASB 2800.103). Determine whether the local government has complied with Virginia's legal debt margin.

3-7 Retirement Systems

(Contact: Virginia Retirement System; Barry Faison; Chief Financial Officer; Phone – 804.344.3128) [bfaison@varetire.org] or Kathryn Quiriconi, Controller, Phone 804-697-6677 [kquiriconi@varetire.org] [*updated July 2011*]

Counties, cities, and certain towns must provide a retirement system for their officers and employees as specified by Section 51.1-800 of the Code of Virginia. Local governments have the option of participating in the Virginia Retirement System (VRS) and/or establishing their own local plan(s). Most local governments currently participate in the Virginia Retirement System.

The Virginia Retirement System administers a statewide retirement plan, group and optional life insurance programs, and a retiree health insurance credit program. School boards, local governments, and other political subdivisions are eligible to participate in the System. Membership and benefits are provided in accordance with Title 51.1 of the Code of Virginia. The VRS retirement plan was modified effective July 1, 2010. Members hired before July 1, 2010 and who had service credits before July 1, 2010 were placed in Plan 1. Members hired on or after July 1, 2010 and who had no service credits before July 1, 2010 were placed in Plan 2. The benefit provisions of Plan 1 and Plan 2 differ. Further detailed information on these differences is included in the VRS publications and in Plan Description portion of the sample disclosures provided in Chapter 6 of the Uniform Financial Reporting Manual.

Members are required by statute to contribute 5% of their creditable compensation to the pension plan; however, employers may elect to contribute the member share. If such an election is made, the employer must pay the contributions for all members and must pay the entire 5% contribution not later than six years from the commencement of a partial payment if the pick up is phased in by the employer. For Plan 2 members, employers may elect to have the employee pay all or part of the 5% member contribution. This is independent

of the employer's previous decision with respect to Plan 1 members and may be changed from year to year. Group life insurance premiums are based on the member's base pay, and optional life insurance premiums are based on the member's age (and the spouse's age if the spouse is covered) and amount of insurance carried. Retiree Health Insurance Credit contributions are based on a member's creditable compensation.

Employers submit a variety of reports to the Virginia Retirement System on a monthly basis. These reports may be submitted using paper reports, the Internet, the VRS bulletin board, diskettes, or compact disk. Chapter 2 of the VRS Employer Manual published by the Virginia Retirement System describes these required reports. Chapter 3 of the manual describes the various reporting methods. The VRS Employer Manual details the administrative procedures to be used in accounting for the retirement, life insurance, and health insurance credit plans. This manual also includes more detailed information on employee benefits and employer contributions. The auditor should familiarize himself with this manual before commencing test work.

Special Requirement - Participation in Retirement Systems

All counties, cities, and towns with a population of 5,000 or more must provide a retirement system for their officers and employees. Local governments have the option of participating in the Virginia Retirement System and/or establishing their own local plan(s). If the local government maintains its own plan, the local retirement plan must provide a service retirement allowance to each employee who retires at age sixty-five or older which equals or exceeds two-thirds of the service retirement allowance to which the employee would have been entitled had the allowance been computed under the provisions of the Virginia Retirement System (Section 51.1-800 of the Code of Virginia).

Required Audit Procedures: Determine whether the local government participates in the Virginia Retirement System and/or a local retirement plan(s). Determine whether the plan(s) cover all classes of employees listed under Section 51.1-800 of the Code of Virginia. If the local government participates in a local retirement plan, also determine whether the Virginia Retirement System has approved the benefits provided under the local plan.

NOTE: Local governments are responsible for ensuring compliance with this section of the Code. VRS is no longer required to periodically verify local plan compliance.

Eligibility Requirement - Virginia Retirement System

Unless the employee satisfies one of the exemptions to mandatory membership, all permanent, full-time, salaried employees of participating school boards, local governments, and other political subdivisions must participate in the Virginia Retirement System. Part-time employees may not participate in the plan. (Chapter 2, VRS Employer Manual).

Required Audit Procedure: If the local government participates in the Virginia Retirement System, select a sample of employees from pay periods throughout the year under audit. For each employee selected determine whether:

(a) The employee has been reported to the Virginia Retirement System for pension, life insurance and/or retiree health insurance credit or satisfies the requirements for exclusion outlined in Chapter 2 of the VRS Employer Manual,

(b) The employee's creditable compensation (used in computing pension and retiree health insurance credit coverage) includes all eligible salary, exclusive of overtime, supplements, extraordinary pay, and termination pay for annual or sick leave, and was properly reported to the Virginia Retirement System,

(c) The employee's base pay (used in computing group life insurance) includes all eligible salary, exclusive of overtime, supplements, extraordinary pay, and termination pay for annual or sick leave, and was properly reported to the Virginia Retirement System, and

(d) The employee contribution for pension and/or group life insurance was properly deducted from the employee's pay if contributions are paid by the employee, or the employee's pay was not reduced for contributions if the employer has assumed the employee share (employee’s pay is reduced if employer picks up the employee contribution through a tax deferred salary reduction).

Note: Auditors must determine proper reporting to the Virginia Retirement System either through review of the appropriate VRS-1500 Report or through direct confirmation with the Virginia Retirement System.

Reporting Requirement - Virginia Retirement System

Employers must submit Monthly Contribution Worksheets (VRS-52) to the Virginia Retirement System by the 10th of the month following the month covered by the report (Chapter 2, Employer Manual).

Required Audit Procedure: If the local government participates in the Virginia Retirement System, select a sample of Monthly Contribution Worksheets (VRS-52) for the pension, group life, and retiree health insurance credit plans. Verify the accuracy of these reports by:

(a) Agreeing amounts on the Contribution Worksheets (VRS-52) to supporting documentation (i.e., the payroll data tested in the previous step),

(b) Recomputing the Contributions amount,

(c) Agreeing the Current Dollars or Check Totals to the cancelled check or other evidence of payment, and

(d) Testing the client-prepared reconciliation to the monthly VRS Statement of Account (also known as VRS-50).

(Note: Chapter 2 of the VRS Employer Manual provides detailed information on the preparation and contents of the VRS-52 report.)

3-8 Procurement

The Virginia Public Procurement Act, located in Chapter 43 (Section 2.2-4300 et. seq.) of Title 2.2 of the Code of Virginia, contains state law on the procurement of goods and services. The Act, which was designed to maximize competition, applies to all local governments, constitutional officers, and school divisions. Local governments and school divisions may be exempt from certain provisions of the Act if they adopt, by ordinance or resolution, alternative policies and procedures that are based on competitive principles. Certain provisions of the Act are applicable regardless of alternate procedures adopted.

Before commencing audit work, the auditor should familiarize himself with the requirements of the Act. The auditor also should determine whether the local

government is following the practices required by the Act or has adopted alternative procurement policies.

Special Requirement - Purchases

All purchases must be in accordance with the Virginia Public Procurement Act (Chapter 43 (Section 2.2-4300 et. seq.) of Title 2.2 of the Code of Virginia).

Required Audit Procedure: Non-compliance with the Virginia Public Procurement Act could result in a direct and material effect on the financial statement amounts. Auditors should consider the risk of material misstatements resulting from direct and material noncompliance with the Public Procurement Act provisions when conducting the audit.

Decentralized Procurement

Auditors should be aware of the purchase of goods and services made by departments and personnel other than the locality's central administrative office. In particular purchases made with federal funds not meeting the Public Procurement Act requirements may result in questioned cost for the local government.

3-9 Unclaimed Property

The Uniform Disposition of Unclaimed Property Act in Chapter 11.1 (Section 55-210.1 et. seq.) of Title 55 of the Code of Virginia sets forth procedures for unclaimed or abandoned property. As a general rule, the Act presumes abandoned any property remaining unclaimed by its owner for more than the specified period, usually five years. However for any government, all intangible property held for the owner that remains unclaimed for more than a year is presumed abandoned (Section 55-210.9). Unclaimed property may consist of outstanding checks, utility deposits, tax refunds, unpaid wages, unpaid pension benefits, unclaimed insurance demutualization proceeds (Section 55-210.4:2) and other tangible or intangible property.

The Act requires local governments to file an annual report with the State Treasurer listing all unclaimed property. The local government must then remit the property to the State Treasurer for final disposition.

Reporting Requirement - Unclaimed Property

Every person holding funds or other property presumed abandoned under the Act must file a report listing unclaimed property as of June 30. The report must be filed with the state Treasurer by November 1 of each year (Section 55-210.12 of the Code of Virginia).

Required Audit Procedure: Auditor must scan bank reconciliations for checks outstanding greater than one year. Also make inquiries of responsible officials as to unclaimed property. If the local government has unclaimed property, determine whether it filed a report on unclaimed property with the State Treasurer as required.

PROGRAM SPECIFIC REQUIREMENTS:

3-10 Economic Development Opportunity Fund

(Contact: Virginia Economic Development Partnership, Kim Ellett, Phone - 804.545.5610) [kellett@yesvirginia.org] – (Minor changes for FY 2011)

Local governments may receive grants or loans from the Governor's Economic Development Opportunity Fund in accordance with Code of Virginia §2.2-115 and the annual provisions of the state Appropriations Act. The fund was established to help local governments and other political subdivisions attract economic development prospects and/or secure the expansion of existing industry.

Economic development opportunity funds are used to support projects that create new jobs and private investment within the locality. Projects that may qualify for funding will be those basic employers that derive more than 50% of company revenue from outside Virginia, thereby adding to the gross domestic product of the Commonwealth. Permissible uses of Governor's Economic Development Opportunity Fund grants include (but are not limited to) utility improvements, site preparation costs, creation of access roads, and capital improvements to buildings. To receive funding, local governments with populations over 100,000 must demonstrate that the project will create a

minimum private investment of $10 million and at least 100 new jobs. For localities with populations of 50,000 to 100,000, a minimum private investment of $5 million and at least 50 new jobs is required. For localities with populations under 50,000, a minimum private investment of $2.5 million and at least 25 new jobs is required. Also, central cities or urban cores are treated for eligibility purposes the same as communities of 50,000 to 100,000 in population.

For localities with unemployment rates above the average statewide unemployment rate (see below for different capital investment and new job creation thresholds in localities with unemployment rates equal to or greater than 150% of the average statewide unemployment rate), the capital investment and new job creation thresholds remain the same as provided above; however, the new jobs may pay below the prevailing average wage in the locality, but must pay at least 85% of the prevailing average wage. If the average wage of the new jobs is less than 85% of the prevailing average wage, the Governor may still award a grant or loan, but the Secretary of Commerce and Trade must furnish a written explanation to the Chairmen of the Senate Finance and House Appropriations Committees setting forth the urgent need to provide a grant or loan to that project.

For localities with populations over 100,000 with unemployment rates equal to or greater than 150% of the average statewide unemployment rate, a minimum private investment of $7.5 million and at least 75 new jobs are required. For localities with populations of 50,000 to 100,000 and unemployment rates equal to or greater than 150% of the average statewide unemployment rate, a minimum of $3.5 million and at least 35 new jobs are required, and for populations under 50,000, a minimum private investment of $1.5 million and at least 15 new jobs are required. The average wage for the new jobs must be at least equal to the prevailing average wage in the locality, excluding fringe benefits.

The Virginia Economic Development Partnership (Partnership) administers the economic development opportunity program. Local governments that wish to participate in the program send grant requests (opportunity fund applications) to the President and CEO of the Partnership. The Partnership evaluates applications in accordance with the published evaluation procedures.

The Governor's Opportunity Fund Guidelines and the Governor's Opportunity Fund Policies and Procedures set forth the project approval procedures, program requirements, and payment procedures. Approval is required by the Partnership, the Secretary of Commerce and Trade, and the Governor of Virginia before the grant or loan is awarded. The Opportunity Fund application outlines the nature of the project. The approval letter, issued by the Secretary of Commerce and Trade, specifies the amount approved for funding. The performance agreement, executed by the local government and the company, describes the local government's matching share and the repayment terms, if the company fails to meet the specified job creation and capital investment standards. Copies of these documents may be obtained from the local government or from the Partnership.

At the minimum, localities are required to match with local funds, in-kind contributions, or foregone revenues on at least a dollar-for-dollar basis the amount requested from the Governor's Opportunity Fund. Previously invested local funds, grants, reduced tax rates, or loans from other government sources, and contributions from private interests which benefit from the project's location may not be counted as local match. Local enterprise zone incentives may be counted toward local match where the locality makes actual expenditures or foregoes actual revenues to benefit the specific project.

Allowability Requirement - Program Costs

The grant or loan proceeds may be expended only for the purpose outlined in the Opportunity Fund Application and the Governor's Opportunity Fund Guidelines.

Required Audit Procedure: Select a sample of program expenditures. For each transaction selected, determine whether the expenditure was reasonable and consistent with the project specified in the Opportunity Fund Application and the Governor's Opportunity Fund Guidelines.

Matching Requirement - Local Participation

Local governments must meet the matching requirements set forth in the Governor's Opportunity Fund Guidelines and the Opportunity Fund application.

Required Audit Procedure: Determine whether the local government has met its requirement for local participation as set forth in the Governor's Opportunity Fund Guidelines and the Opportunity Fund application.

Special Requirement - Loan Repayment

Local governments must repay economic development opportunity fund loans in accordance with the terms of the Governor's Opportunity Fund Approval Procedures.

Required Audit Procedure: Determine whether loan repayments are being made in accordance with the terms of the Approval Procedures.

Special Requirement - Return of Funds

Any unspent funds at the completion of the project will be returned to the Commonwealth in accordance with the Governor's Opportunity Fund Approval Procedures.

Required Audit Procedure: Determine whether unspent funds were returned to the Commonwealth at the project's completion.

3-11 Education

(Contact: Department of Education; Marie Williams; Director, Accounting; phone - 804.225.2040) [marie.williams@doe.virginia.gov] Minimal Changes for FY 2011

The state Department of Education makes payments to local school divisions in accordance with Title 22.1 of the Code of Virginia and the Appropriation Act. Most counties and cities have their own school division. The General Assembly has also authorized certain towns to operate their own school systems.

The State Board of Education and the General Assembly prescribe the Standards of Quality (SOQ) for public schools. The SOQ designate the minimum, foundation education program that school divisions must offer and a minimum amount that must be spent from state and local funds based on the number of students in average daily membership ("ADM"). Each local government must appropriate and spend local funds that meet its required local

effort for the SOQ each year. All state funds received for the SOQ must be spent by the end of each fiscal year, unless carry-over is specifically authorized by the appropriation act.

Appropriations for public schools are subject to several restrictions. Section 22.1-94 of the Code of Virginia requires local governing bodies to appropriate an amount sufficient to meet the Standards of Quality described above. The Appropriations Act requires school divisions to spend the required local share of the Standards of Quality each year. The governing body may appropriate funds to the school board in total or by the major classifications contained in §22.1-115: (1) instruction; (2) administration, attendance and health; (3) pupil transportation; (4) operation and maintenance; (5) school food services and other non-instructional operations; (6) facilities; (7) debt and fund transfers; (8) technology; and (9) contingency reserve. If funds are appropriated by major classification, the school board may switch funds within each major category but may not shift funds from one category to another without approval from the governing body. Appropriations to the school board may be made annually, semi-annually, quarterly, or monthly. Once appropriated, the governing body may not reduce funds available to the school board below the amount required to meet the division's required local effort. Further, all funds must be appropriated to be spent.

Section 22.1-81 of the Code of Virginia requires local school boards to report revenues, expenditures, positions, and other information annually to the State Board of Education using the Annual School Report. The State Board uses this report to monitor compliance with required Standards of Quality expenditures and other federal and state regulations and reports.

Special Requirement - Appropriations

The school estimates, as modified by the local governing body, must be incorporated into the locality's budget and must be appropriated to be spent (Section 15.2-2506 of the Code of Virginia). If funds are appropriated to the school board by major classification, the school board may not shift funds from one major category to another without approval from the governing body (Section 22.1-89 of the Code of Virginia).

Required Audit Procedure: Compare adjusted appropriations and expenditures in each fund and major category and determine whether disbursements were made in excess of appropriations.

Reporting Requirement - Annual School Report

Each school board must submit an annual financial report (called the Annual School Report) to the State Board of Education no later than September 15 of each year on forms provided by the Superintendent of Public Instruction (Section 22.1-81 of the Code of Virginia).

Required Audit Procedure: Obtain the Annual School Report for the year under audit. Determine timeliness of submission. Also, obtain (or prepare if so specified in the audit contract) a reconciliation of receipts and expenditures per the Annual School Report to the local government's financial records. Review reconciliation for reasonableness.

3-12 Comprehensive Services Act Funds

(Contact: Office of Comprehensive Services; CSA Website – http://www.csa.virginia.gov; Alan Saunders, Chief Financial Officer; Phone - 804.662.9815) [alan.sauders@csa.virginia.gov] [*updated July 2011*]

All counties and cities receive funding under the Comprehensive Services Act for At-Risk Youth and Families, Chapter 52 of Title 2.2 (Section 2.2-5200 et. seq.) of the Code of Virginia. Section 4.5.8 of the Comprehensive Services Act for At-risk Youth and Families Manual requires an annual audit of the Comprehensive Services Act funds. Accordingly, the auditor must perform the procedures contained in this section regardless of materiality.

The Comprehensive Services Act is designed to create a collaborative system of services and funding for at-risk youths and their families. At-risk youths include children with severe emotional and/or behavioral problems, including but not limited to children with handicaps, in private special education facilities, in foster care, in group homes, or in other court-ordered public facilities. These at-risk youths often require services from more than one state agency. The Comprehensive Services Act requires the state Department of Behavioral Health

and Developmental Services; Education; and Youth and Family Services to work together in providing services for such youths.

Policies and procedures for implementing the Act are set forth in the Comprehensive Services Act for At-risk Youth and Families (CSA) Manual (revised February 2011). The CSA is funded as a separate agency (Agency 200) with state and federal funds, but all funds should be considered state funding at the local level. Consequently, it is not necessary to include these funds on the Schedule of Expenditures of Federal Awards. Local governments receive two types of funds under the Comprehensive Youth Services Act: (1) pool funds, and (2) local administrative funds. Each of these funding sources is discussed briefly below.

Note: Prior to 2011, there was a third fund type: State Trust Fund (Section 6 of the CSA Manual). The State Trust Fund was designed as venture capital to assist communities in meeting the start up costs associated with new program development. The purpose of the trust funds was initially to develop early intervention services for young children at-risk of developing emotional and/or behavior problems. The appropriation for trust funds was eliminated with the 2010 Appropriations Act, Chapter 874. The only CSA Trust Funds expended in FY2011 would be associated with the closing of the FY10 program year (June 30, 2010).

State Pool Funds (Section 4 of the CSA Manual): Pool funding is directly appropriated to Agency 200 to provide services to eligible children. Allocation of funds in the state pool to local communities is determined on a formula basis based on language in the Appropriations Act. (Chapter 874, Item 274, Section C.1) Pool funds can be used to provide services to children and their families who are (1) eligible for services, (2) targeted for services, or (3) who meet relevant mandates for the provision of special education and foster care services (referred to as mandated population).

Pool funds are state funded with a local matching share. Beginning in FY2009, variable local match rates apply to certain services/expenditure categories. The

2010 Appropriations Act, Chapter 874, summarizes the following impacted service categories:

- Community Based Services. Beginning July 1, 2008, the local match rate for community based services for each locality shall be reduced by 50 percent.

- Localities shall review their caseloads for those individuals who can be served appropriately by community-based services and transition those cases to the community for services. Beginning July 1, 2009, the local match rate for non-Medicaid residential services for each locality shall be 25 percent above the fiscal year 2007 base. Beginning July 1, 2011, the local match rate for Medicaid residential services for each locality shall be 25 percent above the fiscal year 2007 base.

The funds are reimbursement based (i.e., the locality must expend funds and then will be reimbursed for the state-share of the expense by the Department of Education who serves as state Fiscal Agent). Reimbursements are requested using the electronic Pool Reimbursement Request (accessed using the CSA web www.csa.virginia.gov) as often as monthly, but not less often than quarterly.

Administrative Funds (Section 5 of the CSA Manual) Administrative funds are available to offset the added cost localities incur in implementing the Comprehensive Services Act. Use of these funds is flexible, and may be used for administrative and coordinating expenses, or even direct services to eligible youth and families.

Special Requirement - Separate Accounting

State and local revenues and expenditures applicable to the Comprehensive Services Act must be identified separately from other funds within the local government's accounting system (Section 5.8, Toolkit – Fund Audit Overview, of the CSA Manual).

Required Audit Procedure: Determine whether the method used by the local government to account for Comprehensive Services Act funds is adequate to separately account for such funds. Also determine the method used to distinguish between trust funds FY2010 close out, pool funds and administrative funds.

Allowability Requirement - Trust Funds

Trust funds were initially used to develop early intervention services for young children. Following the initial year of award, the funds are to be used to support the operational budgets of these ongoing programs on a state-local match basis. (Reference Locality Agreements with DSS).

Required Audit Procedure: Select a sample of trust fund disbursement transactions from throughout the year under audit. For each transaction selected, determine whether:

(a) the funds are being used to support the operational budget(s) of the original program(s) developed under the grant, and
(b) local matching funds are being used, and
(c) the funds were used in compliance with local procurement practices, and
(d) the expenditure appears reasonable given the purpose of the Comprehensive Services Act and is consistent with the services specified in the grant agreement/contract.

Reporting Requirement - Trust Funds

Requests for payment and expenditure reports must be submitted in accordance with the Department of Social Services letter of agreement summarizing reporting requirements (for applicable localities). If applicable, the award letter can be obtained from the local government worker coordinating reporting of trust fund expenditures. Local government expenditure reporting requirements must comply with DSS financial reporting requirements.

Required Audit Procedure: Obtain the final year-end Trust Fund Grant Expenditure Report. Determine:

(a) whether the submission was timely and made in accordance with DSS financial reporting requirements.

(b) the accuracy of amounts reported by tracing receipts and expenditures to the locality's general ledger or reviewing the locality's reconciliation of amounts reported to the general ledger.

(c) whether unobligated funds at year-end were adjusted on the succeeding year's request for funds. The request should be reduced by the amount of unobligated funds at the end of the previous year.

(d) whether the state share amount agrees with the reported amount entered into the DSS LASER financial reporting system.

Allowability Requirement - Pool Funds

Pool funds must be expended for public or private non-residential or residential services for troubled youths and families. (Code of Virginia 2.2-5211) Pool funds may only be used for services for specific children and their families. Administrative costs, interagency coordinators, and services billable to other funding streams are not allowable. (Section 4.4, Restrictions on Pool Fund Usage, of the CSA Manual) Vendors may be included in the Service Fee Directory (Code of Virginia 2.2-5214) to be paid with pool funds. (Section 8.3 of the CSA Manual) The Service Fee Directory can be accessed via the CSA website at http://www.csa.state.va.us/

Required Audit Procedure: Select a sample of Pool Fund disbursement transactions from throughout the year under audit. For each transaction selected, determine whether the:

(a) payment was supported by a written contract or service agreement,

(b) services were provided to a specific youth or family (a single voucher may cover services for more than one youth; however, the contract or purchase order must specify a child-specific unit price),

(c) maintenance and support expenses were provided to a specific child and did not exceed the amount determined by the local social services board (for children in foster care) or the amount specified in the service fee directory (for children in residential facilities),

(d) payment was made to an authorized vendor who may be included in the Service Fee Directory.

(e) alternate funding streams, including Medicaid, were explored prior to using CSA funding to pay for the services, and

(f) expenditure appears reasonable given the purpose of the Comprehensive Services Act and the purpose of pool funds

Eligibility Requirement - Pool Funds

Pool funds may only be used to provide services to children/youth and their families who are eligible for services, targeted for services, or who meet relevant mandates as set forth in the Code of Virginia Section 2.2-5211 and 5211.1 (Section 4.2, Scope of Funds, of the CSA Manual). Eligibility for CSA funding is determined by the respective referring agency and is governed locally by the Community Policy and Management Team (CPMT) policies. Further information on the Eligible CSA population can be found in Section 4.2.1 (Eligible Population) of the CSA Manual. Information on the Targeted and Mandated population can also be found in the CSA Manual at Section 4.2.2 (Targeted Population and Mandated Population. All youth and families for the CSA-funded treatment services are requested to be assessed by the family assessment and planning team or an approved collaborative, multidisciplinary team process and shall consider the criteria set out in subdivisions A 1 and A2 of 2.2-5212. Except for cases involving only the payment of foster care maintenance that shall be at the discretion of the local community policy and management team, cases for which service plans are developed outside of this family assessment and planning team process or approved collaborative, multidisciplinary team process shall not be eligible for State pool funds. Code of Virginia Section 2.2-5209; (Section 3.2.6 of the CSA Manual)

In 2010, two technical assistance documents (available on the CSA website) were disseminated to CSA stakeholders clarifying the relationship of the Comprehensive Services Act with special education services. Document 1, issued in January 2010, clarifies special education services that are the responsibility of the local school division and are not to be reported as CSA pool funds. Document 2, issued in March 2010 summarizes the relationship of the CSA Family Assistance and Planning Team (FAPT) process with Individual Education Plan (IEP) development. Oversight of the IEP development is coordinated by the Department of Education. Additional information on IEP requirements can be found in Appendix B, Department of Education, Special Education and the Comprehensive Services Act in the CSA Manual.

In January 2011, a third special education clarification document, Document 3, clarifying the May 1996 State Executive Council policy allowing the use of mandated funds under certain circumstances for students with disabilities served in the public schools. Through this SEC policy, communities may utilize mandated funds for non-IEP services when a student with a disability exhibits needs that extend beyond the responsibility of the public school.

Section 2.2-5206 of the Code of Virginia requires the local Community Policy and Management Team (CPMT) to develop procedures to access CSA Funds for eligible populations.

Required Audit Procedure: Review the local government's system for determining eligibility and evaluate for adequacy. Select a sample of program participants from the vouchers supporting the Pool Reimbursement Requests tested below (or from other sources as deemed appropriate by the auditor). For each participant selected, determine whether the individual is classified on the Reimbursement Request as part of the mandated or non-mandated population. Examine documentation in the youth's case file and determine whether:

(a) the youth meets the state eligibility criteria

(b) the youth meets the state criteria for inclusion in the mandated population, if the individual was included in the mandated population on the Reimbursement Report.

(c) cases using State pool funds were restricted to:

(1) those involving only the payment of foster care maintenance at the discretion of local policy, or

(2) cases for which service plans are developed and approved by the family assessment and planning team process or approved collaborative, multidisciplinary team process.

CSA has developed a Uniform Documentation Inventory to assist CPMT's with the development and maintenance of case documentation.

Reporting Requirement - Pool Reimbursement Requests

Local governments receiving pool funds must submit electronic Pool Reimbursement Requests not less often than quarterly. Documentation must be maintained to support expenditure amounts reported, and to demonstrate that each pool fund expenditure was made on behalf of a specific child (or list of specific children). The pool fund reimbursement claim should exclude any payment whose services were paid using Medicaid (or any other) funding source. Cost for which reimbursement is being claimed must be reported as pertaining to the fiscal year in which the service was provided. Final claims for reimbursements for prior year payments will not be accepted after the first quarter (September 30) of the next fiscal year. (Section 4.5.3 of the CSA Manual) Adequate separation of duties should exist between Report Preparer and Fiscal Agent and passwords should be kept confidential. (Section 4.5.7, Toolkit – Local Fiscal Agent Responsibilities, of the CSA Manual)

Required Audit Procedures: Select a sample of Pool Reimbursement Requests from throughout the year under audit.

(a) Determine that requests were filed at least quarterly.

(b) Determine accuracy of amounts reported by tracing receipts and expenditures to the locality's general ledger or reviewing the locality's reconciliation of amounts reported to the general ledger.

(c) Perform a service year test ensuring reimbursement requests pertain to the year in which the services were provided.

(d) Verify that all expenditures were reported in the appropriate reporting categories.

3-13 Highway Maintenance Funds

(Contact: Virginia Department of Transportation; Judson Brown; Phone – 804.225.3597) [judson.brown@vdot.virginia.gov] No Changes for FY 2011

Sections 33.1-41.1 and 33.1-23.5:1 of the Code of Virginia requires an annual categorical report accounting for all expenditures of highway maintenance funds and an annual audit of this report. Accordingly, the auditor must perform the procedures contained in this section regardless of materiality.

The state Department of Transportation makes payments to all cities, certain towns, and the Counties of Arlington and Henrico for the maintenance of highways. These funds may also be used for construction and reconstruction. (Highway maintenance expenditures for purposes of this program include expenditures for maintenance, construction and reconstruction, and therefore the term "maintenance" is inclusive of these categories of expenses.) Section 33.1-41.1 of the Code of Virginia establishes the criteria for determining which local governments and highways are eligible for these funds. These eligibility requirements are summarized together with the required treatment for the funds in the Urban Manual (www.virginiadot.org/business/local-assistance-programs.asp) published by the Department of Transportation. The auditor should familiarize himself with this manual prior to commencing test work.

Effective beginning fiscal year 2006, local governments are required to report their highway maintenance expenditures on the enhanced Weldon-Cooper Center financial survey. In prior years, localities annually reported transportation expenditures to the Weldon Cooper Center to provide information for VDOT to report to the Federal Highway Administration. The Weldon Cooper survey is now enhanced and includes the necessary categories for reporting the maintenance expenditures. The Weldon Cooper Center Local Finance Survey replaces the U-3 Form, used in prior years.

The local government is required to complete the enhanced financial survey when the Weldon Cooper Center requests it. This will normally be done after January 1 each year. Therefore, the auditor is responsible for performing the following audit procedures on the annual Weldon Cooper Center Local Finance Survey submitted for the year prior to the current audit year. Fiscal year 2007 is the first effective audit year.

Special Requirement - Separate Accounting

Revenues and expenditures applicable to street maintenance payments must be accounted for in a separate fund or separate accounts within the local government's accounting system (Urban Manual).

Required Audit Procedure: Determine whether the method used by the local government to account for street maintenance payments is adequate to

separately account for such funds. Also, using the Schedule of State Disbursements to Localities (L052 Report) provided by the Auditor of Public Accounts, trace all Urban Street payments to the local government's general ledger and determine proper recording.

Allowability Requirement - Program Costs

Costs reported on the annual Weldon Cooper Center Local Finance Survey must be allowable costs for the maintenance, construction, or reconstruction of eligible streets (Urban Manual).

Required Audit Procedure: Obtain a copy of the annual Weldon Cooper Center Local Finance Survey for testing. Obtain a copy of, or access to, all schedules, worksheets, and other documentation supporting the costs claimed on the Weldon Cooper Center Local Finance Survey. Select a representative sample of charges claimed on the Weldon Cooper Center Local Finance Survey and examine supporting documentation to determine whether:

(a) costs were incurred for the maintenance, construction or reconstruction of the street(s) as defined by the Urban Manual,

(b) costs are "acceptable" costs under the program as defined by the Urban Manual,

(c) the street is an eligible street included on the Department of Transportation's annual listing of eligible streets (Urban Inventory), and

(d) charges that have been allocated to eligible maintenance, construction and reconstruction, are supported by adequate documentation to justify the amounts allocated (i.e. time logs, equipment use logs and rental rates, indirect cost plans, etc.)

(Note: The annual listing of eligible streets (Urban Inventory) required to perform step (c) can be obtained from the local government's public works department or VDOT's Local Assistance Division.)

Reporting Requirement - Annual Report

Local governments receiving street maintenance funds must submit an annual Weldon Cooper Center Local Finance Survey to the state Department of Transportation accounting for payments received and related expenditures (Section 33.1-41.1 of the Code of Virginia and Urban Manual). Payments and

expenditures claimed on the annual report must reconcile to the local government's accounting system and must be supported by detailed documentation.

Required Audit Procedures: Obtain the annual Weldon Cooper Center Local Finance Survey for the audit year. Determine timeliness of submission. Also, obtain (or prepare if so specified in the audit contract) a reconciliation of revenues (total allocation) and expenditures per the Weldon Cooper Center Local Finance Survey to the locality's general ledger or highways cost accounting system. Review the reconciliation for reasonableness. If amounts are reconciled to the cost accounting system, the auditor also must review the internal controls over that system.

3-14 Route 28 Highway Transportation Improvement District

(Contact: Virginia Department of Transportation; Barbara Mack, Project Finance Manager; Phone – 804-786-5366; Barbara.mack@vdot.virginia.gov Only contact information changes for FY 2011

Section 15.2-4606:8 of the Code of Virginia and Section 404 of the District Contract require an annual audit of the State Route 28 Transportation Improvement District's financial obligations and revenues. Accordingly, the auditors must perform the procedures contained in this section regardless of materiality. **These procedures apply only to the audits of Fairfax and Loudoun counties.**

In accordance with Section 15.2-4603 of the Code of Virginia, the Fairfax and Loudoun county board of supervisors approved a resolution (called the local contract) to create the State Route 28 Highway Transportation Improvement District (District). The purpose of the improvement district is to undertake the improvement of the primary highways located within its boundaries. In accordance with the Code of Virginia, a District Commission was created to exercise the powers of the district. The District Commission is made up of members of board of supervisors of Loudoun and Fairfax Counties and the chairman of the Commonwealth Transportation Board.

A District Advisory Board was also created in accordance with the Code of Virginia. The advisory board is made up of members appointed by the two governing bodies and elected members who reside within the district. The purpose of the advisory board is to identify transportation needs within the district. The advisory board presents an annual report to the District Commission on its findings.

Because the District Commission has no taxing power, the Code of Virginia permits it to request Fairfax and Loudoun counties to levy and collect an annual special improvements tax. The proceeds are paid to the District Commission to pay for road improvements.

During 1988, the District Commission contracted with the Commonwealth Transportation Board to carry out its improvements (called the district contract). The district contract was replaced with an amended and restated district contract on August 30, 2002. In its contract with the Commonwealth Transportation Board and the Fairfax County Economic Development Authority (the Authority), the District Commission agreed to pay over all of the special improvements tax to a Fiscal Agent for use in paying the District's obligation for the cost of the Rte 28 improvements. The Commonwealth Transportation Board originally issued revenue bonds to finance these improvements. These bonds were defeased on October 10, 2002 and refunded with additional revenue bonds maturing through 2018. Also in October 2002, the Board issued new revenue bonds in accordance with Section 302(c) of the District Contract. The new bonds mature in years 2019 through 2032.

Additionally, the Authority entered into a November 2006 contract amendment to issue $87,000,000 in bonds (Authority bonds), and accept a $20,000,000 interest-free loan and a $5,000,000 grant from the Transportation Partnership Opportunity Fund (TPOF), to provide additional construction funds to complete the project (district contract Section 302 (e)). However, during the update of the FY2008 Six-Year Improvement Program, VDOT replaced the TPOF loan in the amount of $20 million with an allocation of $23.9 million in state funds.

Chapter 770 of the Acts of Assembly of 2002 (Third District Act Amendment) provides that the District shall not be abolished as long as there is an outstanding District obligation. The auditor should familiarize himself with the district contract, prior to commencing test work. The auditor also may want to review the local contract, which was also amended and restated on August 30, 2002, that initially created the improvement district.

Reporting Requirement - Annual Report to the District Commission

The District Advisory Board shall present an annual report to the District Commission on the transportation needs of the district and on the activities of the board (Section 15.2-4605 of the Code of Virginia).

Required Audit Procedure: Determine whether the District Advisory Board presented its annual report to the District Commission on the transportation needs of the District and on the activities of the board.

Special Requirement - Contract Amendments

The District Commission may not amend the local contract without approval of the other parties to the District Contract (District Contract Section 504). The parties to the District Contract are the Commonwealth Transportation Board, the Fairfax County Economic Development Authority, and the State Route 28 Highway Transportation Improvement District Commission.

Required Audit Procedure: Determine whether the proper parties approved amendments made to the local contract.

Special Requirement - Request for Annual Special Improvements Tax Levy

The District is obligated to pay no more than 75% of the final aggregate cost of the Rte 28 improvements, as set forth in the district contract. In order to pay this obligation, the District Commission shall request the respective boards of supervisors by April 1 of each year to levy and collect a special improvements tax sufficient to meet the district's obligation to the Transportation Board (District Contract Sections 401, 402 and 406).

Required Audit Procedure: Obtain the Commission's request to boards of supervisors for the levy of the special improvements tax and determine whether:

(a) the Commission's request for the levy and collection of the special improvements tax was made by April 1 of the prior fiscal year,

(b) the special assessments tax rate was sufficient to meet the district's obligation as set forth in Section 401 of the district contract, and

(c) there were any zoning changes that affected the classification of property within the primary highway transportation improvement district. If so, determine whether the Commission requested the board of supervisors to adjust the rate of the special improvements tax, and increases in the rate did not exceed the maximum allowed by Section 15.2-4608 of the Code of Virginia.

Special Requirement - Annual Special Improvements Tax Levy

Upon the request of the District Commission, the boards of supervisors shall levy and collect an annual special improvements tax on the assessed fair market value of the taxable real estate zoned for commercial or industrial use or used for such purposes and taxable leasehold interests in that portion of the improvement district within its jurisdiction. The tax shall be collected at the same time and in the same manner as county taxes are collected (Section 15.2-4607 of the Code of Virginia). As of September 2002, the Commission shall request that the counties set the special improvement tax rate at the maximum rate permissible under the Code of Virginia Section 15.2-4607 and district contract Section 401(b). The district contract fixes the maximum special improvements tax rate at .20 per $100 of assessed fair market value for the term of the contract (Section 401(f)(ii)).

The special improvements tax rate shall be assessed at the maximum rate until the following two occurrences:

(a) Available special tax revenues in each of the two fiscal years immediately preceding the fiscal year in which the reduction occurs have been greater than 1.1 times the combined debt service in each of those fiscal years, calculated as required in Section 401 (a) AND

(b) It is anticipated by the District Commission that available special tax revenues in each subsequent fiscal year will be greater than 1.1 times the combined debt service as calculated. (District Contract Section 401 (b))

Following these occurrences, the rate may be reduced to a level sufficient, in the judgment of the District Commission, to pay 1.1 times the combined debt service.

Required Audit Procedure: Obtain a listing of taxable real estate subject to the special improvements tax and the special improvements tax rate for the year under audit and:

(a) make an overall proof of the original levy by multiplying the assessed value of property and leasehold interests by the related special improvements tax rate. Compute the net levy by adjusting the original levy for supplemental assessments, if applicable

(b) determine whether the special improvements rate was levied at the maximum rate permissible, set at $.20 per $100 of assessed fair market value (Section 401 (f),

(c) if the special assessments tax rate was assessed at below the maximum rate, ensure the conditions set forth in the District Contract Section 401 (b) have been met, AND

(d) select a representative sample of property and leasehold interests within the primary highway transportation improvement district and determine whether the special improvements tax levy was properly assessed and collected.

Special Requirement - Authority Revenue Stabilization Fund

Any available excess revenues on hand immediately after the final debt service payment in any fiscal year shall be allocated to the creation and funding of an Authority Revenue Stabilization Fund (the Fund) until the Fund reaches $8,500,000 (District Contract Section 401(c)). After all Authority Bonds have been issued, the Fund shall be increased or decreased so that it equals the maximum annual debt service on all Authority Bonds. Once the Fund is fully funded, any excess revenues will be applied to the District Project Completion Fund (District Contract Section 401).

Required Audit Procedure:

Determine:

(a) whether the Authority Revenue Stabilization Fund has been established and is held by the Authority bond trustee

(b) whether excess revenues (amounts exceeding required debt service payments) were paid to the fund after the required debt service payments in a fiscal year, and

(c) if the fund is fully funded, determine whether any excess revenues have been applied to the District Project Completion Fund.

Special Requirement - Separate Accounting

The proceeds of the special assessment tax collected by the counties shall be kept in a separate account (Section 15.2-4607 of the Code of Virginia).

Required Audit Procedure: Determine whether the county separately accounted for the proceeds from the special improvements tax levy.

Special Requirement - Payment of Taxes to the Transportation Board

The District shall direct Fairfax and Loudoun Counties to pay the designated Fiscal Agent all Special Tax Revenues by the first day of each month. (District Contract Section 402).

Required Audit Procedure: Determine whether the proceeds from the special improvements tax were paid to the Fiscal Agent by the first day of each month.

Special Requirement - Reporting of Tax Revenues

The Fiscal Agent shall maintain adequate records of the outstanding balance of the District Obligation and forward to the District Commission and the Commonwealth Transportation Board, a financial report and statement setting forth such information by February 15 and August 15 of each year. The statement shall indicate the amount of the District Obligation for the current fiscal year The Fiscal Agent shall deposit in a special account all Special Tax Revenues received. (District Contract Section 403(a)).

Required Audit Procedure: Obtain the two financial reports from the Fiscal Agent for the audit period and agree the amount of Special Tax Revenue reported on the reports to the county's records. Identify and resolve all reconciling differences.

Special Requirement - Annual Audit

The District must have an annual audit of its financial obligations and revenues (District Contract Section 404).

Required Audit Procedure: Prepare a schedule disclosing unremitted special tax revenue at July 1, collections, transfers to the Fiscal Agent, and the unremitted balance at June 30. Mail a copy of the report including the schedule to the following address: Auditor of Public Accounts, Local Government Section, P.O. Box 1295; Richmond, VA 23218

Special Requirement - Residential Rezoning Lump-Sum Payments

Fairfax and Loudoun counties may change the zoning classification for any property within the District from commercial or industrial use to residential use upon the written request of the landowner. Before the county may authorize the rezoning, the landowner is required to pay a lump-sum amount representing the present value of the special improvement taxes estimated to be the lost revenues as a result of such change in classification. This lump-sum payment is assumed to mitigate the financial impact on the District's tax base needed to pay debt service on the Route 28 transportation revenue bonds. (District Contract Section 407)

Required Audit Procedure: Obtain a list of all properties within the District for which the counties have changed zoning classifications from commercial or industrial use to residential use and:

(a) determine whether the lump-sum payments were computed and collected as prescribed in the District Contract., and

(b) prepare a schedule disclosing discrepancies between the residential rezoning payments and the computation formula. Mail a copy of this schedule to Laura Farmer, Director of Financial Planning Division, Virginia Department of Transportation, 1221 East Broad Street, 4th Floor; Richmond, VA 23219 (cc: Barbara Mack, Project Finance Manager, at the same address).

3-15 Social Services

Agency Contact: Department of Social Services, J. R. Simpson, Chief Financial Officer, phone 804-726-7204; e-mail j.r.simpson@dss.virginia.gov
For Auditing Questions, contact George D. Strudgeon, Auditor of Public Accounts, Audit Director - Human Services Management, phone 804.225.3350; e-mail george.strudgeon@apa.virginia.gov (*Last Updated – June 2011)*

Program Overview

The Virginia Department of Social Services (VDSS) oversees the operation of social service programs in accordance with Title 63.2 of the Code of Virginia. Local Departments of Social Services (LDSS), serving every county and city in the Commonwealth, assist VDSS with the administration of "Benefit" and "Service" programs. The Virginia model for social services delivery is "state supervised" and "locally administered."

Through LDSS, VDSS administers over 40 programs that provide benefits and services to eligible at-risk families, children, and adults. Both state and local governments share the costs of administering these social services programs. These programs are described below.

Benefit Programs include Medicaid, Family Access to Medical Insurance Security (FAMIS), Supplemental Nutrition Assistance Program (SNAP, formally the Food Stamp Program), the Virginia Independence Program (VIP) which is funded by the Temporary Assistance for Needy Families (TANF) block grant and includes the work-related Virginia Initiative for Employment not Welfare (VIEW) component; General-Relief; Emergency Assistance; and Energy Assistance. LDSSs determine eligibility and provide ongoing case management. Eligibility for most benefit programs is determined at the local level using guidelines and procedures contained in the VDSS program manuals. FAMIS eligibility may be determined at the LDSS or at a Central Processing Unit (CPU) operated by the Department of Medical Assistance Services (DMAS); however, ongoing case management is provided by the CPU.

Localities generally determine eligibility for benefit programs by collecting and verifying applicant data and then determining eligibility and calculating the

benefit amount either manually or in an automated system, depending upon the program. Eligibility for benefit programs (except the Medicaid; Aged, Blind and Disabled; and Long-Term Care categories) is determined using the Application Benefits Delivery Automation Project (ADAPT) or the Energy Assistance System (EAS). Assistance is paid based on eligibility information entered into these systems by the LDSS staff.

The actual distribution of benefits varies by program. For example, under the General Relief and Emergency Assistance programs, the LDSS distributes benefits directly to the recipients through the LDSS' warrant registers. However, under the TANF, SNAP, and Energy Assistance programs, even though LDSSs determine eligibility, the VDSS distributes benefits to eligible households and vendors. Medicaid and FAMIS coverage is paid by DMAS to participating providers based on the eligibility determination performed by the LDSS.

Additionally, LDSSs are responsible for providing workforce programs to participants who do not meet the work exemption criteria in the SNAP and TANF cash assistance programs. The SNAP workforce program is called the SNAP Employment and Training (SNAPET) Program and the TANF cash assistance workforce program is called the Virginia Initiative for Employment not Welfare (VIEW) program. Finally, LDSSs are responsible for ongoing case management activities for all benefit programs except for FAMIS.

While currently not organizationally associated with the Division of Benefit Programs, child care is a public assistance program according to the Code of Virginia as are the other programs supervised by the Division. Eligibility for child care is determined manually or through locally developed systems. However, beginning in the Fall of 2011, the Department will begin the roll out of an automated eligibility determination system for child care. While the process of determining eligibility for child care is manual, case and client information is recorded in the Virginia Client Information System (VACIS).

Community and Volunteer Services (CVS)

VDSS maintains close relationships with community organizations, faith based organizations, non-profits and local department of social services. These

relationships enable the Virginia Social Services System to pool resources to provide a safety net for services for those most in need. CVS seeks out ways to partner with the Commonwealth, private, volunteer and community organizations to share information and fortify the Virginia Social Services System (VSSS) statewide network of services.

Regional Offices

VDSS has five regional offices: the Northern Virginia Office in Warrenton; the Eastern Office in Virginia Beach; the Central Office in Henrico; the Piedmont Office in Roanoke; and the Western Office in Abingdon. Directors in each location work collaboratively with state staff housed in both the Home and Regional Offices to support Virginia Social Services System initiatives.

Subrecipient Monitoring (SM)

The purpose of subrecipient monitoring is to help ensure that VDSS awards are used in accordance with federal and state laws and regulations, and for the purpose for which they were intended. Entities that receive such awards are referred to as subrecipients. Examples include:

- Local Departments of Social Services;
- Local and state governments agencies (e.g. counties, health departments, school systems; boards of education);
- Non-profit agencies;
- For-profit agencies; and
- Colleges and universities.

CVS monitoring efforts include:

- VDSS' agency-wide subrecipient monitoring processes
- Annual Financial Report Submission Requirements for Local Government, Community Action Agencies and Non-Profit Organizations
- Local Government Central Service Cost Allocation Plan Reviews

VDSS' Agency-Wide Subrecipient Monitoring Processes

The Virginia Department of Social Services (VDSS, the Department) has financial assistance relationships with a wide variety of organizations – local

government agencies, county or city local departments of social service, public authorities, non-profit and for-profit entities, as well as colleges and universities. These agencies vary from very large organizations such as a large county or city government or a state university to very small two to three-employee non-profit agencies. Regardless of the size or type of agency, a financial assistance arrangement exists when another entity expends state of federal funds received from the department to carry-out a state or federal program. In this case, the entity receiving the funds from VDSS is known as the subrecipient.

Monitoring is the review process used to determine a subrecipient's compliance with the requirements of a state or federal program, applicable laws and policies/regulations, and expected results and outcomes. Monitoring also includes the review of internal controls to determine if the subrecipient's financial management and accounting system are adequate to account for program funds in accordance with state or federal requirements.

The entire revised, 4/28/2011, "Approach to Subrecipient Monitoring" is located on the VDSS Local Agency website at
http://spark.dss.virginia.gov/divisions/cvs/subrecipient/index.cgi

Service Programs include Adult Protective Services, Adult Services, Auxiliary Grants, Child Protective Services, Permanency, Interstate Compact on the Placement of Children, and others. Funds for service programs are provided to LDSSs to administer the programs and provide the actual services. Therefore, localities are required to include both administrative and non-administrative costs associated with these programs in their Schedule of Expenditures of Federal Awards (SEFA). Furthermore, all expenditures related to these programs should be used in determining major programs for the Single Audit. If a service program is determined to be a major program at the local level, the auditor must test all compliance requirements that have a direct and material effect on the program.

Information on child welfare cases is recorded in the Online Automated Services Information System (OASIS) and data on Adult Services and Adult Protective Services cases can be found in the Adult Services / Adult Protective Services

(ASAPS) information system. The local Treasurer disburses checks (warrants) for these programs.

Separate warrant registers are maintained for each social services program. LDSSs maintain warrant registers to support payments they make by issuing benefit checks. The warrant registers supporting payments made by the local treasurer are totaled monthly and keyed into Locality Automated System for Expenditure Reimbursement (LASER).

LDSSs maintain warrant registers in a manner that is applicable to their particular accounting system. The warrants for specific social service programs can be grouped and sequenced by check number. If the checks are generated by the locality's accounting system, the warrant register may be compiled in a different manner.

The LDSS financial/accounting department compiles the balances from the warrant registers by budget and account to be uploaded to LASER or the balances are compiled manually and the checks are reconciled to the manual system. These balances are classified into the applicable social services program account number sequence. The balances are to be footed and reconciled to the balances of the benefit checks generated either by the localities or the LDSS accounting system. The LDSS compiles the applicable expenses by budget and account number to be manually keyed or electronically uploaded to the applicable LASER accounts.

Program Funding

Most social services programs are funded by federal and state governments. Some programs like Adult Protective Services, Adult Services, General Relief and Auxiliary Grants for the blind, aged, and persons with disabilities, and some child care services require a local match. The unemployed parent component of the TANF program is funded with 100 percent state general funds to avoid having these cases counted in the federal work participation rate. The local government does not have to participate in the General Relief program. If the local government chooses to participate, it must provide a matching share (37.5 percent of the benefit costs). Participation in the Adult Services and Adult Protective Services Programs are mandatory to the extent funding is available.

The Auxiliary Grant program is mandatory. Local governments provide a 20% matching share for this program. In addition, local governments may offer locally based social services programs.

Expenditure Reimbursements and Reporting

VDSS reimburses LDSSs for the state and federal share of expenses using LASER. LDSSs process monthly local reimbursements using information keyed **into LASER. VDSS reviews the local reimbursement request on-line and then** reimburses the LDSS for its share of expenditures via electronic funds transfer. For the Child Care Program, LDSSs must upload case/client expenditure information into the Interim Child Care System that needs to reconcile with LASER before reimbursement is approved.

The Local Reimbursement Report is the primary financial report for all social services programs; it satisfies both federal and state reporting requirements. LASER provides month-to-date and year-to-date program totals. Other reports show details of expenditure variances between months/quarters/years, which assist auditors in determining the relative materiality of each program.

VDSS reimburses each LDSS for a portion of the administrative costs associated with social services programs. As a result, the LDSS should generally only report administrative costs associated with TANF, SNAP, Energy Assistance, General Relief, and Medicaid on their SEFA. Likewise, generally only the administrative costs would be used in determining major programs for the Single Audit. If a benefit program is in fact determined to be a major program at the local level, then normally the only compliance tests used at the local level are those that relate to the administrative function. However, if the locality receives a special grant from the VDSS funded by federal dollars, the LDSS will need to include any expenses that it incurred under the special grant in the SEFA. In general, expenses reimbursed through LASER using federal funds should be included in the SEFA and need to be used in determining major programs for the Single Audit.

VDSS publishes the *Finance Guidelines Manual for Local Departments of Social Services* that provides budget, financial reimbursement, and general service

guidelines for LDSSs that administer public assistance and social services programs under the supervision of VDSS. VDSS also publishes the *LASER "How To" Instructions*, *ADAPT Reference Guide*, a series of program manuals, and various electronic broadcasts that explain eligibility criteria and other program requirements for various social services programs. The auditor should familiarize him/herself with these reference materials before beginning test work.

Improper Payments

Occasionally, improper payments are made to individuals. Improper payments occur when payments are made (1) to an ineligible recipient, (2) in an amount greater than the recipient is entitled to (overpayment), or (3) in an amount less than the recipient is entitled to (underpayments). Payments to ineligible recipients, fraudulently obtained benefits, and overpayments must be recorded in the ADAPT or Energy Assistance Systems. SNAP overpayments must also be entered into the SNAP Claims Tracking System. Improper payments made in relation to the Child Day Care Program should be entered in the Interim Child Care System and LASER. The LDSS must exercise due diligence in attempting to recover these payments. LDSSs are responsible for collecting overpayments. Certain overpayments must be repaid to VDSS as provided for in the various program manuals. The auditor should review the procedures for collecting overpayments and ensure that collected funds are promptly and properly recorded and processed.

Special Requirements

Special requirements applicable to specific state supervised and locally administered benefit and service programs are discussed in this section. The discussions of special requirements precede the outlines of required or suggested audit procedures. Systems controls, special requirements and outlines of required audit procedures are combined and discussed as the last topic.

Child Welfare Trust Accounts

Local treasurers hold special welfare funds for foster children and other individuals. Section 63.2-320 of the Code of Virginia authorizes LDSSs to accept and expend funds for children placed by or entrusted to the board when there is no appointed guardian. Some of these individuals receive payments

from the Social Security Administration, Veteran's Administration, or parental support. The LDSS posts these and other payments to the individual's account(s) and the local Treasurer posts these transactions to the local government's account. The statute provides for final disposition of remaining funds in the child's account when the local board discharges the child from its care. However, Section 63.2-320 does not authorize local boards to open bank accounts for these funds. Instead, local boards must follow the law provided in Section 63.2-314, which requires that local boards deposit all funds to the local treasuries of their respective county, city or local district board. The statute further states that these moneys are not assets of the locality or the local welfare board, but rather agency or trust funds held for the children. Federal law specifies that these funds belong to the children, and establishes specific guidelines on the types and titling of bank accounts.

All Child Welfare Trust accounts should be established in a bank or a savings and loan institution. Some local treasurers combine accounts and maintain detailed ledgers showing each child's balance. Other local treasurers maintain separate accounts for each child. Either method is acceptable with one exception. The federal government requires treasurers to maintain a separate dedicated account for certain social security payments.

Social Security Recipients

The Social Security Administration provides two types of payments for children, regular monthly payments and back payments. The LDSS may authorize disbursement of regular monthly payments to the child or on the child's behalf for any purpose. The LDSS may disburse back payments only for limited purposes, usually education or medical, and there are no time limits on disbursing the funds. Federal law requires separate bank accounts for these two types of payments. Public Law (P.L.) 104-134, Section 1631(a)(2)(F) describes the types of accounts required and their titling. Specifically, federal law requires payees to establish and maintain a dedicated account in a financial institution for certain past-due benefit payments made on or after August 23, 1996, for persons with disabilities or blind SSI recipients under age 18. This dedicated account must be separate from the account(s) for the deposit of regular monthly SSI payments. The LDSS may not deposit any other funds into the dedicated account except certain subsequent SSI underpayments and past-due benefits. Local Treasurers

must deposit the regular SSI monthly payments in the Special Welfare Account and back payments in the dedicated account.

Federal law states that SSI Dedicated Account may be a savings account; a checking account; or a money market account established in a financial institution. Although not specified in the law, the account should be interest bearing. Federal law does not permit investing in certificates of deposit, mutual funds, stocks or bonds for these funds. These instruments are not considered financial institutions' accounts. Treasurers may set up a separate SSI Dedicated Funds Account for each child or use a collective SSI Dedicated Funds Account. However, federal law only permits collective dedicated checking or savings accounts if they meet existing federal policy and the new requirements for dedicated accounts described above.

SNAPET Reporting Validation

This requirement only pertains to localities that operate a SNAP Employment and Training (SNAPET) program. Expenditures reported in LASER for SNAPET/Transportation expenditures must be reconciled to ensure that they are captured in the proper federal reporting category. SNAPET purchased or contracted services must be reported in LASER cost code 84403. Actual SNAPET participant expenses must be reported in LASER cost code 84404. Appropriate documentation for these and all other expenditures must be retained for audit and review. See LASER manual for detailed requirements for cost codes 84403 and 84404.

EBT Staff Fraud Prevention

Electronic benefits transfer (EBT) is the distribution of SNAP benefits with a debit card. The debit card has replaced paper coupons. Affiliated Computer Services (ACS) is providing EBT services. Each LDSS is responsible for maintaining separation of duties between the Eligibility Workers, Issuance Clerks, and Fiscal Staff for EBT processes to prevent staff fraud. **The auditor must perform the procedures outlined in this section regardless of materiality.**

Procurement

In many local governments, the procurement for service programs such as child care and foster care training are performed by the LDSS rather than through a central procurement office. The auditor should be aware of the procurement of these programs and determine whether they complied with applicable procurement regulations (Virginia Public Procurement Act or Local Procurement Policies and Procedures).

General Ledger Reconciliation

Amounts reported in LASER must be reconciled monthly to be in compliance with Section 3.60, LASER Expenditure Reconciliation and Certification, of the LDSS *Finance Guidelines Manual for Local Departments of Social Service*. If the LDSSs fail to complete monthly LASER reconciliations or submit the Certification Form in a timely manner, they are subject to VDSS withholding reimbursement for the following LASER period. The reconciliation is to the system that generates the checks. The local government's general ledger should also be reconciled to the local social services warrant registers.

Audits of States, Local Governments, and Non-Profit Organizations

The annual submission of the audit report to VDSS enables the department to assure compliance with the Single Audit Act of 1984 and its amendments of 1996, and OMB Circular A-133. It also allows VDSS to determine whether corrective action plans adequately address exceptions cited in auditor reports. Completed audit reports should be sent directly to VDSS Division of Community and Volunteer Services to allow for a timely review.

Required Audit Procedure:

This section outlines required audit procedures for various programs, including those with special requirements.

Required Audit Procedures: Select a random sample of VIEW purchased service transactions and determine whether the services are in accordance with policy and appropriate based on the individual VIEW Participants Activity and Service Plan.

Child Welfare Trust Accounts Required Audit Procedure:

Determine how the locality accounts for Child Welfare Trust Funds. Determine whether:

(a) all Child Welfare Trust Funds bank/investments accounts are under the local Treasurer's control,

(b) the local Treasurer has established separate accounts for all Child Welfare Trust funds, and these trust fund accounts are not commingled with any other funds or accounts of the locality,

(c) the Treasurer either maintains separate accounts for each child, or maintains detailed subsidiary ledgers to identify each child's balance in pooled accounts,

(d) all Child Welfare Trust Fund Accounts are suitably titled to indicate the children are the fund owners, and only the payee can authorize access to the child's funds,

Below are two examples of acceptable titling.

County Department of Social Services
for CHILD NAME
Trust Fund Account

or

County Department of Social Services
for SSI Recipient
Dedicated Funds Account

(e) all accounts with sustained balances are interest bearing.

<u>Special Welfare and Dedicated SSI Accounts Required Audit Procedure</u>: Review the special welfare and dedicated SSI account ledgers maintained by the LDSS or treasurer to identify special welfare accounts. Select a sample of cases receiving supplemental support payments from outside sources. Determine whether:

(a) the receipts are credited accurately and timely to the special welfare account or the dedicated account of the appropriate individual,

(b) interest is properly credited to the account when earned,

(c) the local treasurer is reimbursed monthly for program expenditures incurred in the current month, and only in the current month,

(d) reimbursements are reported on LASER and/or the Local Reimbursement Reports as refunds to expenditures,

(e) unexpended special welfare funds and dedicated funds are returned to individuals who leave the agency's custody, refunded to applicable funding sources (for example Social Security), or escheated to the state (unclaimed property),

(f) each special welfare account and dedicated account is reconciled monthly with the treasurer's records,

(g) special welfare funds were spent in accordance with any special stipulations,

(h) SSI Dedicated funds were spent in accordance with Social Security Administration stipulations (usually education or medical expenses), and

(i) special welfare accounts and SSI Dedicated accounts without recent transaction activities are necessary.

Social Security Recipients Required Audit Procedure:

Determine whether the Treasurer has established a separate account(s) for SSI dedicated funds, and whether these funds are commingled with other Child Welfare Trust funds or other funds or accounts of the locality. Also determine that SSI Dedicated funds are held in an interest bearing savings account, checking account, or a money market account established in a financial institution.

(Note: Many local governments report special welfare funds as agency funds in their financial statements. Other local governments currently do not include these funds in the financial statements. However, the required audit procedures listed above must be performed regardless of whether they are included in the locality's financial statements.)

Required Audit Procedures: Determine whether the duties of eligibility workers, issuance clerks and fiscal staff are separated for each SNAP EBT account. The auditor should review the following EBT form for the selected SNAP cases to determine whether duties are properly separated.

1. Internal Action and Vault Card Authorization (Form 032-03-387/1)

See the EBT Policies and Procedures Guide, available at the local social services department, for additional information.

Suggested Audit Procedures

This section outlines suggested audit procedures for various programs, including those with special requirements

SNAPET Reporting Validation Suggested Audit Procedure: Obtain source documentation for all expenditures reported under LASER cost codes 84403 and 84404 to verify that expenditures were properly reported.

Procurement Suggested Audit Procedures: The payments to a vendor for service program benefits should be aggregated to determine the applicable procurement requirements. The auditor should test payments to these vendors for applicable procurement requirements as appropriate. The State's Procurement and Surplus Property Manual describing procurement requirements is located at http://dps.dgs.virginia.gov/dps/manuals/manuals-bottom.htm.. Failure to comply with procurement requirements on federal expenditures may result in questioned costs.

Suggested Audit Procedure: Obtain (or prepare if so specified in the audit contract) a reconciliation of expenditures per the social services warrant registers and Local Reimbursement reports to the local government's financial records. Review reconciliation for reasonableness and verify that the warrant registers, local reimbursement / LASER reports and the local government's financial records are in agreement. Test applicable expenses for appropriate documentation and verify that the local matching dollars reported in LASER for the LDSS equal the local matching dollars reported in the local government's financial records.

Systems Controls Required Audit Procedures:

Local Security Officer (LSO)

Each Local Department is required to appoint and train Security Officers to act as the single focal point for access control. These LSO's require a working knowledge of the Local Security Manual and the Security Access Management System (SAMS).

Required Audit Procedures: Determine that the LSO has a copy of the Local Security Manual and is completing account actions in accordance with guidance provided in the manual.

Security Policy

Each user is responsible for reading and complying with the VDSS Information Security Policy and Standards by signing the Information Security Policy Acknowledgement. All users are required to attend VDSS sponsored security training annually. The VDSS Information Security Policy can be obtained from the security officer or found on the VDSS **Local Agency Web Site** at:
http://spark.dss.virginia.gov/divisions/dis/tbss/files/policies_manuals/information_security_policy_manual.pdf

Required Audit Procedures: Determine compliance with VDSS Information Security Policy. Concentrate on Sections 6 – Security Awareness and Training, Section 7 – Networks and Section 9 – Issue Specific Policies.

Section 6 – Security Awareness and Training

All employees, contractors, vendors, volunteers and work experience personnel shall receive security awareness training. This training will occur upon initial hiring or prior to his or her access to VDSS systems. All users will receive annual security training. Security officers will receive annual security officer training.

Required Audit Procedure:

Select a sample from all LDSS users of the VDSS systems and verify that there is a current year Security Training Certificate on file and verify that they have

signed the Security Policy and Standards Awareness Acknowledgement Form annually.

Section 7 – Networks

Anti-Virus software must be active and virus definition files must be current on all PCs and servers (where appropriate). Local Departments that are "shared support" require verification that the locality Information Technology Department is providing an up-to-date anti-virus product.

Required Audit Procedure: Verify that anti-virus software is active and virus definition files are current on a sample of PCs and servers.

Inspections: VDSS reserves the right to inspect any and all files transmitted across the VDSS network or stored on any device connected to that network.

Required Audit Procedure: Through observation and conversation determine user awareness of this policy.

Illegal Activities are prohibited and violations are grounds for disciplinary action.

Required Audit Procedure: Through observation and conversation determine user awareness of this policy

Monitoring: VDSS has systems that monitor network and email usage. Users should have no expectation of privacy when they use email or the Internet and should be aware that managers review Internet activities.

Required Audit Procedure: Through observation and conversation determine user awareness of this policy

Sexually Explicit Material: Displaying, storing, distributing sexually explicit material is forbidden.

Required Audit Procedure: Through observation and conversation determine user awareness of this policy

Malicious Acts such as unauthorized data browsing, decrypting passwords, disabling security features, hacking, improper use of facilities, malicious coding and violating copyright laws are forbidden. Malicious acts are grounds for a disciplinary action.

Required Audit Procedure: Through observation and conversation determine user awareness of this policy.

Emails containing VDSS and client information must be sent via secure means. Emails containing sensitive data that are sent over the Internet must be encrypted. Instant messaging systems are not permitted. Abusive, harassing or threatening emails must be reported to management and should never be responded to.

Required Audit Procedure: Through observation and conversation determine user awareness of this policy.

Internet: Occasional use of the Internet for personal purpose is permitted as long as usage follows the Department's Acceptable Use Policy or a more restrictive local policy.

Required Audit Procedure: Through observation and conversation determine user awareness of this policy.

Section 9 – Issue Specific Policies

Authorized Use: Computer Access Request Forms documenting a user's access authority must be available for all users.

Required Audit Procedure: Review a sample of Computer Access Request Forms and verify management approval for user access privileges. Verify these requests against SAMS or the applicable application (ADAPT, OASIS0).

Encryption Confidential information sent over the Internet must be encrypted. LDSS should follow approved VDSS Encryption Policy as adopted and provided in 2008. Information on "How to Encrypt" is located on SPARK, Information Security Page – in the How To section
http://spark.dss.virginia.gov/divisions/dof/is/index.cqi

Required Audit Procedure: Through observations and discussions with users, determine if confidential information sent over the Internet is encrypted in accordance to VDSS Encryption Policy.

Information Processing Systems and Equipment should be protected against unauthorized use, theft, vandalism, fire (smoke and water damage), misappropriation, or other peril. Also, users should lock their systems/keyboards when the system is unattended.

Required Audit Procedure: Through observations and discussions with users, determine information processing systems and equipment are appropriately protected.

Passwords must be kept confidential. They should not be shared or written down in a location where they can be easily compromised.

Required Audit Procedure: Through observations and discussions with users, determine that passwords are kept confidential.

Information Security Memorandum of Agreement

All LDSSs must have a properly executed Information Security Memorandum of Agreement (ISMOA) between the LDSS and VDSS. It is the responsibility of the locality to ensure compliance with the ISMOA.

Required Audit Procedures: Determine that a properly executed MOA was signed in 2005. Determine that the LDSS is in compliance with the ISMOA. Concentrate on the following sections: Security Administration, Local Networks, Sharing Data, Hosting, Local Servers, E-Mail, Remote Access, Wireless, and Third Party Contracts.

Terminated Users

When a user leaves the LDSS, their access privileges must be immediately removed from all systems they were authorized to use.

Required Audit Procedures: From local personnel records, select former LDSS personnel and determine that their access privileges to all VDSS systems were removed within three working days of employment termination. The Computer Access Request Form should identify all access privileges granted to a user.

Acceptable Use Policy

Each user is responsible for reading and complying with the VDSS Acceptable Use Policy by signing the Acceptable Use Acknowledgement Form. The Acceptable Use Policy can be found on the **VDSS Local Agency Web Site** at:

http://spark.dss.virginia.gov/divisions/dis/technical_support/files/policies_standards_manual_procedures/policies/acceptable_use_policy.pdf

Required Audit Procedure: Through observation and conversation determine user awareness of this policy.

Continuity of Operations

Each agency should have a documented Business Continuity Plan. The requirements for the Business Continuity Plan should point to the following URL on VDEM's website and should reference the plan template located under "Department Plan":
http://www.vaemergency.com/library/coop/local_govt/index.cfm

Required Audit Procedures:

1. Determine that there is a current documented Business Continuity Plan based on the Department Plan Template (updated within the previous 12 months)
2. Determine that the plan established COOP program procedures addressing three types of disruptions:

- Loss of access to a facility (as in a fire);
- Loss of services due to a reduced workforce (as in pandemic influenza);
- Loss of services due to equipment or systems failure (as in information technology (IT) systems failure).

3. Determine that the plan prioritizes recovery tasks and assigns responsibilities and detail procedures to implement actions to continue essential functions within the recovery time objectives established by the COOP Team to maintain essential functions for up to 30 days.

3-16 Cable Television Services

The 2003 General Assembly passed new legislation on the cable television services provided by local governments. Section 15.2-2108.4 of the Code of Virginia has placed limitations on municipalities providing cable television services. Effective December 31, 2002, any county, city, or town that wants to provide cable television services must ensure they adhere to the legislative requirements before providing this service. These requirements include holding a public hearing; conducting a feasibility study; and calling for a referendum on whether the municipality shall provide the cable television services. These specific requirements are not applicable to any municipality authorized to provide cable television service prior to December 31, 2002.

Prior to December 31, 2002, the City of Bristol was authorized by Section 56-265.4:4 of the Code of Virginia to provide cable television service; therefore, they are grandfathered into this new legislation. The following requirements are currently only applicable to the City of Bristol. All local governments authorized at a later date to provide cable television service will also need to meet these audit requirements.

The legislation requires an annual audit of the municipality's cable television service records; therefore, the auditor must perform the procedures contained in this section regardless of materiality.

Special Requirement – Separate Accounting

Section 15.2-2108.9 of the Code of Virginia requires local governments that provide cable television service to establish an enterprise fund to account for the operations and adopt a separate operating and capital budget for the service.

Required Audit Procedure: Determine whether the local government accounts for the cable television service in an enterprise fund. Also, determine whether the local government adopted a separate operating and capital budget for the service.

Special Requirement – Transferring Funds

The locality providing cable television service is prohibited from transferring any funds from other departments to the Cable Television Enterprise Fund established by this legislation. The locality is also prohibited from cross subsidizing its cable television services with tax dollars; income from other municipal or utility services; below-market rate loans from the locality; or any other means.

Required Audit Procedure: Review the accounting records to determine whether the locality made any inappropriate transfer of funds to the Cable Television Enterprise Fund.

SPECIFICATIONS FOR AUDITS OF COUNTIES, CITIES, AND TOWNS
CHAPTER 4
QUALITY CONTROL PROGRAM

4-1 **General**

This chapter discusses the Auditor of Public Accounts' quality control program. It includes the policies and procedures the Auditor of Public Accounts uses during desk and quality control reviews. This chapter also includes procedures the Auditor of Public Accounts uses when we find a substandard audit quality.

The Auditor of Public Accounts established its quality control program to monitor the quality of local government audits. The quality control program also monitors compliance with generally accepted auditing standards, Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, all of which have been incorporated by reference into these audit specifications.

4-2 **Quality Control Reviews**

Quality control reviews consist of a detailed review of the auditor's working papers to determine adherence to applicable standards. They provide an independent review of the auditor's reports and the working papers supporting those reports.

The Auditor of Public Accounts selects a sample of audits each year for quality control reviews. The sample of audits is normally random, but may include audits selected for the following reasons.

- Significant or repetitive deficiencies found during the previous quality control reviews.
- Concerns raised by local government officials, state agencies, or federal agencies regarding the quality of the audit.
- Audits selected at the discretion of the Auditor of Public Accounts.

The Auditor of Public Accounts notifies firms selected for quality control reviews in writing. Firms will receive notifications as far in advance as possible to allow the firm to prepare for the review.

The reviewer visits the certified public accountant's office and examines the auditor's working papers and certain policies and procedures developed by the audit firm to determine whether:

(1) the audit complies with the Specifications for Audits of Counties, Cities and Towns, issued by the Auditor of Public Accounts;

(2) the audit complies with Government Auditing Standards, issued by the Comptroller General of the United States;

(3) the audit complies with Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations;

(4) the annual financial report complies with generally accepted accounting principles for governmental entities, and

(5) the auditor has perform the agreed upon procedures for the Comparative Report Transmittal Forms as set forth in the Uniform Financial Reporting Manual, issued by the Auditor of Public Accounts.

The reviewer uses a quality control program developed by the Auditor of Public Accounts to assist in the review. A copy of the review program is available upon request.

Audit documentation must meet the standards established by the AICPA and Government Auditing Standards. Consequently, audit documentation should provide a clear record of work performed and should contain sufficient information so that supplementary oral explanations are not required. Failure to document required procedures may result in a qualified opinion concerning adherence to standards.

4-3 Reporting on the Results of Quality Control Reviews

Upon completion of the initial fieldwork, the Auditor of Public Accounts will provide draft copies of the quality control report to appropriate members of the audit firm for review and comment. The audit firm will have a period, not to exceed sixty days, to respond to the draft before the issuance of the final report. At the request of the auditor, the Auditor of Public Accounts will hold a formal exit conference to discuss any findings. This Office will incorporate any valid changes resulting from the auditor's comments or exit conference into a second draft of the report.

Final quality control review reports will consist of a Report on Overall Adequacy of Audit. This report will state whether the audit meets the standards contained in Section 4-2 and if necessary will include a separate Report on Review Findings. The Report on Review Findings will contain matters that require corrective action.

Copies of the final reports will go to the audit firm. In certain circumstances, the Report on Overall Adequacy of Audit will also go to the governing body, state or federal grantor agencies, and/or the Board of Accountancy. We discuss the circumstances for this distribution in the next section.

The Auditor of Public Accounts maintains copies of the final quality control review reports on file as a matter of public record.

4-4 Procedures for Substandard Audits

The Auditor of Public Accounts will communicate all quality control review findings to the auditor. If the auditor receives a qualified opinion regarding adherence to applicable standards, then the Auditor of Public Accounts will consider referral to the governing body, state or federal grantor agencies, and/or the Board of Accountancy as described below.

If the Auditor of Public Accounts notifies the locality’s governing body that the audit does not meet established standards, the notification letter will summarize the findings and identify those areas where the locality has the most risk. The letter also may recommend that the local government require the auditor to perform additional work to reduce the locality's risk.

Where findings relate to state or federal compliance issues, the Auditor of Public Accounts may notify the appropriate state or federal regulatory agencies of its findings. Again, the notification letter will attempt to identify areas where the agency is at risk.

If a substandard audit results from a referable action, then the Auditor of Public Accounts may refer the audit to the Board of Accountancy for investigation and possible action. The Auditor of Public Accounts has adopted the federal government's definition of a referable action as set forth in the President's Council on Integrity and Efficiency's (PCIE) Statement No. 4. A portion of that Statement is presented below:

PCIE Statement No. 4 - Referable Action

A referable action is when the audit report or underlying audit work have significant inadequacies which make the audit so pervasively deficient that users cannot rely on it. The following are significant inadequacies.

1. The auditor is unqualified, i.e., not properly licensed as a CPA or public accountant or not independent.

2. Working papers are sufficiently inadequate to preclude an assessment of the adequacy of the auditor's work on the study of internal controls or the testing of compliance requirements; the deficiency is pervasive rather than isolated.

3. A major component of the report is missing, e.g., financial statement(s), opinion, report on compliance, required supplemental schedule, etc.

4. The auditor fails to correct substandard work on a timely basis.

5. The auditor fails to review compliance with requirements.

6. The auditor fails to perform an appropriate evaluation of internal controls.

7. The auditor commits one or more other gross departures from GAGAS which undermines the creditability of the audit. Some examples are:

   - lack of due professional care;
   - lack of sufficient evidential matter
   - unjustified use of audit guide(s) not considered generally accepted; and
   - lack of site visits.

4-4.5 Notification procedures will follow the completion of the processes outlined in Section 4-3. The Auditor of Public Accounts may provide notification of referral to the governing body, state or federal agencies and/or the Board of Accountancy.

4-5 **Relationship to Other Quality Review Programs**

Government Auditing Standards, issued by the Comptroller General of the United States, requires organizations conducting government audits to have an external quality control review at least once every three years. This quality control review must include at least one governmental audit in its scope.

The American Institute of Certified Public Accounts and the Virginia Society of Certified Public Accountants, as an administering entity, conduct Practice Monitoring Programs (Peer Review and Quality Control Review) that meet the requirements of Government Auditing Standards for audit firms in public practice. The quality control reviews conducted by the Auditor of Public Accounts should not be confused with the American Institute's, Virginia Society's, or other programs designed to meet the external quality control review requirements of Government Auditing Standards. Both the purpose of the reviews and the methods used to conduct the reviews differ.

The programs conducted by the American Institute or Virginia Society assess the adequacy of the audit firm's overall system of quality control. They typically include a study and evaluation of the firm's quality controls and a review of selected engagements for compliance with the firm's policies and procedures. The Auditor of Public Accounts' review involves the selection of only one audit and determines adherence to standards rather than adherence to firm policies. Consequently, the findings for the two reviews may differ in content and significance.

SPECIFICATIONS FOR AUDITS OF COUNTIES, CITIES, AND TOWNS
CHAPTER 5
TREASURER'S TURNOVER AUDITS

5-1 General

This chapter provides background information and required audit procedures for treasurer turnover audits. Turnover audits are conducted whenever a treasurer leaves office. The purpose of the turnover audit is to establish the outgoing treasurer's accountability at the date he or she leaves office. As used in this chapter, the term "treasurer" also applies to directors of finance or other officials performing the duties of the treasurer.

Before starting the turnover audit, the auditor should become familiar with these audit specifications. The auditor also should thoroughly review the local government's most recent audit report to determine the overall scope of the treasurer's responsibilities.

Section 58.1-3136 of the Code of Virginia requires that a turnover audit be performed upon the death, resignation, removal, retirement or other termination of a county or city treasurer. The turnover audit must include all funds handled by the treasurer, although different auditors typically audit state and local funds as described below.

The Code of Virginia requires the Auditor of Public Accounts to audit state funds held by the treasurer whenever a treasurer leaves office. Accordingly, local governments should notify the Auditor of Public Accounts as soon as they become aware of the turnover. The local government hires an independent certified public accountant to audit local and other funds held by the treasurer. Other funds consist of funds for which the treasurer acts as fiscal agent or custodian that are not part of the local government.

Section 58.1-3136 of the Code of Virginia requires turnover audits performed by independent certified public accountants to be performed in accordance with the specifications of the Auditor of Public Accounts. The Auditor of Public Accounts' specifications for turnover audits are contained within this chapter.

The purpose of the turnover audit is to determine the outgoing treasurer's accountability for assets and to turn over the assets to the new treasurer. The outgoing treasurer is personally responsible for any shortages in funds over which he or she is accountable. Once the assets have been turned over, the new treasurer becomes liable for any and all assets.

Before a treasurer leaves office he must turn over all books and records pertaining to his office to the incoming treasurer. (In case of the treasurer's death, the individual representing the deceased treasurer's estate assumes this duty.) Section 58.1-3138 of the Code of Virginia requires the incoming treasurer to issue a receipt for the records received. The turnover schedules described in this chapter constitute this receipt.

The receipts provide a permanent record of all assets and liabilities turned over to the incoming treasurer. Both the outgoing and incoming treasurers must sign the receipts. The outgoing treasurer's signature relieves them of responsibility for the assets listed. The incoming treasurer's signature indicates his or her assumption of the liability for the assets being turned over to them.

The outgoing treasurer brings this accounting to the circuit court. The clerk of the circuit court publishes a notice of final discharge in accordance with § 58.1-3145 of the Code of Virginia. After the final notice is published, the court enters an order discharging the outgoing treasurer from all liability. The incoming treasurer is then responsible for the assets turned over to him, including the collection of unpaid taxes.

The local government is responsible for hiring an independent certified public accountant to audit local and other funds held by the treasurer. Local governments often employ the auditor responsible for the financial statement audit to conduct the turnover audit. However, they may contract with other auditors.

5-2 Statutory Authority for Turnover Audits
Code of Virginia

§ 58.1-3136. Audits of treasurers upon termination of office.
Notwithstanding any other provision of law, upon the death, resignation, removal, retirement or other termination of a treasurer, an audit of all accounts of his office pertaining to state funds shall be performed by the Auditor of Public Accounts at no cost to the county or city. An audit of all such accounts pertaining to local and other funds shall be performed by the Auditor of Public Accounts or an independent certified public accountant, at the option of the local governing body, and the cost thereof shall be paid by such governing body. Audits not performed by the Auditor of Public Accounts shall be performed according to his specifications and a copy of the audit report shall be filed with the Auditor for his approval.

§ 58.1-3138. Delivery of books, tax tickets, and other materials to successor treasurer or court clerk.
Whenever a vacancy in the office of treasurer is filled by appointment, the court or judge making the appointment shall, at the time the appointment is made, if the vacancy exists by reason of the death, resignation or removal from office of the treasurer, order such treasurer or his personal representative, as the case may be, to deliver all books and papers in his possession as treasurer, including all tax tickets for taxes and levies for the current year for which he has not accounted and paid into the treasury, to the officer so appointed. The appointed officer shall prepare and issue a receipt to such treasurer or his personal representative for the material received. When no appointment is made or the officer appointed fails to qualify, the court shall order the deposit of such materials to be made with the clerk of the circuit court, who shall give a receipt therefore and hold such materials subject to the order of the court.

When the term of office of a treasurer expires by limitation he shall deliver forthwith to his successor in office all the books and papers in his possession, including all tax tickets for taxes and levies for the current year for which he has not accounted and paid into the treasury, and take a receipt therefore. The receipt so furnished to any treasurer or his representative shall be allowed as a credit for the amount thereof in the settlement of his account and the amount of tax tickets and levies covered by such receipt shall be charged against his successor in office.

§ 58.1-3145. How treasurer may secure final discharge from liability.
Any treasurer or, if he has died, his personal representative, at any time after the expiration of his term shall produce before the circuit court of the county or city of which he is treasurer the respective certificates of the Comptroller, of the governing body of such county or city and of the school board of such county or city. These certificates shall show the final settlement of his account as treasurer and the proper accounting for and turning over of all the moneys or other property, including the tax tickets for the current year, that had or should have come into his hands as such treasurer during the term and the receipt of his successor in office, provided for in § 58.1-3138. The court shall then enter an order requiring the clerk of the court to publish, once a week, for four successive weeks, in some newspaper to be designated in the order and by posting at the

front door of the courthouse of the county or city, a notice that such treasurer will, on the day to be named in the order, move the court to enter an order of final discharge to such treasurer. These provisions shall not apply to treasurers who retain their office at the end of the term.

5-3 Attestation Standards and Examination Contract

Requirement: Auditors must perform the treasurer turnover audit in accordance with the Statements on Standards for Attestation Engagements (SSAE) issued by the AICPA and the Specifications for Treasurer's Turnover Audits issued by the Auditor of Public Accounts.

For the attest engagement, the Auditor must examine the Treasurer's final settlement schedules. These schedules, included in the turnover examination report, are designed to demonstrate the treasurer's accountability at the turnover date and to provide a detailed listing of assets turned over to the incoming treasurer. Because of this special purpose, the settlement schedules are not intended to be a presentation in conformity with generally accepted accounting principles. The settlement schedules are prepared on the cash basis of accounting. The Code of Virginia prescribes the cash basis of accounting for treasurers in their capacity as custodian of local and state funds.

Turnover examinations must be conducted in accordance with Statements on Standards for Attestation Engagements (SSAE) issued by the AICPA and the requirements set forth in this chapter. The required procedures contained in this chapter do not constitute an examination in accordance with attestation standards. Consequently, the auditor must perform such additional procedures, as he deems necessary to satisfy those standards. In addition, the auditor must perform any additional procedures required by the audit contract.

Auditors should obtain a mutual understanding about the objectives and subject matter of the examination with the local government. The examination contract should incorporate any additional local government expectations.

5-4 Working Papers

Turnover audits are subject to the quality control reviews described in Chapter 4 of the *Specifications for Audits of Counties, Cities, and Towns*. Auditors must

make their working papers available for review by the Auditor of Public Accounts upon request.

5-5 Receipt of Office Assets and Cut-Off Procedures

General Information: The auditor should make an attempt to be present on the turnover date to receipt the treasurer's assets and to ensure that a proper cutoff is achieved. An accurate cutoff is necessary to determine the outgoing treasurer's accountability at the turnover date. The outgoing treasurer should prepare deposit slips covering cash on hand to be deposited in the bank the next business day.

The treasurer is responsible for notifying the banks and other financial institutions of the turnover. The outgoing treasurer should not be permitted to sign any checks after the turnover date. As a result, it is especially important that the incoming treasurer notify the banks of the change in authorized check signers.

Requirements: Verify that the treasurer has notified the banks of the turnover and change in authorized check signers.

The auditor must assure that a proper cutoff of deposits, cash disbursements (checks), and revenues has occurred as of the close of business on the outgoing treasurer’s turnover date.

The auditor must be present in the treasurer's office at, or promptly following, the turnover date to receipt all office assets. The auditor must count and schedule all cash, certificates of deposit, investments, dog tags, other tags and decals, county motor vehicle licenses, state jury warrants, paid warrants, bonds and coupons, and other assets of the treasurer (exclusive of uncollected taxes tested below). The outgoing treasurer, or his authorized representative, should be present at the time and must sign the auditor's count sheets thereby certifying to the accuracy of the count of cash and other assets.

The auditor shall obtain a listing of all banks and other financial institutions used by the outgoing treasurer. The auditor must reconcile, or test the treasurer's

reconciliation, of all bank accounts used by the treasurer. The auditor also must confirm all bank accounts used by the treasurer.

The auditor should obtain the listings of unpaid taxes. In the event detailed listings of unpaid taxes are not available, the auditor may need to refer to the tax assessment books. The auditor must determine the balance of uncollected taxes.

The auditor must review or prepare the reconciliation of the detailed listing of unpaid taxes or the totals per the assessment book to the appropriate general ledger accounts. After an accurate balance is obtained, the auditor must schedule unpaid taxes by category. The outgoing treasurer, or his authorized representative, must sign the auditor's count sheets thereby certifying to the balance of unpaid taxes.

General Information: The Auditor of Public Accounts examines the state funds handled by the treasurer. The Auditor of Public Accounts will prepare the necessary schedule and provide it for the local auditor to include in the bound report.

5-6 Uncollected Taxes

General Information:

Property taxes are the largest source of revenues in most local governments. Property taxes typically consist of real estate taxes, personal property taxes, machinery and tools taxes, merchants' capital taxes, and mobile homes taxes. They also consist of real estate and personal property taxes on public service corporations.

The commissioner of the revenue maintains the original assessment books showing the value of property. The commissioner forwards copies of the assessment books to the treasurer who records the levy in the local government's books and mails the tax bills. The treasurer typically collects the taxes and maintains the subsidiary listings for taxes receivable.

Taxes receivable consist of both current and delinquent taxes. Delinquent personal property taxes typically remain on the books for five years. Delinquent real estate taxes remain on the books for twenty years or until the property is sold for back taxes.

The auditor is not required to test state taxes receivable. The Auditor of Public Accounts audits state funds handled by the treasurer and prepares the necessary schedules. At the completion of the audit, the Auditor of Public Accounts provides the schedules to the local auditor for inclusion in the bound report.

5-7 Completion of the Examination

Requirements: The auditor must obtain or prepare turnover schedules and receipts of assets as described in section 5-9. If the treasurer prepares the turnover documents, the auditor must verify the accuracy of the schedules and receipts by agreeing them to appropriate documentation. The auditor must obtain the signature of the incoming and outgoing treasurers acknowledging their acceptance of the accuracy of the balances transferred between them on the turnover documents. A notary must witness the treasurers' signatures. The auditor should distribute a copy of the turnover schedules and receipts to each of the treasurers. The auditor should also prepare a copy of the turnover schedules and receipts for inclusion in the turnover examination report.

The auditor shall obtain from the Auditor of Public Accounts the turnover Audit Report that includes the Turnover Receipts of Assets from Outgoing Treasurer to Incoming Treasurer for inclusion in the turnover report.

5-8 Contents of the Turnover Report

The county or city treasurer's turnover report should contain the examination report, the treasurer's schedule of assets and liabilities, and the turnover receipts. The examination report with turnover documents must be submitted to the Auditor of Public Accounts. Sample formats for the examination report and turnover schedules are available on the Auditor of Public

Accounts web site at
http://www.apa.virginia.gov/local_government/manuals.htm.
Other formats are acceptable to this Office if they contain all of the relevant information.

The outgoing treasurer is responsible for the final turnover schedules. However, some local governments prefer to have their auditors prepare the required schedules. When contracting for audit services, the contract documents should specify whether the auditor will prepare the required schedules or simply report on them. Regardless of who prepares the schedules, the outgoing and incoming treasurers must sign the turnover receipt documents and a notary must witness the signatures. If the outgoing treasurer has died, the turnover documents should be signed by the treasurer's representative in accordance with § 58.1-3138 of the Code of Virginia.

Examination Report: The accountant's examination report expresses an opinion on whether the turnover schedule and receipts of assets are presented fairly, in all material respects.

Turnover Schedule: The Schedule of the Treasurer's Assets and Liabilities represents a summary of cash, other asset, and liability balances held by the treasurer at the turnover date.

Turnover Receipts of Assets: The turnover receipts of assets provide a detailed listing of the treasurer's assets being turned over to the incoming treasurer. There are several different turnover receipts as listed below. The outgoing and incoming treasurers must sign each applicable receipt, and a notary must witness these signatures.

Required Turnover Receipts of Assets

Turnover Receipt of Cash and Cash Items on Hand from Outgoing Treasurer to Incoming Treasurer

Turnover Receipt of Returned Checks on Hand from Outgoing Treasurer to Incoming Treasurer

Turnover Receipt of Cash on Deposit from Outgoing Treasurer to Incoming Treasurer

Turnover Receipt of Cash Equivalents and Investments from Outgoing Treasurer to Incoming Treasurer

Turnover Receipt of Uncollected Real Estate Taxes from Outgoing Treasurer to Incoming Treasurer

Turnover Receipt of Uncollected Personal Property Taxes from Outgoing Treasurer to Incoming Treasurer

Turnover Receipt of Uncollected Public Service Taxes from Outgoing Treasurer to Incoming Treasurer

Turnover Receipt of Uncollected State Taxes from Outgoing Treasurer to Incoming Treasurer
(The Auditor of Public Accounts provides this Schedule)

Turnover Receipt of Other Assets from Outgoing Treasurer to Incoming Treasurer

Turnover Receipt of Unused Receipt Books from Outgoing Treasurer to Incoming Treasurer

Turnover Receipt of Unsold Dog License Tags from Outgoing Treasurer to Incoming Treasurer

Turnover Receipt of Unsold Vehicle License Decals from Outgoing Treasurer to Incoming Treasurer

5-9 **Reporting**

The auditor should follow the AICPA's standards of reporting on attestation engagements.

Attestation standards require the auditor to render an opinion on the specified subject matter. For treasurer turnover engagements, the subject matter is the Schedule of the Treasurer's Assets and Liabilities and the Turnover Receipts of Assets. In rendering this opinion, the auditor must determine whether the schedule and related turnover receipts present fairly, the treasurer's assets turned over to the incoming treasurer on the cash basis of accounting at the turnover date. The accountant's examination report must also reference these specifications.

Additionally, the accountant's report should include a reference to the work of other auditors. As previously discussed, the Auditor of Public Accounts

examines the Commonwealth funds held by the treasurer and issues a schedule of accountability. The auditor must include this schedule in the turnover report.

In the event the examination discloses fraud or illegal acts, the auditor must report the fraudulent transactions to the Auditor of Public Accounts and the Department of State Police in accordance with Section 30-138 of the Code of Virginia, and advise local government officials accordingly.

One copy of the turnover report package must be submitted to the Auditor of Public Accounts as soon as practical after the audit is complete.