

**Virginia Soil and Water Conservation Board
Audit Subcommittee
Wednesday, March 23, 2022
Drury Plaza Hotel, Richmond, Virginia**

TIME AND PLACE

The meeting of the Virginia Soil and Water Conservation Board Audit Subcommittee took place at 9:30 a.m. on Wednesday, March 23, 2022 at the Drury Plaza Hotel in Richmond, Virginia.

SWCB AUDIT SUBCOMMITTEE MEMBERS PRESENT

Adam Wilson, Chair
Charles Newton
One Vacancy

DCR STAFF PRESENT

Matt Wells, Director
Darryl Glover, Deputy Director for Soil and Water Conservation/Dam Safety and Floodplain Management
Wendy Howard Cooper, Director, Division of Dam Safety and Floodplain Management
James Martin, Director, Division of Soil and Water Conservation
Christine Watlington Jones, Policy and Regulatory Coordinator
Michael Fletcher, Board and Constituent Services Liaison
Blair Gordon, SWCD Liaison
Amy Walker, Eastern Area Manager
Denney Collins, Conservation District Coordinator
Marissa Roland, Conservation District Coordinator
Dan Ingersoll, Office of the Attorney General

OTHERS PRESENT

Charles A. Arnason, VSWCB Chair
Kendall Tyree, VASWCD
Janet Gayle Harris, Tri-County/City SWCD
Giannina Frantz, Tri-County/City SWCD

ESTABLISHMENT OF A QUORUM

With two (2) members of the Audit Subcommittee present, a quorum was established.

CALL TO ORDER

Chairman Wilson called the meeting to order and noted that a quorum was present.

APPROVAL OF MINUTES FROM FEBRUARY 15, 2022

Ms. Watlington Jones advised that the minutes had been edited to note that the full motion regarding the Robert E. Lee SWCD would be presented to the Board for final approval.

Mr. Newton moved that the minutes be approved as amended. Chairman Wilson seconded and the motion carried.

REVIEW AND DISCUSSION OF TRI-COUNTY/CITY PERFORMANCE IMPROVEMENT PLAN

Chairman Wilson noted that two representatives from the Tri-County/City SWCD were present. He advised that there were questions from the Performance Improvement Plan (PIP) the District had adopted two years ago. He reviewed the issues of concern from the letter to the District.

- **Attachment E Reporting**
 - The Attachment Es filed for each quarter had variances from the accounting system. Also, the annual revenues and expenditures were overstated on the Schedule E's by roughly the same amount. However, the ending balances on the Schedule E's for FY 21 agreed to the balance in the accounting system. We recommend that all Attachment E's be reviewed carefully to ensure that the total on the Attachment E agrees to the total cash on the District's balance sheet as of that date.

- **Bank Reconciliations**
 - There were variances noted between the bank reconciliations provided and the cash totals on the balance sheet. The reconciliation balance for the operating account as of 6/30/21 did not agree with the balance in the accounting system. RFC was able to perform a reconciliation to verify the true reconciled balance. We recommend that the District make sure that the reconciled balance on the bank reconciliation always agree to the amount reported in Quickbooks.

- **Check Issuance / Disbursements**
 - There were several checks written during the year for which no documentation could be provided to support the disbursements. Specifically, of the fifteen randomly selected checks for testing disbursements, there were four checks that we could not be provided documentation for. We recommend that no check be written unless there is sufficient documentation on hand to support the disbursement.
 - Additionally, that documentation needs to be retained for all disbursements.
 - Checks were being issued out of numerical sequence at times during the year under audit. We recommend that checks and electronic charges be issued in numerical sequence and dated when payments are initiated.
 - All invoices should be reviewed and initialed by two authorized representatives of the District prior to payment. RFC noted several instances where invoices selected for testing had no signature of approval.
 - During the year, there were several expenses that were posted to the incorrect expense line. The most notable instances were between rent and utility payments. We recommend that the correct expenditure account be noted on the invoice when it is received, and that all disbursements are then posted to the correct account in the accounting system.
 - During the year, the former Administrative Professional for the District made a personal purchase with the District's credit card. She later paid the amount back to the District. However, she then accidentally made payments on the District's credit card account

balance. From there, she made a payment to herself from the District to reimburse herself for these payments. We recommend that careful review be applied to all credit card charges on a consistent basis. Additionally, make sure that no former employee has access to the District's credit card or access to the credit card online account.

- **Payroll Items**

- During our test of payroll, we noted that there was a payment of \$2,000 to the prior Conservation Specialist as a payment of recognition. However, this payment does not appear to have been processed through payroll and had the appropriate tax withholdings and payments made. We recommend that anytime an employee is paid a bonus that it be processed through payroll.
- During our test of payroll, we noted that there was an employee that was paid a bonus during the year of \$1,500. However, the documentation that we observed indicated that the payment should have been \$1,000. It was determined that the appropriate amount was paid, but that the documentation contained a typographical error. We recommend that careful preparation and review be applied to all payments to employees for both salaries and bonus payments.

Ms. Frantz commented that for the last year or so she had not been able to be active as Chair of the Board. She advised that Ms. Harris would review some of the PIP information. Ms. Harris was chair of the PIP committee that focused on developing the PIP the State? Board received in November. The District Manager sent a revised PIP on March 8.

Ms. Frantz noted that, as of that morning, the District Manager was no longer with the District. She advised that the SWCD Board believed that the District Manager was not properly overseeing District operations. The Board feels that the District Manager was given too much flexibility.

Ms. Frantz advised that many of the policies in the PIP had been approved on the preceding Friday. Those include financial and personnel policies, and the bylaws. All of the bank sheets have been reconciled.

Ms. Frantz commented that the previous administrator had used the District credit card for personal purchases. This was identified in the audit. The credit card policy and procedures are being updated.

Ms. Frantz noted that there had been significant staff turnover, including having three administrative professionals in four years.

The SWCD board is working to ensure that the staff has the proper training. In addition CDC Marissa Roland is coming in once a week to assist.

Ms. Harris reviewed the process of developing the PIP.

Ms. Harris advised that the PIP development committee believed they had an understanding with the District Manager regarding the PIP. There were several instances where revisions were made that were not authorized by the committee.

Ms. Harris commented that it was her belief that a lot of the corrective changes have now been made. The SWCD board has taken a look at the weaknesses and determined where additional oversight is needed.

Chairman Wilson acknowledged that staff turnover does make changes difficult. However, he noted that in dealing with taxpayer funds the process is not designed to be easy.

Chairman Wilson commented that it appeared that the District is headed in the right direction but noted that writing the PIP is one thing, but implementation is more important. He noted that other Districts also dealt with high turnover and COVID, but were able to meet their responsibilities.

Mr. Newton commended the District for having a PIP they can implement. He asked Ms. Roland to provide additional insight.

Ms. Roland advised that the District is in a better position than when the process was started. She advised that the District Manager did make the process more difficult at times.

Ms. Frantz noted that some of the problems were observed in the last year. Decisions were made without the Board's knowledge. She commented that all of the blame was not the fault of the District Manager. Board members should have paid closer attention to what was happening. She noted that in the previous audit findings there were issues identified. The previous administrative professional left, but the Board believed the policies had been put in place to correct the problems.

Ms. Frantz advised that the Board will now have regular meetings with the staff to review policies and activities.

Chairman Wilson advised the District to make a timeline for the year noting when each task was due. This should be reviewed on a regular basis and should note the individual responsible for each task.

Mr. Newton expressed appreciation for the support being provided by DCR staff.

SUBCOMMITTEE ACTION

Mr. Newton moved the following:

The Audit Subcommittee of the Virginia Soil and Water Conservation Board directs the Department to send a letter to Tri-County/City Soil and Water Conservation District (District) directing the District to submit a corrective plan of action to the Department for review and approval no later than June 1, 2022. The corrective action plan must outline the steps that have been or will be taken to correct the issues identified in the audit report. This plan must include any relevant changes to policies, procedures and staff responsibilities, as well as planned training activities. Within 90 days of approval of the corrective action plan by the Department, the District must fully implement the corrective action plan and incorporate all changes to policies and procedures into its normal operations.

The corrective action plan must address the following elements:

1. Ensuring all employee recognition payments are appropriately taxed:
 - a. All monetary recognition for employees must be processed through payroll and have the appropriate tax withholdings made.
 - b. A review of the existing procedures regarding the processing of employee recognition and bonus payments; and
 - c. The adoption of a formal process by the District Board, based on the review of the current process, to ensure all employee compensation is made through the payroll system and taxed appropriately and in accordance with the IRS guidelines and the Desktop Procedures for District Fiscal Operations.

2. Ensuring all employee bonuses are documented and accurately paid:
 - a. All employee bonuses must be approved by the District Board; the amount of the bonus and the Board approval of the bonus must be accurately reflected in the meeting minutes. Minutes showing the approved compensation should be maintained in the employee files.
 - b. Employee bonuses should be awarded in a separate check from the regular payroll to ensure compensation matches the Board approved amount.
 - c. A review of the District's existing procedures regarding the processing of employee recognition and bonus payments.
 - d. A review of the District's existing procedures regarding reconciliation and check signing for District payroll and additional compensation; and
 - e. The adoption of formal processes by the District Board, based on the review of the current processes, to ensure all employee compensation is accurately paid.

Additionally, the District will be required to undergo a special one-year audit for the period ending June 30, 2022. The cost of this special audit will be at the expense of the District and will be reduced from the FY2023 administration and operation allocations.

Further, as the District failed to address all required components of the Performance Improvement Plan (PIP) required by the Virginia Soil and Water Conservation Board on September 23, 2021; and as of March 10, 2022, the District Board has yet to approve revisions recommended by the Department and the District's PIP Committee; and as issues continue to be present regarding the submission of accurate and complete quarterly reports; and as during the regular financial audit of the District, additional deficiencies were found; the Virginia Soil and Water Conservation Board, at the recommendation of the Audit Subcommittee, directs the following:

1. 25% of the District's total allocation established under the Virginia Soil and Water Conservation Board Policy on Soil and Water Conservation District Administration and Operations Funding Allocations for Fiscal Year 2023 will be withheld from the District.
2. The funds being withheld will be provided to the District either through the regular fourth quarter disbursement of FY2023 or through a special disbursement during the fourth quarter of FY2023 if the District complies with all of the following:
 - a. All policies and procedures identified in the PIP as well as the corrective action plan required by this action are fully implemented to the satisfaction of the Department;

- b. All FY2023 quarterly reports, as well as FY2022 end of year reports, are submitted accurately and by the expected deadlines; and
- c. No new findings are identified during the FY2022 one-year special audit.

Chairman Wilson seconded and the motion carried as amended.

REVIEW OF 2021 AUDIT RESULTS

Approval of District Audit Result Notification Letters

Ms. Watlington Jones noted the following with regard to the General Management Letter:

- Attachment E related
 - Several Districts received funding from the Commonwealth that included pass-through Federal funding that was not properly classified on the Attachment E as Federal funds. All Federal funding should be reported in the Federal category on the Attachment E.
 - A few Districts improperly reported banking transfers in the receipts and disbursements in QuickBooks. Receipts and disbursements were properly reported net of the bank transfers on the Attachment E but this caused reconciling issues between the accounting system and the Attachment E. Transfers between bank accounts should be properly recorded in QuickBooks and these transactions should not increase the reported receipts and disbursements.
 - There were a few Districts that posted certain revenue amounts received to expense accounts in Quickbooks rather than a revenue. This causes revenues and expenses to be understated.
 - There are several Districts that are making changes to beginning balances on the Attachment E so that the individual lines don't agree to the prior year's last Attachment E. However, in total, the balance agrees. Transfers should be made rather than changing beginning balances.
- Accounting system
 - There was one District that had all of the quickbooks information deleted during the years under audit. Additionally, the backups of the quickbooks were also deleted. The reason for this was that the backups were saved on the same machine that held the original quickbooks data. We recommend that all Districts make sure that their quickbooks data is being safely backed up to either an external device and/or cloud storage.
- Check Issuance
 - All invoices should be reviewed and initialed by two authorized representatives of the District prior to payment. RFC noted several instances at various Districts where invoices selected for testing did not have the documented approvals by District representatives.

- Insured Bank Accounts
 - During the course our audit, RFC noted that several Districts had cash in banks that were not being reported as public funds and thus not insured under the Virginia Security for Public Deposits Act. We also noted that one District owns 220 shares of Wellpoint, Inc. stock that is neither FDIC nor covered under the Virginia Security for Public Deposits Act or the Securities Investor Protections Corporation.

- Payroll Items
 - The Desktop Procedures for District Fiscal Operations requires that “District recordkeeping should reflect best practices of separating payroll information by Gross Pay, Fringe Benefits, Payroll taxes, etc.” There are several Districts where the payroll is not being recorded in accordance with the above requirements.

- Cost Share Payments and Documentation
 - We noted multiple projects where the support for Part II estimate amounts were not retained on file. We recommend that all original and updated cost estimate sheets be retained on file, and that all Part II forms be properly updated and signed during the course of the project.
 - We noted two Part IIs and one Part III form that did not have all required signatures. The Part IIs and Part IIIs must be properly filled out and signed and kept on file.

- Travel Reimbursements
 - During our audit of checks issued, we examined mileage and travel reimbursements at each District. Specific travel information should be documented on the reimbursement form. We recommend that specific travel destinations, miles traveled, mileage rate used and purpose of travel be noted on the time record or travel log form when mileage reimbursements are requested. Each District should adopt a written travel policy that details specific travel forms to use, per diem rates, required receipts and the frequency of filing required. This will improve the audit trail over travel reimbursements.

- Travel Reimbursements (Continued)
 - The Desktop Procedures say that mileage is reimbursable at a rate not more than the Federal IRS rate. There were instances where this wasn’t adhered to at a few Districts. The Board of Directors for each district needs to make sure that they address this at the beginning of each calendar year and that any mileage request forms are updated at this time.
 - We noted instances where reimbursements (usually mileage) were made past 60 days from when the expense occurred. Per IRS Publication 463, employees must account for expenses within 60 days after they were incurred. We recommend that all reimbursed employee expenses follow IRS Publication 463.

- Credit and Debit Cards

- Per Desktop Procedures, credit card statements and accompanying reconciliation are to be approved by the Treasurer or a Director with check signing ability. In several cases, it is someone else that is approving the credit card statement. Additionally, there were some instances where someone using a credit card approved the credit card statement and reconciliation.
- Check Images
 - There was one District that was not obtaining copies of cancelled checks from their bank. It is important to receive cancelled checks from the bank as it is the only practical means of making sure that a check was actually written to the correct recipient, and that it had all required signatures.
- Sales Tax
 - The Desktop Procedures indicates that Districts shall get a tax exemption for all stores that are frequented more than three times in a fiscal year, or where any one purchase is \$100 or greater. There were many instances during the year where sales tax was paid, at multiple districts. The Districts should file exemptions with their local retailers to better ensure compliance with this policy.
- Certificates of Deposit
 - Interest is not being recorded as timely as possible at some Districts for certificates of deposit that are held. While most banks don't send out monthly statements, the balances can be confirmed at <https://spda.trs.virginia.gov/quarterlysearch.aspx> on a quarterly basis.

SUBCOMMITTEE ACTION

Mr. Newton moved that the Audit Subcommittee of the Virginia Soil and Water Conservation Board direct the Department to send letters to all Districts audited for the fiscal years that ended on June 30, 2020 and June 30, 2021. The letter must advise the Districts of deficiencies and recurring issues noted by the auditors that must be addressed.

Chairman Wilson seconded and the motion carried.

Recommended action related to Henricopolis SWCD

Ms. Watlington Jones reviewed concerns regarding Henricopolis SWCD.

- **Accounting system**
 - The District's Quickbooks information was deleted during the two years under audit. Additionally, the backups of the Quickbooks were also deleted. The reason for this was that the backups were saved on the same machine that held the original Quickbooks data. This led to variances on year-end balances from what had previously been entered into Quickbooks and what was reported on the Attachment Es that were sent to DCR.

We recommend that the District make sure that their Quickbooks data is being safely backed up to either an external device and/or cloud storage. There was a bank account created in Quickbooks that did not really exist. Additionally, a deposit was posted to this account in Quickbooks in the amount of \$47,183.84. We recommend that District review it's balances in Quickbooks to make sure that all cash accounts being reported are accurate.

- **Attachment E Reporting**

- The Final Attachment E reported to DCR for the year ended June 30, 2020 did not agree to the cash total on the balance sheet by \$56,976.48. The primary reason for this is that the Cost Share balance was omitted from the Attachment E. We recommend that all Attachment Es be reviewed carefully to ensure that the total on the Attachment E agrees to the total cash on the District's balance sheet as of that date.

- **Bank Reconciliations**

- There were variances noted between the bank reconciliations provided and the cash totals on the balance sheet. For June 30, 2020, total cash on bank reconciliations totaled \$463,161.89 while the total cash on the District's balance sheet was \$497,161.89 – a difference of \$33,846.87. The primary reason for this difference was that a check written for \$35,113.00 cleared the bank in June 2020, but was not posted in Quickbooks until July 2020. For June 30, 2021, total cash on bank reconciliations totaled \$455,479.77 while the total cash on the District's balance sheet was \$455,626.65 – a difference of \$146.88. We recommend that the District make sure that the reconciled balance on the bank reconciliation always agree to the amount reported in Quickbooks.

- **Check Issuance / Disbursements**

- All invoices should be reviewed and initialed by two authorized representatives of the District prior to payment. RFC noted several instances where invoices selected for testing only had one signature of approval, rather than two. We noted that that were some check numbers used twice on different checks during the year. We recommend that the check stock be reviewed carefully so that there are no duplicate check numbers utilized.

- **Payroll Items**

- During our test of payroll, we noted that an FLSA non-exempt employee was not being paid at one and a half times their regular rate for overtime and/or comp time worked. We recommend that FLSA guidelines be followed for paying non-exempt employees the correct rate for any overtime or comp time worked.

- During our reconciliation of the quarterly 941's to the salary amounts in the accounting system, we noted that VRS employee contributions are not being properly deducted from federal wages reported. Employee contributions to VRS are not subject to federal and state

income tax, but are subject to FICA and Medicare tax. We recommend that the payroll filings (quarterly 941's and annual W-3/W-2's) properly reflect the taxable earnings that don't include VRS employee contributions.

- During our reconciliation of VRS payments to retirement expenditures recorded in the accounting system, we noted that the amounts reflected on the payroll summaries provided did not match the VRS amounts reported on the VRS online system. The payments made during the year matched what was on the VRS online system. Additionally, we noted multiple late payments for VRS and ICMA-RC. We recommend that verifying that VRS amounts on the payroll summaries are matching what is being show on the VRS online system. Additionally, VRS and ICMA-RC amounts need to be paid by the required due dates.

SUBCOMMITTEE ACTION

Mr. Newton moved the following:

The Audit Subcommittee of the Virginia Soil and Water Conservation Board directs the Department to send a letter to Henricopolis Soil and Water Conservation District (District) directing the District to submit a corrective plan of action to the Department for review and approval no later than June 1, 2022. The corrective action plan must outline the steps that have been or will be taken to correct the issues identified in the audit report. This plan must include any relevant changes to policies, procedures and staff responsibilities, as well as planned training activities. Within 90 days of approval of the corrective action plan by the Department, the District must fully implement the corrective action plan and incorporate all changes to policies and procedures into its normal operations.

The corrective action plan must address the following elements:

1. The loss of District financial records:
 - a. The lost QuickBooks financial records for FY2020 and FY2021 should be reconstructed to the best of the District's abilities. It is highly recommended that the District utilize a CPA firm to assist with this reconstruction.
 - b. A review of the existing procedures regarding the required monthly back-ups of the District's QuickBooks records; and
 - c. The adoption of a formal process, approved by the District Board, based on the review of the current process, to ensure all financial report back-ups are being completed timely and in accordance with the Desktop Procedures for District Fiscal Operations.
2. Ensuring all employees are being compensated in accordance with Fair Labor Standards Act (FLSA):
 - a. All employees must have an updated FLSA checklist completed and recorded in the employees file.
 - b. Non-exempt employee timesheets for FY2020 and FY2021 must be reconciled for overtime hours and any compensation owed to an employee must be paid in accordance with FLSA.

- c. An examination of the existing review process for employee timesheets and overtime compensation; and
 - d. The adoption of a formal process, approved by the District Board, based on the review of the current process, to ensure all employee timesheets are reconciled and overtime compensation is provided in accordance with FLSA.
3. Ensuring proper reconciliation and reporting of VRS contributions:
- a. The District must reconcile the FY2020 and FY2021 quarterly submissions of the IRS Form 941 to ensure all VRS contributions have been reported properly as nontaxable.
 - b. The District must reconcile all VRS contributions reflected on the payroll summaries to VRS statements to ensure that each employee's VRS contributions are being accurately paid.
 - c. An examination of the existing process to determine where improvements should be made to ensure all VRS and ICMA-RC payments are submitted by the required due dates.
 - d. The adoption of a formal process, approved by the District Board, based on the review of the current processes, to ensure all VRS and ICMA-RC payments are submitted by the required due dates

Additionally, the District will be required to undergo a special one-year audit for the period ending June 30, 2022. The cost of this special audit will be at the expense of the District and will be reduced from the FY2023 administration and operation allocations.

Further, as the District was directed to develop and implement a Performance Improvement Plan less than two years ago for failing to meet grant deliverables for financial reports and financial management; and as the most recent audit has found significant financial deficiencies; the Virginia Soil and Water Conservation Board, at the recommendation of the Audit Subcommittee, directs the following: Virginia Soil and Water Conservation Board March 23, 2022 Agenda Item D.3

1. 15% of the District's total allocation established under the Virginia Soil and Water Conservation Board Policy on Soil and Water Conservation District Administration and Operations Funding Allocations for Fiscal Year 2023 will be withheld from the District.
2. The funds being withheld will be provided to the District either through the regular fourth quarter disbursement of FY2023 or through a special disbursement during the fourth quarter of FY2023 if the District complies with all of the following:
 - a. All policies and procedures identified in the PIP as well as the corrective action plan required by this action are fully implemented to the satisfaction of the Department;
 - b. All quarterly reports, as well as FY2022 end of year reports, are submitted accurately and by the expected deadlines; and
 - c. No new findings or concerns are identified during the FY2022 one-year special audit.

Mr. Wilson seconded and the motion carried as amended.

RECOMMENDED ACTION RELATED TO SIGNATURES ON VACS CONTRACTS

Ms. Watlington advised that each year during the grant deliverable assessment there are comments that portions of the VACS contract are not complete. The issue is that the contracts are not signed and are therefore not valid. She noted that the Department was recommending that if any parts are not signed, the District will be responsible for the cost of that particular practice as well as the associated Technical Assistance Funds.

SUBCOMMITTEE ACTION

Mr. Newton moved the following:

The Virginia Soil and Water Conservation Board, with the recommendation of the Audit Subcommittee, directs the following:

1. For any practice funded in whole or in part by the VACS Program, a VACS contract must be completed and signed in its entirety by both the appropriate District staff or District Director and the participant;
2. VACS cost-share files will be examined during financial audits, administrative cost share file reviews, and verifications to ensure the appropriate signatures have been obtained;
3. For any practice marked complete and issued payment on or after July 1, 2022, failure to obtain the appropriate signatures on a VACS contract in its entirety will result in the amount provided in VACS cost-share funding for the practice, including the associated technical assistance funding, being withheld from the District's cost-share and technical assistance allocation for the next fiscal year by the Department.

Chairman Wilson seconded and the motion carried.

NEXT MEETINGS

The Audit Subcommittee will meet in September on a date to be determined.

ADJOURN

There was no further business and the meeting adjourned at 10:06 a.m.