

**SPECIFICATIONS FOR AUDITS OF
AUTHORITIES, BOARDS, AND COMMISSIONS**
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**SPECIFICATIONS FOR AUDITS OF
AUTHORITIES, BOARDS, AND COMMISSIONS**

CHAPTER 1

INTRODUCTION

Introduction

The General Assembly has created numerous authorities, boards, and commissions through either general or special laws. The Auditor of Public Accounts has responsibility in accordance with Section 30-140 of the Code of Virginia, to establish audit specifications for governmental authorities, boards and commissions, with unelected governing bodies. In accordance with this statutory authority, we are providing the accompanying audit specifications.

Statutory Audit Requirements for Authorities, Boards and Commissions

Section 30-140 of the Code of Virginia, requires that all authorities, boards and commissions having financial transactions in excess of ~~\$25,000~~ *(increase to \$25,000 effective 7/1/14)* shall file an audit report within 90 days after the close of the fiscal year with the Auditor of Public Accounts.

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This section further provides:

"No audit, however, shall be required for any fiscal year during which such entity's financial transactions did not exceed the sum of ~~\$25,000~~. As used herein, 'financial transactions' shall not include financial transactions involving notes, bonds or other evidences of indebtedness of such entity the proceeds of which are held or advanced by a corporate trustee or other financial institution and not received or disbursed directly by such entity. In the event an audit is not required, the entity shall file a statement under oath certifying that the transactions did not exceed such sum and, as to all transactions involving notes, bonds or other evidences of indebtedness which are exempted, the statement shall be accompanied by an affidavit from the trustee or financial institution certifying that it has performed the duties required under the agreement governing such transactions. Notwithstanding the foregoing, the Auditor of Public Accounts may require an audit if he deems it to be necessary to determine the propriety of the entity's financial transactions."

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Section 30-140 of the Code of Virginia, further requires those entities that are audited to publish a summary statement of financial condition in a newspaper of general circulation in the locality of the entity. The summary statement should include at a minimum total assets, liabilities, and fund balances; total revenues, expenditures, and other sources or uses; and the resulting net change in fund balances.

Relationship to Other Standards

Auditors must conduct audits in accordance with generally accepted auditing standards and *Government Auditing Standards* issued by the Comptroller General of the United States. The auditor must follow *Government Auditing Standards* on every audit, regardless of whether the entity received federal financial assistance. When appropriate, the Auditor should conduct audits in accordance with 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 Organizations*.

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The Auditor of Public Accounts designed these specifications to help ensure the quality of governmental audits and ensure compliance with state laws and regulations. Accordingly, the auditor must perform the required procedures in this manual. The auditor's determination that certain procedures do not apply requires documentation in the working papers.

Financial Reporting Requirements

The Auditor of Public Accounts requires that financial statements of authorities, boards and commissions be prepared in accordance with the provisions of the Governmental Accounting Standards Board (GASB). Many authorities, boards, and commissions are an integrated unit of a local government. GASB provides requirements and guidance for the reporting entity, component units, jointly governed organizations, and other stand-alone governments. For some authorities, boards, and commissions, a local governing body serves as the fiscal agent and reports the applicable entity as an agency fund in their annual financial report. These authorities, boards, and commissions must still have their financial statements prepared in accordance with generally accepted accounting principles and audited in accordance with these specifications.

**SPECIFICATIONS FOR AUDITS OF
AUTHORITIES, BOARDS, AND COMMISSIONS**

**CHAPTER 2
AUDIT PROCEDURES**

2-1 General

This chapter contains required audit procedures for governmental entity audits made pursuant to §30-0140 of the Code of Virginia including required audit procedures for determining compliance with certain state laws and regulations. The degree of testing 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 governmental entities or their auditors. Changes will be needed as new accounting and auditing pronouncements and/or as new issues 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.

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.

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 Authorities, Boards, and Commissions* issued by the Auditor of Public Accounts. The auditor must follow *Government Auditing Standards* on every audit, regardless of whether the 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 an entity 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 Inmate Canteen and Other Auxiliary Funds

(Contact: Compensation Board; Robyn DeSocio, Executive Secretary; Phone – 804.225.3439 [robyn.desocio@scb.virginia.gov])

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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. Net profits from the canteen operations that are generated from the inmates' accounts must benefit the inmates in the custody of the Sheriff or Regional Jail Superintendent.

Some Jail Superintendents 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. As further described below, these funds are either included in the canteen proceed accounts or go to defray the cost of the jail operations.

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 offset 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. 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 canteen account profits that are generated from the inmates' accounts are required to be used within the facility for purposes to benefit the inmates under the jurisdiction of the Regional Jail Superintendent. Any other profits may be used for the general operation of the jail. The allowable expenses from profits of the inmate accounts 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 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 are either used to defray the cost of the jail operations or 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 offset the costs for medical programs.

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.

2-4 Cash and Investments

(Contact: Department of the Treasury; Kristin Reiter; 804-225-3240; Kristin.Reiter@trs.virginia.gov Updated May 2014)

The Code of Virginia contains various requirements designed to safeguard public funds in the Commonwealth. Deposits 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 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 [http://www.trs.virginia.gov/\(Operations – SPDA Depositories\)](http://www.trs.virginia.gov/(Operations – SPDA Depositories)).

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). Governmental officials must ensure the qualified depository identifies the account(s) as public deposits. Public deposits include all moneys of the Commonwealth, local governments, or other political subdivisions.

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. Based on their financial condition, Treasury Board may require some pooled banks to pledge 100% collateral.

The Treasury Board is responsible for monitoring compliance with the collateralization and reporting requirements of the Act and for notifying local officials 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 entity are appropriately reported in their annual financial statements.
- whether all the government's public funds 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 government 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 their clients 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 Virginia 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 and certain taxable financings of Virginia issuers through the hiring of a Program Administrator, Rebate Calculation Agent, Program Custodian, 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 (collectively referred to as Participants). The Program now accepts proceeds of G.O. and revenue bonds.

Participants can participate in the Program by opening a Pool Account or a Pool Account accompanied by an Individually Managed Portfolio. Participants that are uncertain of how quickly they will spend their bond proceeds generally only open a Pool Account. Participants that have some estimate of their spending plans sometimes open Individual Portfolios in an effort to maximize their potential interest earnings. At the Participant's request, the Program

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Administrator develops a customized portfolio model to meet the unique draw schedule of the Participant's bond issue.

Pool Accounts

Participants that open a Pool Account buy into a fund that is a SEC registered money market mutual fund (a 2a-7 fund). Currently, the PFM Funds Prime Series – SNAP Class (the "Pool") is used as the Program's pooled investment vehicle. The Pool is managed to maintain a dollar weighted average maturity of 60 days or less and to maintain a constant net asset value of \$1 per share. The Program Administrator makes all investment decisions and purchases for the Pool. The Program Administrator provides monthly reports to the Participants. The board of trustees of the Pool obtains an annual independent audit that includes all Pool Accounts. Audited financial statements are provided annually to all Participants.

Auditors should confirm asset balances by contacting the SNAP Program Administrator. (<https://www.vasnap.com/>) In addition, auditors should review the most recent arbitrage report to determine potential financial statement reporting and/or disclosures.

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Individually Managed Portfolios

Participants that open a Pool Account accompanied by an Individually Managed Portfolio (an IP) collaborate with the Program Administrator to determine a customized investment strategy which may include investments in the Pool and in individual investment securities. The Program Administrator then implements the investment strategy and provides monthly reports to the Participants.

Participants are required to participate in the Pool in order to also have an Individually Managed Portfolio. As a control measure, funds cannot be wired out of an IP. Monies must first be transferred to a Pool 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

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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 Administrator: 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.

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

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Program Custodian

Securities purchased for an IP are held by the Program Custodian. Both the Program Administrator and the Participants are given access to the Participant's IP account at the Program Custodian in order to ensure compliance and to obtain information for accounting records. The Program Custodian is selected by the Program Administrator subject to annual review by the Treasury Board. The Program Custodian is selected in conjunction with the selection of a custodian for the Pool but may or may not be the same financial institution as the Pool's custodian. Currently, the Program Custodian and Pool custodian are separate financial institutions. The Treasury Board contracts with the Program Custodian and the Pool's board of trustees signs a separate contract for services provided to the Pool.

Governmental auditors can confirm IP investments by contacting the Program Custodian. In addition, the auditor should consider reviewing the Pool Custodian's and Program Custodian's Service Organization Control reports (formerly SAS 70) for custodial services. Governmental auditors should ensure the 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 Program 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 government'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 government'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 government's internal controls over drawing down bond proceeds. Determine how the government 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, all public funds may be invested 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 and P-1 by Moody's Investors Service, banker's acceptances, repurchase agreements, and the State Treasurer's Local Government Investment Pool (LGIP).

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Required Audit Procedure: Obtain or prepare a listing of all investments held by the 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.

2-5 Retirement Systems

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(Contact: Virginia Retirement System; Barry C. Faison; Chief Financial Officer; Phone – 804.344.3128) [bfaison@varetire.org] or Kathryn A. Quiriconi, Controller, Phone 804-697-6677 [kquiriconi@varetire.org] [updated June 2014; Contact: Auditor of Public Accounts; Jennifer Schreck, Director Strategic Risk Management, jennifer.schreck@apa.virginia.gov. Additional audit support and audit support contacts are available at apa.virginia.gov under the Local Governments section]

Some authorities, boards, and commissions participate in the Virginia Retirement System (VRS). If the authorities, boards, or commission participates in VRS **and** 1) personnel expenses are significant **or** 2) management anticipates the expected future pension liability related to their participation in the VRS to be material, then the auditor **must** perform the procedures outlined in the audit specifications below. If the entity does not participate in the VRS, or the personnel expenses or the expected future pension liability related to their participation in the VRS are not material, these procedures do not need to be performed.

This section has been added to address the reporting requirements stemming from GASB Statement No. 67 (GASB No. 67), *Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25*, and Statement No. 68 (GASB No. 68), *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*. The procedures defined below are intended to help the Auditor of Public Accounts be able to provide employers participating in the VRS the assurance they need to opine to pension activity reported in accordance with GASB No. 68. This section will refer to all authorities, boards, and commissions as “the entity.”

Please note, the performance of these procedures may need to be coordinated with another auditor, if the entity's back office support (i.e. payroll and human resources) is provided by a locality. The auditor of the locality is responsible for meeting similar audit specifications as outlined in this document based on the guidance provided in the *Specifications for Audits of Counties, Cities and Towns*. If this is the case, please ensure the entity was properly considered by the locality auditor.

Background

The Virginia Retirement System administers a statewide retirement plan, group and optional life insurance programs, a retiree health insurance credit program, and a short-term and long-term disability program. 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 who had service credits before July 1, 2010 were placed in Plan 1. Members hired on or after July 1, 2010 who had no service credits before July 1, 2010 were placed in Plan 2. The benefit provisions of Plan 1 and Plan 2 differ. On January 1, 2013, existing Plan 1 members who were not vested (had at least 5 years of accumulated service) also, became Plan 2 members. In addition, a new Hybrid plan was implemented effective January 1, 2014. All newly hired employees who are not covered by enhanced benefits as hazardous duty employees are placed in the Hybrid plan. Detailed information on these differences is included in VRS publications and in the 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 percent of their creditable compensation to the pension plan. Plan 1 and Plan 2 members contribute the 5 percent to their member account; however, some school divisions and political subdivisions elected to phase in the required 5-percent member contribution so all employees will be paying 5 percent by July 1, 2016. The employer is required to provide a salary increase equal to the amount of the increase in the employee-paid member contribution. The split between employer-paid and member-paid elected by the employer was documented by a resolution from the governing body and may be confirmed with VRS. Starting July 1, 2012, all new members began contributing 5 percent of their compensation to their member

contribution account. Members of the Hybrid plan must contribute 4 percent of their creditable compensation to the DB component of the Hybrid Plan and 1 percent of the creditable compensation to the DC component of the Hybrid plan. Group life insurance premiums are based on the member's creditable compensation, 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 and disability plan contributions are based on a member's creditable compensation.

VRS implemented a new member recordkeeping and employer reporting system in the fall of 2012. The system is called myVRS Navigator or VNav. Employers were required to start using the new system beginning with the October 2012 report. VRS also changed the payment process for employers by replacing the lockbox and monthly payment coupons with ACH Debit and ACH Credit. VRS still receives checks and wire transfers from some employers. These are being phased out as employers transition to ACH.

Eligibility Requirement - Virginia Retirement System

If the entity participates in the Virginia Retirement System, all permanent, full-time, salaried employees with the entity must participate in the Virginia Retirement System, unless the employee satisfies one of the exemptions to mandatory membership. Part-time employees may not participate in the plan.

Required Audit Procedure: If the entity participates in the Virginia Retirement System, select a sample of employees from pay periods throughout the year under audit. For sample size determination reference the AICPA sample design, size, and selection as defined in AU-C section 530 of the AICPA Professional Standards. For each employee selected determine whether the employee has been reported to the Virginia Retirement System for retirement, life insurance, retiree health insurance credit, and/or local disability coverage or satisfies the requirements for exclusion from mandatory membership. Ensure the employee is not participating in more than one retirement system as mandated under Section 51.1-125 of the Code of Virginia.

Required Audit Procedure: If the entity participates in the Virginia Retirement System, determine if the entity under audit has multiple control environments

supporting employee enrollment in the retirement system. If the entity has multiple control environments perform the procedures below for each of the environments identified independently.

Required Audit Procedure: If the entity participates in the Virginia Retirement System, identify the population of employees who received pay during the fiscal year and contributed to the Virginia Retirement System for each control environment. Select a sample of employees from each population. For sample size determination reference the AICPA sample design, size, and selection as defined in AU-C section 530 of the AICPA Professional Standards. In Appendix A of the internal control letter (referenced at the end of this section) provide the sampling considerations and determinations. For each employee selected determine whether:

- (a) The employee's creditable compensation (used in computing the contributions required for all VRS-administered benefits) includes all eligible salary, exclusive of overtime, supplements, extraordinary pay, and termination pay for annual or sick leave, and is properly reflected in VNav.
- (b) The employee contribution for pension and/or group life insurance was properly deducted from the employee's pay for member contributions paid by the employee; and that the employee's pay was not reduced for contributions where the employer is still paying part of the employee share (employee's pay is reduced if employer picks up the employee contribution through a tax deferred salary reduction).
- (c) For those employees selected ensure the date of birth, gender, VRS join date, VRS termination date (where applicable), eligibility date for employer, and status for employer (active or inactive) agrees to supporting documentation.
- (d) If any of the employees selected purchased service to enhance their retirement benefit during the year under audit, ensure the employee met the eligibility requirements and the employer maintained sufficient supporting documentation which shows that the eligibility requirements were verified. The purchase is called a Purchase of Prior Period service in the member's VNAV record or the employer's contribution confirmation Snapshot.

NOTE: Auditors must verify the entity is properly reporting to the Virginia Retirement System and review of the appropriate contribution confirmation Snapshot.

Reporting Requirement - Virginia Retirement System

In VNav, employers are responsible for adding new hires, maintaining employee records, as well as entering employment changes (such as salary changes, status changes, and terminations) throughout the month. Employers produce a monthly snapshot of their contributions and are responsible for reviewing the snapshot and verifying that all the employment changes are complete and accurate. Additional changes can be made to employee data prior to certifying the snapshot. Following the snapshot, the employer runs the Contribution Confirmation report, which certifies/records the monthly data and allows the employer to schedule their payment. The Contribution Confirmation process must occur by the 10th of the following month and the agency should schedule payment in a timely manner after the contribution confirmation.

Required Audit Procedure: If the entity participates in the Virginia Retirement System, select a sample of the newly hired employees during the audit period from each of the control environments identified. For sample size determination reference the AICPA sample design, size, and selection as defined in AU-C section 530 of the AICPA Professional Standards. In Appendix A of the internal control letter (referenced at the end of this section) provide the sampling considerations and determinations. Determine whether all eligible employees are included on the employer's coverage reports to VRS. Ensure that employers are not modifying work schedules and coverage definitions to provide a means for employees who are currently retired under the VRS plan to work in covered positions without being reported as covered employees.

(NOTE) – Unreported employees who have returned to work and are still drawing their retirement benefits is a compliance issue (Code of Virginia, Section 51.1-155(B)(1)).

Required Audit Procedure: If the entity participates in the Virginia Retirement System, select a sample of "Snapshot" monthly contribution reconciliations from each of the control environments identified. For sample size determination

reference the AICPA sample design, size, and selection as defined in AU-C section 530 of the AICPA Professional Standards. In Appendix A of the internal control letter (referenced at the end of this section) provide the sampling considerations and determinations. The information in the entity's payroll system should reconcile to the information in VNAV through the use of the VNAV "Snapshot" (which ultimately creates the employer's Contribution Confirmation summary screen for the period). The Contribution Confirmation screen will show amounts due for the retirement, group life, retiree health insurance credit, and local disability plans. It will also distinguish between those amounts that are due to VRS for the Defined Benefit component of the Hybrid plan as well as those amounts due to ICMA-RC for the Defined Contribution component of the Hybrid plan. In addition, ensure that for the sample months selected the employer confirmed their contributions between the first and the 10th of the following month.

Roles and Responsibilities - Virginia Retirement System

In VNav, employers are now responsible for assigning and managing access to VNav by their employees through role-based security. Roles define the data a person can view, create, and update. Employers authorize employees to access VRS data and systems, and assign the appropriate roles for each employee.

Required Audit Procedure: If the entity participates in the Virginia Retirement System, select a sample of employees, from each control environment identified, with VNav access and review assigned roles for appropriateness.

Determine who the Security Administrator is at the entity and have the Security Administrator log into VNav. Once logged in, navigate to the "Organization" tab. This tab will list all employees who have access to VNav under the "Contacts" section.

From this listing, select a sample of employees, ensure the employees are currently employed, and review their roles for reasonableness in relation to their current job responsibilities (under the section titled "Role"). For sample size determination reference the AICPA sample design, size, and selection as defined in AU-C section 530 of the AICPA Professional Standards. In Appendix A of the internal control letter (referenced at the end of this section) provide the sampling

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considerations and determinations. To review a specific employee, click on the employee name.

In addition, the employees "Role History", identifying any change in roles and associated dates, can be viewed on this same screen:

Required Audit Procedure:

The auditor is required to submit a letter to the Auditor of Public Accounts, by November 30 each year, reporting on the results of procedures performed above regarding the completeness and accuracy of the census data for all employees participating in the Virginia Retirement System. The procedures should be performed and the letter should be prepared as a part of an examination engagement performed in accordance with AT section 101, *Attest Engagements* (AICPA, *Professional Standards*).

Included with the letter, the auditor shall provide an attachment which identifies the following:

- The number of control environments supporting census data reviewed during the engagement (i.e. two, one for the locality and one for the authority) and the responsible party for the control environment (i.e. the locality, the authority)

For each control environment identified and required procedure performed, note the following:

- The population size
- The sample size
- The risks and other considerations used to determine the sample size

A sample letter and accompanying attachment is available on the APA website at http://www.apa.virginia.gov/data/download/local_government/manuals/ABCrss.docx

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2-6 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 public bodies.

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 entity'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 government.

2-7 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 applicable entities to file an annual report with the State Treasurer listing all unclaimed property and 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

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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 government has unclaimed property, determine whether it filed a report on unclaimed property with the State Treasurer as required.

2-8 Reporting

Background Information

Governmental entities are required to prepare an 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 disclose any questioned costs involving federal funds in accordance with the provisions of OMB Circular A-133 and the AICPA Audit and Accounting Guide, Government Auditing Standards and Circular A-133 Audits, as amended.

If the government receives federal funds, the 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 Circular A-133.

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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: The governmental entity must submit the audited financial report to the Auditor of Public Accounts within 90 days after the end of their fiscal year in

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accordance with Section 30-140 of the Code of Virginia. Any separately issued management letters referred to in the auditor's report(s) must also accompany the report. E-mail electronic reports to localgovernment@apa.virginia.gov.

**SPECIFICATIONS FOR AUDITS OF
AUTHORITIES, BOARDS, AND COMMISSIONS**
APPENDIX 1

List of Authorities, Boards, and Commissions

Following is a list of some of the types of political subdivisions that are required to follow these auditing and reporting specifications. Included with the type of entity is the Code of Virginia reference that provides authority for its establishment. The list is limited and not all-inclusive, should an Auditor encounter an entity not listed below, we recommend that the auditor contact this Office to determine whether these specifications include the entity.

- Airport Authorities (Chapter 3 of Title 5.1)
- Behavioral Health Authorities (Chapter 6 of Title 37.2)
- Criminal Justice Training Academies (Chapter 17 of Title 15.2)
- Electric Authorities (Chapter 54 of Title 15.2)
- Former Federal Area Development Authorities (Chapter 63 of Title 15.2)
- Hospital Authorities (Chapter 53 of Title 15.2)
- Hospital or Health Care Commissions (Chapter 52 of Title 15.2)
- Housing Authorities (Chapter 1 of Title 36)
- Industrial Development Authorities (Chapter 49 of Title 15.2)
- Industrial Facility Authorities (Chapter 64 of Title 15.2)
- Juvenile Detention Commissions (Chapter 11 of Title 16.1)
- Library Boards (Chapter 2 of Title 42.1)
- Local Correctional Facilities (Chapter 3 of Title 53.1)
- Park Authorities (Chapter 57 of Title 15.2)
- Planning District Commissions (Chapter 42 of Title 15.2)
- Public Recreation Facilities Authorities (Chapter 56 of Title 15.2)
- Tourism Development Authorities (Chapter 55 of 15.2)
- Tourist Train Development Authority (Chapter 65.1 of Title 15.2)
- Transportation District Commissions (Chapter 45 of Title 15.2)
- Water and Sewer Authorities (Chapter 51 of Title 15.2)