


**ACTION ITEM
BOARD OF SUPERVISORS**

DATE: February 19, 2008

TO Board of Supervisors
FROM Anthony J Romanello, ICMA-CM 
County Administrator
ISSUE: Presentation by the Auditor on the FY07 Audit

RECOMMENDATION N/A

BUDGET IMPACT: N/A

ATTACHMENTS (2)

[1] Management ltr [] Reso/Ord/Proc #

[2] SAS61 Communication [] Reso/Ord/Proc #

[] [] Reso/Ord/Proc #

REVIEW: [] County Administrator's Office _____
[] Legal _____
[] Budget _____

[] Consent Agenda [X] Other Business [] Public Hearing
[] Discussion Item [] Presentation [] Unfinished Business
[] New Business

PRESENTATION BY Bill Oliver and Greg Bussing
Clifton Gunderson, LLP

ELECTION DISTRICT N/A



February 8, 2008

The Honorable Members of the Board of
Supervisors of Stafford Virginia
Stafford, Virginia

The purpose of this letter is to provide you with information about significant matters related to our audit of the financial statements of the County of Stafford, Virginia (the County) for the year ended June 30, 2007, in order to assist you with your oversight responsibilities of the financial reporting process, and so that we may comply with our professional responsibilities to the Board of Supervisors. This letter is intended solely for the information and use of the Board of Supervisors and management and is not intended to be and should not be used by anyone other than these specified parties.

We have provided under separate cover a letter, dated February 8, 2008, concerning the internal control conditions that we noted during our audit of the County's financial statements for the year ended June 30, 2007.

Auditor's Responsibility Under Generally Accepted Auditing Standards Our audit of the financial statements of the County for the year ended June 30, 2007, was conducted in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement. Reasonable assurance in an audit is obtained by examining evidence supporting the amounts and disclosures in the financial statements on a test basis. An audit does not include verification of all transactions and account balances, nor does it represent a certification of the absolute accuracy of the financial statements.

In testing whether the financial statements are free of material misstatement, we focus more of our attention on items with a higher potential of material misstatement, and less on items that have a remote chance of material misstatement. For this purpose, accounting literature has defined materiality as "the magnitude of an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement."

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An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. Although we may make suggestions as to the form and content of the financial statements, or even prepare them in whole or in part, the financial statements remain the representations of management. In an audit, our responsibility with respect to the financial statements is limited to forming an opinion as to whether the financial statements are a fair presentation of the County's financial position, results of operations, and cash flows.

Significant Accounting Policies There were no significant accounting policies or their application which were either initially selected or changed during the year.

There were no significant, unusual transactions in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Management Judgments and Accounting Estimates Accounting estimates are an integral part of the preparation of financial statements and are based upon management's current judgment. The process used by management encompasses their knowledge and experience about past and current events and certain assumptions about future events. Management has informed us they used all relevant facts available to them at the time to make the best judgments about accounting estimates and we considered this information in the scope of our audit. Estimates significant to the financial statements include the allowance for uncollectible taxes, the estimated useful lives of capital assets for computing depreciation and accrued self insurance claims.

Our conclusions regarding the reasonableness of these estimates was based primarily on audit procedures to test the reasonableness of these estimates, which included analysis of the aging of taxes receivable, reviewing the consistency of the estimated useful lives for capital assets, and reviewing an estimate of claims run out for the accrued self insurance liability.

Significant Audit Adjustments There were two adjustments arising from the audit that could, in our judgment, either individually or in the aggregate, have a significant effect on the entity's financial reporting process. One was required to adjust investment values for various funds to reflect the results of a sale transaction and market values at year-end. The other was required to record unrecorded liabilities for the water and sewer fund.

Uncorrected Misstatements The attached Exhibit summarizes uncorrected misstatements aggregated by us during our current audit and pertaining to the most recent period presented in the financial statements. Management has determined that these uncorrected misstatements are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

Disagreements With Management There were no disagreements with management on financial accounting and reporting matters, auditing procedures, or other matters which would be significant to the County's financial statements or our report on those financial statements.

The Honorable Members of the Board of
Supervisors of Stafford Virginia
February 8, 2008
Page 3

Consultations With Other Accountants. We were informed by management that they made no consultations with other accountants on the application of generally accepted accounting principles and generally accepted auditing standards

Major Issues Discussed With Management Prior to Retention There were no major issues, including the application of accounting principles and auditing standards, which were discussed with management prior to our retention as auditors

Difficulties Encountered in Performing the Audit We encountered no serious difficulties in dealing with management related to the performance of our audit

We will be pleased to respond to any questions you have regarding the foregoing comments

Clifton Henderson LLP

PASSED ADJUSTMENT SUMMARY
Stafford County, Virginia
Aggregate Remaining Fund Information
Year Ended 06/30/07

Description	Assets	Liabilities	Fund Balance/Net Assets	Net Expense/Revenue and Change in Net Assets/Fund Balances
To record unreconciled difference in Lake Arrowhead cash	\$ (33,108)		\$ 33,108	\$
Net current year misstatements	(33,108)	33,108	-	-
Net prior year misstatements	-	-	-	-
Total misstatements	\$ (33,108)	\$ 33,108	-	\$

Note The above amounts are listed as either debits or (credits)

PASSED ADJUSTMENT SUMMARY
Stafford County, Virginia
Enterprise Fund
Year Ended 06/30/07

Description	Assets	Liabilities	Fund Balance/Net Assets	Net Expense/Revenue and Change in Net Assets/Fund Balances
To record effect on fund balance related to recording Airport receivable previously written off			(526,120)	526,120
Net current year misstatements	-	-		
Net prior year misstatements	-	-	(526,120)	526,120
Total misstatements	\$ -	\$ -	\$ (526,120)	\$ 526,120

Note The above amounts are listed as either debits or (credits)



The Honorable Members of the Board of Supervisors
of Stafford, Virginia
Stafford, Virginia

In planning and performing our audit of the financial statements of Stafford County (County) as of and for the year ended June 30, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered the County's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control. Accordingly, we do not express an opinion on the effectiveness of the County's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis.

SIGNIFICANT DEFICIENCIES

A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the following deficiencies to be significant deficiencies in internal control.

Finding 7-01 Monthly reconciliations between the Treasurer's Office and Finance were not consistently performed during the year. (Repeat finding)

Condition During the audit we were unable to substantiate unreconciled cash transactions. We noted that the monthly bank reconciliations between the Treasurer's Office and Finance were not consistently performed and reconciling items were not resolved.

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Criteria Internal Control-Integrated Framework (COSO Report) requires adequate internal controls over account reconciliation and review to ensure the accuracy and reliability of the financial records and reports

Cause The Treasurer's office experienced employee turnover which resulted in the bank reconciliation duties being performed by different staff. The staff assigned these duties did not have sufficient training with the County's H T E general ledger accounting system

Effect The financial records and reports could possibly be misstated

Recommendation. We recommend that more timely reconciliations take place, at least within the 60 day policy currently in place, in order to identify, investigate, and adjust potential errors in a timely manner

Management's Response

The Treasurer's office lost an experienced employee with significant historical and operational experience, to include knowledge of the County's HTE general ledger accounting system. The loss of this resource resulted in an inability to make timely account and cash reconciliations. These conditions were understood and measures were taken to rectify the situation which included the replacement of the lost employee. By the time this position was replaced, several months had past without monthly reconciliations being performed

Although these reconciliations were not performed in a timely manner during the year, they were ultimately completed for the entire fiscal year and there were no material errors in the cash transactions for the year

The audit recommendation in Finding 7-01 has been implemented and there are now cash and investment reconciliations performed on a monthly basis. In addition, the Finance Department and the Treasurer's office have implemented monthly communications in order to confirm all financial transactions are properly recorded

Finding 07-02 The County does not have adequate segregation of duties over the preparation and review of the financial statements and journal entries. Internal controls over financial reporting also failed to prevent and/or detect material errors in the financial records and statements

Condition The preparer of the financial statements also performed the detailed review of the financial statements. In addition, adjusting journal entries are not reviewed for accuracy by someone other than the preparer

Criteria	Internal Control-Integrated Framework (COSO Report) requires adequate segregation of duties between performance, review and record keeping to ensure the preparation of reliable financial statements
Cause	The Finance Department experienced turnover in its management staff, and the County did not re-establish procedures for reviewing the financial statements. Two significant adjustments were not made by Finance for investment market adjustments and Capital Projects accounts payable, in addition one significant adjustment for debt services was subsequently reversed because it was posted incorrectly.
Effect	The financial records and reports could possibly be misstated.
Recommendation	We recommend the County implement procedures to ensure that a quality control review is performed over financial statements and adjusting journal entries.
Management's Response	The department has two (2) accountant vacancies which are unfilled due to budget reductions. These positions would normally handle the noted responsibilities and entries which would then be approved by the Assistant Director of Finance. Allocating financial reporting responsibilities to these positions would provide adequate separation of duties in this area. As soon as budget constraints allow, the positions will be filled and this situation will be remedied. If budget constraints do not allow us to fill these positions we will reallocate department duties to achieve adequate segregation of duties between performance, review and record keeping.

OTHER MATTERS

In addition to the significant deficiencies discussed above, we noted the following matters which we would like to bring to your attention

INFORMATION TECHNOLOGY (IT)

Logical Access

We noted that terminated employees' access is not deleted/disabled in a timely manner. If terminated employees' access profile remains active, there is an increased likelihood that the password could be compromised leading to unauthorized actions and processing of fictitious transactions. We recommend that management ensure that the IT Department is notified daily of terminated employees to remove their access in a timely manner and decrease the likelihood of unauthorized access.

We also noted that the network and financial system password policy does not meet complexity standards. The password expiration is set for 180 days. The financial system (H T E) minimum password character length is set to 4. The likelihood of unauthorized access is increased if the password policy does not meet complexity standards. We recommend that management increase password complexity settings to help prevent unauthorized access to sensitive information. Based upon best practices standard, the password length should be a minimum of 6-8 characters and password expiration should be no more than 90 days.

Disaster Recovery Plan

We noted that the Disaster Recovery Plan (DRP) is not formally tested. If the DRP is not completely tested periodically to ensure critical data can be retrieved and restored in a timely manner, financial data and critical systems could be lost. We recommend that management perform periodic testing of the DRP to ensure that the plan works as designed.

Physical Security

We noted that there is no periodic review and maintenance of the data center access listing. If management do not review the data center access listing periodically, non-required access may exist. We recommend that management perform periodic reviews of the data center access list to properly track non-required access and resolve any identified in a timely manner.

Policies and Procedures

We noted that there are no standard IT policies and procedures to address the current IT Department's practices such as new employee access. The current IT policies in place are for Internet and E-mail usage. If the current policies and procedures are not completely documented and communicated to the County's employees, actual processes may be inconsistent with the standard IT Department's practices. We recommend that management develop and document IT policies and procedures to address risk assessments, sensitivity of information, data classification standards, access control, virus protection, intrusion detection and systems security.

Management's Response

IT Responses

- 1 Password policy - We will implement the suggested changes. In order to reduce the number of help calls that password expiration typically generates, we will work with Finance to prepare a memo to all users (including Schools) before we make the change.
- 2 Disaster Recovery Plan - For FY09 we have budgeted \$18K to use H T E's System Recovery Plan. This would keep a copy of our data offsite in Florida at H T E's hot site— in real time with a recovery time of 6-12 hours from outage. Testing could be done as frequently as we choose without disruption of the live Financial System. The \$18K would be an annual cost. This would cover the Finance applications (General ledger, Purchasing, Fixed Assets), Payroll/Personnel application and the Utility Billing system.
- 3 Physical Security – IT will put suggested practices in place beginning March 1, 2008.
- 4 Policies and Procedures – IT will work with Finance to review current policies and implement changes and a security training program by July 1, 2008. The training program will be conducted with all new employees when they are hired and all existing employees will be required to attend the training on an annual basis.

ACCOUNTING POLICIES AND PROCEDURES MANUAL

The County has experienced turnover at many positions. The departure of employees is unpredictable and many of the job responsibilities are assumed by current employees that have significant workloads. The Accounting Policies and Procedures Manual does not address all significant accounting areas to ensure proper accounting for transactions is performed. The Accounting Manual is an integral part of the internal control environment and should facilitate the processing of transactions. Documented procedures help ensure that transactions, accounts, and funds are properly recorded, classified and reported in the accounting system and financial statements. Employee attrition and budget issues can lead to a lack of resources available for training and rehiring of staff to ensure proper procedures are followed in the performance of duties. Duties assumed by an inexperienced employee or one with limited knowledge of a particular area can lead to increased errors in the processing and recording of transactions. We recommend that the County update its Accounting Policies and Procedures Manual to ensure all significant accounting transactions and processes are addressed.

Management's Response

Each function within Finance has documented procedures for processing transactions. As noted, they are not all in one easily accessible location. Updating these procedures is an annual process. This year part of that process will be to organize the documents for all functions and catalog them in an on-line directory.

To the Honorable Members of the Board of Supervisors
of Stafford, Virginia
Page 6 of 6

This communication is intended solely for the information and use of management, the Board of Supervisors, the Auditor of Public Accounts, others within the organization, and other Federal and state agencies and is not intended to be and should not be used by anyone other than these specified parties

Clifton Henderson LLP

Calverton, Maryland
February 14, 2008
