



*Halifax
County, VA*

FORENSIC INVESTIGATION OF HALIFAX COUNTY
State of Virginia (VA)
February 27, 2026

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RESTRICTIONS:

1. The contents of this investigation report should not be released or disclosed, other than to those people whose official duties require access. This document may contain information exempt from mandatory disclosure under the Freedom of Information Act. Exemption 4 of the Freedom of Information Act, which addresses proprietary information, may apply.
2. It is not practical to identify, during the conduct of the investigation, those elements of the data which are proprietary. Proprietary determinations should be made in the event of an external request for access. Unauthorized disclosure of proprietary information violates 18 U.S.C. 1905 and, if the information is contractor bid, or proposal, or source selection information, 41 U.S.C. 2102. Any person who unlawfully discloses such information is subject to penalties such as fines, imprisonment, and/or removal from the office or employment.
3. Under the provisions of the Virginia Freedom of Information Act (Va. Code § 2.2-3700 et seq.), Premier Group Services, Inc. will refer any Freedom of Information Act requests for this report to Halifax County for determination and direct response to the requestor.
4. Premier Group Services, Inc. has no objection to the release of this report, at the discretion of Halifax County.
5. This report presents the results of forensic investigation services procured by Halifax County for Fiscal Years 2021 through 2025 and is not suitable for any other purpose.

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Glossary, Acronyms and Abbreviations

AICPA (American Institute of Certified Public Accountants) The AICPA is the national professional organization for Certified Public Accountants in the United States. It establishes professional standards, including Statement on Standards for Forensic Services No. 1 (SSFS No. 1) referenced in this engagement, and provides guidance on auditing, accounting, and ethical conduct for CPAs.

ARMICS (Agency Risk Management and Internal Controls Standards) ARMICS is Virginia's state-level internal control framework issued by the Department of Accounts, requiring Commonwealth agencies and localities to establish and maintain systems of internal control consistent with the COSO framework. It sets expectations for control environments, risk assessment, control activities, information and communication, and monitoring.

ARPA (American Rescue Plan Act of 2021) ARPA is a federal law enacted in March 2021 providing approximately \$1.9 trillion in additional COVID-19 relief funding, including direct allocations to state and local governments through the Coronavirus State and Local Fiscal Recovery Funds program. Recipients of ARPA funds are subject to federal compliance requirements, including those under 2 CFR Part 200.

CAPP (Commonwealth Accounting Policies and Procedures) CAPP is the policy manual issued by Virginia's Department of Accounts that establishes accounting, financial reporting, and internal control standards for Commonwealth agencies. Topic 10305 of the CAPP Manual specifically governs internal controls and requires compliance with the COSO framework.

CARES (Coronavirus Aid, Relief, and Economic Security Act) The CARES Act was a federal law enacted in March 2020 providing approximately \$2.2 trillion in economic relief in response to the COVID-19 pandemic. It distributed funds to state and local governments, businesses, and individuals, and expenditures of these funds are subject to federal oversight and compliance requirements under 2 CFR Part 200.

COSO (Committee of Sponsoring Organizations of the Treadway Commission) COSO is a joint initiative of five private-sector organizations that provides thought leadership on enterprise risk management, internal control, and fraud deterrence. Its Internal Control – Integrated Framework is widely used as the benchmark for designing and evaluating internal control systems, including those required under 2 CFR 200.303 and Virginia's ARMICS standards.

DEFICIENCY Audit findings are classified into three levels of deficiency based on severity:

Control Deficiency — A deficiency in the design or operation of a control that does not allow management to prevent, detect, or correct misstatements on a timely basis.

Significant Deficiency — A deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Material Weakness — A deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement will not be prevented, detected, or corrected on a timely basis. This represents the most severe level of deficiency.

FY (Fiscal Year) A Fiscal Year is a 12-month accounting period used by governments and organizations for financial reporting and budgeting purposes that does not necessarily align with the calendar year. Halifax County operates on a fiscal year running from July 1 through June 30.

GAAP (Generally Accepted Accounting Principles) GAAP is a set of accounting standards, principles, and procedures issued primarily by the Financial Accounting Standards Board (FASB) and adopted for use by entities in preparing financial statements. For governmental entities, GAAP incorporates standards issued by the Governmental Accounting Standards Board (GASB).

GAGAS (Generally Accepted Government Auditing Standards) GAGAS, commonly referred to as the "Yellow Book," are auditing standards issued by the Comptroller General of the United States through the Government Accountability Office (GAO). These standards establish requirements for the competence, integrity, objectivity, and independence of auditors performing government audits.

GAO (Government Accountability Office) The GAO is the supreme audit institution of the federal government, headed by the Comptroller General of the United States. It issues Government Auditing Standards (the Yellow Book/GAGAS) and the Standards for Internal Control in the Federal Government (the Green Book), both of which are cited as criteria throughout this report.

GASB (Governmental Accounting Standards Board) GASB is an independent, private-sector organization that establishes accounting and financial reporting standards for U.S. state and local governments. Its standards, such as GASB Statement No. 54, govern how governmental entities classify and report fund balances and other financial information.

GFOA (Government Finance Officers Association) The GFOA is a professional association serving government finance professionals in the United States and Canada that develops best practices, educational resources, and guidance for public financial management. Its best practice recommendations, such as periodic re-solicitation of audit services every five years, are widely referenced as benchmarks for sound governmental financial management.

GL (General Ledger) A General Ledger is the master accounting record of a business or government entity that aggregates all financial transactions across all accounts. It serves as the foundation for preparing financial statements and supports audit traceability from source documents to reported balances.

NONCOMPLIANCE It refers to a failure to adhere to the provisions of applicable laws, regulations, contracts, or grant agreements governing a federal program or award.

PBC (Provided by Client) PBC is an auditing term referring to documents, schedules, and other materials that the client (in this case, Halifax County) prepares and submits to the auditors for review during engagement.

PG (Premier Group Services, Inc.) PG is the abbreviated reference used throughout this report to refer to Premier Group Services, Inc., the CPA firm engaged by Halifax County in October 2024 to conduct this investigation. PG is a certified public accounting firm located in Landover, Maryland, specializing in federal, state and local government auditing and compliance.

QA (Quality Assurance) Quality Assurance in an audit or financial management context refers to systematic processes and procedures designed to verify that work products, controls, and transactions meet established standards and requirements. Periodic QA reviews help management identify and correct deficiencies in financial processes before they result in material errors or audit findings.

RFP (Request for Proposals) An RFP is a formal procurement document issued by a government entity or organization soliciting competitive bids from qualified vendors to provide specified goods or services. Under the Virginia Public Procurement Act and 2 CFR Part 200, procurement of professional services such as external audit services must generally be conducted through an RFP process to ensure full and open competition.

SSFS (Statement on Standards for Forensic Services)

The Statement on Standards for Forensic Services (SSFS) establishes guidelines for forensic accounting professionals to ensure quality and consistency in litigation and investigation engagements. The SSFS was issued by the Forensic and Valuation Services Executive Committee of the AICPA and became effective on January 1, 2020. It applies to any member of the AICPA or employee of a member firm providing forensic services in the context of litigation or investigation engagements.

VA (State of Virginia) The State of Virginia serves as both a regulatory authority and funding source for Halifax County's financial operations. Through agencies such as the Department of Accounts (DOA), the Auditor of Public Accounts (APA), and the Virginia Department of Education (VDOE), the Commonwealth establishes accounting policies, audit requirements, and compliance standards applicable to Virginia localities under the Code of Virginia. State-appropriated funds and pass-through grants received by Halifax County from the Commonwealth may carry expenditure restrictions and reporting requirements that give rise to restricted fund balance classifications in the County's financial records. Compliance with Commonwealth Accounting Policies and Procedures (CAPP) and the Agency Risk Management and Internal Controls Standards (ARMICS) framework is also required of localities receiving state funding.

VPSA (Virginia Public School Authority) The VPSA is a state financing authority created by the Virginia General Assembly to provide low-cost financing to local governments for the construction, renovation, and improvement of public school facilities. It issues bonds on behalf of participating localities, with Halifax County potentially carrying VPSA-related debt obligations that would be reflected as restricted or committed fund balance components in the County's financial records.

Transmittal Letter

February 27, 2026

Ron Brade, County Administrator
John Montoro, Interim Finance Director
Halifax County 1050 Mary Bethune Street
P.O. Box 699
Halifax, VA 24558

Re: Forensic Investigation of Halifax County Financial Records – Fiscal Years 2021 through 2025

Dear Mr. Brade and Mr. Montoro,

Attached is the Premier Group Services, Inc. (PG) report presenting the results of our forensic investigation of Halifax County's financial records for the five years ending June 30, 2025 (fiscal years 2021 through 2025). We conducted this investigation pursuant to the engagement agreement between Halifax County and PG in October 2024.

We conducted our forensic investigation in accordance with Generally Accepted Government Auditing Standards, issued by the Comptroller General of the United States (2018 Revision), Generally Accepted Accounting Principles (GAAP), GASB Statement No. 54 – Fund Balance Reporting and Governmental Fund Type Definitions, Statement on Standards for Forensic Services (SSFS) No. 1, established by the American Institute of Certified Public Accountants (AICPA).

We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our investigation objectives.

Our procedures included a comprehensive fraud risk assessment, transaction-level testing across key financial areas, internal control evaluation, and data analytics. The procedures performed were designed to identify financial irregularities, assess internal controls, verify fund balances, and evaluate compliance with applicable state and federal regulations.

We were not engaged to, and did not perform an audit, the objective of which would be the expression of an opinion on the specified elements, accounts, or items. Accordingly, we do not express such an opinion.

Our analysis and observations are based upon information available to PG as of the date of this report. It is possible that additional information may become available following the date of our report and, if so, our analysis and observations could be affected by such information.

Due to the inherent limitations of a forensic investigation, an unavoidable risk exists that some material misstatements or irregularities may not be detected, even though the investigation was properly planned and performed. The responsibility for the prevention and detection of fraud remains with Halifax County management. The findings and recommendations contained in this report are intended to assist the Halifax County Board of Supervisors and county administration in strengthening the County's financial processes, internal controls, and overall governance practices.

PG is independent of Halifax County in accordance with the independence requirements of Generally Accepted Government Auditing Standards, 2018 Revision, Chapter 3.

We have identified 12 findings with significant deficiencies and noncompliance. We encourage management to carefully review each finding and recommendation and develop a comprehensive corrective action plan to address the identified deficiencies.

We appreciate the cooperation extended to us by Halifax County management and staff throughout this engagement. If you have any questions regarding the contents of this report, please do not hesitate to contact us.

Handling of Sensitive Information

This report presents interview-based information, including allegations involving named individuals, only to the extent necessary to support the findings herein. Nothing in this report constitutes a legal conclusion regarding the conduct or liability of any individual. Certain sensitive information has been omitted or generalized where it could not be independently corroborated, where inclusion could prejudice potential legal or administrative proceedings, or where it fell outside the scope of this engagement. Recipients are reminded that this report is confidential and subject to the distribution restrictions set forth on the cover page.

This report is intended solely for the use of the Halifax County Board of Supervisors, the County Administrator, and the Interim Finance Director, and is not intended to be, and should not be, used by anyone other than these specified parties. Distribution of this report is restricted. Any release of this report beyond the intended recipients requires the prior written concurrence of Halifax County in accordance with the discretion reserved under the restrictions set forth on the cover page of this report. This restriction is not intended to limit distribution to oversight bodies that have a legitimate oversight interest in accordance with Generally Accepted Government Auditing Standards.

Sincerely,

Premier Group Services, Inc.

PREMIER GROUP SERVICES, INC.

Landover, MD 20785

February 27, 2026

I. Introduction

PG was engaged by Halifax County, Virginia, to perform forensic investigation services covering the five years ending June 30, 2025 (fiscal years 2021 through 2025). This report presents the results of this investigation, which was conducted in accordance with Generally Accepted Government Auditing Standards (GAGAS) 2018 Revision, as issued by the Comptroller General of the United States, Generally Accepted Accounting Principles (GAAP), GASB Statement No. 54 – Fund Balance Reporting and Governmental Fund Type Definitions, and SSFS No. 1, established by the American Institute of Certified Public Accountants (AICPA).

The primary purpose of this engagement was to provide Halifax County's Board of Supervisors and county administration with an independent, objective assessment of the County's financial records and internal control environment. Specifically, the investigation was designed to establish and verify fund balances, identify financial irregularities or fraud indicators, evaluate compliance with applicable federal and state regulations, and assess the design and operating effectiveness of the County's internal control systems.

To accomplish these objectives, PG conducted its investigation in three phases: a Planning Phase, which included a comprehensive fraud risk assessment and development of a detailed investigation program; a Fieldwork Phase, which involved transaction-level testing across procurement, accounts payable, payroll, revenue, and capital assets, as well as data analytics procedures; and a Reporting Phase, which culminated in the issuance of this report following pre-exit conferences with County Administrator and Interim Finance Director on February 26, 2026. For Halifax County management's full response, please see *Section VI Halifax County Management Response*. We also conducted a public debrief with the Board of Supervisors as an exit conference following the pre-exit conference on March 2, 2026.

It is important to note that this engagement does not constitute a financial statement audit, and accordingly, no opinion is expressed on the County's financial statements. Due to the inherent limitations of a forensic investigation, an unavoidable risk exists that some material misstatements or irregularities may not be detected, even though the investigation was properly planned and performed in accordance with Government Auditing Standards. The responsibility for the prevention and detection of fraud remains with County management.

This engagement was conducted as a forensic investigation under AICPA Statement on Standards for Forensic Services No. 1 (SSFS No. 1), effective January 1, 2020. This report does not constitute an audit, a review, a compilation, agreed-upon procedures, or any other attest service as defined by AICPA standards. No opinion or other form of assurance is expressed on Halifax County's financial statements or any element, account, or item thereof. The findings presented reflect the

results of investigation procedures performed and do not constitute a legal conclusion as to the ultimate determination of any matter described herein.

Note on Sensitive Information and Disclosure Limitations

Certain information obtained during this engagement — including interview-based allegations involving named individuals — has been omitted from this report or presented in generalized form where it could not be independently corroborated, where inclusion could prejudice potential legal or administrative proceedings, or where the information fell outside the scope of the investigation objectives. Such omissions do not diminish the validity of the findings presented, which are supported by the documentary evidence and investigation procedures described herein. PG is prepared to provide additional detail to appropriate legal counsel, law enforcement, or oversight authorities upon proper request or direction from the Board of Supervisors.

II. Background

Halifax County, located in the Southside Virginia region, covers approximately 819 square miles. According to the U.S. Census Bureau, the County has a population of approximately 34,000 residents, with the Town of South Boston serving as the County seat. The County's economy is largely driven by agriculture, manufacturing, retail trade, and public sector employment. Key economic activities have historically included tobacco farming, textile and industrial manufacturing, and small business retail. The County has experienced economic challenges common to rural Virginia localities, including population decline and limited private sector growth, making sound fiscal management and effective use of public funds particularly critical to sustaining local government services.

Halifax County operates under a traditional form of government as prescribed by the Code of Virginia. Under this structure, the Board of Supervisors serves as the governing body of the County, responsible for determining policy, collecting taxes, and appropriating funds, holding ultimate authority over county financial operations. The Board consists of 9 members: one elected from each of the 8 districts, plus one member serving as a tiebreaker. The County Treasurer is a constitutional officer elected directly by voters for a four-year term, independent of the Board of Supervisors, but is required by state law to submit accounts of receipts, expenditures, and financial statements to the Board. The Finance Director, if appointed, serves as a key administrative leader reporting directly to the County Administrator, with financial duties generally divided between the Treasurer, who oversees the custody and receipt of funds, and the Finance Director, who is responsible for accounting and budgeting functions. As of the date of this report, Halifax County's key financial management personnel include Ron Brade, County Administrator, and John Montoro, Interim Finance Director.

As Halifax County is a political subdivision of the Commonwealth of Virginia, the County provides a broad range of public services to its residents, including public safety, education, public works, and social services. Halifax County's financial operations are managed through multiple funds, including a General Fund, School Fund, Grant Fund, Capital Projects Fund, Airport Fund, and various other special revenue funds. The County's primary revenue sources include local property taxes, Virginia state aid, federal grant funds, business license taxes, and charges for services. As a rural locality, Halifax County relies heavily on state and federal funding to supplement its local revenue base, making sound fiscal management and grant compliance particularly critical to its financial operations.

In October 2024, the Halifax County Board of Supervisors authorized the engagement of Premier Group Services, Inc. (PG) to conduct a forensic investigation of the County's financial records covering fiscal years 2021 through 2025. The Board identified several financial management

Forensic Investigation of Halifax County VA

concerns that necessitated an independent forensic investigation. Specifically, these concerns related to fund balance management and compliance with GASB Statement No. 54, including potential improper fund classifications, inadequate inter-fund transfer documentation, and missing fund balance policies and Board oversight procedures. Additional concerns included weaknesses in internal controls over procurement, payroll, revenue collection, and financial system access, as well as the County's compliance with applicable state and federal grant regulations. These concerns prompted the Board to commission a comprehensive forensic investigation to independently assess the integrity of the County's financial records and strengthen public trust in its financial operations.

This forensic investigation was initiated in response to those concerns and was designed to provide the Board of Supervisors and county administration with an independent and objective assessment of Halifax County's financial records, internal controls, and compliance with applicable federal and state regulations for the five years ending June 30, 2025.

III. Scope

The forensic investigation covered Halifax County's financial records for the five years ending June 30, 2025 (fiscal years 2021 through 2025). The primary objectives of the forensic investigation were to:

- Establish / Verify Fund Balances: Restricted, Committed, Assigned, and Unassigned.
- Identify any financial irregularities or discrepancies.
- Evaluate compliance with applicable financial regulations and policies.
- Assess the adequacy of internal controls and financial management practices.
- Provide recommendations for improving financial processes and controls.

The criteria applied during this engagement are:

- GASB Statement No. 54 Fund Balance Reporting and Governmental Fund Type Definitions.
- Code of Virginia Title 15.2 County Financial Administration and Audit Requirements.
- Virginia Public Procurement Act - Contract and Vendor Management Compliance.
- Commonwealth of Virginia financial regulations.
- Federal grant regulations (2 CFR 200) where applicable.

It should be noted that this engagement does not constitute a financial statement audit, and no opinion is expressed on the County's financial statements. Additionally, due to the inherent limitations of a forensic investigation, an unavoidable risk exists that some material misstatements or irregularities may not be detected, even though the investigation was properly planned and performed in accordance with Government Auditing Standards. The responsibility for the prevention and detection of fraud remains with County management.

IV. Methodology

To accomplish the objectives, PG conducted three phases.

- ✓ Planning Phase
- ✓ Fieldwork Phase
- ✓ Reporting Phase

Planning Phase: Our team

- sent the engagement letter.
- held a kick off meeting with the prior Interim Finance Director.
- sent entrance conference agenda.
- held an entrance conference with County management and staff.
- performed a comprehensive fraud risk assessment.
- reviewed Board of Supervisors meeting minutes, agendas, and resolutions for the investigation period.
- sent inquiry to prior auditor after authorization from the County.
- developed a detailed investigation program tailored to identified risks.

Fieldwork Phase: Our team

- reviewed provided by client (PBC) files.
- sent planned interview name list to the Finance Director and later County Administrator and updated based on the County feedback.
- scheduled and conducted interviews with county staff and Board of Supervisors (former and current).
- selected samples based on interview information.
- prepared and followed up with open items.
- performed analytical procedures.
- selected samples for review and testing.
- reviewed and evaluated sample supporting documents against applicable criteria.

Reporting Phase: Our team

- prepared preliminary findings.
- prepared draft report for county review.
- prepared pre-exit conference agenda.
- obtained county management response.
- prepared final report for Halifax County.
- conducted debrief (exit conference) to Halifax County Board of Supervisors.

V. Summary of Findings

Finding 1: Payroll-to-General Ledger Reconciliation Support Unavailable (FY 2021–FY 2025) (Significant Deficiency and Noncompliance)

Condition

The investigation team observed that payroll supporting documentation submitted by management for the selected payroll transactions could not be reconciled to the General Ledger (GL). Specifically, across fiscal years FY 2021 through FY 2025, 30 payroll transactions were selected for testing (FY 2021: 6; FY 2022: 6; FY 2023: 6; FY 2024: 6; FY 2025: 6); however, for each of the 30 selections, management was unable to provide GL transaction detail and/or corroborating cross-reference support sufficient to substantiate that payroll disbursements, as recorded, agreed to the amounts posted in the General Ledger. As a result, the investigation team was unable to complete GL tie-out procedures for these items, and the accuracy and completeness of payroll transactions recorded in the GL remains unsubstantiated for the periods under review.

Criteria

Payroll costs should be supported by documentation sufficient to trace transactions from source records (e.g., time and attendance records and payroll registers) through payroll outputs (e.g., earnings statements and pay stubs) to the General Ledger (GL), including documented reconciliation and supervisory review. The following regulations and standards establish the basis for this requirement:

- **2 CFR 200.302(b) Financial Management**¹ Federal award recipients must maintain a financial management system that provides accurate, current, and complete disclosure of financial results, including records that support the traceability of transactions from source documentation to the GL and facilitate the reconciliation of payroll disbursements to amounts recorded in the entity's accounting records.
- **2 CFR 200.303(a) Internal Controls**² Recipients must establish and maintain effective internal controls over federal awards that provide reasonable assurance that transactions are managed in compliance with applicable laws, regulations, and the terms and conditions of the award. This includes controls designed to ensure that payroll transactions recorded in the GL are supported by sufficient corroborating documentation.
- **2 CFR 200.430(i) Compensation – Personal Services**³ Charges to federal awards for salaries and wages must be supported by records that accurately reflect the work performed. Such records must be incorporated into the official records of the entity and support the

¹ eCFR :: 2 CFR 200.302 -- Financial management.

² eCFR :: 2 CFR 200.303 -- Internal controls.

³ eCFR :: 2 CFR 200.430 -- Compensation—personal services.

distribution of employee compensation among specific activities or cost objectives, in a manner consistent with amounts posted to the GL.

- **Code of Virginia § 2.2-803 Financial accounting and control⁴ and Agency Risk Management and Internal Controls Standards (ARMICS)⁵** Virginia state agencies are required to establish and maintain effective systems of internal control consistent with the Commonwealth's Agency Risk Management and Internal Controls Standards. This includes controls over the recording of financial transactions in the General Ledger, the integrity of financial reporting, and the documentation and retention of records sufficient to support payroll expenditures and facilitate independent audit verification.
- **Code of Virginia § 15.2-2511(A) Annual Audit Requirement** Virginia localities are required to have all accounts and records audited annually by an independent certified public accountant. This statutory obligation presupposes that payroll supporting documentation is complete, retained, and sufficient to enable auditors to trace and substantiate compensation transactions recorded in the entity's books and records across all fiscal years under review.

Cause

The County did not maintain a standardized payroll-to-GL reconciliation package by pay period and employee and/or did not retain GL posting detail in a manner that allows payroll postings to be clearly identified and traced. In addition, reconciliation and documentation completeness were not consistently required as part of the payroll close with documented supervisory review.

Effect

Without payroll-to-GL reconciliation support (including clear identification of payroll-related GL postings), the risk increases that payroll expense may be inaccurately recorded, posted to incorrect accounts/periods, or remain unsupported by an auditable trail. This reduces transparency and limits the ability of the County and stakeholders to validate that payroll activity recorded in the GL is complete and accurate.

Recommendations

- **Implement a payroll-to-GL reconciliation package:** Require a standard reconciliation that ties payroll registers by pay period to specific GL journal entry numbers, dates, accounts, and amounts, including reconciling items.
- **Require GL transaction identification/annotation for each pay period's payroll posting:** When GL detail is provided, require clear marking of the exact transactions supporting each pay period's payroll posting (e.g., highlighted lines, filtered exports, or a crosswalk).

⁴ [Code of Virginia § 2.2-803 \(2024\) - Financial accounting and control :: 2024 Code of Virginia :: U.S. Codes and Statutes :: U.S. Law :: Justia](#)

⁵ [Agency Risk Management and Internal Control Standards](#)

- **Establish a centralized payroll-close repository and retention checklist:** Maintain a structured repository by fiscal year → pay period → payroll cycle containing payroll registers, time/attendance support, GL posting backup, and reconciliation sign-offs.
- **Add supervisory review and periodic quality assurance (QA) monitoring:** Require documented review of each pay period reconciliation and perform periodic QA checks (e.g., quarterly) to confirm completeness and retrievability.

Finding 2: Insufficient Time and Attendance Documentation to Support Payroll Disbursements (FY 2021–FY 2025) (Significant Deficiency and Noncompliance)

Condition

The investigation team observed that timesheet documentation was not provided for 5 of 30 payroll transactions selected for testing across FY 2021 through FY 2025. Without timesheet support, the investigation team was unable to verify that compensation recorded in the General Ledger (GL) accurately reflects work performed or that the related payroll disbursements were properly authorized.

This exception was identified in each fiscal year under review, indicating a recurring gap in the entity's time and attendance recordkeeping controls that has not been consistently remediated during the period under review.

Criteria

Payroll disbursements should be supported by complete, retained time and attendance records sufficient to demonstrate that compensation charges reflect work actually performed. The following regulations and standards establish the basis for this requirement:

- **2 CFR 200.430(i) Compensation – Personal Services**⁶ Charges to federal awards for salaries and wages must be supported by records that accurately reflect the work performed. Such records must be incorporated into the official records of the entity and maintained in a manner that supports the traceability of compensation costs to specific employees, pay periods, and activities for which payment was made.
- **2 CFR 200.302(b) Financial Management**⁷ Federal award recipients must maintain a financial management system that provides accurate, current, and complete disclosure of financial results. This includes the retention of source documentation — such as time and attendance records — sufficient to support payroll transactions as recorded and to facilitate independent verification during investigation.
- **2 CFR 200.303(a) Internal Controls**⁸ Recipients must establish and maintain effective internal controls that provide reasonable assurance transactions are executed in compliance

⁶ 2 CFR 200.430(i) – Compensation – Personal Services.

⁷ 2 CFR 200.302(b) – Financial Management.

⁸ 2 CFR 200.303(a) – Internal Controls.

with applicable laws, regulations, and award terms. This includes controls governing the preparation, approval, retention, and retrievability of time and attendance records underlying payroll disbursements.

- **Code of Virginia § 2.2-803 Financial accounting and control⁹ and Agency Risk Management and Internal Controls Standards (ARMICS)¹⁰** Virginia state agencies are required to establish and maintain effective systems of internal control consistent with ARMICS. This includes controls over the preparation, supervisory review, and retention of time and attendance records as source documentation supporting payroll disbursements and ensuring that such records are available for independent audit.
- **Code of Virginia § 15.2-2511(A) Annual Audit Requirement¹¹** Virginia localities are required to have all accounts and records audited annually by an independent certified public accountant. This statutory obligation presupposes that time and attendance records underlying payroll disbursements are complete, retained, and available in a form sufficient to enable auditors to substantiate compensation transactions recorded in the entity's books and records.

Cause

Timesheet submission and retention were not consistently enforced for all employees, and/or timesheets were not retained in a centralized location that supports timely retrieval when requested.

Effect

Without timesheets for the periods paid, the risk increases that payroll payments may be unsupported, hours worked may not be verifiable, and payroll expense may be inaccurate or improperly supported. This weakens the County's payroll audit trail and increases exposure to error or inappropriate payments.

Recommendations

- **Standardize required timesheet documentation:** Define required fields (employee name/ID, pay period dates, hours worked, leave/overtime coding, cost center/job where applicable) and require completion for all paid employees.
- **Enforce a timesheet completeness gate in the payroll process:** Require confirmation that timesheets are on file (or exceptions documented and approved) before payroll close-out; maintain an exception log for missing timesheets.
- **Centralize retention and retrieval of timesheets:** Implement a central repository (electronic or controlled paper process) organized by fiscal year/pay period/employee with defined retention responsibilities.

⁹ Code of Virginia § 2.2-803 (2024) - Financial accounting and control :: 2024 Code of Virginia :: U.S. Codes and Statutes :: U.S. Law :: Justia

¹⁰ Agency Risk Management and Internal Control Standards

¹¹ Code of Virginia § 15.2-2511(A) – Annual Audit Requirement.

- **Monitor compliance through periodic QA reviews:** Perform periodic spot checks to confirm timesheets exist for paid employees and are retrievable within a defined timeframe.

Finding 3: Inconsistency Between Timesheet Hours and Payroll Earnings Records Indicates Recurring Timekeeping Reconciliation Gap (FY 2021–FY 2025) (Significant Deficiency and Noncompliance)

Condition

The investigation team observed that hours recorded on employee timesheets were inconsistent with hours reflected in the corresponding payroll earnings documentation for transactions selected for testing. This exception was identified across all five fiscal years under review, spanning FY 2021 through FY 2025, and was noted within the payroll sample set for each fiscal year (6 selections per year; 30 selections in total).

Specifically, timekeeping inputs — as documented on employee timesheets — were inconsistent with payroll outputs — as reflected in earnings statements and payroll registers — resulting in unresolved discrepancies between hours recorded and hours compensated. The investigation team was therefore unable to confirm that payroll disbursements for the affected selections were calculated based on hours worked and accurately reflected in the entity's payroll records.

The recurrence of this condition across five consecutive fiscal years suggests that the controls governing the reconciliation of timekeeping inputs to payroll outputs have not operated effectively during the period under review, and that discrepancies of this nature have not been systematically identified, investigated, or resolved by management.

Criteria

Timesheet hours should reconcile to payroll outputs — including earnings statements and paycheck hours — and any variances identified during that process should be documented, investigated, and approved by an authorized reviewer prior to payroll processing. The following regulations and standards establish the basis for this requirement:

- **2 CFR 200.430(i) Compensation – Personal Services**¹² Charges to federal awards for salaries and wages must be supported by records that accurately reflect the work performed. Timekeeping records and payroll outputs must be consistent and reconcilable, such that compensation disbursed can be directly substantiated by the hours documented in the entity's official time and attendance records.

¹² 2 CFR 200.430(i) – Compensation – Personal Services.

- **2 CFR 200.302(b) Financial Management**¹³ Federal award recipients must maintain a financial management system that provides accurate, current, and complete disclosure of financial results. This includes the maintenance of records sufficient to support agreement between timekeeping inputs and payroll outputs, and to demonstrate that variances between recorded hours and compensated hours have been identified, reviewed, and resolved.
- **2 CFR 200.303(a) Internal Controls**¹⁴ Recipients must establish and maintain effective internal controls that provide reasonable assurance transactions are executed in compliance with applicable laws, regulations, and award terms. This includes controls governing the reconciliation of timesheet hours to payroll earnings records, supervisory review of variances, and documented approval prior to the disbursement of compensation.
- **Code of Virginia § 2.2-803 Financial accounting and control**¹⁵ and **Agency Risk Management and Internal Controls Standards (ARMICS)**¹⁶ Virginia state agencies are required to establish and maintain effective systems of internal control consistent with ARMICS. This includes controls designed to ensure that timekeeping inputs are reconciled to payroll outputs prior to disbursement, that variances are investigated and resolved by authorized personnel, and that documentation of such reconciliation is retained as part of the entity's official payroll records.
- **Code of Virginia § 15.2-2511(A) Annual Audit Requirement**¹⁷ Virginia localities are required to have all accounts and records audited annually by an independent certified public accountant. This statutory obligation presupposes that payroll reconciliation documentation — including evidence that timesheet hours were agreed to payroll outputs and that variances were resolved — is retained and available in a form sufficient to enable independent auditors to substantiate the accuracy of compensation transactions recorded in the entity's books and records.

Cause

Reconciliations between timekeeping records and payroll outputs were not consistently performed, documented, or retained. Additionally, variance drivers (e.g., overtime/leave coding, retro pay, timing/cutoff differences, or manual adjustments) were not supported by a documented variance analysis and approval process.

Effect

Without reconciling timesheet hours to payroll hours and retaining documented explanations for variances, the risk increases that payroll may contain errors (overpayments/underpayments),

¹³ [2 CFR 200.302\(b\) – Financial Management](#)

¹⁴ [2 CFR 200.303 Internal Control](#)

¹⁵ [Code of Virginia § 2.2-803 \(2024\) - Financial accounting and control :: 2024 Code of Virginia :: U.S. Codes and Statutes :: U.S. Law :: Justia](#)

¹⁶ [Agency Risk Management and Internal Control Standards](#)

¹⁷ [Code of Virginia § 15.2-2511\(A\) – Annual Audit Requirement.](#)

unsupported adjustments, and inaccurate payroll expense. This weakens assurance that payroll was processed based on verified and authorized time and attendance information.

Recommendations

- **Implement a time-to-payroll reconciliation and variance log:** Require reconciliation of timesheets to earnings reports each pay period and document variances (reason codes such as overtime, leave, retro adjustments, corrections).
- **Require documented approval of variances before close-out:** Establish a workflow requiring supervisory/HR/payroll approval for hour variances, with retained evidence (electronic approvals or signed variance forms).
- **Enhance reporting to support automated variance detection:** Configure payroll/timekeeping reports to produce exception listings (timesheet vs. earnings hours) and retain them with the pay period close package.
- **Perform ongoing QA monitoring:** Conduct periodic reviews to confirm reconciliations are completed timely, reviewed, and retrievable.

Finding 4: Insufficient Evidence of Supervisory Approval Over Employee Timesheets (FY 2023–FY 2025) (Significant Deficiency and Noncompliance)

Condition

The investigation team observed that 4 of 30 payroll transactions selected for testing across FY 2023 through FY 2025 lacked documented evidence of supervisory approval on the underlying employee timesheets. Without evidence of supervisory authorization, the investigation team was unable to confirm that hours submitted for compensation were reviewed, validated, and approved by an appropriate level of management prior to payroll processing.

This condition was identified across three consecutive fiscal years, indicating that the control requiring supervisory review and approval of employee timesheets has not operated effectively on a consistent basis during the period under review.

Criteria

Employee timesheets should include documented evidence of supervisory review and approval — whether by physical signature, date notation, or electronic equivalent — as a fundamental authorization control over the payroll disbursement process. The following regulations and standards establish the basis for this requirement:

- **2 CFR 200.303(a) Internal Controls**¹⁸ Recipients must establish and maintain effective internal controls that provide reasonable assurance transactions are executed in compliance with applicable laws, regulations, and award terms. This includes the implementation of authorization controls requiring supervisory review and documented approval of employee time and attendance records prior to the processing and disbursement of compensation.
- **2 CFR 200.430(i) Compensation – Personal Services**¹⁹ Charges to federal awards for salaries and wages must be supported by records that accurately reflect the work performed. This requirement encompasses the maintenance of time and attendance records that have been subject to appropriate supervisory review and authorization, confirming that hours submitted for compensation were validated by an authorized level of management before payroll was processed.
- **Code of Virginia § 2.2-803 Financial accounting and control**²⁰ and **Agency Risk Management and Internal Controls Standards (ARMICS)**²¹ Virginia state agencies are required to establish and maintain effective systems of internal control consistent with ARMICS. This includes authorization controls requiring that employee timesheets be reviewed and approved by an appropriate level of supervisory authority prior to payroll processing, and that evidence of such approval be documented and retained as part of the entity's official payroll records.
- **Code of Virginia § 15.2-2511(A) Annual Audit Requirement**²² Virginia localities are required to have all accounts and records audited annually by an independent certified public accountant. This statutory obligation presupposes that timesheets bearing documented evidence of supervisory review and approval are retained and available in a form sufficient to enable independent auditors to substantiate the authorization and propriety of compensation transactions recorded in the entity's books and records.

Cause

Supervisory approval requirements over employee timesheets were not consistently enforced during the periods under review. Evidence of supervisory authorization was either not captured at the time of approval, not retained as part of the entity's official payroll records, or not subject to a centralized review and documentation process sufficient to ensure compliance. The absence of a standardized, monitored control requiring documented supervisory sign-off prior to payroll processing created conditions under which informal or undocumented approvals were not detected or remediated on a timely basis.

Effect

¹⁸ [2 CFR 200.303 Internal Control](#)

¹⁹ [2 CFR 200.430\(i\) – Compensation – Personal Services.](#)

²⁰ [Code of Virginia § 2.2-803 \(2024\) - Financial accounting and control :: 2024 Code of Virginia :: U.S. Codes and Statutes :: U.S. Law :: Justia](#)

²¹ [Agency Risk Management and Internal Control Standards](#)

²² [Code of Virginia § 15.2-2511\(A\) – Annual Audit Requirement](#)

Without documented supervisory approvals, the risk increases that payroll may include unauthorized or inaccurate hours, reducing accountability and increasing exposure to error or inappropriate payments. This weakens the audit trail supporting payroll costs.

Recommendations

- **Require supervisory approval on all timesheets:** Enforce a policy that timesheets must include supervisor approval (signature/date or electronic equivalent) prior to payroll processing, including rules for delegated approvals.
- **Implement an electronic approval workflow or approval log:** Capture approver identity, date/time, and approval status; retain the audit trail with each pay period's payroll documentation.
- **Add an approval verification step to payroll close-out:** Require confirmation that supervisor approvals are on file for all paid employees (or exceptions documented and approved) before finalizing payroll close.
- **Perform periodic compliance monitoring and training:** Conduct periodic QA checks and provide refresher training to supervisors and employees on timesheet approval expectations and documentation requirements.

Finding 5: Lack of Supporting Documentation (Significant Deficiency and Noncompliance)

Condition

During our review of selected transactions for FY2021-FY2025 across multiple financial statement areas, including fund balances (committed, restricted, assigned, unassigned, nonspendable), accounts payable, fixed assets, revenue, federal funding allocation [(Coronavirus Aid, Relief, and Economic Security (CARES), American Rescue Plan Act of 2021 (ARPA)], Solar Panel Project (SOLAR) and Virginia Public School Authority (VPSA) construction fund, the County did not provide complete supporting documentation for all sampled transactions selected. Specifically, of the 398 transactions selected for testing, supporting documentation was provided for 7 samples, 49 samples were only partially supported (e.g., only an invoice, journal entry, or agreement document was provided), while the 342 sampled transactions lacked supporting documentation entirely.

Criteria

- **2 CFR 200.302(b)(3) Financial Management**²³ requires the maintaining of records that sufficiently identify the amount, source, and expenditure of Federal funds for Federal awards. These records must contain information necessary to identify Federal awards,

²³ [2 CFR 200.302\(b\) – Financial Management](#)

authorizations, financial obligations, unobligated balances, as well as assets, expenditures, income, and interest. All records must be supported by source documentation.

- **2 CFR 200.318(i) Procurement Records**²⁴ require that the recipient or subrecipient must maintain records sufficient to detail the history of each procurement transaction. These records must include the rationale for the procurement method, contract type selection, contractor selection or rejection, and the basis for the contract price.

Cause

The incomplete supporting documentation noted during the investigation is attributable to the County's current records management practices and the underutilization of available technology. During interviews, the former Finance Director indicated that the County maintains records in accordance with the Library of Virginia records retention guidelines. Current year and prior year records are kept in active file cabinets, while older records, up to a total of five years, are boxed and stored in a separate file room due to space constraints. The physical separation of records created challenges in locating and retrieving documentation for sampled transactions during investigation fieldwork.

Furthermore, while the County's financial management system, Munis, has the capability to accept scanned attachments such as Board actions and backup documentation for journal entries, the County has not established a consistent practice of scanning and uploading supporting documents to the system. As indicated by County management during the walkthrough, most supporting documentation in Halifax County is maintained in hard copy form only. As a result, even though the functionality exists within Munis to make documentation readily accessible, supporting documentation is largely not visible or retrievable directly within the system.

The absence of a formal policy or established procedure requiring staff to scan and attach supporting documentation to transactions in Munis, combined with the reliance on physical hard copy records stored across active file cabinets and a separate file room, created conditions where documentation was not consistently available or producible upon investigation request.

Effect

- **Inability to Verify Transaction Propriety:** Without adequate supporting documentation, there is no assurance that recorded financial transactions across fund balances, accounts payable, fixed assets, federal fund allocation and revenue are accurate, valid, and properly authorized. With the absence of documentation, we are unable to verify that expenditure was incurred for legitimate purposes and that goods and services were received.
- **Increased Risk of Fraud and Error:** The inability to substantiate transactions with supporting documentation increases the County's exposure to undetected errors, irregularities, and potential fraud. Hard copy records that are not systematically organized

²⁴ [2 CFR 200.318\(i\) - Procurement records](#).

or digitized are susceptible to loss, misplacement, or destruction, further limiting the County's ability to demonstrate accountability over public funds.

- **Compliance Risk:** The County's reliance on hard copy documentation without a consistent scanning and attachment practice creates a compliance risk under applicable Virginia financial regulations, the Virginia Public Procurement Act, and federal grant requirements under 2 CFR 200 where applicable. Unsupported expenditures under federal awards may be deemed unallowable and subject to questioned costs or disallowance.
- **Investigation Limitations:** The incomplete documentation limited the scope of investigation procedures that could be performed on sampled transactions, as conclusions on the propriety of those transactions could not be fully established based on available evidence.

Recommendations

- **Establish a Formal Documentation Policy:** The County should develop and adopt a formal written policy governing the retention, organization, and accessibility of financial records and supporting documentation. The policy should clearly define what constitutes adequate supporting documentation for each transaction type across all financial statement areas, including fund balances, accounts payable, payroll, fixed assets, federal funds allocation, revenue, and establish accountability for compliance at the departmental level.
- **Maximize Utilization of Munis Document Attachment Functionality:** The County should establish a mandatory practice requiring finance staff to scan and attach all supporting documentation directly to corresponding transactions within Munis. This includes but is not limited to invoices, purchase orders, Board actions, timesheets, receiving reports, and journal entry backup. Leveraging the existing functionality within Munis will ensure that documentation is centrally accessible, searchable, and retrievable during future audits or reviews without reliance on physical records.
- **Implement a Digital Records Management Strategy:** The County should transition from its current hard copy reliance to a structured digital records management approach. This includes procuring scanning equipment or services sufficient to support day-to-day document digitization and developing a phased plan to scan and upload historical records currently maintained in file cabinets and the file room storage area.
- **Staff Training:** The County should provide targeted training to all finance and accounting personnel on documentation requirements under Virginia financial regulations, the Virginia Public Procurement Act, the Library of Virginia retention guidelines, and applicable federal grant requirements under 2 CFR 200. Training should specifically address the proper use of Munis attachment functionality and the importance of maintaining complete and accessible records.
- **Establish an Internal Review Process:** The County should implement a supervisory review process to verify that supporting documentation has been scanned, attached, and is

accessible in Munis prior to the approval and posting of financial transactions. This control would serve as a preventive measure to ensure documentation completeness on a go-forward basis and reduce the risk of future audit exceptions.

- **Periodic Internal Compliance Monitoring:** Given the forensic nature of this engagement, the County should consider conducting periodic internal compliance reviews or self-assessments to test documentation completeness across key transaction cycles. Results of such reviews should be reported to the county administration and the Board of Supervisors to ensure appropriate oversight and accountability.

Finding 6: Lack of Training to Perform the Assigned Duties (Significant Deficiency and Noncompliance)

Condition

Interviews conducted with multiple County personnel consistently indicated that staff lacked adequate training on the proper use and functionality of Munis, including knowledge of how to navigate the system, locate financial information, and utilize available features such as the document attachment functionality.

The training deficiency was not isolated to a single individual but reflected a broader systemic gap in the County's approach to ensuring that personnel responsible for financial management possessed the competency necessary to effectively operate Munis in accordance with its intended design and the County's financial reporting obligations.

Criteria

- **Commonwealth of Virginia CAPP Topic 10305 (Internal Controls)** ²⁵The Department of Accounts Commonwealth Accounting Policies and Procedures (CAPP) Manual, Topic 10305, requires agencies and localities to maintain an internal control system consistent with the Committee of Sponsoring Organizations (COSO) framework. Under the COSO Control Environment component, management is required to demonstrate a commitment to competence by establishing training policies and procedures that ensure personnel possess the knowledge and skills necessary to perform their assigned duties effectively.
- **2 CFR 200.303(a) and (c) Internal Controls** ²⁶require the establishment, documentation, and maintenance of effective internal control over the Federal award that provides reasonable assurance that the recipient or subrecipient is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should align with the guidance in “Standards for Internal Control in the Federal Government” issued by the Comptroller General of the United States

²⁵ [CAPP Manual - 10305 - Internal Control Guidance, Internal Control](#)

²⁶ [2 CFR 200.303 Internal Control](#)

or the “Internal Control-Integrated Framework” issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Cause

The lack of adequate training is identified as a root cause contributing to multiple deficiencies noted during this forensic investigation. County personnel revealed a consistent pattern of insufficient knowledge and familiarity with the County's financial management system, Munis, among finance staff and leadership.

The current concerns regarding financial data, including potential fund balance misstatements, may stem from user error, attributing discrepancies to the financial staff's unfamiliarity with the system. Interviews revealed that no formal training was provided to new hires upon onboarding. The absence of adequate systematic training created conditions where transactions may have been incorrectly entered, misclassified, or improperly recorded within Munis, contributing to perceived data gaps and potential misstatements in the financial records. Furthermore, as previously noted, the underutilization of Munis attachment functionality for supporting documentation is consistent with and further evidenced by the broader pattern of insufficient staff training on the system.

Effect

The insufficient training of finance staff in the Munis financial management system has had the following effects on Halifax County's financial operations and reporting:

- **Financial Misstatements and Data Integrity Concerns:** The lack of adequate Munis training contributed to user errors that may have resulted in transactions being incorrectly entered, misclassified, or improperly recorded within the system. As noted during interviews, the fund balance may have been misstated as a direct consequence of user error attributable to insufficient system knowledge. These conditions undermine the reliability and integrity of the County's financial data and raise concerns about the accuracy of financial reporting.
- **Perceived Missing Data and Documentation Gaps:** Staff unfamiliarity with Munis created a perception of missing data where information may have existed within the system but was not locatable due to insufficient system knowledge. This directly impacted the investigation process, as documentation that may have been available within Munis was not retrievable, contributing to the supporting documentation deficiencies noted in this report.
- **Underutilization of System Functionality:** The County's failure to adequately train staff on Munis resulted in the underutilization of key system features, most notably the document attachment functionality. As a result, supporting documentation was not consistently scanned and attached to transactions, leaving the County without a centralized and accessible electronic record of financial transaction support as the system was designed to provide.

- **Increased Risk of Fraud and Error:** The combination of inadequate system training and the resulting data integrity concerns increases the County's exposure to undetected errors, irregularities, and potential fraud. When personnel do not fully understand the system they are operating, the risk that transactions are improperly processed, recorded, or concealed is significantly elevated, which is of particular concern in the context of a forensic investigation engagement.
- **Compliance Risk:** The training deficiency creates compliance risk under Virginia financial regulations, GASB standards, and federal award requirements under 2 CFR 200 applicable to the County's CARES Act and ARPA funding. Errors and misstatements resulting from inadequate system knowledge may result in inaccurate financial reporting, unsupported expenditures, and potential questioned costs or disallowance of federally funded expenditures.

Recommendations

The forensic investigation team recommends that Halifax County implement the following corrective actions to address the identified training deficiencies related to the Munis financial management system:

- **Develop a Formal Munis Training Program:** The County should develop and implement a formal, structured training program for all finance and accounting personnel on the proper use and functionality of Munis. The training program should be comprehensive and cover all core system functions relevant to each staff member's role and responsibilities, including transaction entry, financial reporting, document attachment, and system navigation. Training should be delivered by qualified Munis system administrators or the system vendor and should be documented and tracked for all participants.
- **Mandatory Onboarding Training for New and Interim Staff:** The County should establish a mandatory Munis onboarding training requirement for all newly hired, promoted, or interim personnel assuming financial management responsibilities. No staff member should be permitted to process, approve, or post financial transactions in Munis without first demonstrating adequate proficiency in the system. This is particularly critical for leadership positions such as the Finance Director, where system errors can have broad financial reporting implications.
- **Engage Munis Vendor Support:** The County should engage Tyler Technologies, the vendor for Munis, to assess the County's current system configuration and utilization, identify functionality that is available but currently underutilized, and provide tailored training sessions for County finance staff. Many Munis support contracts include access to training resources, webinars, and on-site assistance that the County should leverage to address the identified gaps.
- **Designate a Munis System Administrator:** The County should designate a qualified Munis system administrator responsible for overseeing system usage, maintaining user

access controls, providing ongoing staff guidance, and ensuring that system functionality is being utilized consistently and correctly across the finance department. This individual should serve as the primary point of contact for system-related questions and issues and should coordinate with Tyler Technologies on system updates and training opportunities.

- **Implement Competency Assessments:** The County should implement periodic competency assessments to evaluate finance staff proficiency in Munis and identify any ongoing or emerging training needs. Assessment results should be documented and used to inform future training priorities and corrective actions at the individual and departmental level.
- **Establish Training Documentation and Tracking:** The County should maintain formal records of all Munis training completed by finance staff, including training dates, topics covered, and staff attendance. Training documentation should be retained as part of the County's personnel and internal control records and made available for review during future audits or oversight activities.
- **Link Training Compliance to Performance Management:** The County should consider incorporating Munis training compliance and system proficiency as a component of performance evaluations for finance and accounting personnel. This creates accountability at the individual level and reinforces the County's commitment to maintaining a competent and well-trained finance workforce.

Finding 7: Lack of Written Policy and Procedures (Significant Deficiency and Noncompliance)

Condition

During the conduct of this forensic investigation, it was noted that Halifax County lacked formally documented written policies and procedures governing key financial management functions and operations. Specifically, the County does not have adequate written policies and procedures in place to guide finance staff in critical areas including but not limited to supporting documentation requirements, records management practices, the utilization of the Munis financial management system, and fund balance management.

The absence of written policies was evidenced throughout the investigation by the inconsistent practices observed across the finance department. Staff demonstrated varying approaches to financial transaction processing, documentation retention, and system utilization, indicating that personnel were operating without formal written guidance or standardized procedures to govern their activities. As noted during interviews, practices such as the scanning and attaching of supporting documentation to transactions in Munis were not consistently performed, and no formal written requirement existed to mandate such practices.

Notably, during the investigation it was determined that the County does not have a comprehensive fund balance policy. Per the interview, while a reserve policy does exist, no clearly defined policy governing fund balance usage, classification, and reporting was identified during the engagement. Furthermore, the County did not have established written policies governing the onboarding and training requirements for finance personnel, including interim staff assuming financial management responsibilities.

Criteria

- **2 CFR 200.302(b)(7) Financial Management**²⁷ requires non-federal entities to maintain written procedures for determining the allowability of costs in accordance with subpart E and the terms and conditions of the Federal award.
- **2 CFR 200.303(a) Internal Controls**²⁸ require the establishment, documentation, and maintenance of effective internal control over the Federal award that provides reasonable assurance that the recipient or subrecipient is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should align with the guidance in “Standards for Internal Control in the Federal Government” issued by the Comptroller General of the United States or the “Internal Control-Integrated Framework” issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).
- **2 CFR 200.318(a) General Procurement Standards**²⁹ require the recipient or subrecipient must maintain and use documented procedures for procurement transactions under a federal award or subaward, including for acquisition of property or services. These documented procurement procedures must be consistent with State, local, and tribal laws and regulations and the standards identified in [§§ 200.317](#) through [200.327](#).

Cause

The absence of written policies and procedures within Halifax County's finance department is attributable to a systemic failure at the leadership level to prioritize, assign, and oversee the development of a formal policy framework governing the County's financial management operations.

No individual or body within the County appears to have been formally designated with the responsibility of developing, maintaining, and periodically reviewing financial management policies and procedures. As a result, policy development was never undertaken in any structured or deliberate manner, and the gap was allowed to persist across successive administrations and personnel transitions without corrective action.

²⁷ [2 CFR 200.302\(b\) – Financial Management](#)

²⁸ [2 CFR 200.303 Internal Control](#)

²⁹ [2 CFR 200.318\(a\) -General procurement standards.](#)

While interim personnel who assumed financial management responsibilities identified the absence of policies as a concern, structural and contractual constraints prevented them from addressing the deficiency. Specifically, the Interim Finance Director recognized the need for a formal fund balance policy but was unable to develop or implement one due to the hourly and time limitations of her tenure. This indicates that even when the deficiency was recognized, no mechanism existed within the County's governance structure to ensure that policy development was escalated, resourced, and completed.

The absence of formal accountability for policy development, combined with a lack of oversight from County leadership to ensure that foundational financial management policies were established and maintained, created the conditions under which finance staff were left to operate without formal written guidance, ultimately contributing to the inconsistent practices and deficiencies identified throughout this forensic investigation.

Effect

The absence of formally documented written policies and procedures governing Halifax County's financial management operations has had the following effects:

- **Inconsistent Financial Management Practices:** Without written policies to provide standardized guidance, finance staff have been left to exercise individual judgment in carrying out financial management responsibilities. This has resulted in inconsistent practices across the finance department, including varying approaches to transaction processing, documentation retention, and system utilization, as evidenced by the deficiencies identified throughout this forensic investigation. The lack of standardization increases the risk that financial transactions are processed incorrectly and inconsistently across reporting periods.
- **Fund Balance Misstatement Risk:** The absence of a formally adopted fund balance policy has created significant risk that fund balance amounts are improperly classified, inadequately monitored, and inconsistently reported in the County's financial statements in departure from GASB Statement No. 54 requirements. Without a clearly defined policy governing fund balance usage and classification, there is no assurance that fund balance amounts reported in the County's financial statements are accurate and properly categorized, contributing to the fund balance misstatement concerns identified during this forensic investigation.
- **Weakened Internal Control Environment:** Written policies and procedures are a foundational component of an effective internal control environment. Their absence significantly weakens the County's overall internal control structure, reducing the County's ability to prevent, detect, and correct errors, irregularities, and potential fraud. In the context of a forensic investigation, the absence of written policies is particularly concerning as it creates an environment where financial misconduct could occur without adequate controls to detect or deter it.

- **Staff Uncertainty and Compliance Risk:** The lack of written guidance has created uncertainty among finance personnel regarding their roles, responsibilities, and the standards expected of them in carrying out financial management functions. As confirmed by multiple interviewees, staff have been operating without formal policies, increasing the risk of noncompliance with applicable Virginia financial regulations, GASB standards, and federal award requirements under 2 CFR 200 governing the County's CARES Act and ARPA funding. Unsupported or improperly processed expenditure under federal awards may be deemed unallowable and subject to questioned costs or disallowance.
- **Inability to Ensure Continuity of Operations:** The absence of documented policies and procedures means that institutional knowledge and financial management practices are not formally captured or transferable. This creates significant operational risk during personnel transitions, as demonstrated by the challenges experienced during the tenure of interim finance leadership. Without written procedures to guide incoming or interim personnel, the County is vulnerable to disruptions in financial management continuity, errors attributable to unfamiliarity with established practices, and an increased risk of misstatement during transition periods.

Recommendations

The forensic investigation team recommends that Halifax County implement the following corrective actions to address the systemic absence of written policies and procedures governing the County's financial management operations:

- **Establish a Comprehensive Financial Policy Framework:** The County should immediately undertake the development of a comprehensive written financial policy framework governing all key financial management functions. This framework should address at a minimum transaction processing and authorization, supporting documentation requirements, records management and retention, fund balance classification and usage, procurement and vendor management, payroll administration, fixed asset management, and revenue recognition and reporting. Policies should be written in clear and accessible language, formally adopted by the Board of Supervisors, and made available to all finance personnel, including the County's website for transparency and accountability.
- **Adopt a Formal Fund Balance Policy in Compliance with GASB No. 54:** The County should prioritize the development and formal adoption of a comprehensive fund balance policy in compliance with GASB Statement No. 54. The policy should clearly define the five fund balance classifications of nonspendable, restricted, committed, assigned, and unassigned, establish the conditions and authorization levels required for the use of each classification, and specify the County's minimum fund balance target. The policy should be formally adopted by the Board of Supervisors and reviewed annually to ensure continued compliance with GASB reporting requirements.

- **Assign Formal Responsibility for Policy Development and Maintenance:** The County should formally designate a qualified individual or committee with the specific responsibility of developing, implementing, maintaining, and periodically reviewing financial management policies and procedures. This designation should be documented and incorporated into the relevant job descriptions and performance expectations. A clear timeline and work plan for policy development should be established and reported to County leadership and the Board of Supervisors to ensure accountability and progress.
- **Establish a Policy Review and Update Cycle:** Once developed, financial policies and procedures should be subject to a formal annual review cycle to ensure they remain current, accurate, and compliant with applicable Virginia financial regulations, GASB standards, and federal award requirements under 2 CFR 200. Any changes to applicable laws, regulations, or operational practices should trigger an immediate review and update of relevant policies. All policy revisions should be formally approved, documented, and communicated to affected personnel.
- **Ensure Policies Address Federal Award Requirements:** Given that Halifax County receives federal financial assistance through CARES Act and ARPA funding, the County's written policies must specifically address the management and administration of federal awards in compliance with 2 CFR 200.302 and 2 CFR 200.303. This includes written procedures for determining the allowability of costs, processing and documenting federal award expenditures, and ensuring compliance with the terms and conditions of all federal awards received by the County.
- **Communicate and Train Staff on Adopted Policies:** Upon adoption of written policies and procedures, the County should ensure that all finance and accounting personnel receive formal training on the content and application of the new policies. Training should be documented and repeated whenever policies are updated or when new personnel assume financial management responsibilities. Policies should be incorporated into staff onboarding procedures to ensure that all incoming and interim personnel are aware of and operating in accordance with established County standards from the outset of their engagement.
- **Engage External Expertise if Necessary:** Given the breadth of the policy gaps identified during this forensic investigation and the current capacity constraints within the finance department, the County should consider engaging qualified external expertise such as a financial management consultant or municipal finance advisory firm to assist in the development of a comprehensive policy framework. This would ensure that policies are developed in a timely manner, reflect current best practices, and are fully compliant with all applicable regulatory requirements.

Finding 8: Lack of Segregation of Duties (Significant Deficiency and Noncompliance)

Condition

During the conduct of this forensic investigation, a significant deficiency in terms of segregation of duties was identified within Halifax County's finance department and broader financial management operations. Evidence gathered through interviews indicates that key financial responsibilities were concentrated in a single individual without adequate oversight, review, or controls.

Specifically, it was alleged during interviews that the former Finance Director exercised sole control over multiple critical and incompatible financial functions simultaneously. These functions included the management of deposits, disbursements, and reconciliations, administrative access to the Munis financial management system, and in some instances the direct direction of vendor payments. The concentration of these incompatible duties in a single individual without independent oversight or review created conditions where errors, irregularities, and potential fraud could occur without detection.

Furthermore, interview evidence indicated that the former Finance Director held administrator-level access to Munis during her tenure. This level of system access, combined with her control over financial transaction processing and reconciliation functions, undermined the segregation of duties necessary to maintain effective oversight of the County's financial operations.

Additionally, the significant deficiency of segregation of duties was noted in the administration of the County's solar energy facilities (Solar Projects)³⁰. The Planning and Zoning Administrator is identified as overseeing both the planning and application package review functions as well as the negotiation of revenue terms for Solar Projects, functions that were previously managed in conjunction with the former County Administrator. The combination of planning oversight and revenue negotiation responsibilities within a single individual represents an additional segregation of duties concern outside of the finance department.

Finally, deficiencies were identified in the County's hiring process for the Finance Director position. The background investigation conducted as part of that hiring process was performed by Human Resources and payroll staff who subsequently came under the direct supervisory authority of the Finance Director. This arrangement created a structural conflict of interest in which individuals responsible for vetting the Finance Director later reported to that same individual, undermining the objectivity and independence of the hiring control process.

Criteria

- **2 CFR 200.303(a) Internal Controls**³¹ require that non-federal entities receiving federal awards establish, document, and maintain effective internal control over the Federal award that provides reasonable assurance that the recipient or subrecipient is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should align with the guidance in

³⁰ [2024-33-Ordinance-Amending-Chapter-53-for-Solar-Energy-Facilities---Redlines](#)

³¹ [2 CFR 200.303 Internal Control](#)

“Standards for Internal Control in the Federal Government” issued by the Comptroller General of the United States or the “Internal Control-Integrated Framework” issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Segregation of duties is universally recognized as a foundational internal control requirement under this standard.

- **Code of Virginia Title 15.2 County Financial Administration and Audit Requirements §15.2-2511 through §15.2-2516**³²— Establishes the roles and responsibilities of the County finance officer, requiring that financial operations be conducted with proper accountability and oversight — implying separation of incompatible duties.
- **CAPP Topic 10305 Internal Controls**³³ directly requires agencies to implement internal controls consistent with the COSO framework, under which segregation of duties is a fundamental control activity. Specifically, COSO requires that no single individual control all phases of a transaction — authorization, recording, custody, and reconciliation must be separated.

Cause

The segregation of duties deficiencies identified within Halifax County are attributable to a combination of insufficient oversight at the leadership and governance level, the absence of formally documented internal control policies, and inadequate access controls within the Munis financial management system.

At the leadership level, the County failed to establish and enforce adequate boundaries over the financial responsibilities assigned to the Finance Director position. No formal framework existed to ensure that incompatible financial duties were appropriately divided between different personnel, and no independent review or oversight mechanism was in place to monitor the activities of the Finance Director. As characterized by interviewees, there were effectively no checks and balances governing the Finance Director’s control over deposits, disbursements, reconciliations, and vendor payments, allowing a single individual to exercise unchecked authority over the full cycle of financial transactions.

The absence of written policies and procedures governing segregation of duties, as identified as a separate finding in this report, further contributed to this deficiency. Without formally documented internal control requirements, there was no established standard against which staff responsibilities and system access could be evaluated or enforced. This created an environment where the concentration of incompatible duties in a single individual went unaddressed and undetected over an extended period.

Additionally, the County did not maintain adequate controls over Munis system access to enforce segregation of duties at the system level. The assignment of administrator-level access to the Finance Director effectively granted a single individual the ability to initiate, process, approve,

³² [Code of Virginia § 2.2-803 \(2024\) - Financial accounting and control :: 2024 Code of Virginia :: U.S. Codes and Statutes :: U.S. Law :: Justia](#)

¹¹ [Agency Risk Management and Internal Control Standards](#)

³³ [CAPP Manual - 10305 - Internal Control Guidance, Internal Control](#)

and reconcile financial transactions within the system without independent system controls to prevent or detect unauthorized or improper activity.

With respect to the Solar Projects, the concentration of both planning oversight and revenue negotiation responsibilities within a single individual reflects a broader organizational pattern of inadequate segregation of duties that extends beyond the finance department, indicating that the deficiency is systemic rather than isolated to a single functional area.

The County did not apply appropriate conflict of interest controls during the Finance Director hiring process. Specifically, the assignment of background investigation responsibilities to HR and payroll staff who would subsequently report to the Finance Director reflects a failure to assess and mitigate structural conflicts of interest in the hiring and onboarding process.

Effect

The absence of adequate segregation of duties within Halifax County's financial management operations has had the following effects:

- **Increased Risk of Fraud and Financial Misconduct:** The concentration of incompatible financial duties including deposits, disbursements, reconciliations, and vendor payment direction in a single individual without independent oversight created conditions highly conducive to fraud and financial misconduct. When one individual controls all aspects of a financial transaction cycle without checks and balances, the opportunity to conceal errors, or misappropriate public funds is significantly elevated. In the context of this forensic investigation, this represents one of the significant internal control deficiencies identified, as is consistent with conditions that may have contributed to the financial irregularities identified during this engagement.
- **Compromised Integrity of Financial Records:** The Finance Director's unrestricted administrator-level access to multiple modules within Munis, combined with her control over transaction processing and reconciliation functions, created conditions that increase the risk that financial records may have been altered, or improperly recorded without independent detection. The integrity of financial data maintained within Munis during the former Finance Director's tenure could not be fully assured given the absence of system level controls to prevent unauthorized or improper system activity by a single administrator.
- **Undetected Errors and Irregularities:** The absence of independent review and oversight into the Finance Director's financial activities means that errors, irregularities, and potential misstatements in the County's financial records may have gone undetected over an extended period. Without a second party reviewing and approving transactions, reconciliations, and vendor payments, there was no mechanism to identify and correct improper or erroneous financial activity on a timely basis.
- **Federal Award Compliance Risk:** The segregation of duties deficiencies identified in this finding represent a significant internal control weakness over the management of federal

awards received by the County including CARES Act and ARPA funding. Under 2 CFR 200.303, non-federal entities are required to maintain effective internal controls over federal awards. The absence of adequate segregation of duties increases the risk that federal funds were improperly managed, inadequately monitored, or potentially misused, which may result in questioned costs, disallowance of federal expenditures, or additional oversight requirements imposed by federal awarding agencies.

- **Compromised Objectivity of the Finance Director Hiring Process:** The assignment of background investigation responsibilities to HR and payroll staff who subsequently reported to the Finance Director compromised the objectivity of the hiring control process. This arrangement may have reduced the rigor of the background investigation and created a dynamic in which those responsible for vetting the Finance Director later had a reporting relationship with that individual, creating potential vulnerability to undue influence or retaliation.
- **Governance Risk:** The severity of the segregation of duties deficiencies, characterized by interviewees as representing a complete absence of checks and balances, poses significant reputational and governance risk to Halifax County. The concentration of unchecked financial authority in a single individual undermines public trust in the County's financial management practices and raises broader questions about the effectiveness of County leadership and governance oversight during the period under review.

Recommendations

The forensic investigation team recommends that Halifax County implement the following corrective actions to address the segregation of duties deficiencies identified during this forensic investigation:

- **Immediately Restructure Financial Responsibilities:** The County should immediately undertake a comprehensive review and restructuring of financial management responsibilities to ensure that incompatible duties are appropriately divided among different personnel. At a minimum, the authorization of transactions, processing and recording of transactions, custody of assets, and reconciliation of accounts should be assigned to separate individuals to eliminate the concentration of incompatible duties identified during this investigation.
- **Establish a Formal Segregation of Duties Policy:** The County should develop and formally adopt a written segregation of duties policy that clearly defines incompatible financial duties, establishes requirements for their separation, and identifies compensating controls to be implemented where full segregation is not feasible due to staffing constraints. The policy should be reviewed and approved by the Board of Supervisors and incorporated into the County's broader financial management policy.
- **Implement Compensating Controls Where Full Segregation is Not Feasible:** Recognizing that complete segregation of duties may not always be practicable in a county

government environment with limited staffing, the County should establish and document formal compensating controls to mitigate the risks associated with any remaining concentration of duties. Compensating controls should include independent supervisory review and approval of transactions, regular reconciliation reviews by personnel independent of transaction processing, and periodic management reporting to the Board of Supervisors on financial activities and exceptions.

- **Strengthen Munis System Access Controls:** The County should immediately conduct a comprehensive review of all Munis user access rights and system permissions to ensure that access levels are appropriate, role based, and consistent with each user's assigned responsibilities. Administrator-level access should be restricted to designated system administrators who do not have transaction processing or reconciliation responsibilities. The principle of least privilege should be applied to ensure that all users have only the minimum level of system access necessary to perform their assigned duties. Access rights should be reviewed and recertified on a periodic basis and immediately upon personnel transitions.
- **Implement a Munis Access Audit Trail Review Process:** The County should establish a formal process for periodically reviewing Munis system audit trails and transaction logs to identify any unusual, unauthorized, or potentially improper system activity. These reviews should be conducted by an individual independent of transaction processing and should be documented and reported to County management and the Board of Supervisors on a regular basis.
- **Enhance Board of Supervisors Oversight:** The Board of Supervisors should strengthen its oversight of the County's financial management operations by requiring regular financial reporting from the Finance Director, conducting periodic reviews of internal control practices, and ensuring that significant financial decisions and vendor payments above established thresholds are subject to Board review and approval. The Board should also consider engaging an independent internal auditor or audit committee to provide ongoing oversight of the County's financial management practices and internal control environment.
- **Revise the Hiring Process for Senior Financial and Administrative Positions:** The County should revise its hiring procedures for senior financial and administrative positions to ensure that background investigations and pre-employment screenings are conducted by personnel who will not subsequently report to or be supervised by the individual being hired. For positions at the Finance Director level and above, the County should consider engaging an independent third-party background investigation firm to eliminate structural conflicts of interest in the vetting process. HR staff involved in the hiring of supervisory personnel should not subsequently be placed under that individual's direct supervisory authority.

Finding 9: Retention Policy is Inconsistent with Virginia Regulations (Significant Deficiency and Noncompliance)

Condition

During the conduct of this forensic investigation, it was noted that Halifax County's records retention practices are inconsistent with applicable Virginia regulations and present significant risks to the availability, accessibility, and integrity of the County's financial records.

Interviews conducted with County personnel and officials revealed that the County relies primarily on hard copy records for the retention of financial documentation including invoices, timesheets, and other supporting documents. As confirmed by the former Finance Director, invoices and timesheets were maintained predominantly in hard copy format and were not scanned or digitized. This practice was corroborated by a Board of Supervisors member, who noted that the County's heavy reliance on hard copy records increases the risk of lost documentation and limits transparency and traceability of financial transactions.

Furthermore, inconsistencies were identified regarding the County's understanding and application of the applicable records retention period. An interview with a Board of Supervisors member revealed that financial records should be retained for seven years based on historical County practice, while subsequently being informed that records were being retained for only three years consistent with state requirements. Per the interview with the former Finance Director, records were retained following a five-year rule consistent with Library of Virginia requirements. This discrepancy indicates that there is no consistent or clearly communicated understanding among County leadership regarding the applicable retention requirements, creating conditions where records may be prematurely destroyed or inadequately maintained.

Additionally, it was noted that the County does not maintain records electronically or in a cloud-based system, relying instead on physical hard copy storage across active file cabinets and a separate file room as previously noted in this report. The absence of electronic or cloud-based records management significantly increases the risk that financial records are lost, damaged, destroyed or otherwise unavailable when needed for audit, legal, or oversight purposes.

Criteria

- **Code of Virginia § 42.1-86.1 Disposition of public records**³⁴ establishes that local governments should refer to the “General Schedules For Localities”³⁵ GS-02 Fiscal Records for applicable retention periods.
- **2 CFR 200.334 Record retention requirements**³⁶ require the recipient and subrecipient must retain all Federal award records for three years from the date of submission of their final financial report. For awards that are renewed quarterly or annually, the recipient and subrecipient must retain records for three years from the date of submission of their

³⁴ [Virginia Law § 42.1-86.1 - Disposition of public records.](#)

³⁵ [Library of Virginia Records Management Locality General Schedules](#)

³⁶ [2 CFR 200.334 - Record retention requirements.](#)

quarterly or annual financial report, respectively. Records to be retained include but are not limited to financial records, supporting documentation, and statistical records. Additionally, it requires the records to be retained until all litigation, claims, or audit findings involving the records have been resolved and final action taken if any litigation, claim, or audit is started before the expiration of the three-year period. It also requires that the records for program income earned after the period of performance must be retained for three years from the end of the recipient's or subrecipient's fiscal year in which the program income is earned.

Cause

The inconsistency in Halifax County's records retention practices is attributable to the absence of a formally documented and communicated records retention policy, combined with a lack of leadership awareness and oversight regarding applicable retention requirements.

As identified in the lack of written policies finding, the County does not maintain a comprehensive written policy framework governing financial management operations. The absence of a formally adopted records retention policy means that there is no clearly documented standard governing how long financial records must be retained, in what format they must be maintained, and who is responsible for ensuring compliance with applicable retention requirements. Without such a policy, retention practices were applied inconsistently and based on individual assumptions rather than established regulatory requirements.

The inconsistency in leadership's understanding of applicable retention periods further evidences this deficiency. The fact that a Board of Supervisors member believed records should be retained for seven years based on historical County practice, while records were being retained for only three years, indicates that retention requirements were never formally communicated, documented, or enforced at the leadership level. This disconnect between leadership expectations and actual practice suggests that records retention has not been subject to adequate governance oversight within the County.

The County's continued reliance on hard copy records in the absence of a digital records management system further compounds the retention deficiency. Without electronic records management, the County has no reliable mechanism to ensure that hard copy records are systematically organized, adequately protected, and consistently retrievable for the required retention period. The physical vulnerability of hard copy records to loss, damage, or misplacement increases the risk that records are effectively unavailable even within the applicable retention period, regardless of the County's intent to comply with state requirements.

Effect

The inconsistency in Halifax County's records retention practices has had the following effects:

- **Premature Destruction or Loss of Financial Records:** The absence of a formally documented and consistently applied records retention policy increases the risk that

financial records have been prematurely destroyed or are otherwise unavailable for audit, legal, or oversight purposes. The disconnect between leadership's understanding of the applicable retention period and actual practice suggests that records may not have been retained for the periods required under applicable Virginia regulations and federal award requirements, resulting in gaps in the County's financial record history that cannot be reconstructed.

- **Impaired Investigative Capacity:** The County's reliance on hard copy records combined with inconsistent retention practices directly impaired the forensic investigation team's ability to obtain and review complete supporting documentation for sampled transactions. The unavailability of complete financial records limits the scope of investigative procedures that can be performed and reduces the likelihood that financial irregularities, errors, or misconduct can be fully identified, substantiated, and quantified. In a forensic investigation context, this is particularly significant as incomplete records may hinder potential legal or recovery proceedings.
- **Reduced Transparency and Accountability:** As noted by a Board of Supervisors member, the County's heavy reliance on hard copy records limits transparency and traceability of financial transactions. The inability to readily retrieve and produce financial records undermines the County's ability to demonstrate accountability over public funds to its citizens, oversight bodies, and federal awarding agencies. This is inconsistent with the fundamental accountability obligations of a local government entity under Code of Virginia and GASB standards.
- **Federal Award Compliance Risk:** The retention of financial records for only three years may be insufficient to meet the federal records retention requirements under 2 CFR 200.334, which requires that records pertaining to federal awards be retained for a minimum of three years from the date of submission of the final financial report for the award, and longer where litigation, claims, or audit findings remain unresolved. Given that this forensic investigation has identified multiple areas of concern requiring further investigation, the three-year retention period currently applied by the County may result in the premature destruction of records pertinent to unresolved investigation findings related to the County's CARES Act and ARPA funding, potentially triggering additional federal oversight or compliance consequences.
- **Legal and Regulatory Exposure:** The inconsistency between the County's actual retention practices and applicable requirements under the Virginia Public Records Act exposes the County to potential legal and regulatory consequences. The premature destruction of public records or the failure to maintain records in accordance with the Library of Virginia retention schedules may constitute a violation of the Virginia Public Records Act, exposing the County to legal liability and reputational harm.
- **Operational Risk During Personnel Transitions:** The County's reliance on hard copy records maintained by individual staff members increases the risk that institutional

knowledge and critical financial documentation are lost during personnel transitions. As demonstrated during this forensic investigation, the departure of key finance personnel including the former Finance Director created conditions where financial records were difficult to locate, retrieve, and verify, further compounding the documentation gaps identified throughout this report.

Recommendations

The forensic investigation team recommends that Halifax County implement the following corrective actions to address the records retention deficiencies identified during this forensic investigation:

- **Develop and Adopt a Formal Records Retention Policy:** The County should immediately develop and formally adopt a comprehensive written records retention policy consistent with the “General Schedules For Localities”³⁷ and applicable federal award requirements under 2 CFR 200.334. The policy should clearly specify the applicable retention periods for each category of financial record including invoices, timesheets, payroll records, procurement documents, grant administration records, and reconciliation documentation. The policy should be formally approved by the Board of Supervisors, communicated to all relevant personnel, and incorporated into the County's broader financial management policy framework.
- **Transition to a Digital Records Management System:** The County should develop and implement a plan to transition from its current hard copy records management approach to a structured digital records management system. This transition should include the procurement of adequate scanning equipment or services to support day-to-day document digitization, the development of a phased plan to scan and upload historical records currently maintained in physical storage, and the establishment of a secure and organized electronic filing structure that ensures records are readily retrievable by transaction type, date, and financial category. Cloud-based storage should be considered to provide additional redundancy and protection against physical loss or damage.
- **Leverage Munis Document Attachment Functionality:** As recommended in the supporting documentation finding, the County should establish a mandatory practice of scanning and attaching all supporting documentation to corresponding transactions within Munis. Utilizing Munis as a centralized document repository will ensure that financial records are systematically organized, electronically preserved, and readily accessible for the required retention period without reliance on physical hard copy storage.
- **Establish a Records Retention Compliance Monitoring Process:** The County should implement a formal records retention compliance monitoring process to ensure that financial records are being retained in accordance with the adopted policy and applicable regulatory requirements. This process should include periodic reviews of records retention

³⁷ [Library of Virginia Records Management Locality General Schedules](#)

practices across all finance department functions, documentation of records destruction activities including the date, category, and authorization for destruction, and regular reporting to County management and the Board of Supervisors on retention compliance.

- Train Staff on Records Retention Requirements:** The County should provide formal training to all finance and administrative personnel on the applicable records retention requirements under the Library of Virginia retention schedules, the Virginia Public Records Act, and federal award requirements under 2 CFR 200.334. Training should emphasize the legal obligations associated with public records retention, the risks associated with premature destruction of records, and the proper procedures for managing both physical and electronic records in accordance with the County's adopted retention policy.
- Communicate Retention Requirements to County Leadership:** Given the inconsistency identified in County leadership's understanding of applicable retention periods, the County should ensure that the Board of Supervisors and senior leadership are formally briefed on the requirements of the Library of Virginia retention schedules and applicable federal retention requirements. Leadership awareness and oversight of records retention compliance is essential to ensuring that adequate resources and attention are devoted to this area going forward.

Finding 10: Fund Balance Outlier (Significant Deficiency and Noncompliance)

Condition

During the analysis of the year-end fund balance for FY2021 - 2024, it was noted that Fund Balance - Restricted fund and Fund Balance - Assigned reflected an unusually high balance compared to historical trends. The variance was not adequately supported by documentation or formally explained in financial reports.

Fund Balance	FY2021	% of Total Fund Balance	FY2022	% of Total Fund Balance	FY2023	% of Total Fund Balance	FY2024	% of Total Fund Balance
Nonspendable	\$ 724,541	1.77%	\$ 1,241,182	0.79%	\$ 984,630	0.59%	\$ 710,527	0.51%
Restricted	\$ 3,492,808	8.51%	\$ 113,523,800	71.86%	\$ 115,146,010	68.95%	\$ 80,189,726	57.35%
Committed	\$ 1,704,241	4.15%	\$ 1,972,204	1.25%	\$ 1,775,008	1.06%	\$ 4,933,241	3.53%
Assigned	\$ 22,263,524	54.24%	\$ 26,203,561	16.58%	\$ 34,168,401	20.46%	\$ 40,186,075	28.74%
Unassigned	\$ 12,864,824	31.34%	\$ 15,033,464	9.52%	\$ 14,922,967	8.94%	\$ 13,797,683	9.87%
Total Fund Balances	\$ 41,049,938	100%	\$ 157,974,211	100%	\$ 166,997,016	100%	\$ 139,817,252	100%

Criteria

- **GASB Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions Paragraph 8-9, 13-16³⁸**, requires that fund balance classifications reflect the constraints placed on the use of resources and that each classification — Nonspendable, Restricted, Committed, Assigned, and Unassigned — be properly supported by formal action, enabling legislation, or documented management intent. Specifically:
 - Restricted fund balances must be supported by externally imposed constraints established by creditors, grantors, contributors, or law/regulation.
 - Assigned fund balances must reflect the governing body's or authorized official's formally documented intent to use resources for specific purposes.
- **Code of Virginia § 15.2-2511 (Section A) Audit of Local Government Records, etc.; Auditor of Public Accounts; Audit of Shortages; Civil Penalty³⁹** requires that the County maintains sufficient financial records to support an annual audit.
- **Government Auditing Standards (2018⁴⁰ Revision), paragraphs 6.03–6.05 and 8.81–8.83, together with the GAO Standards for Internal Control in the Federal Government (Green Book), paragraphs 3.05, 10.03, and 16.05**, require management to maintain documentation sufficient to support financial reporting and to monitor and document significant variances to ensure transparency and reliability.

Cause

The unusually high Restricted fund balance beginning in FY2022 - increasing from \$3.5 million (8.51% of total fund balance) in FY2021 to approximately \$113.5 million (71.86%) in FY2022 and remaining elevated through FY2024 - suggests a significant reclassification or receipt of restricted resources that was not accompanied by adequate supporting documentation. The Assigned fund balance also exhibited a steady upward trend from \$22.3 million in FY2021 to \$40.2 million in FY2024, without formal documented authorization or explanation.

The likely causes include one or more of the following:

- Absence of formal Board resolutions or management designations to support fund balance classifications
- Inadequate policies and procedures governing the classification, reclassification, and documentation of fund balance categories
- Lack of a formal year-end fund balance review process to identify and explain significant variances
- Possible misclassification of fund balance components due to insufficient understanding or application of GASB Statement No. 54 requirements

Effect

³⁸ GASB Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions Paragraph 8-9, 13-16.

³⁹ Code of Virginia § 15.2-2511 (Section A) Audit of local government records, etc.; Auditor of Public Accounts; audit of shortages; civil penalty.

⁴⁰ GAO-21-368G, Government Auditing Standards: 2018 Revision Technical Update April 2021

The absence of adequate supporting documentation and formal explanations for significant fund balance variances creates the following risks:

- **Financial Reporting Risk:** Fund balance classifications that are unsupported may not accurately reflect the constraints on available resources, potentially resulting in a misstatement of the County's financial position in the government-wide and fund financial statements.
- **Transparency and Accountability Risk:** Stakeholders — including the Board of Supervisors, citizens, and oversight agencies — may be unable to assess the County's true financial condition or the appropriateness of resource allocations.
- **Audit Risk:** The inability to substantiate the \$110 million+ spike in Restricted fund balance in FY2022 and the sustained growth in Assigned fund balance raised concerns about the completeness and accuracy of the underlying financial data, and may indicate misclassification, unrecorded liabilities, or improper use of fund balance designations.
- **Compliance Risk:** If restricted funds include federal or state grant resources, improper classification or inadequate documentation could constitute noncompliance with 2 CFR § 200.302 and applicable grant agreements, potentially exposing the County to questioned costs or repayment obligations.

Recommendations

- **Obtain and Retain Supporting Documentation:** For each fund balance classification, the County should compile and retain all underlying documentation, including grant agreements, Board resolutions, enabling legislation, and management designations, to substantiate the classification of restricted and assigned fund balances for FY2021 through FY2024.
- **Conduct a GASB 54 Compliance Review:** Management should conduct a comprehensive review of all fund balance classifications to ensure they comply with GASB Statement No. 54 and that any misclassifications are corrected in the financial statements.
- **Formalize Fund Balance Policy:** The County should adopt or update a formal written Fund Balance Policy, approved by the Board of Supervisors, that establishes clear criteria and authorization requirements for classifying, modifying, and documenting each fund balance category.
- **Implement Year-End Variance Analysis Procedures:** The County should establish a formal year-end procedure requiring management to identify, document, and formally explain any material variances in fund balance categories compared to prior year balances, with findings reported to the Board of Supervisors.
- **Strengthen Internal Controls Over Financial Reporting:** The County should ensure that its internal control framework includes review and approval procedures for significant fund balance reclassifications, with appropriate segregation of duties and oversight by senior financial management.

Finding 11: Lack of Competitive Procurement for External Audit Services: Extended Auditor Tenure Without Re-Solicitation (Significant Deficiency and Noncompliance)

Condition

Based on publicly available annual county financial audit reports from FY2009 to FY2024, Halifax County retained the same external audit firm to perform its annual financial statement audit continuously from FY 2009 through FY 2024, a period of 16 years, without evidence of competitive re-procurement of audit services during that time.

Criteria

- **Virginia Public Procurement Act (Va. Code § 2.2-4300 et seq.)**⁴¹ requires all public bodies in the Commonwealth to procure professional services through a competitive process to ensure fair and open competition, obtain the best value, and avoid the appearance of favoritism or conflicts of interest. Continuous engagement of a single vendor for 16 years without re-solicitation is inconsistent with the spirit and intent of these requirements.
- **2 CFR § 200.319 Competition**⁴² requires non-federal entities receiving federal awards to conduct all procurement transactions in a manner providing full and open competition. Sole-source or de facto single-vendor arrangements that develop through repeated renewal without competition or sole source justification violate this standard.
- **Generally Accepted Government Auditing Standards (GAGAS / Yellow Book), 2018**⁴³ **Revision, Section 3.84–3.86** require auditors to evaluate threats to independence, including familiarity threats that may develop over long-term engagements. While GAGAS places this obligation on the auditor, the County as the engaging entity shares responsibility for maintaining conditions that support auditor independence.
- **GASB Concepts Statement No. 1**⁴⁴ emphasizes accountability as a cornerstone of governmental financial reporting. Accountability is undermined when oversight mechanisms, including independent auditing, are not subject to periodic competitive review.

Cause

The County did not establish a formal policy or schedule for the periodic re-procurement of external audit services. Management may have relied on informal renewals or amendments to extend the engagement without conducting a competitive solicitation, and there is no documented evaluation of whether the continued engagement posed threats to auditor independence or procurement compliance.

⁴¹ [Virginia Public Procurement Act \(Va. Code § 2.2-4300 et seq.\)](#)

⁴² [2 CFR § 200.319 – Competition.](#)

⁴³ [GAO-21-368G, Government Auditing Standards: 2018 Revision Technical Update April 2021](#)

⁴⁴ [GASB Concepts Statement No. 1.](#)

Effect

The 16-year uninterrupted engagement with a single audit firm created the following risks and concerns:

1. **Impaired Auditor Independence (Familiarity Threat):** An extended relationship between the auditor and County management increases the risk that the auditor may become overly aligned with management's perspectives, reducing professional skepticism.
2. **Procurement Non-Compliance:** The absence of competitive re-procurement over 16 years is inconsistent with the Virginia Public Procurement Act and, to the extent federal awards were subject to audit, with 2 CFR Part 200 procurement standards. This exposes the County to findings from federal cognizant agencies and potentially questioned costs.
3. **Lack of Accountability and Transparency:** Failure to periodically re-compete audit services deprives the County of the opportunity to evaluate whether it is receiving quality services at competitive rates, and undermines public confidence in the independence of the financial reporting oversight process.

Recommendations

- **Re-Procurement:** The County should conduct a competitive procurement of external audit services in compliance with the Virginia Public Procurement Act, issuing a formal Request for Proposals (RFP) that includes technical qualifications, relevant government auditing experience, and independence representations.
- **Establish a Rotation/Re-Solicitation Policy:** The County should adopt a formal written policy requiring competitive re-solicitation of audit services at least every five (5) years, consistent with best practices recommended by the Government Finance Officers Association (GFOA).
- **Independence Assessment:** Prior to finalizing re-procurement, the County should require all prospective firms to submit independence certifications in accordance with GAGAS, and document its own evaluation of independence in the audit engagement files.
- **Federal Award Compliance Review:** For fiscal years in which the County received federal awards subject to the Single Audit requirements of 2 CFR Part 200, management should evaluate whether the procurement of audit services was compliant and consult with its cognizant federal agency as appropriate.
- **Governing Board Oversight:** The County Board of Supervisors should establish or strengthen an audit committee or equivalent oversight function to provide independent governance over the external audit process, including vendor selection, contract terms, and performance evaluation.

Finding 12: Inadequate Knowledge Transfer and Work Transition Procedures Resulting from High Turnover of Key Financial Personnel (Significant Deficiency and Noncompliance)

Condition

Halifax County experienced high turnover in key financial management positions, including Finance Director and County Administrator, around the period under review (FY 2021–2025) and investigation engagement period. There were three different Finance Director changes between February 2025 and February 2026 and two County Administrator changes between June 2025 and February 2026. Additionally, there were gaps between the departure of prior key personnel and the assumption of duties by incoming staff. The County did not maintain adequate written transition procedures, knowledge transfer documentation, or succession planning protocols to ensure continuity of financial operations and institutional knowledge when personnel changes occurred. Critical institutional knowledge regarding fund balance management, grant compliance, and financial reporting practices was not systematically documented or transferred to incoming personnel.

Criteria

- **Code of Virginia Title 15.2**⁴⁵ County Financial Administration requires the governing body to maintain sound financial administration and ensure accountability over public funds. The Board of Supervisors bears ultimate responsibility for establishing conditions that support accurate financial reporting and proper stewardship of County resources. Failure to ensure continuity of financial management operations through personnel transitions is inconsistent with this responsibility.
- **2 CFR § 200.303 Internal Controls**⁴⁶ requires non-federal entities receiving federal awards to establish and maintain effective internal controls over federal awards that provide reasonable assurance that the entity is managing federal awards in compliance with federal statutes, regulations, and award terms and conditions. Effective internal controls include ensuring that organizational knowledge critical to compliance and financial management is retained and transferred during personnel transitions.
- **2 CFR § 200.302 Financial Management Systems**⁴⁷ requires non-federal entities to maintain a financial management system that includes adequate recordkeeping, documentation of transactions, and the ability to trace fund sources and uses. High personnel turnover without transition documentation undermines the integrity and continuity of the financial management system.
- **Generally Accepted Government Auditing Standards (GAGAS / Yellow Book), 2018**⁴⁸ **Revision**, Section 5 recognizes that effective internal control in a government environment includes the human capital component — ensuring that personnel with appropriate knowledge and competencies are in place to carry out their assigned responsibilities.

⁴⁵ [Code of Virginia Title 15.2](#)

⁴⁶ [2 CFR 200.303\(a\) – Internal Controls](#)

⁴⁷ [2 CFR 200.302\(b\) – Financial Management](#)

⁴⁸ [GAO-21-368G, Government Auditing Standards: 2018 Revision Technical Update April 2021](#)

Turnover without adequate transition planning represents a breakdown in this internal control component.

Cause

The County did not establish formal written policies or procedures governing the transition of duties, documentation of institutional knowledge, or succession planning for key financial management positions. When personnel vacancies occurred, incoming staff were required to assume responsibilities without adequate orientation, access to prior period working files, or documented procedures for critical functions including fund balance reporting, grant drawdowns, and year-end financial close processes. The Board of Supervisors did not provide adequate oversight to ensure that management addressed these continuity risks.

Effect

The lack of effective knowledge transfer and work transition procedures resulted in the following conditions:

- **Continuity of Financial Operations Disrupted:** Incoming financial personnel lacked access to prior period documentation, institutional knowledge, and procedural guidance necessary to maintain accurate and consistent financial reporting. This is consistent with conditions that may have contributed to the irregularities in fund balance reporting identified during this forensic investigation.
- **Increased Risk of Compliance Failures:** Without documented procedures and transition protocols, staff responsible for administering federal grants were at heightened risk of failing to comply with 2 CFR Part 200 requirements, including allowable cost determinations, drawdown procedures, and grant reporting obligations.
- **Weakened Internal Control Environment:** The recurring loss of institutional knowledge created gaps in the County's internal control structure, reducing the effectiveness of financial oversight and increasing the risk of material misstatement, fraud, and misappropriation going undetected.
- **Compounding Effect with Extended Auditor Tenure:** The combination of high internal staff turnover and an external auditor with a 16-year uninterrupted engagement created an environment where institutional knowledge was concentrated in the external auditor rather than County management — further weakening the County's internal accountability structure and oversight capacity.

Recommendations

- **Develop Formal Transition and Succession Procedures:** The County should immediately develop and adopt written policies requiring formal knowledge transfer documentation whenever a key financial position is vacated, including transition

checklists, access to prior period working files, and overlap orientation periods where feasible.

- **Maintain a Financial Procedures Manual:** Management should maintain a comprehensive, current financial procedures manual covering fund balance management, grant administration, year-end close procedures, and financial reporting requirements. This manual should be updated annually and reviewed upon each personnel transition.
- **Establish Continuity of Federal Grant Administration:** For all active federal awards, the County should maintain a grant-by-grant summary documenting award terms, drawdown history, compliance requirements, and key contacts. This documentation should be maintained in a centralized location accessible to incoming personnel.
- **Board of Supervisors Oversight:** The Board of Supervisors should require management to report on staffing continuity risks and transition planning as part of its regular financial oversight responsibilities, and should ensure that key financial positions are filled in a timely manner to minimize gaps in financial management capacity.
- **Training for Incoming Financial Personnel:** The County should establish a structured onboarding program for incoming financial management staff that includes review of prior audit findings, federal grant requirements, and County-specific financial reporting procedures.

VI. Halifax County Management Response



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LARRY D. ROLLER – ED #2
CHAIR

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W. BRYANT CLAIBORNE – ED #8
WAYNE SMITH – TIEBREAKER

February 27, 2026

Premier Group Services, Inc.
8201 Corporate Drive, Suite #1210
New Carrollton, MD 20785

SUBJECT: Management's Response to the Halifax
County (VA) Forensic Audit

Dear Mrs. Qi,

As requested, we are providing the subject response to the draft audit report of Halifax County's finance records from fiscal year 2021 to fiscal year 2025.

- Finding 1: We agree with the finding and with all recommended corrective actions.
- Finding 2: We agree with the finding and with all recommended corrective actions. We will also invest in timekeeping software to automate the completion and approval of employee timesheets.
- Finding 3: We agree with the finding and with all recommended corrective actions. We will look for timekeeping software that is compatible with our payroll system so that hours can be brought in automatically.
- Finding 4: We agree with the finding and with all recommended corrective actions. We will ensure that all timesheets are properly approved prior to running payroll.
- Finding 5: We agree with the finding and with all recommended corrective actions. This finding covers a broad range of transaction types. We will review the cause of the deficiency by transaction type and propose action steps to correct the specific deficiencies identified.

- Finding 6: We agree with the finding and with all recommended corrective actions. We will prepare a training plan with action steps, an implementation timeline and cost to implement these recommendations.
- Finding 7: We agree with the finding and with all recommended corrective actions.
- Finding 8: We agree with the finding and with all recommended corrective actions. The lack of segregation of duties in the finance department was attributed to the former finance director who left the County over a year ago. This is not a current concern, therefore our action plan will ensure that finance duties are distributed and performed by the appropriate staff to maximize accuracy and efficiency while maintaining sound internal controls.
- Finding 9: We agree with the finding and with all recommended corrective actions.
- Finding 10: We agree with the finding and with all recommended corrective actions. Restricted fund balance amounts refer to restrictions that originate outside the County and are determined in accordance with GAAP. However, the Board of Supervisors has the discretion to determine what fund balances are "assigned." We will ensure that all assigned balances are properly documented and tracked throughout the year.
- Finding 11: We agree with the finding and with all recommended corrective actions.
- Finding 12: We agree with the finding and with all recommended corrective actions.

Thank you for the opportunity to provide our response. We are eager to receive your full presentation of the report Monday (3/2) for the Regular Board of Supervisors meeting. In the meantime, should you have any additional questions, feel free to contact Mr. John Montoro, Interim Finance Director, at John.Montoro@co.Halifax.va.us.

Sincerely,



Verron 'Ron' M. Brade
County Administrator