

CITY OF FALLS CHURCH, VIRGINIA

**AUDIT OF FEDERAL AWARDS PERFORMED IN
ACCORDANCE WITH U.S. OFFICE OF MANAGEMENT
AND BUDGET CIRCULAR A-133**

Year Ended June 30, 2010

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
*GOVERNMENT AUDITING STANDARDS***

To the Honorable Mayor and Members of City Council
City of Falls Church, Virginia

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Falls Church, Virginia, as of and for the year ended June 30, 2010, which collectively comprise the City's basic financial statements, and have issued our report thereon dated February 28, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *Specifications for Audits of Counties, Cities, and Towns* and *Specifications for Audits of Authorities, Boards, and Commissions* issued by the Auditor of Public Accounts of the Commonwealth of Virginia.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. **However, as described in the accompanying schedule of findings and questioned costs, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness.**

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. **We consider the deficiency described in the accompanying schedule of findings and questioned costs as Item 10-1 to be a material weakness.**

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. **The results of our tests disclosed three instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are further described in the accompanying schedule of findings and questioned costs as Items 10-6, 10-7, 10-8, and 10-9.**

We noted certain matters that we reported to management of the City in a separate letter dated February 28, 2011.

The City's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the City's responses, and accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Mayor, City Council, management, the Auditor of Public Accounts of the Commonwealth of Virginia, federal awarding agencies, and pass-through entities. It is not intended to be, and should not be, used by anyone other than these specified parties.

Brown, Edwards & Company, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

Harrisonburg, Virginia
February 28, 2011

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE
WITH OMB CIRCULAR A-133**

To the Honorable Mayor and Members of City Council
City of Falls Church, Virginia

Compliance

We have audited the City of Falls Church, Virginia's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010. The City's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and *OMB Circular A-133* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010. However, the results of our auditing procedures disclosed four instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as Items 10-2, 10-3, 10-4, and 10-5.

Internal Control over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with *OMB Circular A-133*, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. **Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.**

A *deficiency in internal control* over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness* in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. **We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.**

The City's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the City's responses and, accordingly, we express no opinion on them.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City, as of and for the year ended June 30, 2010, and have issued our report thereon dated February 28, 2011, which contained unqualified opinions on those financial statements. Our audit was performed for the purpose of forming opinions on the financial statements as a whole. The schedule of expenditures of federal awards is presented for the purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

This report is intended solely for the information and use of the Mayor, City Council, management, the Auditor of Public Accounts of the Commonwealth of Virginia, federal awarding agencies, and pass-through entities. It is not intended to be, and should not be, used by anyone other than these specified parties.

Brown, Edwards & Company, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

Harrisonburg, Virginia
February 28, 2011

CITY OF FALLS CHURCH, VIRGINIA
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2010

Federal Granting Agency/Recipient State Agency/ Program	Grant	Federal CFDA Number	Federal Expenditures
U.S. Department of Agriculture			
Pass-through payments:			
Commonwealth of Virginia Department of Agriculture and Consumer Service			
National School Lunch Program		10.555	\$ 114,100
School Breakfast Program		10.553	2,122
			<hr/>
Total U.S. Department of Agriculture			116,222
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U.S. Department of Homeland Security			
Direct payments:			
United States Secret Service			
Secret Service Training Activities		97.000	2,721
High Intensity Drug Trafficking Area		97.000	3,869
Pass-through payments:			
District of Columbia Homeland Security and Emergency Management			
Homeland Security Grant Program		97.067	70,156
Arlington County			
Homeland Security Grant Program		97.067	25,000
Northern Virginia Regional Commission			
Homeland Security Grant Program		97.067	40,750
			<hr/>
Total U.S. Department of Homeland Security			142,496
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U.S. Department of Housing and Urban Development			
Pass-through payments:			
County of Arlington, Virginia:			
Community Development Block Grants/Entitlement Grants		14.218	53,046
Home Investments Partnership Program		14.239	38,117
Falls Church Education Foundation:			
Community Development Block Grants/Brownfields Economic Development Initiative		14.246	83,308
			<hr/>
Total U.S. Department of Housing and Urban Development			174,471
			<hr/>
U.S. Department of Justice			
Direct payments:			
Bulletproof Vest Partnership Program		16.607	5,248
Recovery Act		16.000	5,125
Pass-through payments:			
Virginia Compensation Board			
Recovery Act - Edward Byrne Memorial Justice Assistance Grant (JAG) Program/ Grants to			
States and Territories		16.803	2,428
			<hr/>
Total U.S. Department of Justice			12,801
			<hr/>
U.S. Department of Transportation			
Pass-through payments:			
Virginia Department of Transportation			
Highway Planning and Construction		20.205	124,805
Alcohol Open Container Requirements		20.607	4,185
			<hr/>
Total U.S. Department of Transportation			128,990
			<hr/>

See accompanying notes to the schedule.

CITY OF FALLS CHURCH, VIRGINIA
Schedule of Expenditures of Federal Awards (Continued)
For the Year Ended June 30, 2010

Federal Granting Agency/Recipient State Agency/ Program	Grant	Federal CFDA Number	Federal Expenditures
U.S. Department of Education			
Pass-through payments:			
Commonwealth of Virginia Department of Education:			
Title I - Grants to Local Educational Agencies		84.010	25,338
State Grants for Innovative Programs		84.298	1,343
Special Education - Grants to States		84.027	358,170
Special Education - Preschool Grants		84.173	10,473
Safe and Drug-free Schools and Communities - State Grants		84.186	19,223
English Language Acquisition Grants		84.365	12,193
Improving Teacher Quality State Grants		84.367	29,086
Recovery Act - State Fiscal Stabilization Fund (SFSF) - Education, State Grants		84.394	405,272
Recovery Act - Special Education Grants to States		84.391	151,890
Vocational Education - Basic Grants to States		84.048	9,606
			<hr/>
Total U.S. Department of Education			1,022,594
			<hr/>
Total Expenditures of Federal Awards			\$ 1,597,574
			<hr/>

See accompanying notes to the schedule.

CITY OF FALLS CHURCH, VIRGINIA
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2010

I. Basis of Presentation

The accompanying schedule of expenditures of federal awards is presented on the modified accrual basis of accounting as contemplated by generally accepted accounting principles.

The information presented in this Schedule is presented in accordance with OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the City's CAFR.

II. Subrecipients

The accompanying Schedule of Expenditures of Federal Awards includes grants to subrecipients during fiscal year 2010 as follows:

Subrecipient Name	Federal CFDA Number	Federal Funds Awarded
Community Development Block Grants/State's Program	14.218	
HomeStretch, Inc.		\$ 5,000
Falls Church Community Services		2,910
Arlington Home Ownership Made Easier		958
Mt. Daniel Elementary School		2,482
RJP Housing		4,000
FC First Time Homebuyers/Downpayment		20,000
Total Subrecipient Awards		<u>\$ 35,350</u>

III. Non-Cash Assistance

The City of Falls Church participated in the National School Lunch Program, CFDA Number 10.555, which provides non-cash benefits. The accompanying Schedule of Expenditure of Federal Awards includes commodity distributions of \$31,510 from the National School Lunch Program.

The City also received pass-through award of trailers and supplies from the Homeland Security Grant Program, CFDA Number 97.067. The accompanying Schedule of Expenditure of Federal Awards includes the value of the trailers and supplies for \$65,750.

CITY OF FALLS CHURCH, VIRGINIA
SUMMARY OF COMPLIANCE MATTERS
June 30, 2010

As more fully described in the Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*, we performed tests of the City's compliance with certain provisions of the laws, regulations, contracts, and grants shown below.

STATE COMPLIANCE MATTERS

Code of Virginia

Budget and Appropriation Laws

Cash and Investment Laws

Conflicts of Interest Act

Local Retirement Systems

Debt Provisions

Procurement Laws

Uniform Disposition of Unclaimed Property Act

Sheriff Internal Controls

State Agency Requirements

Education

Urban Highway Maintenance

FEDERAL COMPLIANCE MATTERS

Compliance Supplement for Single Audits of State and Local Governments

Provisions and conditions of agreements related to federal programs selected for testing.

LOCAL COMPLIANCE MATTERS

City Charter

City Code

Other City Regulations

CITY OF FALLS CHURCH, VIRGINIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2010

A. SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses an **unqualified opinion** on the financial statements.
2. **One significant deficiency** relating to the audit of the financial statements was reported in the Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*. **Item 10-1 was determined to be a material weakness.**
3. **No instances of noncompliance** material to the financial statements were disclosed.
4. **No significant deficiencies** relating to the audit of the major federal award programs were reported in the Independent Auditor's Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control over Compliance in Accordance with *OMB Circular A-133*.
5. The auditor's report on compliance for the major federal award programs expresses an **unqualified opinion**.
6. The audit disclosed **four audit findings relating to major programs**.
7. The major programs of the City are:

<u>Name of Program</u>	<u>CFDA #</u>
ARRA – State Fiscal Stabilization Fund – Education State Grants	84.394
Title IV-B – Special Education – Grants to States	84.027
Title IV-B – Special Education – Preschool Grants	84.173
ARRA – Special Education – Grants to States	84.391

8. The **threshold for** distinguishing Type A and B programs was **\$300,000**.
9. The City of Falls Church was **not** determined to be a **low-risk auditee**.

CITY OF FALLS CHURCH, VIRGINIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2010

B. FINDINGS – FINANCIAL STATEMENT AUDIT

10-1: Adjustments – (Material Weakness)

Condition:

A number of adjustments were necessary for the financial statements to be in compliance with generally accepted accounting principles. The adjustments related to improper accounting for capital assets and long-term liabilities related to intergovernmental agreements, unrecorded termination benefit liabilities, unreconciled deposit amounts, errors in amounts owed and due from other governmental entities, and errors in other post-employment benefit calculations. The items noted above cause adjustments to both current and prior period financial statements. Some of the adjustments were caused by a lack of communication with the Finance Department regarding the nature of the transaction, while others occurred due to improper conclusions reached regarding the nature of the transactions.

Recommendation:

Management should develop policies and procedures to address these weaknesses in internal controls. Recommendations include the following:

- The Finance Department should review all City Council, School Board, and EDA board minutes to identify transactions that might have accounting implications.
- The Finance Department should be informed as to all significant agreements entered into by other departments early in the process to ensure that they are recorded properly.
- Supporting documents for account balances should be reviewed and approved by someone other than the preparer.
- Consider purchasing additional research sources to help identify proper accounting treatment.

Management's Response:

The auditee concurs with these recommendations.

C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

10-2: Special Education – CFDA 84.027, 84.173, and 84.391; State Fiscal Stabilization Fund – CFDA 84.394

Condition:

Reimbursement requests for the month of June 2010 included salaries and fringes that were accrued for ten month employees but not paid until July and August 2010.

Recommendation:

Reimbursement requests should only be submitted for qualifying expenses that have been paid.

Management's Response:

The auditee concurs with this recommendation.

CITY OF FALLS CHURCH, VIRGINIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2010

**C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT
(Continued)**

10-3: Submission of Single Audit Reporting Package

Condition:

The June 30, 2008 Single Audit reporting package was not submitted to the Single Audit Clearinghouse due to the oversight of the prior auditors.

Recommendation:

The City should ensure that all previous and future reporting packages are properly submitted.

Management's Response:

The auditee concurs with this recommendation.

10-4: Special Education – CFDA 84.027, 84.173, and 84.391; State Fiscal Stabilization Fund – CFDA 84.394

Condition:

The second and third quarter Section 1512 reports were not submitted to the prime recipient until the filing of the fourth quarter data.

Recommendation:

The City should ensure that all Section 1512 reporting data is submitted to the prime recipient no later than the 10th day following the end of the quarter.

Management's Response:

The auditee concurs with this recommendation.

10-5: Special Education – CFDA 84.027, 84.173, and 84.391

Condition:

During the current year, a proper level of effort was not maintained whereby nonfederal funding was reduced to a level below that of the preceding year.

Recommendation:

Steps should be taken to ensure a proper level of effort is maintained.

Management's Response:

The auditee concurs with this finding and is taking action to more closely monitor and project special education revenues and expenditures to ensure that the required level of maintenance of effort is met.

CITY OF FALLS CHURCH, VIRGINIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2010

D. FINDINGS AND QUESTIONED COSTS – COMMONWEALTH OF VIRGINIA LOCAL REGULATIONS

10-6: Commonwealth of Virginia Disclosure Statements

Condition:

Three out of fifty-one members of City appointed governing bodies did not file statements of economic interest by the January 15th deadline and two did not file at all as required by the *Code of Virginia*.

Recommendation:

Steps should be taken to ensure that these statements are filed and in a timely manner.

Management's Response:

The auditee concurs with this recommendation.

10-7: Exonerations

Condition:

The *Code of Virginia* requires that all exoneration forms be properly approved. None of the seven personal property exonerations that we examined received approval.

Recommendation:

The City should properly document approval of all exonerations.

Management's Response:

The auditee concurs with this recommendation.

10-8: Highway Maintenance – Costs

Condition:

In our sample of twenty work orders charged to highway maintenance, we noted one for which salaries charged were calculated incorrectly.

Recommendation:

We recommend that all charges to the highway maintenance program are reviewed for accuracy.

Management's Response:

The auditee concurs with this recommendation.

CITY OF FALLS CHURCH, VIRGINIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2010

D. FINDINGS AND QUESTIONED COSTS – COMMONWEALTH OF VIRGINIA LOCAL REGULATIONS

10-9: Pension and OPEB Investment Allocations

Condition:

The City's pension and OPEB investment allocation exceeded predetermined limits set by City Council with regard to the City's investments in international equities and a rebalancing of investments has not occurred.

Recommendation:

The City should implement procedures to reallocate the investment portfolio to be in compliance with the limits set by City Council and monitor future compliance.

Management's Response:

The auditee concurs with this recommendation.