

# **CITY OF FAIRFAX, VIRGINIA**

## **COMPLIANCE REPORTS**

*For the Year Ended June 30, 2018*

*And Reports of Independent Auditor*

CITY OF FAIRFAX, VIRGINIA  
TABLE OF CONTENTS

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COMPLIANCE REPORTS

Report of Independent Auditor 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* ..... 1-2

Report of Independent Auditor on Compliance for Each Federal Program  
and on Internal Control over Compliance Required by the Uniform Guidance ..... 3-4

Report of Independent Auditor on Compliance with Commonwealth of Virginia’s Laws,  
Regulations, Contracts, and Grants..... 5

SCHEDULES

Schedule of Expenditures of Federal Awards..... 6

Notes to Schedule of Expenditures of Federal Awards ..... 7

Schedule of Findings and Questioned Costs..... 8-10

Status of Prior Audit Findings ..... 11

**Report of Independent Auditor 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 Members of City Council  
City of Fairfax, Virginia

We have audited, in accordance with the 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 the *Specifications for Audits of Counties, Cities, and Towns* issued by the Auditor of Public Accounts of the Commonwealth of Virginia, 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 Fairfax, Virginia (the "City"), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated December 31, 2018. Our report recognizes that the City implemented one new accounting standard effective July 1, 2017. Our report included an emphasis paragraph indicating that the net position of the Governmental Activities, the Business-type Activities, the Wastewater Fund, and the School Board Component Unit, as of July 1, 2017, has been restated.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting ("internal control") to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

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. A *significant deficiency* is a deficiency, or a 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2018-001, which we consider to be a material weakness.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City's financial statements are free from 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**City's Response to Finding**

The City's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in dark ink that reads "Cheryl Behrman CPA". The signature is written in a cursive, flowing style.

Tysons Corner, Virginia  
December 31, 2018

## **Report of Independent Auditor on Compliance for Each Federal Program and on Internal Control over Compliance Required by the Uniform Guidance**

To the Honorable Members of City Council  
City of Fairfax, Virginia

### **Report on Compliance for Each Major Federal Program**

We have audited the City of Fairfax, Virginia's (the "City") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the City's major federal program for the year ended June 30, 2018. The City's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

### ***Management's Responsibility***

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for the City's major federal program based on our audit of the types of compliance requirements referred to above. 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Those standards and the Uniform Guidance 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 on compliance for the major federal program. However, our audit does not provide a legal determination of the City's compliance.

### ***Opinion on Major Federal Program***

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2018.

### **Report on Internal Control over Compliance**

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on its major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for its major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, 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. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of 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 material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

#### **Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance**

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, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated December 31, 2018, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for the purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic 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 basic 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 basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Handwritten signature in blue ink that reads "Cheryl Behrman CP".

Tyson's Corner, Virginia  
December 31, 2018

## Report of Independent Auditor on Compliance with Commonwealth of Virginia's Laws, Regulations, Contracts, and Grants

To the Honorable Members of City Council  
City of Fairfax, Virginia

We have audited, 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 the *Specifications for Audits of Counties, Cities, and Towns* (the "Specifications"), issued by the Auditor of Public Accounts of the Commonwealth of Virginia, the financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Fairfax, Virginia (the "City"), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated December 31, 2018.

### 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 the City's compliance with certain provisions of the Commonwealth of Virginia's laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, the objective of our audit of the basic financial statements was not to provide an opinion on overall compliance with such provisions, and accordingly, we do not express such an opinion.

The following is a summary of the Commonwealth of Virginia's laws, regulations, contracts, and grants for which we performed tests of compliance:

Code of Virginia	
Budget and Appropriation Laws	Procurement
Cash and Investments	Unclaimed Property
Conflicts of Interest	Property Taxes
Debt Provisions	Highway Maintenance
Intergovernmental Revenues and Agreements	

The results of our tests disclosed an instance of noncompliance with those requirements required to be reported in accordance with the Specifications, which is described in the accompanying schedule of findings and questioned costs as item 2018-002.

### City's Response to Finding

The City's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The City's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on it.

### Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of compliance with certain provisions of the Commonwealth of Virginia's laws, regulations, contracts, and grants and the results of that testing, and not to provide an opinion on the City's compliance. Accordingly, this communication is not suitable for any other purpose.



Tysons Corner, Virginia  
December 31, 2018

**CITY OF FAIRFAX, VIRGINIA**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

YEAR ENDED JUNE 30, 2018

<u>Federal Grantor/State Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Federal Expenditures</u>	<u>Passed Through to Subrecipients</u>
<b>DEPARTMENT OF JUSTICE</b>				
Direct Payments:				
Bulletproof Vest Partnership Program	16.607	N/A	\$ 10,100	-
Total Department of Justice			<u>10,100</u>	
<b>DEPARTMENT OF TRANSPORTATION</b>				
Direct Payments:				
Federal Highway Administration:				
Highway Planning and Construction - Federal Transit Cluster	20.205	N/A	<u>2,232,517</u>	-
Pass-through Payments:				
Virginia Department of Motor Vehicles:				
State and Community Highway Safety	20.600	FSC-2018-58315-8315	9,735	-
National Priority Safety Programs	20.616	M6OT-2018-58310-8310	<u>11,501</u>	-
Highway Safety Cluster			<u>21,236</u>	
Total Department of Transportation			<u>2,253,753</u>	
<b>DEPARTMENT OF HOMELAND SECURITY</b>				
Direct Payments:				
Assistance for Firefighters Grant	97.044	N/A	730,037	-
Pass-through Payments:				
District of Columbia Homeland Security and Emergency Management Agency:				
Homeland Security Grant Program	97.067	17UASI599-01	34,389	-
Homeland Security Grant Program	97.067	17UASI599-02	152,247	-
Virginia Department of Emergency Management:				
Local Emergency Management Performance Grant	97.042	7432, 7594	<u>32,500</u>	-
Total Department of Homeland Security			<u>949,173</u>	
Total Expenditures of Federal Awards			<u>\$ 3,213,026</u>	
<b>Note - Program Total:</b>				
Homeland Security Grant Program	97.067		<u>\$ 186,636</u>	

See Notes to Schedule of Expenditures of Federal Awards.



# CITY OF FAIRFAX, VIRGINIA

## NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2018

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### **Note 1—Basis of Presentation**

The accompanying Schedule of Expenditures of Federal Awards (the “Schedule”) includes the federal grant activity of the City under programs of the federal government for the year ended June 30, 2018. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (“Uniform Guidance”). Because the schedule presents only a selected portion of the operations of the City, it is not intended to, and does not, present the financial position, changes in net position, or cash flows of the City.

### **Note 2—Summary of Significant Accounting Policies**

- (1) Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.
- (2) Pass-through entity identifying numbers are presented where available.
- (3) The City has not elected to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

**CITY OF FAIRFAX, VIRGINIA**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

*YEAR ENDED JUNE 30, 2018*

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**(1) Summary of Auditor's Results**

- a. The type of report issued on the financial statements: **Unmodified**
- b. Significant deficiencies in internal control disclosed by the audit of the financial statements: **None reported**
- c. Material weakness in internal control disclosed by the audit of the financial statements: **Yes (2018-001)**
- d. Noncompliance which is material to the financial statements: **None**
- e. Significant deficiencies in internal control over major programs: **None reported**
- f. Material weakness in internal control over major programs: **None**
- g. The type of report issued on compliance for major programs: **Unmodified**
- h. Any audit findings which are required to be reported under Section 200.516(a) of the Uniform Guidance: **None**
- i. Major program – Highway Planning and Construction (CFDA Number 20.205)
- j. Dollar threshold used to distinguish between Type A and Type B programs: **\$750,000**
- k. Auditee qualified as low-risk auditee: **No**

**(2) Findings Relating to the Financial Statements Reported in Accordance with *Government Auditing Standards***

**2018-001: Material Weakness – Internal Control over Financial Reporting**

**Criteria:** In order to prepare financial statements in accordance with accounting principles generally accepted in the United States of America ("GAAP"), exhaustible intangible and tangible assets should be depreciated in a rational and systematic manner over their estimated useful lives.

**Condition:** Intangible assets of approximately \$15.5 million recognized in the Wastewater Fund during fiscal years 2011 through 2017 had not been depreciated through June 30, 2017. Additionally, depreciation on assets jointly owned by the City and School Board recognized in fiscal years 2011 through 2017 had not been properly allocated between the two entities accurately.

**Cause:** Internal controls were not properly designed to ensure depreciation on City and School Board assets was recognized in accordance with GAAP.

## CITY OF FAIRFAX, VIRGINIA

### SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2018

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**Effect:** The net position of the Governmental Activities and School Board was overstated and understated, respectively, by \$20.5 million at July 1, 2017. The net position of the Wastewater Fund and Business-type Activities was overstated by \$906,000 as of July 1, 2017. The City restated the net position of the affected reporting units, as of July 1, 2017, to reflect the correction of these errors.

**Recommendation:** We recommend that the City review its capital asset depreciation as part of the financial close and reporting process, to ensure it is being properly allocated, where applicable, and recognized in accordance with GAAP.

#### **Views of Responsible Officials and Planned Corrective Action:**

**Responsible Person:** Assistant Director of Finance

**Estimated Completion:** Completed

**Corrected Action:** The City has restated the affected balances and established a new process by which depreciation expense will be recognized in accordance with GAAP going forward. Additionally, the City's year-end financial reporting and close process will be supplemented with a management review of depreciation by reporting unit designed to timely identify and correct any such future errors.

### **(3) Findings and Questioned Costs Relating to Federal Awards**

None

### **(4) Findings and Questioned Costs Relating to Compliance with Commonwealth of Virginia Laws, Regulations, Contracts, and Grants**

#### **2018-002 – Conflict of Interest (Repeat Prior Year Finding 2017-002)**

**Criteria:** Section 2.2-3115(A) of the Code of Virginia requires the members of the City Council, members of the School Board, constitutional officers, and any other persons holding positions of trust appointed or employed by the governing body, if the governing body has passed an ordinance requiring them to file, must file a State and Local Statement of Economic Interest ("SOEI") with the office of the Virginia Conflict of Interest and Ethics Advisory Council (the "Council") annually by February 1<sup>st</sup>. Additionally, the Council requires that the local official may not sign, date, or submit a disclosure form for the regular annual filing period prior to January 1<sup>st</sup> each year.

Section 2.2-3115(A) and (B) of the Code of Virginia specifies that certain members, listed below, of local entities must file a Financial Disclosure Statement ("FDS") with the Council annually by February 1<sup>st</sup>:

- Members of the governing body of any authority established in a county or city with the power to issue bonds or expend funds in excess of \$10,000 in any fiscal year, unless required to file the SOEI by the governing body of the appointing jurisdiction.
- Non-salaried citizen members of local boards, commissions, and councils, if the governing body has designated them to file.

## CITY OF FAIRFAX, VIRGINIA

### SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2018

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Section 2.2-3115(G) of the Code of Virginia specifies that local officials, including the planning commission members, members of the Board of Zoning Appeals, real estate assessors, and the City Manager, are required to file the Real Estate Disclosure ("RED") with the Council annually by February 1<sup>st</sup>.

Section 2.2-3115 of the Code of Virginia specifies that any newly-hired official is required to file the disclosure forms prior to assuming office or taking employment.

**Condition:** We noted the following instances of untimely and/or incomplete submissions:

- SOEI – Six (6) of forty-five (45) forms reviewed were not accurately completed and one (1) form was not dated.
- FDS – Three (3) of seven (7) forms reviewed were not filed by the deadline.
- Newly-hired officials – Of six (6) new employees' and officials' forms reviewed, three (3) did not complete the SOEI or RED forms and two (2) did not complete the forms prior to assuming office or taking employment.

**Cause:** Completed statements not filed in accordance with the regulations.

**Effect:** Noncompliance may result in action by the Commonwealth.

**Recommendation:** Local government officials should complete the required filings in accordance with prescribed requirements.

#### **Views of Responsible Officials and Planned Corrective Action:**

**Responsible Person:** City Clerk

**Estimated Completion:** N/A - We respectfully disagree with the findings, corrective action is not required (however please see the City's newly established process below). The City Clerk and the City Attorney have reviewed the City's current process and are in agreement that the City's process does not violate state law (the state's language is somewhat vague but we believe it supports the City's process for the period in question).

**Corrected Action:** Though we feel corrective action is not required, based on the APA findings and our own review of the procedures, we have amended our process going forward:

1. All appointments to boards and commissions when made by Mayor and City Council will be (and the motion will reflect this fact) conditional upon the appointee satisfying all legal requirements for filling/assuming the position, including but not limited to, completing the mandatory statement of economic interests and filing it with the City Clerk, within five (5) business days of the appointment. If the appointee fails or refuses to timely complete the statement of economic interests, the appointment will automatically be rescinded and the position will be filled again according to City Council procedures.
2. Any employees hired (or selected, in the case of current employees) for positions requiring that a statement of economic interests be completed shall not assume their positions until such time as the required statement of economic interests is completed and filed with the City Clerk.

# **CITY OF FAIRFAX, VIRGINIA**

## **STATUS OF PRIOR AUDIT FINDINGS**

*YEAR ENDED JUNE 30, 2018*

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### **Status of Prior Year Findings and Questioned Costs Relating to Government Auditing Standards**

#### **2017-001: Significant Deficiency – Internal Control over Financial Reporting**

**Condition:** The City contracts with a third-party service provider for provision of its wastewater service and customer billings. As part of the City's year-end closing process, wastewater receivables are accrued based on information furnished by the service provider. Prior to fiscal year 2017, the City had not included outstanding, billed receivables in its year-end accrual.

**Status:** Finding not repeated in current year.

### **Status of Prior Year Findings and Questioned Costs Relating to Federal Awards**

None reported in prior year.

### **Status of Prior Year Findings and Questioned Costs Relating to Compliance with Commonwealth of Virginia Laws, Regulations, Contracts, and Grants**

#### **2017-002: Non-material Noncompliance – Statement of Economic Interests**

**Condition:** We noted the following instances of untimely and/or incomplete submissions:

- SOEI – Eleven (11) of forty-five (45) forms reviewed were not accurately completed and three (3) were not filed by the deadline.
- FDS – One (1) of seven (7) forms reviewed was not filed by the deadline.
- RED – One (1) of thirteen (13) forms reviewed was not accurately completed and two (2) forms were not filed by the deadline.
- Newly-hired officials – All three (3) SOEI forms reviewed and one (1) of three (3) RED forms reviewed were not filed by the deadline.

**Status:** Finding repeated in current year – see 2018-002.

#### **2017-003: Non-material Noncompliance – Highway Maintenance Funds**

**Condition:** Of six (6) expenditures selected for testing, two (2) expenditures were reported in error on the Survey and, therefore, were not allowable costs for the eligible streets. We also noted in the reconciliation to the accounting system that Total Receipts (revenues), Motor Vehicle Licenses Taxes expenditures, and Total Law Enforcement expenditures reported on the Survey did not reconcile to the accounting system. We noted that the revenues were understated by \$2,000, and the two expenditures were overstated by \$200,000 and understated by \$3,000, respectively.

**Status:** Finding not repeated in current year.