



COUNTY OF LOUDOUN, VIRGINIA

COMPLIANCE REPORTS

For the Year Ended June 30, 2014

And Reports of Independent Auditor

COUNTY OF LOUDOUN, VIRGINIA
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**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 the Board of Supervisors
County of Loudoun, Virginia

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, discretely presented component unit, each major fund, and the aggregate remaining fund information of the County of Loudoun, Virginia (the "County"), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated January 7, 2015. That report recognizes that the County implemented a new accounting standard effective July 1, 2013.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the County'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 County's internal control. Accordingly, we do not express an opinion on the effectiveness of the County's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and 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 were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be a material weakness and a significant deficiency.

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 County'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 2014-001 to be a material weakness.

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. We consider the deficiency described in the accompanying schedule of findings and questioned costs as 2014-002 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the County'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*.

County's Responses to Findings

The County's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The County's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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 County'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 County's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

Tysons Corner, Virginia
January 7, 2015

Report of Independent Auditor on Compliance for Each Federal Major Program and on Internal Control over Compliance Required by OMB Circular A-133

To the Honorable Members of the Board of Supervisors
County of Loudoun, Virginia

Report on Compliance for Each Major Federal Program

We have audited the County of Loudoun, Virginia's (the "County") compliance of 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 the County's major federal programs for the year ended June 30, 2014. The County's major federal programs are 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 the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the County's major federal programs 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 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 County'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 each major federal program. However, our audit does not provide a legal determination of the County's compliance with those requirements.

Basis for Qualified Opinion on Medicaid

As described in the accompanying schedule of findings and questioned costs, the County did not comply with requirements regarding CFDA 93.778 Medicaid as described in finding 2014-003 for Eligibility. Compliance with such requirements is necessary, in our opinion, for the County to comply with the requirements applicable to that program.

Qualified Opinion on Medicaid

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, the County complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the Medicaid program for the year ended June 30, 2014.

Unmodified Opinion on Each of the Other Major Federal Programs

In our opinion, the County complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its other major federal programs identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs for the year ended June 30, 2014.

County's Response to Findings

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

Report on Internal Control over Compliance

Management of the County 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 County's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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 County's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified a certain deficiency in internal control over compliance that we consider to be a material weakness.

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 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. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that a material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2014-003 to be a material weakness.

County's Response to Findings

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

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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the County of Loudoun, Virginia, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the County's basic financial statements. We issued our report thereon dated January 7, 2015, which contained unmodified opinions on those financial statements. Our audit was conducted for purpose of forming opinions on the financial statements that collectively comprise the County's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 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 basic financial statements as a whole.

A handwritten signature in blue ink that reads "Cheryl Behrman CP". The signature is written in a cursive style with a large, stylized 'C' at the beginning.

Tysons Corner, Virginia
March 20, 2015

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

The Honorable Members of the Board of County Supervisors
County of Loudoun, 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 *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 discretely presented component unit, each major fund, and the aggregate remaining fund information of the County of Loudoun, Virginia (the "County"), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated January 7, 2015.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the County's financial statements are free of material misstatement, we performed tests of the County'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		State Agency Requirements
Budget and Appropriation Laws	Procurement	Education
Cash and Investments	Unclaimed Property	Comprehensive Services Act Funds
Conflicts of Interest	Property Taxes	Social Services
Debt Provisions	Retirement Systems	
Intergovernmental Revenues and Agreements		
Economic Development Opportunity Fund		

The results of our tests disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with the specifications, and which are described in the accompanying schedule of findings and questioned costs as items 2014-004 through 2014-009.

The County's responses to the noncompliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The County's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on them.

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 County's compliance. Accordingly, this communication is not suitable for any other purpose.



Tysons Corner, Virginia
March 20, 2015

COUNTY OF LOUDOUN, VIRGINIA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2014

	<u>Federal Catalog Number</u>	<u>Total 2014 Federal Expenditures</u>
<u>Federal Granting Agency/Recipient State Agency/Program Title</u>		
United States Office of National Drug Control Policy		
Pass through Payments:		
Arlington County, Virginia		
High Intensity Drug Trafficking Areas (HIDTA)	07.999	\$ 4,219
Total United States Office of National Drug Control Policy		\$ 4,219
United States Department of Agriculture		
Pass through Payments:		
Department of Agriculture, Commonwealth of Virginia:		
Food Distribution - Non-cash Commodities-National School Lunch Program	10.555	\$ 1,165,878
Department of Education, Commonwealth of Virginia:		
School Breakfast Program	10.553	\$ 974,091
National School Lunch Program	10.555	\$ 5,156,620
Special Milk Program for Children	10.556	\$ 44,334
Department of Juvenile Justice, Commonwealth of Virginia:		
National School Lunch Program	10.555	\$ 24,190
Department of Social Services, Commonwealth of Virginia:		
State Administrative Matching Grants for Food Stamp Program	10.561	\$ 1,467,073
Total United States Department of Agriculture		\$ 8,832,186
United States Department of Housing and Urban Development		
Direct Payments:		
Community Development Block Grant/Entitlement Grants	14.218	\$ 712,643
Supportive Housing Program - Transitional Housing Assistance	14.235	\$ 158,247
Section 8 Housing Choice Vouchers	14.871	\$ 7,113,683
Mainstream Vouchers	14.879	\$ 831,837
Total United States Department of Housing and Urban Development		\$ 8,816,410
United States Department of the Interior		
Direct Payments:		
Payment in Lieu of Taxes	15.226	\$ 3,199
Total United States Department of the Interior		\$ 3,199

COUNTY OF LOUDOUN, VIRGINIA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)

FOR THE YEAR ENDED JUNE 30, 2014

	<u>Federal Catalog Number</u>	<u>Total 2014 Federal Expenditures</u>
<u>Federal Granting Agency/Recipient State Agency/Program Title</u>		
United States Department of Justice		
Direct Payments:		
State Criminal Alien Assistance Program	16.606	\$ 88,259
Edward Byrne Memorial -Drug Treatment	16.738	\$ 43,968
Congressionally Recommended Awards	16.753	\$ 21,738
Equitable Sharing Program	16.922	\$ 86,853
Pass through Payments:		
Department of Criminal Justice Services, Commonwealth of Virginia:		
Juvenile Accountability Incentive Block Grant	16.523	\$ 12,769
Violence Against Women Formula Grants	16.588	\$ 11,774
Edward Byrne Memorial -Drug Treatment	16.738	\$ 3,690
Office of the Attorney General, Commonwealth of Virginia:		
Equitable Sharing Program	16.922	\$ 13,355
Town of Vienna, Virginia:		
Congressionally Recommended Awards	16.753	\$ 61,759
Equitable Sharing Program	16.922	\$ 11,948
Total United States Department of Justice		\$ 356,113
United States Department of Transportation		
Pass through Payments:		
Department of Motor Vehicles, Commonwealth of Virginia:		
State and Community Highway Safety	20.600	\$ 23,624
Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grant	20.601	\$ 9,221
Department of Transportation, Commonwealth of Virginia:		
Highway Planning and Construction	20.205	\$ 89,268
Total United States Department of Transportation		\$ 122,113

COUNTY OF LOUDOUN, VIRGINIA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)

FOR THE YEAR ENDED JUNE 30, 2014

	<u>Federal Catalog Number</u>	<u>Total 2014 Federal Expenditures</u>
<u>Federal Granting Agency/Recipient State Agency/Program Title</u>		
United States Department of Environmental Protection Agency		
Pass Through Payments:		
National Fish and Wildlife Foundation		
Chesapeake Bay Program	66.466	\$ 19,807
Total United States Department of Environmental Protection Agency		\$ 19,807
United States Department of Education		
Direct Payments:		
Impact Aid	84.041	\$ 174,853
Fund for Improvement of Education	84.215	\$ 335,712
Pass through Payments:		
Department of Behavioral Health and Developmental Services, Commonwealth of Virginia:		
Special Education Grants for Infants and Families with Disabilities	84.181	\$ 293,176
Department of Education, Commonwealth of Virginia:		
Adult Education-State Grant Program	84.002	\$ 154,708
Title I - Grants to Local Educational Agencies	84.010	\$ 1,272,531
Special Education - Grants to State	84.027	\$ 8,669,653
Vocational Education Basic Grants to States	84.048	\$ 500,968
Special Education - Preschool	84.173	\$ 124,421
Education Technology State Grants	84.318	\$ 1,071,093
Advanced Placement	84.333	\$ 38,970
English Language Acquisition Grant	84.365	\$ 680,461
Title II Improving Teacher Quality State Grants	84.367	\$ 554,151
Total United States Department of Education		\$ 13,870,697

COUNTY OF LOUDOUN, VIRGINIA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)

FOR THE YEAR ENDED JUNE 30, 2014

	<u>Federal Catalog Number</u>	<u>Total 2014 Federal Expenditures</u>
<u>Federal Granting Agency/Recipient State Agency/Program Title</u>		
United States Department of Health and Human Services		
Direct Payments:		
Head Start	93.600	\$ 786,016
Pass through Payments:		
Department for the Aging, Commonwealth of Virginia:		
Special Programs for the Aging Title VII Chapter 3	93.041	\$ 1,043
Special Programs for the Aging-Title III, Part D	93.043	\$ 9,222
Special Programs for the Aging-Title III, Parts B	93.044	\$ 90,384
Special Program for the Aging Title III, Part C-Nutrition Services	93.045	\$ 121,625
National Family Caregiver Support	93.052	\$ 29,336
Nutrition Services Incentive Program	93.053	\$ 87,739
Medicare Enrollment Assistance Program	93.071	\$ 5,000
Centers for Medicare and Medicaid Services Research, Demonstrations and Evaluations	93.779	\$ 24,951
Department of Behavioral Health and Developmental Services, Commonwealth of Virginia:		
Projects for Assistance in Transition from Homeless (PATH)	93.150	\$ 54,775
Projects of Regional and National Significance	93.243	\$ 57,627
Block Grant for Prevention and Treatment of Substance Abuse	93.959	\$ 373,614
Department of Social Services, Commonwealth of Virginia:		
Promoting Safe and Stable Families	93.556	\$ 35,950
Temporary Assistance for Needy Families	93.558	\$ 613,071
Refugee and Entrant Assistance State Administered Program	93.566	\$ 51,804
Low-Income Home Energy Assistance	93.568	\$ 39,536
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	\$ 80,561
Chafee Education and Training Vouchers Program	93.599	\$ 3,791
Child Welfare Services State Grants	93.645	\$ 3,848
Foster Care-Title IV-E	93.658	\$ 644,014
Adoption Assistance	93.659	\$ 288,267
Social Services Block Grant	93.667	\$ 339,717
Chafee Foster Care Independence Program	93.674	\$ 13,639
State Children's Insurance Program	93.767	\$ 39,566
Medicaid Assistance Program	93.778	\$ 1,305,585
National Association of County and City Health Officials		
Medical Reserve Corps Small Grant Program	93.008	\$ 3,500
Total United States Department of Health and Human Services		\$ 5,104,181

See Notes to Schedule of Expenditures of Federal Awards.

COUNTY OF LOUDOUN, VIRGINIA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONCLUDED)

FOR THE YEAR ENDED JUNE 30, 2014

	<u>Federal Catalog Number</u>	<u>Total 2014 Federal Expenditures</u>
<u>Federal Granting Agency/Recipient State Agency/Program Title</u>		
United States Department of Homeland Security		
Direct Payments:		
Assistance to Firefighters Grant	97.044	\$ 43,661
Cooperating Technical Partners	97.045	\$ 307,327
Pass through Payments:		
Fairfax County, Virginia		
Homeland Security Grant Program	97.067	\$ 250,997
Government of The District of Columbia		
Homeland Security Grant Program	97.067	\$ 217,186
Montgomery County, Maryland		
Homeland Security Grant Program	97.067	\$ 144,309
Northern Virginia Regional Commission		
Homeland Security Grant Program	97.067	\$ 457,220
Prince George's County, Maryland		
Homeland Security Grant Program	97.067	\$ 52,784
Total United States Department of Homeland Security		<u>\$ 1,473,484</u>
Total Expenditures of Federal Awards		<u>\$ 38,602,409</u>

COUNTY OF LOUDOUN, VIRGINIA

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2014

(1) Summary of Significant Accounting Policies

(a) Reporting Entity

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the activity of all federal award programs administered by the County of Loudoun, Virginia (the "County"), and its component unit, the Loudoun County Public Schools. The County's reporting entity is defined in note 1(a) of the County's basic financial statements.

Federal award programs include direct expenditures, monies passed through to other governmental entities (i.e., payments to subrecipients), and nonmonetary assistance.

(b) Basis of Presentation

The information in the Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*. Therefore, some amounts presented in the Schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements. Federal award program titles are reported as presented in the Catalog of Federal Domestic Assistance ("CFDA") in effect for the year in which the award was granted.

(c) Basis of Accounting

The Schedule has been prepared on the modified accrual basis of accounting as defined in note 1(c) of the County's basic financial statements.

(d) Matching Costs

Matching costs, the nonfederal share of certain program costs, are not included in the Schedule.

(2) Relationship to Federal Financial Reports

The regulation and guidelines governing the preparation of federal financial reports vary by federal agency and among programs administered by the same agency. Accordingly, the amounts reported in the federal financial reports do not necessarily agree with the amounts reported in the accompanying Schedule.

(3) Noncash and Other Programs

(a) The County received \$761,001 pass-through property sub-awards under the Homeland Security Grant Program (CFDA 97.067) for the year ended June 30, 2014. Such amounts are reflected in the accompanying Schedule and in the basic financial statements.

(b) The Community Development Block Grant/Entitlement ("CDBG") (CFDA 14.218) is granted by U.S. Department of Housing and Urban Development ("HUD") to develop viable urban communities by providing decent housing, a suitable living environment, and expanding economic opportunities, principally for persons of low and moderate income. The Loudoun County Home Improvement Program ("LCHIP"), which is funded by CDBG, provides loans and grants to income eligible homeowners to rehabilitate their homes. For the year ended June 30, 2014, Loudoun County provided \$2,619 from the repayment fund to the program recipients.

COUNTY OF LOUDOUN, VIRGINIA**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS***FOR THE YEAR ENDED JUNE 30, 2014***(4) Amounts Passed Through to Subrecipients**

Grant proceeds in the amount of \$21,738 were passed through to subrecipients for Congressionally Recommended Awards (CFDA 16.753) for the year ended June 30, 2014. It was not practicable to determine amounts passed through to subrecipients for all programs.

(5) Total by Program

Federal programs are awarded to the County either directly by a federal agency or through a pass-through entity. Some programs are received both directly and through a pass-through entity and some are received through multiple pass-through entities. The following programs, reported in multiple line items in the accompanying Schedule, are totaled here:

Program	Federal Catalog Number	Expenditure
National School Lunch Program	10.555	\$6,346,688
Congressionally Recommended Awards	16.753	\$83,497
Equitable Sharing Program	16.922	\$112,156
Homeland Security Grant Program	97.067	\$1,122,496

(6) Total by Cluster

Federal programs can be part of an overall grant group aimed at achieving similar finding goals. The County's programs that are considered part of clusters, reported in multiple line items in the accompanying Schedule, are totaled here:

Program	Federal Catalog Number	Expenditure
Child Nutrition Cluster	10.553/10.555/10.556	\$7,365,113
Highway Safety Cluster	20.600/20.601	\$32,845
Special Education Cluster	84.027/84.172	\$8,794,074
Aging Cluster	93.044/93.045/93.053	\$299,748

COUNTY OF LOUDOUN, VIRGINIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2014

(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: **Yes, 2014-002**
- c. Material weakness in internal control disclosed by the audit of the financial statements: **Yes, 2014-001**
- d. Noncompliance which is material to the financial statements: **No**
- e. Significant deficiencies in internal control over major programs: **None reported**
- f. Material weakness in internal control over major programs: **Yes, 2014-003**
- g. The type of report issued on compliance for major programs: **Modified** for Medicaid; **Unmodified** for other major programs
- h. Any audit findings which are required to be reported under Section 510(a) of OMB Circular A-133: **Yes**
- i. Major programs:
 - Supplemental Nutritional Assistance Program Cluster (SNAP) (CFDA Number 10.561)
 - Child Nutrition Cluster (CFDA Number 10.553, 10.555 and 10.556)
 - Special Education Cluster (IDEA) (CFDA Number 84.027 and 84.173)
 - Educational Technology State Grant Cluster (CFDA Number 84.318)
 - Medicaid Cluster (CFDA Number 93.778)
- j. Dollar threshold used to distinguish between Type A and Type B programs: **\$1,158,072**
- k. Auditee qualified as low-risk auditee under Section 530 of OMB Circular A-133: **No**

COUNTY OF LOUDOUN, VIRGINIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2014

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

2014-001: Material Weakness – Internal Control Over Financial Reporting – Year-end Completeness and Accuracy of Account Balances

Criteria: In order to prepare financial statements in accordance with accounting principles generally accepted in the United States of America ("GAAP"), accurate and complete subsidiary records must be maintained to support the existence and valuation of all assets, liabilities, revenues, and expenditures/expenses to ensure an accurate presentation of the financial position of the County at year end.

Condition and Effect: Yearly, the County's Finance Department oversees the preparation, processing and recordation of tens of thousands of financial transactions that ultimately will be reflected in the yearly Comprehensive Annual Financial Report ("CAFR"), which is also produced by the Finance Department. In order to ensure the transactions are fairly presented, procedures must be in place and functioning effectively to ensure the financial information is complete and accurate. During the year end closing and the external audit process, errors were identified by Finance Department management and Cherry Bekaert. Consequently, the County had to adjust certain yearly activities in order to fairly present the financial statements in accordance with GAAP. Specifically, the County recorded the following transactions:

- Increase in expenditures and liabilities in the Capital Projects Fund for accounts payables not recorded in the year end general ledger close (\$18.6M).
- Decrease in capital assets at the governmental activities' reporting level for assets transferred to the component unit (\$20M).
- Increase in amounts due from component unit (\$3.5M) due to an un-reconcilable difference between the two entities.

Cause: Understanding that the County implemented a new Enterprise Resource Planning system County-wide effective July 1, 2013, which dramatically changed the internal control processes for financial processing, said controls were not effective and functioning as intended. Additionally, with regard to the Capital Projects Fund, the vendor was delayed in submitting its invoice to the County, based on the contracted payment schedule.

Recommendation: We recommend the County enhance its procedures for review of cutoff activity between fiscal years to include for a semi-annual review of capital asset transfers and confirmation of amounts owed with key service providers and vendors to ensure all activity is properly accounted for and reported.

Views of Responsible Officials: We concur. Errors were found subsequent to June 30, 2014 that affected the financial presentation in accordance with GAAP as of June 30, 2014. To prevent these types of errors in the future, the County of Loudoun has:

- Set up all the jointly funded project agreements with VDOT in E-builder, the County's construction project management software, and assigned a Project Manager to be responsible for making the quarterly payments as required in each agreement according to the schedule.

COUNTY OF LOUDOUN, VIRGINIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2014

In addition, the County of Loudoun will begin:

- Performing a monthly review of board documents to identify contracts and agreements that affect the financial presentation of the County.
- Meeting quarterly with Loudoun County Public Schools to reconcile the \$3,500,000 discrepancy from June 30, 2014 and ensure the intercompany accounts remain in balance going forward.

Incorporating into the land book reconciliation process a request to the Commissioner of Revenue's Office asking them to identify any land book transactions that have occurred during the fiscal year that have not been entered into the land book by June 30. In addition, staff will request access to the County Attorney's system to search for land transactions that occur late in the fiscal year.

2014-002: Significant Deficiency – Internal Control Over Financial Reporting – Information Technology General Controls and Business System Implementation

Criteria: Information technology general computer controls ("ITGCs") are used to manage and control the County's information technology activities. ITGCs are pervasive controls that contribute indirectly to the achievement of most financial statement assertions and serve as a foundation that supports the County's business operations, financial and accounting systems including the system of controls that safeguard information, process financial transactions, and maintain accounting records.

In the year of a material change to underlying financial systems, risk in financial reporting increases. The ITGCs related to System Development Life Cycle ("SDLC") controls must be evaluated to ensure the application software being implemented adequately supports financial reporting objectives. The key components of SDLC controls that should be in place during a material system conversion include (1) Determining System Requirements, (2) Project Plan, (3) Testing System Controls, (4) System Integration Testing (5) Data Conversion and (6) End User Acceptance Testing and Training. These components represent a series of preventative and detective control objectives that are necessary to mitigate the risk of material misstatement and to allow for the timely close of the year end books and records used to prepare the financial statements.

Condition and Context: During the fiscal year ended June 30, 2013, the County implemented the Oracle Enterprise Business System ("Ebs") as part of Phase I for the County of Loudoun (the "County"), Virginia and Loudoun County Public Schools' ("LCPS") business system initiative to be used for the foundation of its enterprise resource planning ("ERP") system. In addition, the County implemented Oracle Projects & Grant Management ("P&G") for job costing activities associated with grant accounting and to account for construction in process to long-lived capital asset accounting. The Oracle based ERP implementation covers all significant business cycles and related classes of transactions that would materially affect or reasonably likely materially affect the County's and LCPS's System of Internal Control over Financial Reporting.

The County employed a "direct cutover" approach to "going live" on Phase I of the new Oracle EBS as opposed to a parallel testing approach leading up to the cutover. A parallel approach is often used to verify operational and financial outcomes against the legacy business system(s) prior to going live on the new system. In a direct cutover approach, organizations will typically use several rounds of user acceptance testing ("UAT") and or end-to-end business cycle training sessions on copies of the organization's production data to gain comfort with operational and financial outcomes prior to system cutover. We could not find sufficient evidence the County conducted robust financial close training prior to going live on the new system. We believe this increased the risk of unintended consequences, including error and reduced productivity, and the County's ability to timely perform financial close processes and prepare the annual financial statements.

COUNTY OF LOUDOUN, VIRGINIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2014

The County's business requirements, system design, testing, and training to ensure business activities would integrate with the new ERP system for business and financial operations personnel appear insufficient. Specifically, we could not find evidence that business cycle end-to-end testing and related training related to Oracle eBS and P&G financial close processes was sufficiently robust to ensure both operational and financial reporting objectives would be achieved on a timely basis. We were unable to find evidence that the County completed all end user training for Oracle eBS and P&G prior to going live, including conducting full mock financial closes and testing of key system-based reports to verify results were in line with Management's expectations.

Effect: Had these procedures been performed at the appropriate level, it is likely they would have detected the design and operating control deficiencies related to the financial close process, specifically the financial module interdependencies between P&G and eBS and financial close processes to ensure accuracy and completeness in timely performing the year-end financial close, which directly impacts the County's ability to timely issue its Comprehensive Annual Financial Report. These conditions described above resulted in significant inefficiencies affecting the time and effort required by County personnel to execute fiscal year-end financial close processes to ensure accuracy and completeness of the financial statements.

Cause: The County's limited end user training and lack of more robust UAT and CRP testing and training related for Oracle eBS and P&G negatively impacted the County's ability to timely close their books and records in the new system environment and to timely apply all the procedures normally expected to verify financial outcomes for the year-end close and the timely preparation of financial statements.

Recommendation: We believe the County would benefit from more robust UAT and CPR training sessions using "cloned data" or copies of County production data in a test environment covering each business class of transactions from (1) initiation, (2) authorization (3) processing, (4) recording and (5) reporting through the complete business cycle, such as financial close processes including project and grant accounting.

The County would also benefit from more extensive user training on how to apply Oracle financial close applications such as:

- The order of the financial close processes and interdependencies of the financial modules during the financial close e.g., purchasing, accounts payable and inventory/cost management.
- Interdependencies between Oracle Projects, construction in progress and fixed asset capitalization.
- The use of exception reporting embedded in the financial close processes to verify outcomes.
- Researching and resolving exceptions in the close processes.
- Proper methods to correct complex systems-based transaction processing exceptions and the risks associated with using manual overrides applied to business and/or accounting sub-ledgers modules.
- Additional training on the use of Oracle Procurement and interdependent relationships between purchase requisitioning, purchase orders, general ledger account coding, use of receiving/invoice processing tolerance controls, debit memos, and clearing the uninvoiced receipts account (a/k/a accrued accounts payable).

Absent robust testing and training in these areas applied to the ERP project, the County is exposed to higher risk of unintended consequences such as, inefficiency and error.

Views of Responsible Officials: We concur. On June 30, 2014, the County had not received significant training on the year-end close process and interdependencies between certain modules due to existing staff resources and limited availability of the consultants due to delays in the implementation schedule.

COUNTY OF LOUDOUN, VIRGINIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2014

The following actions have occurred since June 2014:

- Staff has received training on the financial close process and have practiced through our TEST instance to better understand the interdependencies of the financial modules. Additionally, we have developed a process to communicate the necessary steps to be followed by departments at year-end to ensure there is an understanding of what is expected from them.
- Staff is documenting the process of closing the Projects and Grant module and transferring assets and construction in progress to the Fixed Asset module.
- Staff has developed reports and other tools to ensure there are no unidentified discrepancies between the various modules. Any discrepancies are identified and researched to determine the appropriate solution. Manual overrides are a rare occurrence, and the implications of processing an override is evaluated prior to enactment.

Additional monthly and quarterly training is routinely scheduled with staff on purchase requisitioning, purchase orders, general ledger account coding, and receiving/invoice processing. Appropriate staff have also received training on debit memos and clearing the un-invoiced receipts accounts.

(3) Findings and Questioned Costs Relating to Federal Awards

2014-003: Material Weakness and Compliance Qualification – Eligibility

Program: Medical Assistance Program (CFDA Number 93.778 – U.S. Department of Health and Human Services – Virginia Department of Social Services; Federal Award Number: not available; Federal Award Year: 2014)

Condition: Of the 60 participants selected for testing, three participant case files did not include evidence of annual eligibility redetermination and one participant case file did not including evidence that income was properly verified and, therefore, the participant was eligible.

Criteria: Per the 42 CFR sections 435.907, 435.910, 435.913, and 435.920, participants in the Medicaid program must meet specified eligibility criteria to receive program assistance. For participants in the program longer than one year, a redetermination of eligibility is required to be performed at least every 12 months.

Cause: An approximate increase of 115% in applicants during the year, as well as a lack of personnel to assist in processing and reviewing these applications, prevented the County from complying with the programs requirements for determination of participant's eligibility.

Effect: The County's non-compliance could result in costs disallowed by the grantor or a reduction in future funding for this program.

Questioned Cost: Undeterminable.

Recommendation: The County should implement a plan to enhance internal controls related to participant eligibility to ensure renewals are occurring on a timely basis, income is properly verified at each renewal period when required, and files contain adequate supporting documentation in accordance with OMB Circular A-133.

COUNTY OF LOUDOUN, VIRGINIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2014

Views of Responsible Officials and Planned Corrective Action:

Responsible Person: Chris Slagle, Program Manager of Loudoun County Department of Family Services

Estimated Completion: Currently in effect.

Corrected Action: With the implementation of the new Medicaid Eligibility system, VaCMS (Virginia Case Management System), the ability to complete reviews timely will improve. Families and Children's Medicaid cases are currently in the new VaCMS system; Adult Medicaid will be migrated in August 2015. This system not only allows for a more streamlined eligibility process, but also sets alerts to the worker assigned to each case to remind them when a review is required. The new system will have the capability to verify income of recipients, and further down the line, the ability to verify a recipient's resources, reducing the time to process a review.

In the interim, Medicaid review lists for adult Medicaid will be disseminated to staff in a timely manner to alert them to upcoming reviews. Supervisory staffs are actively hiring now to address the personnel issue to maintain the maximum number of staff available to complete these reviews. Recently, the County board approved the reclassification of 5 staff from another program to address the staffing issue, which will also improve timeliness of Medicaid reviews.

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

2014-004: Non-material Noncompliance – Conflict of Interest

Condition: Two of fourteen annual Statement of Economic Interests forms were not completed properly filed and two of fourteen were not submitted by the January 15, 2014 deadline.

Criteria: Section 2.2-3115 of the *Code of Virginia* requires local government officials to file a statement of economic interests with the clerk of the governing body annually by January 15th.

Cause: Annual disclosure form was not filed by January 15, 2014.

Effect: Non-compliance may result in action by the Commonwealth.

Questioned Cost: Non-financial finding.

Recommendation: Officials should file a statement of economic interests annually by January 15th.

Views of Responsible Officials and Planned Corrective Action:

Responsible Person: Leo P. Rogers, County Attorney of Loudoun County

Estimated Completion: June 30, 2015

Corrected Action: Management has brought the matter to the attention of the County Attorney.

COUNTY OF LOUDOUN, VIRGINIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2014

2014-005: Non-material Noncompliance – Social Services System Access

Condition: One of sixteen separated Social Services employees did not have systems access removed within three days of their separation date.

Criteria: Per Section 15.2-2511 of the *Code of Virginia*, when an employee separates from the local Social Services department, his or her access privileges must be immediately removed from all systems that they were authorized to use.

Cause: Termination dates were not reported to the individual responsible for removing system access privileges in a timely manner.

Effect: Non-compliance may result in unauthorized individuals having system access.

Questioned Cost: Non-financial finding.

Recommendation: The County should implement corrective action aimed at enhancing internal controls related to the communication of the separation of Social Services employees to ensure system access privileges of separated employees are removed immediately.

Views of Responsible Officials and Planned Corrective Action:

Responsible Person: Allison Tibbs-Foster, Local Security Officer of Loudoun County Department of Family Services

Estimated Completion: April 6, 2015

Corrected Action: Supervisors will be responsible for notifying the Human Resource Manager as well as the Local Security Officer when they receive an employee's resignation. On the termination date, Local Security Officer will verify termination with the Human Resource Manager and terminate access to all appropriate systems.

2014-006: Non-material Noncompliance – Social Services Acceptable Use Awareness Acknowledgment Form

Condition: For a sample of twenty employees tested, two employees did not have a current year Information Security Program and Acceptable Use Awareness Acknowledgement Forms on file.

Criteria: Per Section 3-15 of the *Specifications for Audits of Counties, Cities, and Towns*, published by the Commonwealth's Auditor of Public Accounts, all employees, contractors, vendors, volunteers, and work experience personnel shall receive security awareness training. This training will occur upon initial hiring or prior to his or her access to Virginia Department of Social Service ("VDSS") systems. All users will receive annual security training at a date to be determined by the VDSS Central Office security staff.

Cause: Initial Information Technology Security Awareness Training was not completed within thirty days of employment.

Effect: Non-compliance may result in action by the Commonwealth.

Questioned Cost: Non-financial finding.

COUNTY OF LOUDOUN, VIRGINIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2014

Recommendation: The County should implement corrective action aimed at enhancing internal controls to ensure required Initial Information Technology Security Awareness Training is performed within thirty days of employment.

Views of Responsible Officials and Planned Corrective Action:

Responsible Person: Allison Tibbs-Foster, Local Security Officer of Loudoun County Department of Family Services

Estimated Completion: April 1, 2015

Corrected Action: New employees will meet with the Local Security Officer to review Information Technology Security Awareness Training and sign an Acceptable Use Awareness Acknowledgment Form. Within 30 days of receiving access to state systems, employee will provide a certificate of completion to Local Security Officer.

2014-007: Non-material Noncompliance – Social Services Computer Access Request Forms

Condition: For a sample of fourteen employees, two social service workers did not have current Computer Assess Request Forms on file.

Criteria: Per Section 3-15 of the *Specifications for Audits of Counties, Cities, and Towns*, published by the Commonwealth's Auditor of Public Accounts, Computer Access Request Forms documenting a user's access authority must be available for all users.

Cause: Unknown.

Effect: Non-compliance may result in action by the Commonwealth.

Questioned Cost: Non-financial finding.

Recommendation: The County should ensure all required employees complete and file Computer Assess Request Forms in accordance with Commonwealth requirements.

Views of Responsible Officials and Planned Corrective Action:

Responsible Person: Allison Tibbs-Foster, Local Security Officer of Loudoun County Department of Family Services

Estimated Completion: April 1, 2015

Corrected Action: The Local Security Officer will review staff state system access files to ensure compliance with Commonwealth requirements. All new computer access requests will require completion of Computer Access Form.

COUNTY OF LOUDOUN, VIRGINIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2014

2014-008: Non-material Noncompliance – Virginia’s Initiative for Employment not Welfare (“VIEW”) Purchased Services

Condition: For a sample of twenty-five VIEW participants selected for testing, one participant’s Activity and Service Plan was not properly retained within the participant’s case file.

Criteria: Per Section 3-15 of the *Specifications for Audits of Counties, Cities, and Towns*, published by the Commonwealth’s Auditor of Public Accounts, VIEW purchased service transactions must be in accordance with policy and based on individual VIEW participants Activity and Service Plan.

Cause: A lack of functioning controls over participant documentation retention.

Effect: Non-compliance may result in action by the Commonwealth.

Questioned Cost: Undeterminable.

Recommendation: The County should implement a corrective action plan aimed at enhancing internal controls related to participant documentation retention to ensure accurate and complete documentation supporting all participant intake information is prepared and maintained in accordance with County and Commonwealth record retention requirements.

Views of Responsible Officials and Planned Corrective Action:

Responsible Person: Jennifer Perinis, Team Leader of Loudoun County Department of Family Service

Estimated Completion: Currently in effect

Corrected Action: The Department now has a supervisor position dedicated solely to the day-to-day operation of the VIEW program. When reviewing payment requests submitted by workers, the supervisor reviews cases to ensure proper documentation is in the case record prior to approving payments.

2014-009: Non-material Noncompliance – Intergovernmental Agreements

Condition: For one Agreement the County has with the U.S. Department of Justice Drug Enforcement Administration, related to providing a HIDTA Task Force Group to address the use and abuse of controlled substances, reimbursement requests were not submitted to the grantor in accordance the Agreement’s timelines and supporting documentation could not be provided for all requests made.

Criteria: Per Section 2-6 of the *Specifications for Audits of Counties, Cities, and Towns*, published by the Commonwealth’s Auditor of Public Accounts, “the Code of Virginia encourages local governments to cooperate with each other through intergovernmental agreements for services (fire, police, sanitation, maintenance, water, and sewer, etc.). For example, Section 15.2-3830 of the Code of Virginia requires cities of the second class to share court services with the adjoining county. Many local governments enter into intergovernmental agreements for the operation of regional libraries, jails, community service boards, and schools. Local governments also may enter into governmental agreements with other states or with the federal government.” The auditor must obtain a copy of the agreement(s) and determine the local government’s compliance with the agreement(s).

Cause: A lack of functioning controls over reporting required by the Agreement.

COUNTY OF LOUDOUN, VIRGINIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2014

Effect: Non-compliance may result in action by the Commonwealth.

Questioned Cost: Unsupported reimbursement costs \$3,015.23.

Recommendation: The County should implement a corrective action plan aimed at enhancing internal controls to ensure quarterly reimbursements are submitted and supported in accordance with the Agreement.

Views of Responsible Officials and Planned Corrective Action:

Responsible Person: Debbie Capitan, Financial Budget Manager of Loudoun County Sheriff's Office

Estimated Completion: Currently in effect

Corrected Action: The Sheriff's Office of the County concurs with the finding and, due to turnover in the office, reimbursements were not submitted quarterly per Agreement timelines. New procedures have been implemented so this does not occur in the future. Monthly and quarterly reminders have been set up to ensure timely submission of reimbursement requests and follow up on payments.

COUNTY OF LOUDOUN, VIRGINIA

STATUS OF PRIOR AUDIT FINDINGS

YEAR ENDED JUNE 30, 2014

Status of Prior Year Findings Relating to the Financial Statements Reported in Accordance with Government Auditing Standards

2013-1: Sheriff's Office Segregation of Duties – Material Weakness

Condition: Certain key duties were not properly segregated related to the reporting and deposit of seized cash at the Sheriff's office. A detective within the Sheriff's office had access to the receipt of seized cash, the reporting of seized cash, and the depositing of seized cash. Also, there was no reconciliation of the cash seized by deputies to the cash deposited by the detective.

Status: The procedure has been implemented and improved upon since the finding. The Treasurer's Office has set up a separate Wells Fargo bank account, for seized funds only, and provided a monthly reconciliation of the account.

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

2013-2: Internal Controls over Single Audit Reimbursements- Allowable Costs

Condition: During Single Audit testing of the Special Education grant, CB noted that the County of Loudoun was charging fees to the Special Education Grant (award number - H027A110107). Per correspondence with the Director of Special Education, these charges were associated with the IEP software maintenance and modification project. The Director of Special Education informed CB that the schools relied on the County for IT maintenance surrounding the Phoenix software used for special education. The Phoenix system handles the special education process for evaluation, eligibility, and the Individualized Education Programs (IEP) for students with disabilities. It provides a mechanism to complete the IEP process electronically rather than by paper. Therefore, the maintenance of the Phoenix System is an allowable cost since it is a supportive service of special education. Per the Director of Special Education, the County IT department has been charging hours associated with the maintenance of the system to the grant. However, neither the school nor the County has been able to provide any support for the valuation of the charges for the maintenance of the Phoenix system.

Status: Not reported in 2014.