



ISLE OF WIGHT COUNTY, VIRGINIA

**Audit of Federal Awards Performed in
Accordance with U.S. Office of Management
and Budget Circular A-133**

June 30, 2011

(With Independent Auditors' Report Thereon)

ISLE OF WIGHT COUNTY. VIRGINIA

**Audit of Federal Awards Performed in
Accordance with U.S. Office of Management
and Budget Circular A-133**

June 30, 2011

Table of Contents

	Page
Schedule of Expenditures of Federal Awards	1
Notes to Schedule of Expenditures of Federal Awards	4
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	5-6
Independent Auditors' 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	7-9
Schedule of Findings and Questioned Costs	10-14

County of Isle of Wight, Virginia
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2011

Federal Grantor/State Pass Through Grantor/Program Title	Federal CFDA Number	Pass Through Number	2011 Expenditures
Department of Agriculture			
Pass through Virginia Department of Education			
Child Nutrition Cluster			
School Breakfast Program	10.553		\$ 241,256
National School Lunch Program	10.555		740,139
USDA Government Commodities	10.555		17,206
			<u>998,601</u>
Pass through Virginia Department of Social Services			
Supplemental Nutrition Assistance Program Cluster			
State Administrative Matching Grants for Food Stamp Program	10.561		256,781
Total Department of Agriculture			<u>1,255,382</u>
Department of Defense			
Pass through Virginia Department of Education			
JROTC	12.UNKNOWN		71,365
Total Department of Defense			<u>71,365</u>
Department of Housing and Urban Development			
Pass-Through Payments - City of Suffolk, VA			
Department of Planning & Community Development			
HOME Investment Partnerships	14.239		17,862
Pass-Through Payments-Virginia Housing Development Authority			
Housing Voucher Cluster			
Section 8 Housing Choice Vouchers	14.871		126,780
Total Department of Housing and Urban Development			<u>144,642</u>
Department of Justice			
Pass through Virginia Department of Criminal Justice			
Crime Victim Assistance	16.575	11-Q8555VW10	47,258
Byrne Formula Grant Program	16.579	11-B5986FR11	26,775
Violence Against Women	16.588	11-O9425VA10	18,826
COPS 2008 Technology Grant	16.710	2008CKWX0880	3,090
JAG Program Cluster			
Byrne JAG Grant (LLEBG)	16.738		2,464
JAG Recovery Act 2009	16.804		1,927
			<u>4,391</u>
Total Department of Justice			<u>\$ 100,340</u>

County of Isle of Wight, Virginia
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2011

Federal Grantor/State Pass Through Grantor/Program Title	Federal CFDA Number	Pass Through Number	2011 Expenditures
Department of Transportation			
Pass through Virginia Department of Transportation			
Highway Planning and Construction Cluster			
Highway Planning and Construction	20.205	EN08-046- 115,P101,R201,C5 01-UPC#91219	\$ 82,820
ARRA-Pedestrian Safety Study	20.205	0017-046- 594,P101,N501- UPC#95025	20,303
ARRA-Left Turn Extension	20.205	0017-046- 594,P101,N501- UPC#95026	82,632
			<u>185,755</u>
Highway Safety Cluster			
DMV Law Enforcement Traffic Safety	20.601	K8-2011-51311- 4253-20.601	12,634
Total Department of Transportation			<u>198,389</u>
Department of Education			
Pass through Virginia Department of Education			
ARRA-McKinney-Vento	84.002	UNKNOWN	953
Adult Education	84.002		12,081
Title 1, Part A Cluster			
Title I - Grants to Local Educational Agencies	84.010	S010A90046	566,430
ARRA-Title I- Local Education Recovery Act	84.389	S389A090046	250,282
			<u>816,712</u>
Special Education Cluster (IDEA)			
Special Education - Grants to States	84.027		1,077,106
Special Education - Preschool Grants	84.173	H173A090112	25,201
ARRA - Special ED Part B Section 611	84.391	H391A090107	1,020,697
ARRA - Special ED Part B Section 619 Pre-School	84.392	H392A090112	13,380
			<u>2,136,384</u>
Impact Aid Cluster			
Impact Aid	84.041		42,836
Vocational Education - Basic Grants to States	84.048		68,290
Educational Technology State Grants Cluster			
Education Technology State Grants	84.318	S367A090044	2,388
Improving Teacher Quality State Grants	84.367	S010A090046	205,220
State Fiscal Stabilization Fund Cluster			
ARRA-State Fiscal Stabilization Fund	84.394	S394A090047	1,164,803
ARRA-State Fiscal Stabilization Fund-Basic Aid Offset	84.394	S394A090047	614,212
Total State Fiscal Stabilization Fund Cluster			<u>1,779,015</u>
Total Department of Education			<u>\$ 5,063,879</u>

County of Isle of Wight, Virginia
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2011

Federal Grantor/State Pass Through Grantor/Program Title	Federal CFDA Number	Pass Through Number	2011 Expenditures
Department of Health and Human Services			
Pass through Virginia Department of Social Services:			
Adoption Recruitment	93.556	0950111	\$ 16,279
Temporary Assistance to Needy Families (TANF)	93.558	0400112	339,392
Refugee and Entrant Assistance State Administered Plans	93.566	0500112	484
Low-Income Home Energy Assistance Block Grant	93.568	0600412	17,473
CCDF Cluster			
Child Care and Development Block Grant	93.575	0770111	155,301
CCDF At Risk Daycare	93.596	0760112	119,657
			<u>274,958</u>
Child Welfare Services State Grants	93.645	0900111	1,477
Foster Care - Title IV-E	93.658	1100112	216,973
Adoption Assistance	93.659	1100112	48,061
Social Services Block Grant	93.667	1000112	256,552
Chafee Foster Care Independence Program	93.674	9150112	6,653
FAMIS	93.767	0540112	7,363
Medical Assistance Program (Medicaid, Title XIX)	93.778	1200112	152,821
Total Department of Health and Human Services			<u>1,338,486</u>
Department of Homeland Security			
Pass through Virginia Department of Emergency Management			
State Homeland Security Program	97.073		9,511
Total Department of Homeland Security			<u>9,511</u>
Total Expenditures of Federal Awards			<u>\$ 8,181,994</u>

County of Isle of Wight, Virginia

Notes to the Schedule of Expenditures of Federal Award

Year Ended June 30, 2011

Note 1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of the County of Isle of Wight, Virginia (the County) including the Primary Government and the School Board, a discretely presented component unit, under programs of the federal government for the year ended June 30, 2011. The information in this Schedule is presented in accordance with the requirements of the Office of Management and Budget (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 financial statements.

Note 2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available.

Note 3. American Recovery and Reinvestment Act

The American Recovery and Reinvestment Act of 2009 (Recovery Act) was enacted to promote economic recovery, make investments, and to minimize and avoid reductions in state and local government services. The stimulus dollars are identified in the accompanying schedule as "Recovery Act" or "ARRA."

Note 4. Relationship to Federal Financial Reports

Amounts reported in the accompanying Schedule agree substantially with the amounts in the federal financial reports except that certain federal financial reports are prepared on the cash basis of accounting and the Schedule is prepared on the basis of accounting described in Note 2 above.

Note 5. Subrecipients

Of the federal expenditures presented in the Schedule, the County provided federal awards to a subrecipient in the amount \$9,511 from CFDA Number 97.073, State Homeland Security Program (SHSP).



KPMG LLP
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Richmond, VA 23219-4023

**Independent Auditors' 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***

The Honorable Members of the Board of Supervisors
County of Isle of Wight, 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 County of Isle of Wight, Virginia (the County) as of and for the year ended June 30, 2011, which collectively comprise the County's basic financial statements and have issued our report thereon dated December 1, 2011. That report recognizes that the County implemented two new accounting standards effective July 1, 2010. We conducted our audit in accordance with 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.

Internal Control over Financial Reporting

Management of the County is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the County'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 County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over financial reporting.

Our consideration of 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 discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness.

A deficiency in internal control over financial reporting 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 combination of deficiencies, in internal control over financial reporting, 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 in the County's internal control over financial reporting described in the



accompanying Schedule of Findings and Questioned Costs as item 2011-1 to be a material weakness.

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 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*.

The County's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the County's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, County of Isle of Wight, Virginia Board of Supervisors, School Board Members, others within the entity, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

December 1, 2011



KPMG LLP
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1021 East Cary Street
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**Independent Auditors' 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**

The Honorable Members of the Board of Supervisors
County of Isle of Wight, Virginia:

Compliance

We have audited the County of Isle of Wight, Virginia's (the County) 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 the County's major federal programs for the year ended June 30, 2011. The County's major federal programs are identified in the Summary of Auditors' 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 County's management. Our responsibility is to express an opinion on the County'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 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. Our audit does not provide a legal determination on the County's compliance with those requirements.

In our opinion, the County complied in all material respects, with the compliance 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, 2011. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 2011-2.



Internal Control over Compliance

Management of the County 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 County'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 County'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 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. However, we identified a certain deficiency in internal control over compliance that we consider to be a significant deficiency as described in the accompanying schedule of findings and questioned costs as item 2011-2. 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.

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 County as of and for the year ended June 30, 2011, and have issued our report thereon dated December 1, 2011. Our audit was performed for the 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 has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is



fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The County's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the County's response, and accordingly, we express no opinion on the response.

This report is intended solely for the information and use of the Board of Supervisors, County management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

March 30, 2012, except for the Schedule of
Expenditures of Federal Awards, which is as
of December 1, 2011

COUNTY OF ISLE OF WIGHT, VIRGINIA

Schedule of Findings and Questioned Costs

Year ended June 30, 2011

(1) Summary of Auditors' Results

- (a) The type of report issued on the financial statements: **Unqualified opinion**
- (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, finding 2011-1**
- (d) Noncompliance which is material to the financial statements: **None reported**
- (e) Significant deficiencies in internal control over major programs: **Yes, finding 2011-2**
- (f) Material weakness in internal control over major programs: **None reported**
- (g) The type of report issued on compliance for major programs: **Unqualified opinion**
- (h) Any audit findings which are required to be reported under Section 510(a) of OMB Circular A-133: **Yes, finding 2011-2**
- (i) Major programs:
 - **Title I Cluster** (CFDA No. 84.010 and 84.389)
 - **Special Education Cluster** (CFDA No. 84.027, 84.173, 84.391 and 84.392)
 - **State Fiscal Stabilization Fund - ARRA** (CFDA No. 84.394)
 - **Child Care Development Fund Cluster** (CFDA 93.575 and 93.596)
 - **Temporary Assistance for Needy Families** (CFDA 93.558)
- (j) Dollar threshold used to distinguish between Type A and Type B programs: \$300,000
- (k) Auditee qualified as low-risk auditee under Section 530 of OMB Circular A-133: No

COUNTY OF ISLE OF WIGHT, VIRGINIA

Schedule of Findings and Questioned Costs

Year ended June 30, 2011

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

2011-1 Year-End Financial Reporting Closing Process

Condition –The County’s Director of Budget and Finance is responsible for processing the County’s financial transactions and reporting the County’s yearly financial results through the preparation and issuance of the Comprehensive Annual Financial Report (CAFR). The efficient, effective and timely preparation of the CAFR depends heavily on personnel from various County departments. This process includes closing the County’s general ledger, performing appropriate financial analyses and reconciliations of yearly activity, and accumulating the required data to properly prepare the basic financial statements, notes, and supplementary schedules, which are reported within the County’s CAFR.

During the fiscal year-end closing and the CAFR audit process, adjustments to the general ledger balances were identified which were considered material to the County’s financial statements by County management and KPMG related to areas such as accounts payable and modified-accrual accounting.

Criteria – The Commonwealth of Virginia Code and the Commonwealth of Virginia’s Auditor of Public Accounts’ (APA) *Specifications for Audits of Counties, Cities and Towns* require that annual financial statements be prepared in accordance with GAAP.

Cause – Based upon review of documentation provided and discussions with County personnel, the adjustments were caused by a combination of factors including the lack of certain documented policies and procedures aimed at ensuring complete, accurate, and proper accrual of all financial transactions. Additionally, for an entity the size and complexity of the County, the number of Finance Department employees with governmental accounting and reporting experience skill sets is not sufficient. Consistent with this, we noted a need for ongoing training of County personnel geared towards financial and governmental accounting, related reporting standards, transactional processing and industry best practices.

Effect – If such weaknesses are not addressed, the County’s risk of experiencing material errors in financial accounting and associated internal and external reporting is increased.

Recommendations – We recommend the County consider actions to address these matters to include:

- Creating a specific training program and protocol for all financial related personnel to include periodic training sessions to enhance governmental accounting knowledge utilizing various sources and/or venues (e.g., industry-sponsored events (VaGFOA, VaSBO), webcast/webinars and KPMG-facilitated onsite training).

COUNTY OF ISLE OF WIGHT, VIRGINIA

Schedule of Findings and Questioned Costs

Year ended June 30, 2011

- Complete an inventory of existing written financial policies and procedures for all finance related and support departments and, for those areas that are missing or deficient, develop and implement appropriate policies and procedures with specific attention paid to areas such as period-end processing to ensure that transactions are accounted for in the appropriate periods.
- Enhance the CAFR preparation process by developing a detailed financial close and CAFR preparation schedule, including a description of the critical path tasks necessary to complete the many specific steps entailed in closing the general ledger and preparing the CAFR.
- Assess finance related personnel needs aimed at augmenting existing staff with accountants, preferably certified, experienced in governmental accounting and reporting and with the operations of localities with Virginia.

Views of Responsible Officials:

- Contact Person: Michael W. Terry, Director of Budget & Finance
- Corrective Action – The County concurs with KPMG’s recommended actions that can be summarized as follows:
 - Training – governmental generally accepted accounting principles
 - Policies and Procedures – development and/or enhancements
 - Comprehensive Annual Financial Report – close-out and preparation
 - Staff Augmentation – governmental certified public accountant experience preferable

Further, it should be noted that due to the transition of four (4) Directors of Budget and Finance over a four fiscal year period allowed for the opportunity for certain financial transactions, reporting functions, and staff specific governmental training to be performed on a less than consistent basis.

COUNTY OF ISLE OF WIGHT, VIRGINIA

Schedule of Findings and Questioned Costs

Year ended June 30, 2011

(3) Findings and Questioned Costs Relating to Federal Awards

2011-2 – Allowable Costs

Programs:

Child Care Development Fund Cluster (CCDF) CFDA 93.575 and 93.596 - U.S. Department of Health and Human Services – Commonwealth of Virginia Department of Social Services; Grant Year 2011

Temporary Assistance for Needy Families (TANF) CFDA 93.558 - U.S. Department of Health and Human Services – Commonwealth of Virginia Department of Social Services; Grant Year 2011

Condition:

For a sample of 50 CCDF participants selected for testing, four participants' co-pay calculations were incorrectly determined or applied.

For a sample of 26 TANF participants selected for testing, two participants' eligible income calculations were incorrectly determined or applied.

Criteria – Per 45 CFR section 98 (CCDF) and 45 CFR section 206 (TANF), program participants must meet eligibility standards, which must be supported with appropriate grantee documentation.

Cause – County program personnel did not consistently perform an appropriate review to ensure the accuracy of income eligibility information to determine eligibility and assistance levels.

Effect – Noncompliance with requirements may result in program funding being disallowed by the grantor or reduced future funding.

Questioned Cost – \$198 out of a sample population of \$18,035 related to CCDF noncompliance. As all participants were deemed compliant upon review, there were no questioned costs noted for TANF.

COUNTY OF ISLE OF WIGHT, VIRGINIA

Schedule of Findings and Questioned Costs

Year ended June 30, 2011

Recommendation – The County should implement corrective action aimed at enhancing internal controls over the inputting and calculation of participants' balances.

Views of Management

- Contact Person: Reynold W. Jordan, Jr., Assistant Director, Isle of Wight Department of Social Services – 757-365-3672
- Corrective Action: We concur with the auditors findings. However this department has seen greater than a 60% increase in caseload; with no increase in Federal/State administrative funding and staffing. To correct this finding all childcare cases are to be reviewed by both the benefit program specialist who specializes in child care and the child care supervisor to ensure that proper co-pays are applied.
- Anticipated Completion Date: Immediately.

