



Martha S. Mavredes, CPA
Auditor of Public Accounts

Commonwealth of Virginia

Auditor of Public Accounts

P.O. Box 1295
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March 25, 2014

Audrey Davis
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We have reviewed the working papers for the audit of the City of Franklin, Virginia, for the year ended June 30, 2013. The purpose of our review was to determine whether:

- A. the audit complies with the Specifications for Audits of Counties, Cities, and Towns, issued by the Auditor of Public Accounts;
- B. the audit complies with Government Auditing Standards, issued by the Comptroller General of the United States;
- C. the audit complies with Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations;
- D. the annual financial reports comply with generally accepted accounting principles for governmental entities; and
- E. the auditor has performed the agreed upon procedures for the Comparative Report Transmittal Forms as set forth in the Uniform Financial Reporting Manual, issued by the Auditor of Public Accounts.

We conducted our review in accordance with the 2013 Quality Control Review Program for Audits of Local Governments, developed by the Auditor of Public Accounts. The review was limited to the audit of the City of Franklin, Virginia, and did not extend to any other engagements performed by your firm.

During our review, we noted the following deficiencies that the firm should address to further enhance the quality and effectiveness of its local government audits.

Improve Working Paper Documentation

Comment – Government Auditing Standards and AICPA standards require that audit documentation contain sufficient information to enable an auditor having no previous connection with the audit to ascertain from the audit documentation the nature, timing, and extent of audit procedures performed and the evidence that supports the auditor's significant judgments and conclusions. For some audit procedures performed, the firm's documentation was not in accordance with professional standards including sampling and analytical procedures, and there were multiple instances in which verbal explanation from the auditor was required in order for the reviewer to understand the full extent of audit procedures performed. Through discussions with the engagement personnel, we determined the auditors completed procedures that were not fully documented in the working papers. However, current auditing standards do not allow the use of oral explanations as support for work the auditor performed or conclusions reached.

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Recommendation – We recommend the firm ensure it follows all applicable standards when performing and documenting audit test work. Specifically, we recommend that the firm ensure that the working papers reflect all procedures and explicitly document significant judgments and conclusions and cross-reference these judgments and conclusions to supporting documentation.

Ensure APA Specifications and OMB A-133 Compliance Requirements are Properly Tested

Comment – The Specifications for Audits of Counties, Cities, and Towns requires the firm to perform certain tests of state compliance and accounting transactions unique to Virginia localities. However, we were unable to determine whether the firm complied with all of the requirements since they did not complete or document certain aspects of tests of specific requirements in some areas.

Additionally, Office of Management and Budget (OMB) Circular A-133 sets forth standards for the audit of local governments expending federal awards. For two major programs, the firm used analytical procedures to test eligibility, which we do not believe is sufficient appropriate evidence to support the opinion on compliance for the affected major programs.

Recommendation – We recommend the firm design its audit procedures to satisfy all of the requirements set forth within the APA specifications. Additionally, we recommend the firm design its procedures over eligibility compliance to ensure evidence is sufficient and appropriate for rendering an opinion.

We found that, for the audit of the City of Franklin, Virginia, for the year ended June 30, 2013, except for the deficiencies described above, the working papers appropriately supported the requirements listed in A through E above. Firms can receive a rating of pass, pass with deficiencies or fail. Davis and Associates has received a review rating of pass with deficiencies.

We discussed these matters with your firm on April 1, 2014. We will perform a follow up review in the coming year to ensure the firm has addressed the issues we noted during our review.

This report is intended for the information and use of management. However, it is a public record and its distribution is not limited.

Sincerely,

Martha S. Mavredes
Auditor of Public Accounts

cc: City of Franklin
Virginia Board of Accountancy
Virginia Society of Certified Public Accountants