Fairfax County
Board of Supervisors
Reports

Year ended June 30, 2011

KPMG LLP
2001 M Street, NW
Washington, DC 20036-3389

November 15, 2011

The Board of Supervisors
County of Fairfax, Virginia:

Ladies and Gentlemen,

The purpose of this letter is to provide the Board of Supervisors of the County of Fairfax, Virginia (County) certain documents prepared in connection with our audit of the County's basic financial statements as of and for the year ended June 30, 2011. These documents, which are similar to what we have provided in prior years, are as follows:

Comprehensive Annual Financial Report – The comprehensive annual financial report (CAFR), which will be provided to you under separate cover, contains the basic financial statements of the County and its component units for the year ended June 30, 2011. Our independent auditors' report on these basic financial statements, which are the responsibility of the County's management, is included on the first two pages of the financial section. The CAFR also includes a transmittal letter from the County Executive, the Deputy County Executive, and the Director of Finance; management's discussion and analysis; required supplementary information; other supplementary information; and a statistical section.

Required Communications Letter – Statement of Auditing Standards No. 114, *The Auditor's Communication with Those Charged with Governance*, requires that we communicate certain matters regarding the conduct of the audit to the Board. The purpose of this letter is to provide the Board with certain information regarding the scope and results of the audit that may assist the Board in overseeing the financial reporting and disclosure process for which management is responsible.

No Material Weakness Letter – The purpose of this letter is to inform the Board that we noted no material weaknesses in performing our audit.

Single Audit Act Report – This document includes the County-prepared schedule of expenditures of federal awards for the year ended June 30, 2011. It also includes our report on the County's compliance with the types of compliance requirements applicable to each of your major federal award programs as well as your internal control over compliance with the requirements of laws, regulations contracts and grants applicable to each of your major federal award programs. Finally, it also includes our report on internal control over financial reporting and on compliance and other matters based on an audit performed in accordance with *Government Auditing Standards*.

We look forward to discussing these documents with you at the Board of Supervisors meeting on December 6, 2011. If you have any questions, please call me at (202) 533-6218 or Chuck Kozlik at (202) 533-3328.

Very truly yours,

John E. Reagan III
Partner, KPMG LLP

County of Fairfax, Virginia

Board of Supervisors Reports

Year ended June 30, 2011

Table of Contents

KPMG LLP
2001 M Street, NW
Washington, DC 20036-3389

November 15, 2011

CONFIDENTIAL

The Board of Supervisors
County of Fairfax, Virginia

Ladies and Gentlemen:

We have audited the financial statements of the County of Fairfax, Virginia (the County) for the year ended June 30, 2011, and have issued our report thereon dated November 15, 2011. Our report was modified to include a reference to the adoption of a new accounting standard effective July 1, 2010. We did not audit the financial statements of the Fairfax County Redevelopment and Housing Authority (FCRHA), a discretely presented component unit of the County, which represent 7.61%, 4.65%, and 15.60%, respectively, of total assets, net assets, and revenues of the aggregate discretely presented component units. Under our professional standards, we are providing you with the attached information related to the conduct of our audit.

Our Responsibility Under Professional Standards

We have a responsibility to conduct our audit of the financial statements in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Specifications for Audits of Counties, Cities and Towns*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia. In carrying out this responsibility, we planned and performed the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud. Because of the nature of audit evidence and the characteristics of fraud, we are to obtain reasonable, not absolute, assurance that material misstatements are detected. We have no responsibility to plan and perform the audit to obtain reasonable assurance that misstatements, whether caused by error or fraud, that are not material to the financial statements are detected.

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

We also have a responsibility to communicate significant matters related to the financial statement audit that are, in our professional judgment, relevant to the responsibilities of the Board of Supervisors (the Board) in overseeing the financial reporting process. We are not required to design procedures for the purpose of identifying other matters to communicate to you.

We also performed an audit, under the Single Audit Act of 1984 and the Single Audit Act Amendments of 1996, of the federal financial assistance programs that the County participated in during the year. Accordingly, we had the additional responsibility of issuing reports on:

- The schedule of expenditures of federal awards in relation to the basic financial statements taken as a whole.
- The County's compliance with laws, regulations, contracts, and grant agreements that, if not complied with, could have a material effect on the federal awards programs.
- Our consideration of internal control over major federal awards programs.

Other Information in Documents Containing Audited Financial Statements

Our responsibility for other information in documents containing the County's financial statements and our auditors' report thereon does not extend beyond the financial information identified in our auditors' report, and we have no obligation to perform any procedures to corroborate other information contained in these documents, for example, Management's Discussion and Analysis. We have, however, read the other information included in the County's Comprehensive Annual Financial Report, and no matters came to our attention that cause us to believe that such information, or its manner of presentation, is materially inconsistent with the information, or manner of its presentation, appearing in the financial statements.

Accounting Policies and Alternative Treatments

Significant Accounting Policies

The significant accounting policies used by the County are described in Note A to the financial statements. These policies and practices are considered most important to the portrayal of the County's financial condition and results of operations, and require management's most difficult, subjective, or complex judgments, often as a result of the need to make estimates about matters that are inherently uncertain. We have discussed with management our assessment of management's disclosures regarding such policies and practices, the reasons why these policies and practices are considered critical, and how current and anticipated future events impact those determinations. We noted the County adopted GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions,* effective July 1, 2010.

Unusual Transactions

In September 2010, the Board of Supervisors approved a two phase Contract of Sale with Inova Health Systems. The Contract of Sale includes the transfer of approximately 15 acres of land including the Woodburn Mental Health Center and Woodburn Place from the County to Inova. In exchange for this land, Inova will provide the County with an approximate 5 acre parcel/pad site at Willow Oaks II, a $15 million cash payment, and a 10 year lease of 40,000 square feet within the new Mid County Center building. The FY 2011 payment of $7,299,699, a special item in the governmental activities, represents the first of two installments on the $15 million cash payment.

In April 2011, the County's Integrated Sewer System (ISS) completed a sale of 2.0 million gallons per day (MGD) purchase capacity of its 17.68 MGD share of the Upper Occoquan Sewage Authority (UOSA) expansion (from 27 to 54 MGD) to the Prince William Service Authority for $39,807,586. As a result, a special item – Gain from sale of purchase capacity – of $16,787,885 was recognized.

We are not aware of any other transactions entered into by the County during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Qualitative Aspects of Accounting Practices

We have discussed with management our judgments about the quality, not just the acceptability, of the County's accounting principles as applied in its financial reporting. The discussions generally included such matters as the consistency of the County's accounting policies and their application, and the understandability and completeness of the County's financial statements, which include related disclosures.

Management Judgments and Accounting Estimates

The preparation of the financial statements requires management of the County to make a number of estimates and assumptions relating to the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of certain revenues and expenses during the period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgments.

The following describes the more significant management estimates and judgments included in the financial statements:

- Evaluating the likelihood of an unfavorable outcome to the County with respect to pending litigation and claims.
- Determining the fair value of certain not readily marketable securities for the fiduciary funds.
- Determining the actuarial valuations for both pension obligations and other post-employment benefit (OPEB) obligations.
- Determining the estimated liabilities for reported claims and incurred but not reported claims relating to the County's self-insurance funds.
- Determining the estimated liability for landfill closure and post-closure care costs.
- Determining the allowances for uncollectible amounts within receivables.

We evaluated the key factors and assumptions that management used to develop these estimates and determined that the estimates are reasonable in relation to the financial statements taken as a whole.

Uncorrected and Corrected Misstatements

In connection with our audit of the County's financial statements, we did not identify any difference that would require us to propose an audit adjustment. In addition, we have not identified any significant financial statement misstatements that have not been corrected in the County's books and records as of and for the year ended June 30, 2011, and have communicated that finding to management.

Disagreements with Management

There were no significant disagreements with management on financial accounting and reporting matters that, if not satisfactorily resolved, would have caused a modification of our auditors' report on the County's financial statements.

Consultation with Other Accountants

To the best of our knowledge, management had not consulted with or obtained opinions, written or oral, from other independent accountants during the year ended June 30, 2011.

Major Issues Discussed with the Management Prior to Retention

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to our retention by you as the County's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no difficulties in dealing with management in performing our audit.

Significant Written Communications Between the Auditor and Management

Attached to this report please find copies of the following material written communications between management and us:

1) Engagement letter (**Attachment 1**); and

2) Management representation letter (**Attachment 2**).

Independence

Our professional standards require that we communicate to you in writing, at least annually, all relationships between our firm and the County that, in our professional judgment, may reasonably be thought to bear on our independence. This section is intended to comply with such reporting requirement and provide confirmation that we are independent accountants with respect to the County.

We are not aware of any additional independence-related relationships between our firm and the County other than the professional services that have been provided to the County, which are summarized in the attached engagement letter.

Confirmation of Audit Independence

We hereby confirm that as of November 15, 2011, we are independent accountants with respect to the County under all relevant professional and regulatory standards.

KPMG's System of Quality Control and Related Matters

The enclosed document entitled, "KPMG – Our System of Quality Controls," including the attached addendum, is being provided to communicate to you matters related to KPMG's system of quality control.

This report to the Board of Supervisors is intended solely for the information and use of the Board of Supervisors and management and is not intended to be and should not be used by anyone other than these specified parties. This report is not intended for general use, circulation or publication and should not to be published, circulated, reproduced or used for any purpose without our prior written permission in each specific instance.

Very truly yours,

KPMG LLP

KPMG

KPMG LLP
2001 M Street, NW
Washington, DC 20036

Telephone 202 533 3000
Fax 202 533 8500
Internet www.us.kpmg.com

February 18, 2011

Mr. Victor Garcia, Director
Department of Finance
and
Ms. Cathy A. Muse, Director
Department of Purchasing and Supply Management
County of Fairfax
12000 Government Center Parkway
Suite 214
Fairfax, Virginia 22035-0013

Dear Mr. Garcia and Ms. Muse:

This letter amends our engagement letter dated February 9, 2009, confirming our understanding to provide professional audit services to Fairfax County and its related entities (hereinafter referred to as the County) by substituting the attached Appendix I for the Appendix I originally attached to our engagement letter.

The attached Appendix I lists the services to be rendered and related fees to provide each specified service. Except as specified in this letter and in the Appendix I attached to this letter, all provisions of the aforementioned engagement letter remain in effect until either the audit committee or we terminate this agreement or mutually agree to the modification of its terms.

KPMG member firms located outside the United States and other third-party service providers operating under our supervision may also participate in providing the services described in this letter.

We shall be pleased to discuss this letter with you at any time. For your convenience in confirming these arrangements, we enclose a copy of this letter. Please sign in the space provided and return the copy to us.

Very truly yours,

KPMG LLP

Jack Reagan
Partner

Cc: Chuck Kozlik, KPMG

KPMG

ACCEPTED:
Fairfax County

Victor L. Garcia
Authorized Signature

Finance Director
Title

March 17, 2011
Date

ACCEPTED:

Fairfax County

Cathy A Muse
Authorized Signature

Purchasing Agent
Title

3/18/2011
Date

KPMG

County of Fairfax, Virginia
February 18, 2011

Appendix I

Fees for Services

Based upon our discussions with and representations of the County, our fees for services we will perform are estimated as follows:

Description	**Amount**
County	
Independent Auditors' Reports	
Oversight Entity	$285,853
Public Schools	205,000
Integrated Sewer System	34,000
Park Authority	34,000
Economic Development Authority	27,000
ERFC	46,000
County Retirement Systems	55,000
OMB A-133 Single Audit	185,000
Agreed Upon Procedures Reports	
Route 28 activity (as re quired by the Virginia APA)	7,000
Computation of Excess Revenues over Expenditures[1]	7,000
Activity of Inmate Canteen and other auxiliary funds (as required by the Virginia APA)	7,000
Sub-total	$892,853
Other	
Independent Auditors' Report	
State Route 28 Highway Transportation Improvement District	14,287
Total	**$907,140**

The above estimates are based on the level of experience of the individuals who will perform the services. Circumstances encountered during the performance of these services that warrant additional time or expense could cause us to be unable to deliver them within the above estimates. We will endeavor to notify you of any such circumstances as they are assessed.

[1] Prepared in accordance with 40 CFR Part 258, Subpart G, *Criteria For Municipal Solid Waste Landfills - Financial Assurance Criteria*

Attachment 2

County of Fairfax, Virginia

To protect and enrich the quality of life for the people, neighborhoods, and diverse communities of Fairfax County

November 15, 2011

KPMG LLP
2001 M Street, NW
Washington, DC 20036

Ladies and Gentlemen:

We are providing this letter in connection with your audit of the financial statements of the County of Fairfax, Virginia (the County), as of and for the year ended June 30, 2011, for the purpose of expressing opinions as to whether the financial statements present fairly, in all material respects, the financial position 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, and the respective changes in financial position, and, where applicable, cash flows thereof in conformity with U.S. generally accepted accounting principles. We confirm that we are responsible for the fair presentation in the financial statements of financial position, changes in financial position, and cash flows in conformity with U.S. generally accepted accounting principles. We are also responsible for establishing and maintaining effective internal control over financial reporting. Further, we understand that the purpose of your testing of transactions and records from the County's federal programs (A-133 audit) was to obtain reasonable assurance that the County had complied, in all material respects, with the requirements of laws, regulations, contracts, and grants that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm, to the best of our knowledge and belief, the following representations made to you during your audit:

1. The financial statements referred to above are fairly presented in conformity with U.S. generally accepted accounting principles.

2. We have made available to you:

   a. All financial records and related data.

Department of Finance
12000 Government Center Parkway, Suite 214
Fairfax, Virginia 22035
703-324-3120; TTY 711
www.fairfaxcounty.gov/finance

b. All minutes of the meetings of the Board of Supervisors, or summaries of actions of recent meetings for which minutes have not yet been prepared.

3. Except as disclosed to you in writing, there have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.

4. There are no:

   a. Violations or possible violations of laws or regulations, whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency.

   b. Unasserted claims or assessments that our lawyers have advised us are probable of assertion and must be disclosed in accordance with Statement of Financial Accounting Standards (SFAS) No. 5, *Accounting for Contingencies*.

   c. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by SFAS No. 5.

   d. Material transactions, for example, grants and other contractual arrangements, that have not been properly recorded in the accounting records underlying the financial statements.

   e. Events that have occurred subsequent to the date of the statement of net assets and through the date of this letter that would require adjustments to or disclosure in the basic financial statements.

5. There are no uncorrected financial statement misstatements or omissions of disclosures to be included on a schedule of uncorrected financial statement misstatements.

6. We acknowledge our responsibility for the design and implementation of programs and controls to prevent, deter, and detect fraud. We understand that the term "fraud" includes misstatements arising from fraudulent financial reporting and misstatements arising from misappropriation of assets. Misstatements arising from fraudulent financial reporting are intentional misstatements, or omissions of amounts or disclosures in financial statements to deceive financial statement users. Misstatements arising from misappropriation of assets involve the theft of an entity's assets where the effect of the theft causes the financial statements not to be presented in conformity with U.S. generally accepted accounting principles.

7. We have no knowledge of any fraud or suspected fraud affecting the entity involving:

   a. Management,

   b. Employees who have significant roles in internal control over financial reporting, or

   c. Others where the fraud could have a material effect on the financial statements.

8. We have no knowledge of any allegations of fraud or suspected fraud affecting the County received in communications from employees, former employees, analysts, regulators, or others.

9. The County has no plans or intentions that may materially affect the carrying value or classification of assets and liabilities.

10. We have no knowledge of any officer or member of the Board of Supervisors of the County, or any other person acting under the direction thereof, having taken any action to fraudulently influence, coerce, manipulate, or mislead you during your audit.

11. The following have been properly recorded or disclosed in the financial statements:

    a. Related party transactions including sales, purchases, loans, transfers, leasing arrangements, guarantees, ongoing contractual commitments, and amounts receivable from or payable to related parties. We understand that the term "related party" refers to affiliates of the County; entities for which investments are accounted for by the equity method by the County; trusts for the benefit of employees, such as pension and profit-sharing trusts that are managed by or under the trusteeship of management; key administrative, financial, and legislative personnel and other members of County management or businesses they represent or have an interest in; members of the immediate families of County management; and other parties with which the enterprise may deal if one party controls or can significantly influence the management or operating policies of the other to an extent that one of the transacting parties might be prevented from fully pursuing its own separate interests. Another party also is a related party if it can significantly influence the management or operating policies of the transacting parties or if it has an ownership interest in one of the transacting parties and can significantly influence the other to an extent that one or more of the transacting parties might be prevented from fully pursuing its own separate interests.

    b. Guarantees, whether written or oral, under which the County is contingently liable.

    c. Arrangements with financial institutions involving compensating balances, or other arrangements involving restrictions on cash balances and lines of credit or similar arrangements.

    d. Agreements to repurchase assets previously sold, including sales with recourse.

    e. Changes in accounting principle affecting consistency.

    f. The existence of and transactions with joint ventures and other related organizations.

12. Capital assets, including infrastructure assets, are properly capitalized, reported and, if applicable, depreciated.

13. The County has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets, nor has any asset been pledged as collateral, except as disclosed in the notes to the basic financial statements.

14. The County has complied, in all material respects, with applicable laws, regulations, contracts and grants that could have a material effect on the financial statements in the event of noncompliance.

15. Management is responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to the County. Management has identified and disclosed to you all laws,

regulations, and provisions of contracts and grant agreements that have a direct and material effect on the determination of financial statement amounts.

16. The County has identified and properly accounted for all non-exchange transactions.

17. There are no such deficiencies, significant deficiencies, or material weaknesses in the design or operation of internal control over financial reporting of which we are aware, which could adversely affect the County's ability to initiate, authorize, record, process, or report financial data. We have applied the definitions of a "significant deficiency" and a "material weakness" in accordance with the definitions in Statement on Auditing Standards No. 115, *Communicating Internal Control Related Matters Identified in an Audit.*

18. Receivables reported in the financial statements represent valid claims against debtors arising on or before the date of the statement of net assets and have been appropriately reduced to their estimated net realizable value.

19. The following information about financial instruments with off-balance-sheet risk and financial instruments with concentrations of credit risk has been properly disclosed in the basic financial statements:

    a. Extent, nature, and terms of financial instruments with off-balance-sheet risk;

    b. The amount of credit risk of financial instruments with off-balance-sheet credit risk and information about the collateral supporting such financial instruments; and

    c. Significant concentrations of credit risk arising from all financial instruments and information about the collateral supporting such financial instruments.

20. The County is responsible for determining the fair value of certain investments as required by GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, as amended. The amounts reported represent the County's best estimate of fair value of investments required to be reported under the Statement. The County also has disclosed the methods and significant assumptions used to estimate the fair value of its investments, and the nature of investments reported at amortized cost.

21. We believe that all material expenditures or expenses that have been deferred to future periods will be recoverable.

22. Deposits and investment securities are properly classified and reported.

23. We believe that the actuarial assumptions and methods used to measure financial statement liabilities and costs associated with pension and other post-employment benefits and to determine information related to the County's funding progress related to such benefits for financial reporting purposes are appropriate in the County's circumstances and that the related actuarial valuation was prepared in conformity with U.S. generally accepted accounting principles.

24. Provision has been made in the financial statements for the County's pollution remediation obligations. We believe that such estimate has been determined in accordance with the provisions of GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations* and is reasonable based on available information.

25. The County has no:

    a. Commitments for the purchase or sale of services or assets at prices involving material probable loss.

    b. Material amounts of obsolete, damaged, or unusable items included in the inventories at greater than salvage values.

    c. Loss to be sustained as a result of other-than-temporary declines in the fair value of investments.

26. Expenses have been appropriately classified in or allocated to functions and programs in the statement of activities, and allocations have been made on a reasonable basis.

27. Revenues are appropriately classified in the statement of activities within program revenues, general revenues, contributions to term or permanent endowments, or contributions to permanent fund principal.

28. The financial statements disclose all of the matters of which we are aware that are relevant to the entity's ability to continue as a going concern, including significant conditions and events, and our plans.

29. The County has identified and properly reported all of its derivative instruments and any related deferred inflows/outflows of resources related to hedging derivative instruments in accordance with GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. The County complied with the requirements of GASB Statement No. 53 related to the determination of hedging derivative instruments and the application of hedge accounting.

30. The County has properly applied the requirements of GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets,* including those related to the recognition of outlays associated with the development of internally generated computer software.

31. We have received opinions of counsel upon each issuance of tax-exempt bonds that the interest on such bonds is exempt from federal income taxes under section 103 of the Internal Revenue Code of 1986, as amended. There have been no changes in the use of property financed with the proceeds of tax-exempt bonds, or any other occurrences, subsequent to the issuance of such opinions, that would jeopardize the tax-exempt status of the bonds. Provision has been made, where material, for the amount of any required arbitrage rebate.

32. We agree with the findings of specialists in evaluating the insurance and benefit claims payable and have adequately considered the qualifications of the specialist in determining the amounts and disclosures used in the financial statements and underlying accounting records. We did not give or cause any instructions to be given to specialists with respect to the values or amounts derived in an

attempt to bias their work, and we are not otherwise aware of any matters that have had an impact on the independence or objectivity of the specialists.

33. We have disclosed to you all accounting policies and practices we have adopted that, if applied to significant items or transactions, would not be in accordance with U.S. generally accepted accounting principles (GAAP). We have evaluated the impact of the application of each such policy and practice, both individually and in the aggregate, on the County's current period financial statements, and the expected impact of each such policy and practice on future periods' financial reporting. We believe the effect of these policies and practices on the financial statements is not material. Furthermore, we do not believe the impact of the application of these policies and practices will be material to the financial statements in future periods.

34. In accordance with *Government Auditing Standards*, we have identified to you all previous audits, attestation engagements, and other studies that relate to the objectives of this audit, including whether related recommendations have been implemented.

35. The County's reporting entity includes all entities that are component units of the County. Such component units have been properly presented as either blended or discrete. The financial statements disclose all other joint ventures and other related organizations.

36. The financial statements properly classify all funds and activities, including governmental funds, which are presented in accordance with the fund type definitions in GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

37. Net asset components (invested in capital assets, net of related debt; restricted; and unrestricted) and fund balance reserves and designations are properly classified and, if applicable, approved.

38. The County has complied with all tax and debt limits and with all debt related covenants.

39. The County has presented all required supplementary information. This information has been measured and prepared within prescribed guidelines.

40. The County has complied with all applicable laws and regulations in adopting, approving, and amending budgets.

41. The County has not elected to apply the option allowed in paragraph 7 of GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Activities*, to the enterprise and internal service funds.

42. All funds that meet the quantitative criteria in GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, for presentation as major are identified and presented as such, and all other funds that are presented as major are considered to be particularly important to financial statement users by management.

43. Inter-fund, internal and intra-entity activity and balances have been appropriately classified and reported.

44. Special and extraordinary items are appropriately classified and reported.

45. Provision has been made for any material loss that is probable from environmental remediation liabilities associated with landfills in accordance with GASB Statement No. 18, *Accounting for Municipal Solid Waste Landfill Closure and Postclosure Care Costs.* We believe that such estimate is reasonable based on available information and that the liabilities and related loss contingencies and the expected outcome of uncertainties have been adequately disclosed in the County's financial statements.

46. The County recorded all "on behalf" payments for fringe benefits and salaries in accordance with GASB Statement No. 24, *Accounting and Financial Reporting for Certain Grants and Other Financial Assistance.*

47. The County reported the activities related to the Other Post-Employment Benefits (OPEB) in the financial statements in accordance with GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Post-Employment Benefits Other than Pensions.* In addition, the County properly disclosed the pension related activities in accordance with GASB Statement No. 50, *Pension Disclosures – an Amendment of GASB Statements No. 25 and No.* 27.

48. Management has reviewed, approved, and taken responsibility for accrual adjustments.

49. Management has a process to track the status of audit findings and recommendations.

50. Management has provided views on reported findings, conclusions, and recommendations, as well as management's planned corrective actions, for the report.

51. The County is responsible for complying, and has complied, with the requirements of OMB Circular A-133.

52. The County has prepared the schedule of expenditures of federal awards (SEFA) in accordance with the requirements of OMB Circular A-133 and has included all expenditures made during the year ended June 30, 2011, for all awards provided by federal agencies in the form of grants, awards under the American Recovery and Reinvestment Act (ARRA), federal cost-reimbursement contracts, loans, loan guarantees, property (including donated surplus property), cooperative agreements, interest subsidies, insurance, food commodities, direct appropriations, and other assistance. The County has appropriately identified and separated all ARRA awards within the SEFA.

53. The County is responsible for complying, and has complied, in all material respects, with the requirements of laws and regulations, and the provisions of contracts and grant agreements related to each of its federal programs. The County has disclosed to you any interpretations of any compliance requirements that have varying interpretations.

54. The County is responsible for establishing and maintaining, and has established and maintained, effective internal control over compliance for federal programs that provides reasonable assurance that federal awards are administered in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on a federal program.

55. We have communicated to you all significant deficiencies in the design or operation of internal control over compliance that we have identified which could adversely affect the County's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, and the provisions of contracts and grant agreements. We have not identified any material weaknesses in design or operation of internal control over compliance. Under standards established by the American Institute of Certified Public Accountants, a deficiency in internal control over compliance 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 on a timely basis noncompliance with a type of compliance requirement of a federal program. A "material weakness" is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected on a timely basis. A "significant deficiency" 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, yet important enough to merit attention by those charged with governance.

56. We acknowledge our responsibility for the design and implementation of programs and controls to prevent and detect fraud in the administration of federal programs. We have no knowledge of any fraud or suspected fraud affecting the County's federal programs involving:

    a. Management, including management involved in the administration of federal programs;

    b. Employees who have significant roles in internal control over the administration of federal programs; or

    c. Others where the fraud could have a material effect on compliance with laws and regulations, and provisions of contract and grant agreements related to its federal programs.

57. The County has identified and disclosed to you the requirements of laws, regulations, and the provisions of contracts and grant agreements that are considered to have a direct and material effect on each major federal program.

58. The County has made available all contracts and grant agreements (including amendments, if any) and any other correspondence with federal agencies or pass-through entities related to major federal programs.

59. The County has identified and disclosed to you all questioned costs and any known noncompliance with the requirements of federal awards, including the results of other audits or program reviews.

60. The County has made available all documentation related to the compliance requirements, including information related to federal financial reports and claims for advances and reimbursements for major federal programs.

61. Except for the non-compliance disclosed to you, the County is in compliance with the documentation requirements contained in OMB Circular A-87, *Cost Principles for State, Local and Tribal Governments*, for all costs charged to federal awards, including both direct costs and indirect costs

charged through cost allocation plans or indirect cost proposals. Costs charged to federal awards are considered allowable under the applicable cost principles contained in OMB Circular A-87.

62. Federal financial reports and claims for advances and reimbursements are supported by the accounting records from which the financial statements have been prepared.

63. The copies of federal financial reports provided to you are true copies of the reports submitted, or electronically transmitted, to the federal agency or pass-through entity, as applicable.

64. The County has monitored subrecipients to determine that they have expended pass-through assistance in accordance with applicable laws and regulations and have met the requirements of OMB Circular A-133. The County has issued management decisions on a timely basis after receipt of subrecipient audit reports that identified non-compliance with laws, regulations, or the provisions of contracts or grant agreements, and has ensured that subrecipients have taken appropriate and timely corrective action on such findings.

65. The County has considered the results of subrecipient audits and has made any necessary adjustments to its own accounting records.

66. The County is responsible for, and has accurately prepared, the summary schedule of prior audit findings to include all findings required to be included by OMB Circular A-133.

67. The County has provided you with all information on the status of the follow-up on prior audit findings by federal awarding agencies and pass-through entities, including all management decisions.

68. The County has accurately completed Part I of the data collection form.

69. The County has advised you of all contracts or other agreements with service organizations.

70. The County has disclosed to you all communications from its service organizations relating to noncompliance at the service organizations.

71. The County is not aware of any noncompliance occurring subsequent to the period for which compliance is audited.

72. The County has disclosed whether any changes in internal control over compliance or other factors that might significantly affect internal control, including any corrective action taken by management with regard to significant deficiencies (including material weaknesses), have occurred subsequent to the date as to which compliance is audited.

Attachment 2

Sincerely,

County of Fairfax, Virginia

Anthony H. Griffin
County Executive

Susan W. Datta
Chief Financial Officer

Victor L. Garcia
Director, Department of Finance

KPMG LLP
2001 M Street, NW
Washington, DC 20036-3389

November 15, 2011

The Board of Supervisors
County of Fairfax, 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 Fairfax, Virginia (the County), which collectively comprise the County's basic financial statements, as of and for the year ended June 30, 2011, and have issued our report thereon dated November 15, 2011. We did not audit the financial statements of the Fairfax County Redevelopment and Housing Authority, a discretely presented component unit of the County, which represent 7.61%, 4.65%, and 15.60%, respectively, of total assets, net assets, and revenues of the aggregate discretely presented component units. In planning and performing our audit of the financial statements of the County in accordance with auditing standards generally accepted in the United States of America, we considered the County's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion 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.

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.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Very truly yours,

KPMG LLP

COUNTY OF FAIRFAX, VIRGINIA

Financial and Compliance Audit
Pursuant to OMB Circular A-133
(Single Audit)

June 30, 2011

(With Independent Auditors' Reports Thereon)

COUNTY OF FAIRFAX, VIRGINIA

Table of Contents

KPMG LLP
2001 M Street, NW
Washington, DC 20036-3389

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 Board of Supervisors
County of Fairfax, 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 Fairfax, 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 November 15, 2011. Our report was modified to include a reference to the adoption of a new accounting standard effective July 1, 2010. Our report was also modified to include a reference to other auditors. 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, and the *Specifications for Audits of Counties, Cities, and Towns* (the Specifications) issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Other auditors audited the financial statements of the Fairfax County Redevelopment and Housing Authority, a discretely presented component unit of the County. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

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 opinion 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.

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.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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*.

This report is intended solely for the information and use of the Board of Supervisors, County management, the Auditor of Public Accounts of the Commonwealth of Virginia, 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

November 15, 2011

KPMG LLP
2001 M Street, NW
Washington, DC 20036-3389

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 Board of Supervisors
County of Fairfax, Virginia:

Compliance

We have audited Fairfax County, Virginia's (the County's) compliance with the types of compliance requirements described in the Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct or 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 auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the 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 of the County's compliance with those requirements.

As described in items 2011-02 and 2011-04 in the accompanying schedule of findings and questioned costs, the County did not comply with the requirements regarding Special Tests & Provisions – 'R3-Subrecipient Monitoring' related to its Temporary Assistance for Needy Families Cluster (CFDA No. 93.558 / 93.714) and the eligibility requirements related to its Medical Assistance Program (CFDA No. 93.778). Compliance with such requirements is necessary, in our opinion, for the County to comply with the requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the County complied, in all material respects, with the requirements referred to above that could have a direct or material effect on each of its major federal programs for the year ended June 30, 2011. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2011-01, 2011-03, 2011-05, and 2011-06.

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.

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 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 certain deficiencies in internal control over compliance that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

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 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. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2011-02, and 2011-04 to be material weaknesses.

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. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2011-01, 2011-03, 2011-05, and 2011-06 to be significant deficiencies.

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 November 15, 2011. Our report was modified to include a reference to the adoption of a new accounting standard effective July 1, 2010. We did not audit the financial statements of the Fairfax County Redevelopment and Housing Authority, a discretely presented component unit of the County, which represents 7.61%, 4.65%, and 15.60%, respectively, of total assets, net assets, and revenues of the aggregate discretely presented component units. 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 responses to the findings identified in our audit are presented in the accompanying schedule of findings and questioned costs. We did not audit the County's responses and, accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of the Board of Supervisors, 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

November 15, 2011

COUNTY OF FAIRFAX, VA
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2011

Federal Grantor/Recipient State Agency/Program Title	Federal Catalogue Number	Expenditures
Department of Agriculture		
Direct Awards:		
National School Lunch Program	10.555	$3,779,508
Child and Adult Care Food Program	10.558	1,395,479
Summer Food Service Program for Children	10.559	326,445
Fresh Fruit and Vegetable Program	10.582	152,029
ARRA - Watershed Rehabilitation Program	10.916	2,987,613
Passed Through the Commonwealth of Virginia:		
Department of Education		
School Breakfast Program	10.553	3,321,662
National School Lunch Program	10.555	19,270,410
Department of Health		
Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	3,360,969
Child and Adult Care Food Program	10.558	2,628,150
Department of Agriculture		
Child and Adult Care Food Program	10.558	793,564
Department of Social Services		
Child and Adult Care Food Program	10.558	111,064
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	7,365,235
ARRA - State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	227,091
Department of Behavioral Health and Developmental Services		
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	149,727
Department of Commerce		
Direct Awards:		
Chesapeake Bay Studies	11.457	24,013
Passed Through the Commonwealth of Virginia:		
Department of Emergency Management		
Public Safety Interoperable Communications Grant Program	11.555	1,884,157
Department of Defense		
Direct Awards:		
Junior ROTC (Department of Navy)	12.000	478,315
Army Youth Programs in Your Neighborhood (Department of Army)	12.003	34,000
Competitive Grants: Promoting K-12 Student Achievement at Military-Connected Schools	12.556	356,163
Passed Through the Commonwealth of Virginia:		
Department of Transportation		
Community Economic Adjustment Assistance for Establishment, Expansion, Realignment, or Closure of a Military Installation	12.607	1,035,019
Department of Housing and Urban Development		
Direct Awards:		
Supportive Housing for Persons with Disabilities	14.181	254,652
Community Development Block Grants/Entitlement Grants	14.218	8,125,161
Emergency Shelter Grants Program	14.231	262,768
Supportive Housing Program	14.235	849,119
Shelter Plus Care	14.238	1,248,590
Home Investment Partnerships Program	14.239	1,989,720
Community Development Block Grants/Brownfields Economic Development Initiative	14.246	150,527
Economic Development Initiative-Special Project, Neighborhood Initiative and Miscellaneous Grants	14.251	50,831
Community Development Block Grant ARRA Entitlement Grants (CDBG-R) (Recovery Act Funded)	14.253	329,373
Homelessness Prevention and Rapid Re-Housing Program (Recovery Act Funded)	14.257	1,049,994
Fair Housing Assistance Program_State and Local	14.401	81,987
Public and Indian Housing	14.850	2,691,388
Resident Opportunity and Supportive Services (ROSS) (VA019RNN019A006-07965)	14.870	48,458
Resident Opportunity and Supportive Services (ROSS) (VA019REF030A006-08965)	14.870	54,378
Resident Opportunity and Supportive Services (ROSS) (VA019RFS185A008-10965)	14.870	9,507
Resident Opportunity and Supportive Services (ROSS) (VA019RFS197A009-11965)	14.870	34,468
Resident Opportunity and Supportive Services (ROSS) (VA019RFS050A009-12965)	14.870	169,424
Section 8 Housing Choice Vouchers	14.871	46,753,212
Public Housing Capital Fund	14.872	2,106,807

COUNTY OF FAIRFAX, VA

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2011

Federal Grantor/Recipient State Agency/Program Title	Federal Catalogue Number	Expenditures
Department of the Interior		
Direct Awards:		
National Park Services Cooperative Program	15.000	$15,000
Wildlife Restoration and Basic Hunter Education	15.611	39,613
Save America's Treasures	15.929	100,000
Passed Through the Commonwealth of Virginia:		
Department of Historic Resources		
Historic Preservation Fund Grants-In-Aid (RQ10-149806-40A)	15.904	3,025
Department of Justice		
Direct Awards:		
Part E - Developing, Testing and Demonstrating Promising New Programs	16.541	38,132
State Criminal Alien Assistance Program	16.606	603,472
Bulletproof Vest Partnership Program	16.607	16,200
Public Safety Partnership and Community Policing Grants	16.710	6,147
Edward Byrne Memorial Justice Assistance Grant Program	16.738	21,237
Edward Byrne Memorial Competitive Grant Program	16.751	30,676
Recovery Act - Edward Byrne Memorial Justice Assistance Grant (JAG) Program / Grants To Units Of Local Government	16.804	284,267
Passed Through the Commonwealth of Virginia:		
Department of Criminal Justice Services		
Prisoner Reentry Initiative Demonstration (Offender Reentry) (MOA-29-03-01)	16.202	217,984
Juvenile Accountability Block Grants (10-L3224JB08, 11-M3224JB09)	16.523	34,074
Supervised Visitation, Safe Havens for Children	16.527	69,997
Juvenile Justice and Delinquency Prevention_Allocation to States (10-AS999JJ09, 10-B5999JJ09, 11-E5267JJ09)	16.540	99,095
Missing Children's Assistance	16.543	3,375
Crime Victim Assistance (09-J3445SA08, 10-K3445SA09)	16.575	84,943
Crime Victim Assistance/Discretionary Grants (10-M9836VA09, 11-M9836VA10)	16.582	40,853
Violence Against Women Formula Grants (08-I933VA07, 10-N9333VA09, 10-A6080VS09)	16.588	76,042
Grants to Encourage Arrest Policies and Enforcemnt of Protection Orders Program	16.590	121,241
Passed Through the University of Maryland:		
Community Capacity Development Office	16.595	458,836
Passed Through the County of Loudoun, Virginia:		
Anti-Gang Initiative	16.744	276,717
Passed Through the Northern Virginia Gang Task Force:		
Congressionally Recommended Awards	16.753	348,283
Department of Labor		
Passed Through the Commonwealth of Virginia:		
Virginia Community College System		
Workforce Investment Act (WIA) Adult Program (LWA 11-07-01T, LWA 11-07-07RC)	17.258	621,256
ARRA - WIA Adult Program	17.258	227,034
WIA Youth Activities (LWA 11-07-07RC)	17.259	425,541
ARRA - WIA Youth Activities	17.259	159,772
WIA Dislocated Workers (LWA 11-07-07RC)	17.260	754,170
ARRA - WIA Dislocated Workers	17.260	298,342
WIA National Emergency Grants	17.277	40,993
WIA Dislocated Worker Formula Grants	17.278	1,005,037
Department of Transportation		
Direct Awards:		
Federal Transit_Capital Investment Grants	20.500	992,958
Job Access_Reverse Commute	20.516	274,318
Passed Through the Commonwealth of Virginia:		
Department of Transportation		
Highway Planning and Construction	20.205	1,139,609
Department of Motor Vehicles		
State and Community Highway Safety (K8-2010-50138-3758, SC-2011-51348-4290)	20.600	95,897

COUNTY OF FAIRFAX, VA
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2011

Federal Grantor/Recipient State Agency/Program Title	Federal Catalogue Number	Expenditures
Department of the Treasury		
Direct Awards:		
Taxpayer Service	21.003	$83,673
Equal Employment Opportunity Commission		
Direct Awards:		
Employment Discrimination_Private Bar Program	30.005	197,830
National Aeronautics and Space Administration		
Direct Awards:		
Aerospace Education Services Program (NNG06GA51A)	43.001	26,000
Institute of Museum and Library Services		
Direct Awards:		
National Leadership Grants (LG-04-06-0050-06)	45.312	13,232
Laura Bush 21st Century Librarian Program	45.313	147,091
National Endowment for the Arts		
Direct Awards:		
Promotion of the Arts_Grants to Organizations and Individuals (20-5100-0070)	45.024	35,000
Environmental Protection Agency		
Direct Awards:		
ARRA - National Clean Diesel Emissions Reduction Program	66.039	497,176
Passed Through the Commonwealth of Virginia:		
Virginia Resources Authority		
ARRA - Capitalization Grants for Clean Water State Revolving Funds	66.458	4,525,425
Department of Energy		
Direct Awards:		
ARRA - Energy Efficiency and Conservation Block Grant Program (EECBG)	81.128	5,899,805
Department of Education		
Direct Awards:		
Impact Aid	84.041	4,468,447
Fund for the Improvement of Education	84.215	133,528
Passed Through the Commonwealth of Virginia:		
Department of Education		
Adult Education - Basic Grants to States (VA02A09006, V002A070046)	84.002	866,762
Title I Grants to Local Educational Agencies (S010A090046)	84.010	16,185,971
Title I Program for Neglected and Delinquent Children (S013A090046)	84.013	87,911
Special Education_Grants to States (H027A090107, H017A080107)	84.027	24,352,370
Career and Technical Education - Basic Grants to States (V048A090046)	84.048	1,545,621
Special Education_Preschool Grants (H173A090112)	84.173	783,132
Safe and Drug-Free Schools and Communities_State Grants (Q186A090048, 86871-36-09)	84.186	154,370
Education for Homeless Children and Youth (S196A080048)	84.196	44,973
Twenty-First Century Community Learning Centers (S287C070047)	84.287	33,128
Education Technology State Grants (S318X090046)	84.318	136,226
English Language Acquisition Grants (S365A090046)	84.365	4,208,412
Improving Teacher Quality State Grants (S367A090044)	84.367	3,341,443
Education Technology State Grants, Recovery Act (S386A090046)	84.386	47,447
Education for Homeless Children and Youth, Recovery Act (S387A090048)	84.387	96,820
Title I Grants to Local Educational Agencies, Recovery Act (S389A090046)	84.389	8,571,809
Special Education Grants to States, Recovery Act (H391A090107)	84.391	19,313,158
Special Education - Preschool Grants, Recovery Act (H392A090112)	84.392	615,950
State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act (S394A090047)	84.394	21,736,548
Department of Behavioral Health and Developmental Services		
Special Education - Grants for Infants and Families	84.181	1,354,340
Special Education - Grants for Infants and Families, Recovery Act	84.393	537,140
Passed Through the Virginia Disability Service Board:		
ARRA - Independent Living State Grants	84.398	8,200

COUNTY OF FAIRFAX, VA
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2011

Federal Grantor/Recipient State Agency/Program Title	Federal Catalogue Number	Expenditures
Department of Health and Human Services		
Direct Awards:		
Drug-Free Communities Support Program Grants	93.276	$107,763
Affordable Care Act (ACA) Grants to States for Health Insurance Premium Review	93.511	2,005,086
Head Start	93.600	7,399,475
ARRA - Head Start	93.708	88,013
ARRA - Early Head Start	93.709	624,747
Medicare_Prescription Drug Coverage	93.770	1,322,067
Medical Assistance Program	93.778	1,184,422
Passed Through the Commonwealth of Virginia:		
Department for the Aging		
Special Programs for the Aging_Title VII, Chapter 3_Programs for Prevention of Elder Abuse, Neglect, and Exploitation	93.041	18,505
Special Programs for the Aging_Title VII, Chapter 2_Long Term Care Ombudsman Services for Older	93.042	112,457
Special Programs for the Aging_Title III, Part D_Disease Prevention and Health Promotion Services	93.043	2,197
Special Programs for the Aging_Title III, Part B_Grants for Supportive Services and Senior Centers	93.044	663,528
Special Programs for the Aging_Title III, Part C_Nutrition Services	93.045	883,715
National Family Caregiver Support, Title III, Part E	93.052	242,031
Nutrition Services Incentive Program	93.053	211,409
ARRA - Aging Home-Delivered Nutrition Services for States	93.705	15,713
ARRA - Aging Congregate Nutrition Services for States	93.707	61,399
ARRA - Communities Putting Prevention to Work: Chronic Disease Self-Management Program	93.725	25,830
Medicare_Supplementary Medical Insurance	93.774	23,786
Department of Health		
Public Health Emergency Preparedness (CDC-RFA-TP08-802)	93.069	501,921
Project Grants and Cooperative Agreements for Tuberculosis Control Programs (601-409-93116-06-7)	93.116	145,324
Immunization Grants (409-EE-1000-4401300-43273-00-00-09)	93.268	66,681
ARRA - Immunization (DOI-ARRA-1267-409)	93.712	53,664
National Bioterrorism Hospital Preparedness Program	93.889	-
Maternal and Child Health Services Block Grant to the States (409-OFHSMCH-08)	93.994	265,098
Department of Behavioral Health and Developmental Services		
Projects for Assistance in Transition from Homelessness (PATH)	93.150	170,316
Substance Abuse and Mental Health Services_Projects of Regional and National Significance	93.243	8,726
Block Grants for Community Mental Health Services	93.958	1,159,175
Block Grants for Prevention and Treatment of Substance Abuse	93.959	3,268,999
Department of Social Services		
Promoting Safe and Stable Families	93.556	53,530
Temporary Assistance for Needy Families (RFP-BEN-08-007-11)	93.558	4,214,884
Refugee and Entrant Assistance_State Administered Programs	93.566	364,137
Low-Income Home Energy Assistance	93.568	221,564
Community Services Block Grant	93.569	542,761
Child Care and Development Block Grant	93.575	7,770,160
ARRA - Child Care and Development Block Grant (ECD-09-063-04)	93.575	63,286
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	7,868,602
Chafee Education and Training Vouchers Program (ETV)	93.599	50,540
Child Welfare Services Program	93.645	20,478
Foster Care_Title IV-E	93.658	4,770,590
ARRA - Foster Care_Title IV-E	93.658	90,219
Adoption Assistance	93.659	1,951,632
ARRA - Adoption Assistance	93.659	129,681
Social Services Block Grant	93.667	3,060,125
Family Violence Prevention and Services/Grants for Battered Women's Shelters_Grants to States and Indian Tribes	93.671	7,819
Chafee Foster Care Independence Program	93.674	57,319
ARRA - Community Services Block Grant (CVS-09-066-08)	93.710	262,702
ARRA - Child Care and Development Block Grant	93.713	1,029,267
ARRA - Emergency Contingency Fund for Temporary Assistance for Needy Families (TANF) State Program (BEN 10-078)	93.714	3,398,686
Children's Health Insurance Program	93.767	221,643
Medical Assistance Program	93.778	4,643,260
Passed Through the National Association of County and City Health Officials (NACCHO)		
Medical Reserve Corps Small Grant Program (MRC 10 0169)	93.008	873

COUNTY OF FAIRFAX, VA
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2011

Federal Grantor/Recipient State Agency/Program Title	Federal Catalogue Number	Expenditures
Department of Homeland Security		
Direct Awards:		
National Urban Search and Rescue (US&R) Response System	97.025	$1,009,215
Assistance to Firefighters Grant	97.044	72,970
Pass Through Payments:		
Department of Emergency Management		
Pilot Demonstration or Earmarked Projects	97.001	65,324
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	1,414,375
Emergency Management Performance Grants	97.042	136,685
State Homeland Security Program (SHSP)	97.073	792,340
District of Columbia Homeland Security & Emergency Management Agency		
Homeland Security Grant Program (7UASI533-02, 7UASI533-03, 7UASI533-04, 7UASI533-05, 8UASI533-01, 8UASI533-02, 8UASI533-03, 8UASI533-04, 9UASI533-01, 9UASI533-02, 9UASI533-03, 10UASI533-01, 10UASI533-02, 10UASI533-03)	97.067	11,943,860
United States Agency for International Development		
Direct Awards:		
USAID Foreign Assistance for Programs Overseas	98.001	2,697,535
		$324,572,160

COUNTY OF FAIRFAX, VIRGINIA

Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2011

(1) Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (Schedule) includes all federal grant activity of the County of Fairfax, Virginia (County) and its component units, except that of the discretely presented tax credit partnership component units of the Fairfax County Redevelopment and Housing Authority (FCRHA). The County's reporting entity is defined in Note A, Part 1 of the County's basic financial statements. The Schedule has been prepared on the modified accrual basis of accounting as defined in Note A, Part 3 of the County's basic financial statements.

The information in this Schedule is presented in accordance with the requirements of 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 basic financial statements.

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."

(2) Non-Cash and Other Programs

Women, Infant and Children (WIC) program vouchers are issued by the Commonwealth of Virginia to eligible County citizens during the year. The value of these vouchers is not included on the accompanying schedule because the Virginia Department of Health determines eligibility for and monitors the WIC program. However, the County's administrative expenditures for the program are included on the accompanying schedule in the Special Supplemental Nutrition Program for Women, Infants and Children Grant (10.557).

The Commonwealth of Virginia Department of Agriculture and Consumer Services (VDACS), Division of Marketing, administers the United States Department of Agriculture (USDA) donated food program within the Commonwealth of Virginia. USDA provides values for all donated food. For CFDA number 10.555, the County received a net value of donated food in the amount of $263,496 for the year ended June 30, 2011.

The U.S. Department of Housing and Urban Development (HUD) has insured certain mortgage loan borrowings made by the County through the FCRHA in connection with certain low income housing projects. These loans had outstanding principal due of $15,898,000 at June 30, 2011. In addition, FCRHA held Federal Housing Administration (FHA) insured mortgage revenue bonds secured by land, buildings, and equipment of $4,660,000 at June 30, 2011. Finally, FCRHA issued certain bonds and notes to permanently finance certain public housing projects. Principal and interest on these bonds and notes are paid by HUD through the Annual Contributions Contract of the Public and Indian Housing grant (14.850). There were no such payments during the year ended June 30, 2011.

The Homeland Security Grant Program (97.067) is granted by the U.S. Department of Homeland Security to enhance the ability of state and local governments to prepare, prevent, respond to, and recover from terrorist attacks and other disasters. The State Homeland Security Program (97.073) is also granted by the U.S. Department of Homeland Security to build capabilities to prevent, deter, respond to, and recover from incidents of terrorism at the state and local levels through planning, equipment, training, and exercise activities and support the implementation of state homeland security strategies and key elements of the national preparedness architecture. Several Washington, DC metropolitan jurisdictions receive funding under these two programs. In addition to purchasing equipment or supplies for their own jurisdiction, they may purchase these items for surrounding jurisdictions and then transfer, or donate, the items to other jurisdictions per the federal government or pass-through entity's instructions. For the year ended June 30, 2011, Fairfax County purchased and transferred equipment or supplies valued at $2,724,705 for the Homeland Security Grant Program (97.067) to other jurisdictions.

(3) Totals by Program

Federal programs are awarded to the County either directly by a federal agency or through a pass-through entity. Some program funding is received both directly and through a pass-through entity, and some is received through multiple pass-through entities. Additionally, a federal agency may request the County to provide a higher level of detail on the Schedule of Expenditures of Federal Awards, rather than a total by federal catalogue number. The following programs, reported in multiple line items in the accompanying schedule, are totaled here:

Program Title	Federal Catalogue Number	Total by Program
National School Lunch Program	10.555	$ 23,049,918
Child and Adult Care Food Program	10.558	4,928,257
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	7,742,053
Resident Opportunity and Supportive Services	14.870	316,235
WIA Adult Program	17.258	848,290
WIA Youth Activities	17.259	585,313
WIA Dislocated Workers	17.260	1,052,512
Child Care and Development Block Grant	93.575	7,833,446
Foster Care - Title IV-E	93.658	4,860,809
Adoption Assistance	93.659	2,081,313
Medical Assistance Program	93.778	5,827,682

(4) Totals by Clusters

Federal programs with different Catalog of Federal Domestic Assistance numbers are defined as a cluster of programs because they are closely related programs that share common compliance requirements as defined by OMB Circular A-133. Of the federal expenditures presented in the Schedule, programs that are parts of a cluster are shown as follows:

COUNTY OF FAIRFAX, VIRGINIA

Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2011

Name of Cluster	Program Title	Federal Catalogue Number	Total by Program
Child Nutrition Cluster	School Breakfast Program	10.553	$ 3,321,662
	National School Lunch Program	10.555	23,049,918
	Summer Food Service Program for Children	10.559	326,445
Child Nutrition Cluster Total			26,698,025
Supplemental Nutrition Assistance Program (SNAP) Cluster	State Administrative Matching Grants for Supplemental Nutrition Assistance Program	10.561	7,514,962
	ARRA - State Administrative Matching Grants for Supplemental Nutrition Assistance Program	10.561	227,091
SNAP Cluster Total			7,742,053
Community Development Block Grant (CDBG) - Entitlement Grants Cluster	Community Development Block Grant/Entitlement Grants	14.218	8,125,161
	Community Development Block Grant ARRA Entitlement Grants (CDBG-R) (Recovery Act Funded)	14.253	329,373
CDBG - Entitlement Grants Cluster Total			8,454,534
Housing Voucher Cluster	Section 8 Housing Choice Vouchers	14.871	46,753,212
Housing Voucher Cluster Total			46,753,212
Public Housing Capital Fund (CFP) Cluster	Public Housing Capital Fund	14.872	2,106,807
CFP Cluster Total			2,106,807
Fish and Wildlife Cluster	Wildlife Restoration and Basic Hunter Education	15.611	39,613
Fish and Wildlife Cluster Total			39,613
Justice Assistance Grant (JAG) Program Cluster	Edward Byrne Memorial JAG Program	16.738	21,237
	Recovery Act - Edward Byrne Memorial JAG Program / Grants to Units of Local Government	16.804	284,267
JAG Program Cluster Total			305,504
Worforce Investment Act (WIA) Cluster	WIA Adult Program	17.258	621,256
	ARRA - WIA Adult Program	17.258	227,034
	WIA Youth Activities	17.259	425,541
	ARRA - WIA Youth Activities	17.259	159,772
	WIA Dislocated Workers	17.260	754,170
	ARRA - WIA Dislocated Workers	17.260	298,342
	WIA National Emergency Grants	17.277	40,993
	WIA Dislocated Worker Formula Grants	17.278	1,005,037
WIA Cluster Total			3,532,145
Highway Planning and Construction Cluster	Highway Planning and Construction	20.205	1,139,609
Highway Planning and Construction Cluster Total			1,139,609
Federal Transit Cluster	Federal Transit - Capital Investment Grants	20.500	992,958
Federal Transit Cluster Total			992,958
Transit Services Programs Cluster	Job Access - Reverse Commute Program	20.516	274,318
Transit Services Programs Cluster Total			274,318

COUNTY OF FAIRFAX, VIRGINIA

Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2011

Name of Cluster	Program Title	Federal Catalogue Number		Total by Program
Highway Safety Cluster	State and Community Highway Safety	20.600	$	95,897
Highway Safety Cluster Total				95,897
Title I, Part A Cluster	Title I Grants to Local Educational Agencies	84.010		16,185,971
	Title I Grants to Local Educational Agencies, Recovery Act	84.389		8,571,809
Title I, Part A Cluster Total				24,757,780
Special Education Cluster (IDEA)	Special Education_Grants to States	84.027		24,352,370
	Special Education_Preschool Grants	84.173		783,132
	Special Education Grants to States, Recovery Act	84.391		19,313,158
	Special Education - Preschool Grants, Recovery Act	84.392		615,950
Special Education Cluster (IDEA) Total				45,064,610
Impact Aid Cluster	Impact Aid	84.041		4,468,447
Impact Aid Cluster Total				4,468,447
Early Intervention Servcies (IDEA) Cluster	Special Education - Grants for Infants and Families	84.181		1,354,340
	Special Education - Grants for Infants and Families, Recovery Act	84.393		537,140
Early Intervention Servcies (IDEA) Cluster Total				1,891,480
Education of Homeless Children and Youth Cluster	Education of Homeless Children and Youth	84.196		44,973
	Education of Homeless Children and Youth, Recovery Act	84.387		96,820
Education of Homeless Children and Youth Cluster Total				141,793
Educational Technology State Grants Cluster	Education Technology State Grants	84.318		136,226
	Education Technology State Grants, Recovery Act	84.386		47,447
Educational Technology State Grants Cluster Total				183,673
State Fiscal Stabilization Fund Cluster	State Fiscal Stabilization Fund (SFSF) - Education State Grants,	84.394		21,736,548
State Fiscal Stabilization Fund Cluster Total				21,736,548
Independent Living State Grants Cluster	ARRA - Independent Living State Grants	84.398		8,200
Independent Living State Grants Cluster Total				8,200
Aging Cluster	Special Programs for the Aging_Title III, Part B_Grants for Supportive Services and Senior Centers	93.044		663,528
	Special Programs for the Aging_Title III, Part C_Nutrition Services	93.045		883,715
	Nutrition Services Incentive Program	93.053		211,409
	ARRA - Aging Home-Delivered Nutrition Services for States	93.705		15,713
	ARRA - Aging Congregate Nutrition Services for States	93.707		61,399
Aging Cluster Total				1,835,764
Temporary Assistance for Needy Families (TANF) Cluster	Temporary Assistance for Needy Families (TANF) State Programs	93.558		4,214,884
	ARRA – Emergency Contingency Fund for Temporary Assistance for Needy Families (TANF) State Programs	93.714		3,398,686
TANF Cluster Total				7,613,570

COUNTY OF FAIRFAX, VIRGINIA

Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2011

Name of Cluster	Program Title	Federal Catalogue Number	Total by Program
Community Services Block Grant (CSBG) Cluster	Community Services Block Grant	93.569	$ 542,761
	ARRA - Community Services Block Grant	93.710	262,702
CSBG Cluster Total			805,463
Child Care and Development Fund (CCDF) Cluster	Child Care and Development Block Grant	93.575	7,770,160
	ARRA - Child Care and Development Block Grant	93.575	63,286
	Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	7,868,602
	ARRA - Child Care and Development Block Grant	93.713	1,029,267
CCDF Cluster Total			16,731,315
Head Start Cluster	Head Start	93.600	7,399,475
	ARRA - Head Start	93.708	88,013
	ARRA - Early Head Start	93.709	624,747
Head Start Cluster Total			8,112,235
Medicaid Cluster	Medical Assistance Program	93.778	5,827,682
Medicaid Cluster Total			5,827,682
Homeland Security Cluster	Homeland Security Grant Program	97.067	11,943,860
Homeland Security Cluster Total			11,943,860
Grand Total			$ $249,257,095

(5) Subrecipients

Of the federal expenditures presented in the Schedule, the County provided federal awards to subrecipients as follows:

Program Title	Federal Catalogue Number		Amount Provided to Subrecipents
Community Development Block Grant/Entitlement Grants	14.218	$	2,299,796
Shelter Plus Care	14.238		1,248,590
Community Services Block Grant	93.569		542,761
Head Start	93.600		1,627,441
ARRA - Head Start	93.708		67,135
Homeland Security Grant Program	97.067		10,000
Total		$	5,795,723

COUNTY OF FAIRFAX, VIRGINIA

Schedule of Findings and Questioned Costs

Year ended June 30, 2011

(1) Summary of Auditors' Results

A. Type of report issued on the financial statements: **Unqualified**

B. Internal control over financial reporting:

Significant deficiencies identified that are not considered a material weakness? **None reported**

Material weakness identified? **None**

C. Noncompliance material to financial statements noted? **None reported**

D. Significant deficiencies in internal control over major programs noted? **Yes, findings 2011-01, 2011-03, 2011-05, and 2011-06**

E. Material weaknesses in internal control over major programs noted? **Yes, findings 2011-02, and 2011-04**

F. Type of report issued on compliance for major programs:

Qualified opinion for Special Tests & Provisions – 'R3-Subrecipient Monitoring' (Temporary Assistance for Needy Families (TANF) Cluster (CFDA No. 93.558 / 93.714)).

Qualified opinion for Eligibility (Medical Assistance Program (CFDA #93.778)).

Unqualified opinions over other applicable compliance requirements for all other major programs.

G. Any findings which are required to be reported under Section .510(a) of OMB Circular A-133? **Yes**

H. Major programs are as follows:

(1) Child Nutrition Cluster (CFDA #10.553/10.555/10.559)
(2) Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) (CFDA #10.557)
(3) Child & Adult Care Food Program (CFDA #10.558)
(4) Watershed Rehabilitation Program (CFDA #10.916)
(5) Homelessness Prevention and Rapid Re-Housing (CFDA #14.257)
(6) Justice Assistance Grant (JAG) Program Cluster (CFDA #16.738/16.804)
(7) National Clean Diesel Funding Assistance Program (CFDA #66.039)
(8) Capitalization Grants for Clean Water (CFDA #66.458)
(9) Energy Efficiency and Conservation Block Grant (CFDA #81.128)
(10) Title I, Part A Cluster (CFDA #84.010/84.389)
(11) Special Education Cluster (IDEA) (CFDA #84.027/84.173/84.391/84.392)
(12) Early Intervention Services (IDEA) Cluster (CFDA #84.181/84.393)
(13) State Fiscal Stabilization Fund Cluster (CFDA #84.394)
(14) Temporary Assistance for Needy Families (TANF) Cluster (CFDA #93.558/93.714)
(15) Community Services Block Grant (CSBG) Cluster (CFDA #93.569/93.710)
(16) Child Care and Development Fund (CCDF) Cluster (CFDA #93.575/93.596/93.713)
(17) Head Start Cluster (CFDA #93.600/93.708/93.709)
(18) Medicaid Cluster (CFDA #93.778)
(19) Substance Abuse Block Grant (CFDA #93.959)
(20) Homeland Security Cluster (CFDA #97.067)

I. Dollar threshold used to distinguish between Type A and Type B programs: **$3,000,000**

J. Auditee qualified as a low-risk auditee? **No**

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

None

(3) Findings and Questioned Costs for Federal Awards

Finding 2011-01 – Cash Management

Federal Program
Energy Efficiency and Conservation Grants Program (CFDA No. 81.128, Grant Year 2011)

Federal Agency
U.S. Department of Energy

Pass-through Entity
None

Condition:
During our testwork over the program's cash management process, KPMG determined that the Energy Efficiency and Conservation Block Grant (EECBG) program did not have adequate controls in place for submitting reimbursement requests. Specifically, we noted that two sample items totaling $138,000 of the eight sample items selected totaling $854,087, where the County requested reimbursement prior to the expenditure occurring.

Criteria:
The A-102 Common Rule and OMB Circular A-110 (2 CFR part 215) require that non-Federal entities receiving Federal awards (i.e., auditee management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.

The A-102 Common Rule and OMB Circular A-110 (2 CFR part 215.22) require that when entities are funded on a reimbursement basis, program costs must be paid for by the entity funds before reimbursement is requested from the Federal Government.

Cause:
The EECBG program determines drawdown amounts from the County's general ledger reports based on when the expenditure was added to the general ledger, not when the County submitted payment to the vendor. This can result in reimbursement requests being made prior to the expenditure being paid. Further, the grantor requires the EECBG program to submit drawdown requests via an Automated Standard Application for Payments (ASAP) program, which allows Fairfax to receive reimbursed federal funds the same day or next business day.

Effect:
The timing of the current controls resulted in two instances of the program seeking reimbursement and receiving payment from the grantor before sending payment to vendors, and therefore, noncompliance with program requirements.

Questioned Costs:
None.

Related Noncompliance:
Noncompliance.

Recommendation:
We recommend that Fairfax County Management strengthen existing policies and procedures and implement internal controls to ensure vendor payments are made in advance of seeking reimbursement.

Management Response:
Both the EECBG program and using the ASAP system for reimbursements were new processes for Fairfax County. Due to ongoing pressure from the grantor to draw down funds as soon as possible, County staff attempted to request reimbursements as costs were incurred against the program each month. The first two instances of advanced reimbursement requests were discovered by County personnel during the quarterly review of ARRA reporting. Upon discovery, the issue was immediately communicated to the individual performing the draw downs, but after an additional instance had occurred. Since that time, no additional instances have occurred. The County immediately implemented controls by adding an additional layer of review by the Department of Finance. All reimbursement requests must be reviewed by the Department of Finance to ensure the physical payment for the expenditure has been made before requesting reimbursement. Once this verification has taken place, the County then performs a drawdown of the funds.

Finding 2011-02 – Special Tests and Provisions

Program:
Temporary Assistance for Needy Families Cluster (CFDA No. 93.558 / 93.714, (RFP-BEN-08-007-11) (BEN 10-078))

Federal Agency
U.S. Department of Health and Human Services

Pass-through Entity
Virginia Department of Social Services

Condition:
During fiscal year 2011 testing over the ‘R3 – Subrecipient Monitoring’ special test and provision of the Temporary Assistance for Needy Families ARRA (TANF ARRA) program, we noted that Fairfax County incorrectly classified 26 participating Community Based Organizations as vendors, not subrecipients. As a result, Fairfax County was not in compliance with the OMB Circular A-133 compliance requirements for properly monitoring subrecipients. KPMG noted that out of the 26 misclassified organizations, only one of the 26 expended more than $500,000 in federal awards.

Criteria:
31 U.S.C. § 7502 : US Code - Section 7502 states that each pass through entity shall 1) provide such subrecipients the program names (and any identifying numbers) from which such assistance is derived, and the Federal requirements which govern the use of such awards; 2) monitor the subrecipient's use of Federal awards through site visits, limited scope audits, or other means; and 3) review the audit of a sub-recipient as necessary to determine whether prompt and appropriate corrective action has been taken with respect to audit findings.

In addition, a pass-through entity is responsible for: (1) ensuring that sub-recipients expending $500,000 or more in Federal awards during the sub-recipient's fiscal year for fiscal years ending after December 31, 2003, as provided in OMB Circular A-133 have met the audit requirements of OMB Circular A-133 and that the required audits are completed within 9 months of the end of the sub-recipient's audit period; (2) issuing a management decision on audit findings within 6 months after receipt of the subrecipient's audit report; and (3) ensuring that the subrecipient takes timely and appropriate corrective action on all audit findings.

Cause:
The Fairfax County Financial Reporting Manager and Policy and Information Manager incorrectly identified Community Based Organizations as vendors.

Effect:
Fairfax County does not have sufficient internal controls in place to ensure that subrecipients are properly identified and monitored, resulting in non-compliance with the subrecipient monitoring / special tests and provisions requirements of OMB Circular A-133.

Questioned Costs:
None.

Related Noncompliance:
Material noncompliance.

Recommendation:
We recommend Fairfax County Management implement the following:

1. Strengthen current policies and procedures to ensure that subrecipient determinations are accurate.
2. Ensure all TANF staff are aware of the OMB Circular A-133 compliance requirements and are properly monitoring subrecipients.
3. Implement procedures to ensure the program is obtaining and reviewing the A-133 audits for all subrecipients who expend more than $500,000 in federal awards.

Management Response:
Condition 1: During FY 2011 testing over the sub-recipients of the Temporary Assistance for Needy Families ARRA (TANF ARRA) program, we noted that Fairfax County incorrectly classified 26 participating Community Based Organizations as vendors, not subrecipients. As a result, Fairfax County was not in compliance with the OMB Circular A-133 compliance requirements for properly monitoring subrecipients. KPMG noted that out of the 26 misclassified organizations, only one of the 26 expended more than $500,000 in federal awards.

Management's Response: We do not concur with KPMG's conclusion that the participating CBOs were subrecipients for use of these funds, based on technical assistance provided by County Dept. of Finance and the "Guide for completing the federal subrecipient and vendor determination Checklist"). Staff conducted a review of the OMB A-133 circular guidance and utilized the checklist for determining subrecipient vs. vendor status. The attached chart indicates the preponderance of the responses deemed the recipients to be "vendors" under the checklist criteria. Of 12 questions, only 3 were related to categorization of the providers as "subrecipients" vs. vendors for purposes of the use of these funds. The relationships were not grants or cooperative agreements, but through a contractual agreement for provision of goods and services to carry out the purpose of the program. The providers did not have to meet performance goals, program eligibility was determined by the County, and the providers assessed individuals against that criterion or were provided the determination by the County in advance of provision of services. The providers did not make programmatic decisions, the eligible services were predetermined by the County based on the approved plan submitted to the Commonwealth of Virginia.

Further, the reviewer asserts "I wouldn't classify the non-profits' activities as ancillary because if you take them out of the picture, the TANF ARRA program loses its vehicle for client-interfacing/benefits delivery; therefore, this should be No." In fact, the County chose to utilize the provider community as a matter of convenience in that it was paying for the infrastructure of case managers in the community based organizations through other sources, and TANF EF funds were merely one additional fund source to be utilized to benefit eligible clients. The County could have chosen to utilize internal departmental staff for all aspects of service provision, or to centralize with a single provider, as an alternative service mechanism.

We do agree that ongoing training arranged by the Department of Finance for program and agency fiscal staff, as well as technical assistance would be helpful in making future determinations of this nature.

Regardless of vendor vs. subrecipient status, the Contracts and Procurement division performed contract monitoring activities consistent with A-133 provisions. Conduct of monitoring activities included site visits, review of fiscal and program reports, joint program meetings, question and answer sessions, service provision "frequently asked questions" and general technical assistance.

DAHS staff have initiated a request to the Fairfax County Dept. of Purchasing and Supply Management to print the CFDA number on all County purchase orders for services provided by vendors for human service activities and programs.

Please note the TANF EF assistance program ended September 30, 2010.

KPMG response:
KPMG has read the County's response and considers our finding to be appropriate as presented.

Finding 2011-03 – Procurement and Suspension and Debarment

Program:
Community Services Block Grant (CSBG) Cluster (CFDA No. 93.569 / 93.710, (CVS-09-066-08) Grant Year 2011)

Federal Agency
U.S. Department of Health and Human Services

Pass-through Entity
Virginia Department of Social Services

Condition:
During our suspension/debarment testwork over the program's procurement of goods and services, we determined that the program did not have adequate controls in place to verify that covered transactions were not suspended or debarred. Further, we noted that three out of three transactions tested, totaling $187,663, did not comply with the compliance requirements as the Department of Purchasing and Supply Management (DPSM) did not check the Excluded Parties List System (EPLS), collect a certification from the vendor, or add a clause or condition to the contract to verify the vendor had not been suspended or debarred by the federal government.

Criteria:
The A-102 Common Rule and OMB Circular A-110 (2 CFR part 215) require that non-Federal entities receiving Federal awards (i.e., auditee management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.

According to 2 CFR part 180.300, when a non-federal entity enters into a covered transaction with an entity at a lower tier, the non-federal entity must verify that the entity is not suspended or debarred or otherwise excluded. This verification may be accomplished by checking the EPLS, collecting a certification from the entity or adding a clause or condition to the covered transaction with that entity.

Cause:
In fiscal year 2011, the Department of Administration for Human Services (DAHS) and the DPSM contracted with ten different subrecipients to provide services to meet the requirements of the CSBG program. Per discussion with management of the program and DPSM, Fairfax County signed vendor

agreements with these contractors prior to determining if said contractors were suspended or debarred.

Effect:
Without internal controls in place to adequately review whether vendors are suspended / debarred from doing business with the federal government (including federal grant programs), the program could be noncompliant with requirements of federal grants.

Questioned Costs:
None.

Related Noncompliance:
Noncompliance.

Recommendation:
We recommend Fairfax County Management implement policies and procedures to ensure vendors are reviewed for suspension and debarment prior to the program procuring services. For those vendors already under contract, a periodic review should be performed for suspension and debarment to ensure ongoing compliance. Lastly, departments should notify DPSM when soliciting new procurements over the same threshold with federal funding so the appropriate language can be added to contracts.

Management Response:
Per Procedural Memorandum Number 12-11, the Department of Purchasing and Supply Management (CPSM) has the responsibility of certifying that the organization and its principals are not suspended or debarred from any federal agency. Contracts and Procurement Management (CPM) provides contracting and purchasing transactions on behalf of all county human services departments. In conjunction with DPSM, CPM has agreed that they will review the List of Parties Excluded from Federal Procurement or Non-procurement Programs following when additional funding is added to the original contract to ensure ongoing compliance. Standard policy is to reference federal and state grants in Requests for Proposals and contract documents. To ensure continued compliance, the grant number will be further referenced on the Requests for Supplies for Services document used when funding is being added to a current contract, or when federal dollars are being used to purchase non-contract items using federal funds.

Internal policy is currently being revised to reflect the above.

Finding 2011-04 – Eligibility

Program:
Medicaid Cluster (CFDA No. 93.778, Grant Year 2011)

Federal Agency
U.S. Department of Health and Human Services

Pass-through Entity
Virginia Department of Social Services

Condition:
During our fiscal year 2011 testing over the eligibility compliance requirement, we noted six out of 20 instances tested where Fairfax County was not in compliance with the eligibility requirements per A-133. Specifically, we noted:

1. One instance where eligibility was not re-determined within the past 12 months;
2. Three instances where the most recent eligibility re-determination was performed more than 12 months since the previous re-determination; and
3. Two instances where the County was unable to furnish case records to support the facts essential to the determination of eligibility.

Criteria:
Per section 42 of the Code of Federal Regulation section 435.916 and the OMB Circular A-133 Compliance Supplement, an agency must re-determine the eligibility of Medicaid recipients at least every 12 months.

In addition, 42 of the Code of Federal Regulation section 435.913 and the Virginia Department of Social Services Medicaid Manual section M0110.400, the agency must include in each applicant's case record facts to support the agency's decision on his application.

Cause:
Due to the surge in Medicaid applicants during the global economic recession, the County fell behind in its Medicaid eligibility re-determination. The County formed a Medicaid renewal project team in November 2010 to catch up on re-determinations, but cases had already become overdue for renewal.

The County stores hard copy Medicaid cases at four separate locations. The County is also in the process of electronically imaging case files to be stored in a newly developed imaging system. Due to the volume of cases and separate storage locations, the County lost track of the aforementioned cases.

Effect:
Without periodic review of the eligibility of active Medicaid recipients and proper tracking of recipient case files, ineligible individuals may receive Medicaid benefits.

Questioned Costs:
Undeterminable

Related Noncompliance:
Material noncompliance.

Recommendation:
KPMG recommends Fairfax County Management:

1. Ensure the Medicaid renewal project team promptly completes its eligibility re-determinations for all overdue cases;
2. Ensure sufficient resources are available to ensure that eligibility re-determinations are performed at least every 12 months; and
3. Strengthen current policies and procedures over tracking and maintenance of recipient case files, especially while files are in transit.

Management Response:
From FY 2005 to FY 2010, the caseload in the Self Sufficiency Division increased 60%. During this same time period, the number of applications (new requests for assistance) increased 54%. This dramatic increase in the workload was managed by existing staff as no additional merit positions were added until April 2011.

Because there was not a sufficient number of staff to manage the workload, in January 2009 the managers of the Self Sufficiency Division prioritized the work to be done. Work prioritization was centered on ensuring access to services and avoiding interruption of ongoing benefits. Therefore applications and renewals for SNAP and money payment cases were acted on timely.

A team of employees, the Medicaid Renewal Team, was formed to work at all four offices to bring Medicaid renewals up to date. In addition, each caseworker who is not a part of the Medicaid Renewal Team has been required to complete one overdue review daily.

With implementation of an imaging system, Documentum / Prodagio, we will no longer have paper case records to maintain. We expect our conversion to electronic case files will be completed in the next twelve months.

Finding No. 2011-05 – Cash Management

Program:
Homeland Security Cluster (CFDA No. 97.067, (7UASI533-02, 7UASI533-03, 7UASI533-04, 7UASI533-05, 8UASI533-01, 8UASI533-02, 8UASI533-03, 8UASI533-04, 9UASI533-01, 9UASI533-02, 9UASI533-03, 10UASI533-01, 10UASI533-02, 10UASI533-03))

Federal Agency
U.S. Department of Homeland Security

Pass-through Entity
District of Columbia Homeland Security and Emergency Management Agency

Condition:
During our testwork over the program's cash management process, KPMG determined that two of the five departments managing Homeland Security grants did not have adequate controls in place for submitting reimbursement requests. Further, we noted that seven sample items totaling $1,802,947 of the 25 sample items selected for testing totaling $3,066,303, did not meet the compliance requirements for submitting reimbursement requests no later than 90 days after the subgrantee had paid for the services/items received.

Criteria:
The A-102 Common Rule and OMB Circular A-110 (2 CFR part 215) require that non-Federal entities receiving Federal awards (i.e., auditee management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.

Per OMB Circular A-102 Common Rule, agency methods and procedures for transferring funds shall minimize the time elapsing between the transfer to recipients of grants and cooperative agreements and the recipient's need for the funds.

Per the terms and conditions of the grant awards, requests for reimbursement during the period of performance should be submitted to the State Administrative Agency (SAA) no later than 90 days after the sub-grantee has paid for the services/items received.

Cause:
The Department of Information Technology and Police Department do not have adequate controls in place for submitting Homeland Security grant reimbursement requests on a minimum quarterly basis, as required by the grant terms and conditions.

Effect:
Inadequate controls over cash management procedures resulted in noncompliance with program requirements.

Questioned Costs:
None.

Related Noncompliance:
Noncompliance.

Recommendation:
We recommend that Fairfax County Management implement internal controls to ensure proper communication is received among the fiscal administrators of each department managing Homeland Security grants so that:

1. The terms and conditions of the grants are effectively communicated and acknowledged for all grant recipients; and
2. Similar controls are implemented and/or strengthened among the departments to ensure proper review, segregation of duties, and timely submission of all reimbursement requests.

Management Response:
Both the Department of Technology and the Police Department have implemented internal controls to ensure timely quarterly submissions for UASI grant reimbursements. These controls include the development of timelines, weekly and quarterly scheduled meetings to review grant status and quarterly review by agency fiscal management.

Finding No. 2011-06 – Procurement and Suspension and Debarment

Program:
Homeland Security Cluster (CFDA No. 97.067, (7UASI533-02, 7UASI533-03, 7UASI533-04, 7UASI533-05, 8UASI533-01, 8UASI533-02, 8UASI533-03, 8UASI533-04, 9UASI533-01, 9UASI533-02, 9UASI533-03, 10UASI533-01, 10UASI533-02, 10UASI533-03))

Federal Agency
U.S. Department of Homeland Security

Pass-through Entity
District of Columbia Homeland Security and Emergency Management Agency

Condition:
During our suspension / debarment testwork over the program's procurement of goods and services, we determined that the program did not have adequate controls in place to verify that covered transactions were not suspended or debarred. Further, we noted that all five transactions tested, totaling $168,576, did not comply with the compliance requirements as the program agencies, as well as the Department of Purchasing and Supply Management, failed to check the Excluded Parties List System (EPLS), collect a certification from the vendor, or add a clause or condition to the contract to verify the vendor had not been suspended or debarred by the federal government.

Criteria:
The A-102 Common Rule and OMB Circular A-110 (2 CFR part 215) require that non-Federal entities receiving Federal awards (i.e., auditee management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.

According to 2 CFR part 180.300, when a non-federal entity enters into a covered transaction with an entity at a lower tier, the non-federal entity must verify that the entity is not suspended or debarred or otherwise excluded. This verification may be accomplished by checking the EPLS, collecting a certification from the entity or adding a clause or condition to the covered transaction with that entity.

Cause:
Five departments manage the HSGP grants. Of those five, three departments were selected in our testwork: Office of Emergency Management (OEM), Department of Information and Technology (DIT), and Fire and Rescue Department (FRD). The FRD was made aware in the prior year audit that procedures should be instituted for the suspension and debarment check, but the new procedures were not put into place until after the beginning of the fiscal year 2011 audit, and therefore, the sample items selected prior to the implementation did not meet the compliance requirements for this audit. Per discussion with management of the program and DPSM, Fairfax County made payments to contractors prior to determining if said contractors were suspended or debarred.

Effect:
Without internal controls in place to adequately review whether vendors are suspended / debarred from doing business with the federal government (including federal grant programs), the program could be noncompliant with requirements of federal grants.

Questioned Costs:
None, as the vendors reviewed were determined not to be suspended or debarred.

Related Noncompliance:
Noncompliance.

Recommendation:
We recommend Fairfax County Management implement policies and procedures to ensure vendors are reviewed for suspension and debarment prior to the program procuring services. For those vendors already under contract, a periodic review should be performed for suspension and debarment to ensure ongoing compliance. In addition, since multiple departments make such procurements for homeland security grants, we recommend the individual department take responsibility for performing a check on the EPLS website, and retain evidence of such a check, when procurements over the $25,000 threshold are made. Lastly, departments should notify DPSM when soliciting new procurements over the same threshold with federal funding so the appropriate language can be added to contracts.

Management Response:
<u>Current Policies in place</u>:
The program agencies have included in their purchasing standard operating procedures to verify grant purchases over $25,000 by checking the vendor on the EPLS list per the County's purchasing regulations.

In conjunction with the implementation of the new financial system (FOCUS), the County has also contracted with Dun & Bradstreet (D&B) to compare the County's master vendor database against the federal debarment record. D&B would report the information on who is eligible and who is not. This information will be provided on a quarterly basis and made available to all County staff via the FOCUS system.