

COUNTY OF SPOTSYLVANIA, VIRGINIA
SINGLE AUDIT REPORT
JUNE 30, 2013

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**INDEPENDENT AUDITOR'S 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 Spotsylvania, Virginia

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the County of Spotsylvania, Virginia, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the County's basic financial statements and have issued our report thereon dated November 5, 2013.

Internal Control over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and questioned costs to be a significant deficiency at finding 2013-001.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the County of Spotsylvania, Virginia's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

The County of Spotsylvania, Virginia's Response to Findings

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

Purpose of this Report

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



Fredericksburg, Virginia
November 5, 2013



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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD
HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND INTERNAL
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

The Board of Supervisors
County of Spotsylvania, Virginia

Report on Compliance for Each Major Federal Program

We have audited the County of Spotsylvania, Virginia's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the County of Spotsylvania, Virginia's major federal programs for the year ended June 30, 2013. The County of Spotsylvania, Virginia's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the County of Spotsylvania, Virginia's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the County of Spotsylvania, Virginia's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the County of Spotsylvania, Virginia's compliance.

Opinion on Each Major Federal Program

In our opinion, the County of Spotsylvania, Virginia, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct material effect on each of its major federal programs for the year ended June 30, 2013.

Report on Internal Control over Compliance

Management of the County of Spotsylvania, Virginia 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 of Spotsylvania, Virginia's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order 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 of Spotsylvania, Virginia's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal controls over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses as defined above. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

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

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the County of Spotsylvania, Virginia as of and for the year ended June 30, 2013, and the related notes, which collectively comprise the County of Spotsylvania, Virginia's basic financial statements. We have issued our report thereon dated November 5, 2013, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of

expenditure of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

Mike Foley Sr.

Fredericksburg, Virginia
November 5, 2013

COUNTY OF SPOTSYLVANIA, VIRGINIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2013

SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses an unqualified opinion on the general purpose financial statements of the County of Spotsylvania, Virginia.
2. One significant deficiency relating to the audit of the financial statements is reported in the *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*. No material weaknesses are reported.
3. No instances of noncompliance material to the financial statements of the County of Spotsylvania, Virginia, which would be required to be reported in accordance with Government Auditing Standards, were disclosed during the audit.
4. No significant deficiencies in internal control over major federal programs were disclosed during the audit.
5. The auditor's report on compliance for the major federal award programs for the County of Spotsylvania, Virginia expresses an unqualified opinion on all major federal programs.
6. Audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 are reported in this schedule.
7. The programs tested as major programs include:

| <u>Name of Federal Program or Cluster</u> | <u>CFDA Number</u> |
|---|--------------------|
| Child Nutrition Cluster | 10.553,10.555 |
| Supplemental Nutrition Assistance Program Cluster | 10.561 |
| Highway Planning and Construction Cluster | 20.205 |
| State Fiscal Stabilization Fund Cluster | 84.394 |

8. The threshold for distinguishing Type A and B programs was \$913,182
9. The County of Spotsylvania, Virginia did not qualify as a low-risk auditee.

COUNTY OF SPOTSYLVANIA, VIRGINIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2013

FINDINGS – FINANCIAL STATEMENT AUDIT

2013-001 Risk assessment and monitoring

Criteria and Condition: With increased expectations and requirements at the local, state and federal levels coupled with the reduction in staff, the County and School Board staff struggle to maintain effective monitoring controls. The complexity of current accounting standards and new regulations and transparency in the governmental arena dictate that internal control systems adapt to those changes. Economic factors have forced fewer personnel to take on additional responsibilities, limiting the time they might otherwise have to perform monitoring. In addition, risks have increased due to external requirements over regulatory compliance, grant requirements and technology issues.

Context: Internal controls over monitoring should be in place to provide assurance that the internal control system continues to operate effectively over time and promotes good control of operations in all departments. Monitoring is a process that evaluates compliance with controls. Effective internal control requires that those charge with governance and management evaluate risks to internal controls over the financial reporting process in light of the ever increasing demands on personnel time that may no longer permit compliance with controls.

Cause: Personnel do not have the time or resources to effectively monitor internal controls. In addition, there are risks that personnel may not have time to comply with existing controls.

Effect: Internal controls may not be followed, increasing the risk that errors, irregularities or compliance issues will go undetected.

Recommendation: Those charged with governance and management need to evaluate and acknowledge risks may exist due to economic factors which have resulted in lower staffing levels and increased work load for existing staff, with no new staffing positions funded. We recommend that the risks related to potential noncompliance with internal controls be analyzed and measures taken to alleviate workloads, redistribute responsibilities and consider resource needs. We have previously recommended an internal audit function as a necessary component in the monitoring function but believe that those resources would be better applied to reducing risks in other areas.

Views of responsible officials and planned corrective action:

County response: The County understands the recommendation to evaluate risks and take measures to alleviate workloads, redistribute responsibilities and consider resource needs. Unfortunately, the need to respond to increased risks naturally arises when funding is at its stretched limits. Management will continue to explore opportunities to provide additional staff in order to reduce workloads, particularly within departments with increased complexity in financial management. One small step was taken with additional part-time assistance in the Grants Division of Finance in FY 14.

School Board response: The fiscal year 2013 School Board adopted budget included an additional finance staff position to address critical financial accounting and reporting requirements as well as new state, federal and local laws and regulations. With the hiring of a new Superintendent, the Virginia Association of School Superintendents (VASS) was contracted to perform an efficiency study for both the Finance and Human Resources Department. The results of their study, which was completed in December 2012 and reported in February 2013, confirmed the need to fill the financial analyst position. Therefore, as part of the School Board's FY 2013 audit corrective action plan, finance management is optimistic that the vacant finance position will be advertised and filled no later than the start of fiscal year 2015.

COUNTY OF SPOTSYLVANIA, VIRGINIA

SCHEDULE OF PRIOR AUDIT FINDINGS

Year Ended June 30, 2013

FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

2012-002 Child Nutrition Cluster – CFDA 10.555

Criteria and Condition: Internal controls should include procedures and processes to insure that only those with appropriate authority have access to software programs and the ability to make changes in those software programs. The school food service department implemented a new software program, through a third party provider of cafeteria services to track sales and applications. The software vendor did not implement the new system consistent with the School Board's practices as it pertained to access privileges including the federal application module and sales transactions.

Recommendation: Appropriate written policies and procedures should be established to ensure proper access by personnel to authorized areas, proper use of passwords and monitoring of changes in the system.

Current status: Procedures have been developed and reviewed with staff regarding meal application processing, software passwords, modifying student transactions and account information. Passwords required in the operation of the point of sale software will be changed at the beginning of the school year for all employees and are not to be shared under any circumstances. The Supervisor of Food Services and/or the Program Assistant II are the only employees authorized to modify student accounts and transactions.

2012-003 Child Nutrition Cluster – CFDA 10.555

Criteria and Condition: Applications for eligibility must be calculated and compared to income eligibility guidelines to determine free or reduced rates for participants.

Recommendation: Appropriate written policies and procedures should be established and executed to ensure proper eligibility determination. These procedures should provide for appropriate review and approval by the food service supervisor.

Current status: Procedures have been developed and reviewed with staff regarding meal application processing, software passwords, modifying student transactions and account information. All meal applications will be processed by the Supervisor of Food Services and/or the Program Assistant II, both of which are School Board employees.

2012-004 Highway Planning and Construction Cluster – CFDA 20.205

Criteria and Condition: The Davis Bacon Act requires the contractor or subcontractor to submit for each week in which any contract work is performed, a copy of the payroll and a statement of compliance (certified payrolls).

Recommendation: The County should strengthen their system for proper monitoring of certified payrolls as regards construction projects covered by the Davis Bacon Act.

Current status: Improved procedures have been initiated in monitoring certified payrolls for compliance with the project(s) covered by the Davis Bacon Act by requiring weekly certified payrolls from the contractor for each week in which contract work is performed on that particular federally funded project.

COUNTY OF SPOTSYLVANIA, VIRGINIA

SCHEDULE OF PRIOR AUDIT FINDINGS

Year Ended June 30, 2013

Current status (continued): Capital Construction staff has established procedures whereby the staff member assigned to field inspections receives the certified payrolls from the contractor and closely reviews the approved hourly wage determination for each job classification listed on the payroll to see if that hourly rate is equal to or greater than the approved hourly rate. The hours worked are then multiplied by hourly rate to see if total wages paid are correct. A second review is conducted by a project engineer who spot checks workers hourly rates and weekly pay for compliance. After the review, the project engineer will sign off on the certified payrolls. With these procedures established, the monitoring of certified payrolls is greatly enhanced and there is less chance of non-compliance issues with the Davis Bacon Act.

COUNTY OF SPOTSYLVANIA, VIRGINIA

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2013

| Federal Granting Agency/Recipient State Agency/Grant Program/Grant Number | Federal Catalogue Number | Agency or Pass- Through Number | Federal Expenditures |
|--|--------------------------------|---|-------------------------|
| <i>U.S. DEPARTMENT OF AGRICULTURE:</i> | | | |
| Pass-Through Payments: | | | |
| State Department of Agriculture: | | | |
| National School Lunch Program | 10.555 | 301 | 579,594 |
| Department of Social Services: | | | |
| ARRA - Recovery Act -State Administrative Matching Grants for the Supplemental Nutrition Assistance Program | 10.561 | 765 | 761,512 |
| Department of Education: | | | |
| School Breakfast Program | 10.553 | 197 | 933,238 |
| National School Lunch Program | 10.555 | 197 | 3,392,632 |
| Total U.S. Department of Agriculture | | | \$ 5,666,976 |
| <i>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES:</i> | | | |
| Direct Payments: | | | |
| Head Start | 93.600 | N/A | \$ 840,131 |
| Pass-Through Payments: | | | |
| Department of Social Services: | | | |
| Promoting Safe and Stable Families | 93.556 | 765 | 30,267 |
| Temporary Assistance for Needy Families | 93.558 | 765 | 848,060 |
| Refugee and Entrant Assistance - State Administered Programs | 93.566 | 765 | 3,004 |
| Low Income Home Energy Assistance | 93.568 | 765 | 20,622 |
| Child Care and Development Block Grant | 93.575 | 765 | (304) |
| Child Care Mandatory and Matching Funds of the Child Care and Development Funds | 93.596 | 765 | 61,356 |
| Chafee Education and Training Vouchers Program | 93.599 | 765 | 3,273 |
| Child Welfare Services - State Grants | 93.645 | 765 | 1,669 |
| Foster Care Title IV-E | 93.658 | 765 | 658,786 |
| Adoption Assistance | 93.659 | 765 | 290,067 |
| Social Services Block Grant | 93.667 | 765 | 465,225 |
| Chafee Foster Care Independence Program | 93.674 | 765 | 20,727 |
| Children's Health Insurance Program | 93.767 | 765 | 18,404 |
| Medical Assistance Program | 93.778 | 765 | 460,340 |
| Total U.S. Department of Health and Human Services | | | \$ 3,721,627 |

COUNTY OF SPOTSYLVANIA, VIRGINIA

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2013

| Federal Granting Agency/Recipient State Agency/Grant Program/Grant Number | Federal Catalogue Number | Agency or Pass- Through Number | Federal Expenditures |
|---|---|---|---------------------------------|
| <i>U.S. DEPARTMENT OF HOMELAND SECURITY:</i> | | | |
| Pass-Through Payments: | | | |
| Emergency Management Performance Grants | 97.042 | 127 | \$ 18,078 |
| State Homeland Security Program | 97.073 | 127 | 16,040 |
| Total U.S. Department of Homeland Security | | | <u>\$ 34,118</u> |
| <i>U.S. DEPARTMENT OF EDUCATION:</i> | | | |
| Direct Payments: | | | |
| Impact Aid | 84.041 | N/A | \$ 209,300 |
| JROTC | 99.900 | N/A | 148,853 |
| Pass-Through Payments: | | | |
| Department of Education: | | | |
| Adult Education -State Grant Program | 84.002 | 197 | 308,808 |
| Title I - Grants to Local Educational Agencies | 84.010 | 197 | 2,634,149 |
| Title I Neglected and Delinquent Children | 84.013 | 197 | 52,291 |
| Title VIB Special Education - State Grant Program | 84.027 | 197 | 4,745,333 |
| Career and Technical Education | 84.048 | 197 | 256,898 |
| Title VIB Special Education - Preschool Grants | 84.173 | 197 | 84,550 |
| Education Technology State Grants | 84.318 | 197 | 2,938 |
| Title III English Language Acquisition Grants | 84.365 | 197 | 55,061 |
| Title II Part A Improving Teacher Quality State Grants | 84.367 | 197 | 398,508 |
| ARRA -Recovery Act -State Fiscal Stabilization Fund - Education State Grants | 84.394 | 197 | 2,876,264 |
| Total U.S. Department of Education | | | <u>\$ 11,772,953</u> |
| <i>U.S. DEPARTMENT OF JUSTICE:</i> | | | |
| Direct Payments: | | | |
| State Criminal Alien Assistance Program | 16.606 | N/A | \$ 18,177 |
| Edward Byrne Memorial Justice Assistance Grant Program | 16.738 | N/A | 74,527 |
| ARRA - Recovery Act - Edward Byrne Memorial Justice Assistance Grant Program (JAG) Program/Grants to Units of Local Government | 16.804 | N/A | 38,548 |
| Pass-Through Payments: | | | |
| Department of Criminal Justice Services: | | | |
| Crime Victim Assistance | 16.575 | 140 | 79,540 |
| Bulletproof Vest Partnership Program | 16.607 | 140 | 4,484 |
| Total U.S. Department of Justice | | | <u>\$ 215,276</u> |

COUNTY OF SPOTSYLVANIA, VIRGINIA

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2013

| Federal Granting Agency/Recipient State Agency/Grant Program/Grant Number | Federal Catalogue Number | Agency or Pass- Through Number | Federal Expenditures |
|--|--------------------------------|---|---------------------------------|
| <i>U.S. DEPARTMENT OF TRANSPORTATION:</i> | | | |
| Direct Payments: | | | |
| ARRA - Recovery Act - Highway Planning and Construction | 20.205 | N/A | \$ 440 |
| Pass-Through Payments: | | | |
| Department of Motor Vehicles: | | | |
| Highway Research and Development Program | 20.200 | 154 | 129,760 |
| ARRA - Recovery Act - Highway Planning and Construction | 20.205 | 154 | 8,862,586 |
| Alcohol Open Container Requirements | 20.607 | 154 | 35,675 |
| Total U.S. Department of Transportation | | | <u>\$ 9,028,461</u> |
| | | | <u><u>\$ 30,439,411</u></u> |

See notes to the schedule of expenditures of federal awards

COUNTY OF SPOTSYLVANIA, VIRGINIA

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2013

A. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the County of Spotsylvania, Virginia and is presented on the accrual basis of accounting. 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 of the amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

B. COMMODITIES

Nonmonetary assistance is reported in the schedule at the fair market value of the commodities received and disbursed. At June 30, 2013, the entity had food commodities totaling \$555,419 in inventory.