

TOWN OF COLONIAL BEACH, VIRGINIA

SINGLE AUDIT REPORT

JUNE 30, 2010

TABLE OF CONTENTS

	Page
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	1 – 2
Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133	3 – 4
Schedule of Findings and Questioned Costs	5 – 7
Summary Schedule of Prior Audit Findings	8
Schedule of Expenditure of Federal Award	9
Notes to Schedule of Expenditures of Federal Awards	10



MEMBERS, AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS

tel 540.654.5500 fax 540.654.5570 www.millerfoley.com

**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**

To the Honorable Members of Town Council
Town of Colonial Beach, Virginia

We have audited the financial statements of the governmental activities, the business-type activity, the aggregate discretely presented component unit, and each major fund of the Town of Colonial Beach, Virginia, as of and for the year ended June 30, 2010, which collectively comprise the Town of Colonial Beach, Virginia's basic financial statements, and have issued our report thereon dated November 22, 2010. The report was qualified because we were unable to examine evidence regarding the capital assets and related depreciation expense for the component unit School Board. Except as discussed in the preceding sentence, we conducted our audit in accordance with auditing standards generally accepted in the United States of America; the *Specifications for the Audit of Counties, Cities, and Towns* issued by the Auditor of Public Accounts of the Commonwealth of Virginia and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Town of Colonial Beach, Virginia's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town of Colonial Beach, Virginia's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Town of Colonial Beach, Virginia's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

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 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. We consider the deficiency described in the accompanying schedule of findings and questioned costs to be a material weakness (Finding 2010-01).

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 deficiencies described in the accompanying schedule of findings and questioned costs to be significant deficiencies (Findings 2010-02 – 2010-03).

Compliance and Other Matters

As a part of obtaining reasonable assurance about whether the Town of Colonial Beach, Virginia's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of law, regulations, contracts, and other 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 Town of Colonial Beach, Virginia's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the Town of Colonial Beach, Virginia's responses and, accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of Town Council, School Board, management, others within the entity, the Auditor of Public Accounts of the Commonwealth of Virginia, and 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.

Mullen Kelly Group

Fredericksburg, Virginia
November 22, 2010



MEMBERS, AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS

tel 540.654.5500 fax 540.654.5570 www.millerfoley.com

**REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

To the Honorable Members of the Town Council
Town of Colonial Beach, Virginia

Compliance

We have audited the compliance of the Town of Colonial Beach, Virginia 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 Town of Colonial Beach's major federal programs for the year ended June 30, 2010. The Town of Colonial Beach, Virginia'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 law, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Town of Colonial Beach, Virginia's management. Our responsibility is to express an opinion on the Town of Colonial Beach, Virginia'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 Town of Colonial Beach, 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. Our audit does not provide a legal determination of the Town of Colonial Beach, Virginia's compliance with those requirements.

In our opinion, the Town of Colonial Beach complied, in all material respects, with the compliance requirements for the year ended June 30, 2010

Internal Control Over Compliance

Management of the Town of Colonial Beach, Virginia is responsible for establishing and maintaining effective internal control over compliance with requirements of law, regulation, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Town of Colonial Beach, 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 our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of the Town of Colonial Beach, Virginia's internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Town of Colonial Beach, 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.

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

The Town of Colonial Beach, Virginia's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the Town of Colonial Beach, Virginia's responses and, accordingly, we express no opinion on the responses.

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 unit, each major fund, and the aggregate remaining fund information of the Town of Colonial Beach, Virginia, as of and for the year ended June 30, 2010, and have issued our report thereon dated November 22, 2010. Our audit was performed for the purpose of forming our opinions on the financial statements that collectively comprise the Town of Colonial Beach, Virginia's basic financial statements. The report was qualified because we were unable to examine evidence regarding the capital assets and related depreciation expenses for the component unit School Board. 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, except for the effect on the supplementary information of the Component Unit capital assets and related depreciation expense, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the Town Council, School Board, management, others within the entity and 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.



Fredericksburg, Virginia
November 22, 2010

TOWN OF COLONIAL BEACH, VIRGINIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2010

SUMMARY OF AUDITORS' RESULTS

1. The auditors' report expresses a qualified opinion on the financial statements of the Town of Colonial Beach, Virginia.
2. Three significant deficiencies disclosed during the audit of the financial statements are reported in the *Report on Internal Control over Financial Reporting and Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards*. One of the deficiencies is reported as a material weakness.
3. No instances of noncompliance material to the financial statements of the Town of Colonial Beach, Virginia, which would be required to be reported in accordance with Government Auditing Standards, were disclosed during the audit.
4. No significant deficiencies relating to the audit of the major federal award programs are reported in the *Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133*.
5. The auditors' report on compliance for the major federal award programs for the Town of Colonial Beach, Virginia expresses an unqualified opinion on all major programs.
6. No 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>
Title I, Part A Cluster	84.010, 84.389
State Fiscal Stabilization Cluster	84.394
8. The threshold for distinguishing Types A and B Programs was \$300,000.
9. The Town of Colonial Beach, Virginia did not qualify as a low-risk auditee.

TOWN OF COLONIAL BEACH, VIRGINIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2010

FINDINGS – FINANCIAL STATEMENT AUDIT

2010-01 School capital assets

Condition: The School Board does not have an accurate detailed list of capital assets. This is a repeat finding.

Criteria: The accrual method of accounting requires that capital assets be recorded along with related depreciation expense.

Effect: The audit opinion was qualified for insufficient audit evidence related to capital assets.

Cause: The School Board does not have an accurate, detailed inventory of capital assets.

Recommendation: The School Board needs to develop an accurate, detailed list of capital assets at historical cost.

Corrective action: Management has begun evaluation of necessary procedures to implement corrective action.

2010-02 School accrued compensated absences

Condition: The School Board does not have amounts earned and used for accrued compensated absences. This is a repeat finding.

Criteria: The accrual method of accounting requires that debt disclosures report increases and decreases in liabilities

Effect: Disclosures did not contain increases and decreases of accrued compensated absences.

Cause: The School Board does not maintain records of values of amounts earned and used during the year for accrued compensated absences.

Recommendation: The School Board needs to develop records for valuation of increases and decreases in amounts earned and used for accrued compensated absences

Corrective action: Management has taken corrective action.

2010-03 School accruals

Condition: The School Board did not provide the Town with accrual entries for revenues and expenses. This is a repeat finding.

Criteria: The modified accrual method of accounting requires that the School Board accrue revenues earned and expenses incurred.

Effect: Audit entries were proposed for school accrual amounts.

TOWN OF COLONIAL BEACH, VIRGINIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2010

Cause: The School Board did not provide the Town with accrual entries for revenues and expenses.

Recommendation: The School Board should provide the Town with all necessary closing entries at year end.

Corrective action: Management has taken corrective action.

TOWN OF COLONIAL BEACH, VIRGINIA

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Year Ended June 30, 2010

FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

2009-13 NCLB – Title I – Part A – Improving Basic Programs – CFDA 84.010

Condition: There are eight paraprofessionals whose salaries are paid partially with Title I funds. They act as aides for grades K-3 and as reading/math aides for grades 4-7. The eight paraprofessionals support approximately 80 students in the Title I program. These paraprofessionals were initially reimbursed at 100% and the allocations were corrected later in the year.

Recommendation: The School Board should only charge the allocable salaries for paraprofessionals after the actual costs have been paid.

Current Status: Corrective action was taken.

2009-14 NCLB – Title I – Part A – Improving Basic Programs – CFDA 84.010

Condition: The employee benefits requested for the program were not calculated correctly nor were they pro-rated based on actual time spent by paraprofessionals.

Recommendation: The School Board should only charge the allocable benefits to the grant.

Current Status: Corrective action was taken.

2009-15 Reading First State Grants – CFDA No. 84.357

Condition: There was inadequate documentation available to support employee benefits on the reimbursement requests.

Recommendation: The School Board should implement a system for proper preparation, reconciliation and review of all reimbursement reports.

Current Status: Corrective action was taken.

TOWN OF COLONIAL BEACH, VIRGINIA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS -
STATE FISCAL STABILIZATION FUND
Year Ended June 30, 2010

Federal Granting Agency/Recipient State Agency/Grant program/Grant Number	Federal Catalogue Number	Agency or Pass-Through Number	Federal Expenditure
U.S. Department of Agriculture:			
Commodities	10.555		\$ 12,367
Pass-Through Payments:			
Department of Education:			
School Breakfast Program	10.553	197	31,878
National School Lunch Program	10.555	197	109,042
			<u>\$ 153,287</u>
U.S. Department of Transportation			
Pass-Through Payments:			
Department of Motor Vehicles:			
State and Community Highway Safety	20.607	530	<u>\$ 3,103</u>
U.S. Department of Education			
Pass-Through Payments:			
Department of Education:			
Title I Grants to Local Educational Agencies	84.010	197	\$ 462,140
Migrant Education State Grant Program	84.011	197	2,126
Special Education Grants to States	84.027	197	111,294
Career and Technical Education - Basic Grants to States	84.048	197	32,278
Safe and Drug Free Schools and Communities State Grants	84.186	197	6,394
21st Century Community Learning Centers	84.287	197	155,691
Innovative Programs State Grants	84.298	197	1,516
Education Technology State Grants	84.318	197	4,394
Reading First State Grants	84.357	197	31,104
Rural Education	84.358	197	2,706
Improving Teacher Quality Grant	84.367	197	43,683
ARRA - Education Technology State Grants, Recovery Act	84.386	197	3,133
1003 G School Improvement Grant	84.388	197	54,764
ARRA - Title I Grants to Local Educational Agencies, Recovery Act	84.389	197	80,979
ARRA - State Fiscal Stabilization Fund - Education State Grants, Recovery Act	84.394	197	208,392
			<u>\$ 1,200,594</u>
			<u><u>\$ 1,356,984</u></u>

TOWN OF COLONIAL BEACH, VIRGINIA

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2010

A. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Town of Colonial Beach, 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.