

CITY OF FALLS CHURCH, VIRGINIA

**AUDIT OF FEDERAL AWARDS PERFORMED IN
ACCORDANCE WITH U.S. OFFICE OF MANAGEMENT
AND BUDGET CIRCULAR A-133**

Year Ended June 30, 2011

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**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 Members of City Council
City of Falls Church, 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 City of Falls Church, Virginia (the "City"), as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements, and have issued our report thereon dated November 30, 2011. We conducted our audit 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 *Specifications for Audits of Counties, Cities, and Towns* and *Specifications for Audits of Authorities, Boards, and Commissions* issued by the Auditor of Public Accounts of the Commonwealth of Virginia.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the City'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 City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

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

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. **We consider the deficiency described in the accompanying schedule of findings and questioned costs as Item 10-1 to be a material weakness.**

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City'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 three instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as Items 11-1, 11-2 and 11-3.**

We noted certain other matters that we reported to management of the City in a separate letter dated November 30, 2011.

The City'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 City's responses, and accordingly, we express no opinion on them.

This report is intended solely for the information and use of City Council, management, others within the entity, the Auditor of Public Accounts of the Commonwealth of Virginia, federal awarding agencies, and pass-through entities. It is not intended to be, and should not be, used by anyone other than these specified parties.

Brown, Edwards & Company, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

Harrisonburg, Virginia
November 30, 2011

**INDEPENDENT AUDITOR'S 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**

To the Members of City Council
City of Falls Church, Virginia

Compliance

We have audited the City of Falls Church, Virginia's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011. The City'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 City's management. Our responsibility is to express an opinion on the City'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 City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

Internal Control over Compliance

Management of the City 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 City'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 City'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 the 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.**

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 City, as of and for the year ended June 30, 2011, and have issued our report thereon dated November 30, 2011 which contained unqualified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's financial statements as a whole. The schedule of expenditures of federal awards is presented for the purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the 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 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 financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

This report is intended solely for the information and use of City Council, management, others within the entity, the Auditor of Public Accounts of the Commonwealth of Virginia, federal awarding agencies, and pass-through entities. It is not intended to be, and should not be, used by anyone other than these specified parties.

Brown, Edwards & Company, L.L.P.
CERTIFIED PUBLIC ACCOUNTANTS

Harrisonburg, Virginia
November 30, 2011

CITY OF FALLS CHURCH, VIRGINIA
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2011

Federal Granting Agency/Recipient State Agency/Grant Program	Federal CFDA Number	Federal Expenditures
U.S. Department of Agriculture		
Pass-through payments:		
Commonwealth of Virginia Department of Agriculture and Consumer Services		
National School Lunch Program	10.555	\$ 123,169
School Breakfast Program	10.553	7,409
Total U.S. Department of Agriculture		<u>130,578</u>
U.S. Department of Homeland Security		
Direct payments:		
United States Secret Service		
Secret Service Training Activities	97.000	1,782
High Intensity Drug Trafficking Area	97.000	11,216
Total U.S. Department of Homeland Security		<u>12,998</u>
U.S. Department of Housing and Urban Development		
Pass-through payments:		
County of Arlington, Virginia:		
Community Development Block Grants/Entitlement Grants	14.218	36,505
Home Investments Partnership Program	14.239	51,574
Recovery Act - Community Development Block Grants/Entitlement Grants	14.218	22,408
Total U.S. Department of Housing and Urban Development		<u>110,487</u>
U.S. Department of Justice		
Direct payments:		
Recovery Act	16.000	3,324
Public Safety Partnership and Community Policing Grants	16.710	2,791
Pass-through payments:		
County of Loudoun		
Congressionally Recommended Awards	16.753	24,966
Pass-through payments:		
Commonwealth of Virginia Department of Criminal Justice Services		
Edward Byrne Memorial Justice Assistance Grant (JAG) Program/ Grants to States and Territories	16.803	3,230
Total U.S. Department of Justice		<u>34,311</u>
U.S. Department of Transportation		
Pass-through payments:		
Commonwealth Virginia Department of Transportation		
Highway Planning and Construction	20.205	293,897
Recovery Act - Highway Planning and Construction	20.205	263,048
State and Community Highway Safety	20.600	10,120
Total U.S. Department of Transportation		<u>567,065</u>

(Continued)

See accompanying notes to the schedule.

CITY OF FALLS CHURCH, VIRGINIA
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2011

Federal Granting Agency/Recipient State Agency/Grant Program	Federal CFDA Number	Federal Expenditures
U.S. Department of Education		
Pass-through payments:		
Commonwealth of Virginia Department of Education:		
Title I - Grants to Local Educational Agencies	84.010	\$ 37,985
Special Education - Grants to States	84.027	409,897
Special Education - Preschool Grants	84.173	10,383
Safe and Drug-free Schools and Communities - State Grants	84.186	1,343
English Language Acquisition Grants	84.365	29,946
Improving Teacher Quality State Grants	84.367	32,929
Recovery Act - State Fiscal Stabilization Fund (SFSF) - Education, State Grants	84.394	136,233
Recovery Act - Special Education Grants to States	84.391	148,179
Vocational Education - Basic Grants to States	84.048	12,007
Total U.S. Department of Education		<u>818,902</u>
Total Expenditures of Federal Awards		<u>\$ 1,674,341</u>

CITY OF FALLS CHURCH, VIRGINIA

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2011**

Note 1: Basis of Presentation

The accompanying schedule of expenditures of federal awards is presented on the modified accrual basis of accounting as contemplated by generally accepted accounting principles.

The information presented in this Schedule is presented in accordance with 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 City's CAFR.

Note 2: Subrecipients

The accompanying Schedule of Expenditures of Federal Awards includes grants to subrecipients during the current year as follows:

Subrecipient Name	Federal CFDA Number	Federal Funds Awarded
Community Development Block Grants/State's Program	14.218	
Falls Church Community Services		\$ 4,597
Arlington Home Ownership Made Easier		1,640
RJP Housing		1,803
Rebuilding Together Arlington		269
Total Subrecipient Awards		<u>\$ 8,309</u>

Note 3: Non-Cash Assistance

The City of Falls Church participated in the National School Lunch Program, CFDA Number 10.555, which provides non-cash benefits. The accompanying Schedule of Expenditure of Federal Awards includes commodity distributions of \$34,267 from the National School Lunch Program.

CITY OF FALLS CHURCH, VIRGINIA
SUMMARY OF COMPLIANCE MATTERS
June 30, 2011

As more fully described 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*, we performed tests of the City's compliance with certain provisions of the laws, regulations, contracts, and grants shown below.

STATE COMPLIANCE MATTERS

Code of Virginia

Budget and Appropriation Laws

Cash and Investment Laws

Conflicts of Interest Act

Local Retirement Systems

Debt Provisions

Procurement Laws

Uniform Disposition of Unclaimed Property Act

Sheriff Internal Controls

State Agency Requirements

Education

Urban Highway Maintenance

FEDERAL COMPLIANCE MATTERS

Compliance Supplement for Single Audits of State and Local Governments

Provisions and conditions of agreements related to federal programs selected for testing.

LOCAL COMPLIANCE MATTERS

City Charter

City Code

Other City Regulations

CITY OF FALLS CHURCH, VIRGINIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2011

A. SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses an **unqualified opinion** on the financial statements.
2. **One significant deficiency** relating to the audit of the financial statements was 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*. **Item 10-1 was determined to be a material weakness.**
3. **No instances of noncompliance** material to the financial statements were disclosed.
4. **No significant deficiencies** relating to the audit of the major federal award programs were reported in the Independent Auditor's 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*.
5. The auditor's report on compliance for the major federal award programs expresses an **unqualified opinion**.
6. The audit disclosed **no audit findings relating to major programs**.
7. The major programs of the City are:

<u>Name of Program</u>	<u>CFDA #</u>
Title IV-B – Special Education – Grants to States	84.027
Title IV-B – Special Education – Preschool Grants	84.173
ARRA – Special Education – Grants to States	84.391
Highway Planning and Construction Grant	20.205

8. The **threshold for** distinguishing Type A and B programs was **\$300,000**.
9. The City was **not** determined to be a **low-risk auditee**.

B. FINDINGS – FINANCIAL STATEMENT AUDIT

10-1: Adjustments – (Material Weakness)

Condition:

During substantive work it was noted that there were material adjustments that were necessary to the financial statements to be in compliance with generally accepted accounting principles indicating that review and conclusions reached over certain transactions is not adequate.

Recommendation:

We recommended that management implement a system of internal controls to strengthen review and approval over transactions to ensure they are properly accounted for. Additionally, we recommend that the City consider investing in certain research materials to assistance with compliance with generally accepted accounting principles.

Management's Response:

The City will continue to strengthen its preparation and review of transactions and year-end adjustments.

CITY OF FALLS CHURCH, VIRGINIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2011

C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

None.

D. FINDINGS AND QUESTIONED COSTS – COMMONWEALTH OF VIRGINIA AND LOCAL REGULATIONS

11-1: Highway Maintenance – Work Orders

Condition:

In our sample of twenty work orders charged to highway maintenance, we noted twelve for which a specific street was not identified. It could not be determined if the street was an eligible street per the Department of Transportation's annual listing. The City could incorrectly use state funds to perform maintenance on a street that is deemed ineligible by the Department of Transportation.

Recommendation:

We recommend that all work orders track the street that work is performed on.

Management Response:

The City will review current procedures for recording time worked on eligible streets and make necessary adjustments.

11-2: Pension and OPEB Investment Allocations

Condition:

The City's pension and OPEB investment allocation exceeded predetermined limits set by City Council with regard to investments in international equities and a rebalancing of investments has not occurred. This was a finding in the prior year as well.

Recommendation:

The City should implement procedures to reallocate the investment portfolio to be in compliance with the limits set by City Council and monitor future compliance.

Management's Response:

The City will implement procedures to monitor investment allocations throughout the year and alert appropriate officials when the balances fall outside of the boundaries set by the City's investment policies.

CITY OF FALLS CHURCH, VIRGINIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2011

D. FINDINGS AND QUESTIONED COSTS – COMMONWEALTH OF VIRGINIA LOCAL REGULATIONS (Continued)

11-3: Budget Overages

Condition:

It was noted that the City exceeded its final budget in certain departments which is deemed a violation of *Virginia State Code*.

Recommendation:

The City should implement a policy to prevent expenditures in excess of budgeted amounts.

Management's Response:

The City has implemented procedures to monitor budget execution and will implement a budget close-out procedure.

CITY OF FALLS CHURCH, VIRGINIA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Year Ended June 30, 2011

A. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

10-2: Special Education – CFDA 84.027, 84.173, and 84.391; State Fiscal Stabilization Fund – CFDA 84.394

Condition:

Reimbursement requests for the month of June 2010 included salaries and fringes that were accrued for ten month employees but not paid until July and August 2010.

Recommendation:

Reimbursement requests should only be submitted for qualifying expenses that have been paid.

Current Status:

We did not detect a similar finding in the current year.

10-3: Submission of Single Audit Reporting Package

Condition:

The June 30, 2008 Single Audit reporting package was not submitted to the Single Audit Clearinghouse due to the oversight of the prior auditors.

Recommendation:

The City should ensure that all previous and future reporting packages are properly submitted.

Current Status:

Single Audit packages have been filed for 2009 and 2010.

10-4: Special Education – CFDA 84.027, 84.173, and 84.391; State Fiscal Stabilization Fund – CFDA 84.394

Condition:

The second and third quarter Section 1512 reports were not submitted to the prime recipient until the filing of the fourth quarter data.

Recommendation:

The City should ensure that all Section 1512 reporting data is submitted to the prime recipient no later than the 10th day following the end of the quarter.

Current Status:

We did not detect a similar finding in the current year.

CITY OF FALLS CHURCH, VIRGINIA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Year Ended June 30, 2011

A. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT
(Continued)

10-5: Special Education – CFDA 84.027, 84.173, and 84.391

Condition:

During the current year, a proper level of effort was not maintained whereby nonfederal funding was reduced to a level below that of the preceding year.

Recommendation:

Steps should be taken to ensure a proper level of effort is maintained.

Current Status:

We did not detect a similar finding in the current year.