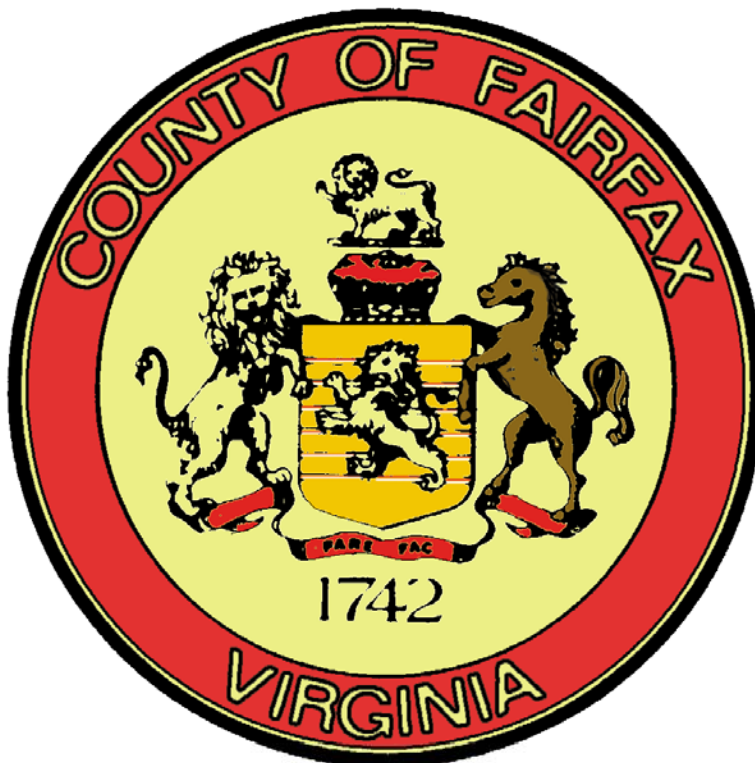

Fairfax County Board of Supervisors Reports



Year ended June 30, 2012



KPMG LLP
Suite 12000
1801 K Street, NW
Washington, DC 20006

November 19, 2012

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, 2012. 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, 2012. 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 Chief Financial Officer, 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, 2012. 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 4, 2012. If you have any questions, please call me at (202) 533-3085 or Chuck Kozlik at (202) 533-3328.

Very truly yours,

Brian Grega
Partner, KPMG LLP

County of Fairfax, Virginia
Board of Supervisors Reports
Year ended June 30, 2012

Table of Contents

Report/Letter	Tab
Required Communications Letter	1
No Material Weaknesses Letter	2
Single Audit Report	3
Comprehensive Annual Financial Report	Attachment



KPMG LLP
Suite 12000
1801 K Street, NW
Washington, DC 20006

November 19, 2012

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) as of and for the year ended June 30, 2012, and have issued our report thereon dated November 19, 2012. Our report was modified to include a reference to the adoption of a new accounting standard effective July 1, 2011. 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 6.83%, 4.44%, and 16.30%, 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 are responsible for forming and expressing an opinion about whether the financial statements, that have been prepared by management with the oversight of the County Board of Supervisors are presented fairly, in all material respects, in conformity 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. We have a responsibility to perform our audit of the financial statements in accordance with professional standards. 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. Our audit does not relieve management or the County Board of Supervisors of their responsibilities.



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. However, during the course of our audit, we identified certain deficiencies in internal control that we consider to be a significant deficiency. Our required communications to you in writing, under professional standards, of the significant deficiency in internal control identified during our audit was provided to you under a separate cover.

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 County 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 fiscal 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 (e.g., 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. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions*, effective July 1, 2011.

Unusual Transactions

We are not aware of any 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 County 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 have discussed with management a financial statement misstatement that has not been corrected in the County's books and records as of and for the year ended June 30, 2012. In addition, we have discussed with management a financial statement misstatement that has been corrected in the County's books and records as of and for the year ended June 30, 2012. We have reported these misstatements to management on a Summary of Audit Differences and have received written representations from management that management believes that the effects of the uncorrected financial statement misstatement are immaterial to the financial statements. A copy of the summary that has been provided to, and discussed with, management is attached subsequent to the Management Representation Letter in Attachment 2 of this letter.



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, except as follows:

There was a disagreement with County management regarding the reporting level severity of the general information technology control deficiencies that were reported as a significant deficiency in internal control over financial reporting in our 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*. We have reviewed the County management's response and believe the classification of a significant deficiency is appropriate.

Management's 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, 2012.

Significant Issues Discussed, or Subject to Correspondence, with Management

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.

Material Written Communications

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 19, 2012, 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 letter to the County Board of Supervisors is intended solely for the information and use of the Board of Supervisors and County management and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

KPMG LLP



KPMG LLP
Suite 12000
1801 K Street, NW
Washington, DC 20006

Telephone +1 202 533 3000
Fax +1 202 533 8500
Internet www.us.kpmg.com

February 23, 2012

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



County of Fairfax, Virginia
February 23, 2012
Page 2 of 3

ACCEPTED:

Fairfax County

Victor L. Garcia
Authorized Signature

Director of Finance
Title

March 20, 2012
Date

ACCEPTED:

Fairfax County

Cathy A. Muse
Authorized Signature

Purchasing Agent
Title

Mar 26, 2012
Date



County of Fairfax, Virginia
 February 23, 2012
 Page 3 of 3

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
<u>County</u>	
<i>Independent Auditors' Reports</i>	
Oversight Entity	\$304,547
Public Schools	210,000
Integrated Sewer System	35,000
Park Authority	35,000
Economic Development Authority	28,000
ERFC	47,000
County Retirement Systems	57,000
OMB A-133 Single Audit	190,000
<i>Agreed Upon Procedures Reports</i>	
Route 28 activity (as required 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)	<u>7,000</u>
Sub-total	<u>\$927,547</u>
<u>Other</u>	
<i>Independent Auditors' Report</i>	
State Route 28 Highway Transportation Improvement District	<u>14,842</u>
Total	<u>\$942,389</u>

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*



System Review Report

To the Partners of KPMG LLP
and the National Peer Review Committee of the AICPA Peer Review Board

We have reviewed the system of quality control for the accounting and auditing practice of KPMG LLP (the Firm), applicable to non-SEC issuers, in effect for the year ended March 31, 2011. Our peer review was conducted in accordance with the Standards for Performing and Reporting on Peer Reviews established by the Peer Review Board of the American Institute of Certified Public Accountants. The Firm is responsible for designing a system of quality control and complying with it to provide the Firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Our responsibility is to express an opinion on the design of the system of quality control and the Firm's compliance therewith based on our review. The nature, objectives, scope, limitations of, and the procedures performed in a System Review are described in the standards at www.aicpa.org/prsummary.

As required by the standards, engagements selected for review included engagements performed under *Government Auditing Standards*, audits of employee benefit plans, an audit performed under FDICIA, and an audit of a carrying broker-dealer.

In our opinion, the system of quality control for the accounting and auditing practice of KPMG LLP, applicable to non-SEC issuers, in effect for the year ended March 31, 2011, has been suitably designed and complied with to provide the Firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Firms can receive a rating of *pass*, *pass with deficiency(ies)* or *fail*. KPMG LLP has received a peer review rating of *pass*.

A handwritten signature in cursive script that reads 'PricewaterhouseCoopers LLP'.

December 2, 2011



County of Fairfax, Virginia

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

November 19, 2012

KPMG LLP
1801 K Street, NW – Suite 12000
Washington, DC 20006

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, 2012, 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 are also providing this letter to confirm our understanding 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, 2012.

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:
- a. Circumstances that have resulted in communications from the County's external legal counsel to the County reporting evidence of a material violation of securities law or breach of fiduciary duty, or similar violation by the County or any agent thereof.
 - b. Communications from regulatory agencies, governmental representatives, employees, or other concerning investigations or allegations of noncompliance with laws and regulations in any jurisdiction, deficiencies in financial reporting practices, or other matters that could have a material adverse effect on the financial statements.
 - c. False statements affecting the County's financial statements made to the County's internal auditors, or other auditors who have audited entities under our control upon whose work you may be relying in connection with your audit.
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 financial statements.
5. We believe that the effects of the uncorrected financial statement misstatements summarized in the accompanying schedule(s) are immaterial, both individually and in the aggregate, to the financial statements for each respective opinion unit.

Department of Finance

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

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 County 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. The term “related party” refers to affiliates of the County; entities for which investments in their equity securities would be required to be 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. 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 financial statements or notes to the financial statements.
 13. The County has complied with applicable laws, regulations, contracts and grants that could have a material effect on the financial statements in the event of noncompliance.
 14. Management is responsible for compliance with the laws, regulations, and provisions of contracts and grants 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.
 15. The County has identified and properly accounted for all non-exchange transactions.
 16. There are no 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*.
 17. 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.
 18. 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*.
 19. 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.

Department of Finance

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

20. 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.
21. Interfund, internal and intra-entity activity and balances have been appropriately classified and reported.
22. Amounts advanced to related entities represent valid receivables and are expected to be recovered at some future date in accordance with the terms of related agreements.
23. 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.
24. Deposits and investment securities are properly classified and reported.
25. 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.
26. The County has identified and properly reported all of its derivative instruments and any related deferred outflows of resources or deferred inflows 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. Further, the County has disclosed all material information about its derivative and hedging arrangement in accordance with GASB Statement No. 53.
27. 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 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.
28. We believe that all material expenditures or expenses that have been deferred to future periods will be recoverable.

Department of Finance

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

29. Capital assets, including infrastructure assets, are properly capitalized, reported and, if applicable, depreciated.
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. 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.
32. The County has complied with all tax and debt limits and with all debt related covenants.
33. 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.
34. 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.
35. 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.
36. Components of net assets (invested in capital assets, net of related debt; restricted; and unrestricted) and fund balance components (nonspendable; restricted; committed; assigned; and unassigned) are properly classified and, if applicable, approved.
37. 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.

Department of Finance

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

38. 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.
39. Special and extraordinary items are appropriately classified and reported.
40. 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.
41. 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. 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.
42. 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.
43. We acknowledge our responsibility for the presentation of all supplementary information in accordance with the applicable criteria and/or prescribed guidelines and:
- a. Believe the supplementary information, including its form and content, is fairly presented in accordance with the applicable criteria and/or prescribed guidelines.
 - b. The methods of measurement or presentation of the supplementary information have not changed from those used in the prior period.
 - c. The significant assumptions or interpretations underlying the measurement or presentation of the supplementary information are reasonable and appropriate in the circumstances.
44. We acknowledge our responsibility for the presentation of required supplementary information in accordance with the applicable criteria and prescribed guidelines established by the *Governmental Accounting Standards Board* and:
- a. Believe the required supplementary information, including its form and content, is measured and fairly presented in accordance with the applicable criteria and prescribed guidelines.

Department of Finance

12000 Government Center Parkway, Suite 214

Fairfax, Virginia 22035

703-324-3120; TTY 711

www.fairfaxcounty.gov/finance

- b. The methods of measurement or presentation of the required supplementary information have not changed from those used in the prior period.
 - c. The significant assumptions or interpretations underlying the measurement or presentation of the required supplementary information are reasonable and appropriate in the circumstances.
45. The County has complied with all applicable laws and regulations in adopting, approving, and amending budgets.
46. 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.
47. 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.
48. 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*.
49. 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*.
50. Management has reviewed, approved, and taken responsibility for accrual adjustments.
51. Management has a process to track the status of audit findings and recommendations.
52. Management has provided views on reported findings, conclusions, and recommendations, as well as management's planned corrective actions, for the report.
53. We are responsible for establishing and maintaining 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.
54. We are responsible for understanding and complying with the requirements of laws and regulations and the provisions of contracts and grant agreements related to each of its federal programs.
55. We are responsible for taking corrective action on audit findings of the compliance audit.

Department of Finance

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

56. We are responsible 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. We are responsible for the presentation of the schedule of expenditures of federal awards (SEFA) in accordance with OMB Circular A-133 and:
- a. The methods of measurement or presentation of the supplementary information have not changed from those used in the prior period.
 - b. The significant assumptions or interpretations underlying the measurement or presentation of the supplementary information are reasonable and appropriate in the circumstances.

Additionally, we confirm, to the best of our knowledge and belief, the following representations made to you during your A-133 audit:

58. The County is responsible for complying, and has complied, with the requirements of OMB Circular A-133.
59. The County has prepared the SEFA in accordance with the requirements of OMB Circular A-133 and:
- a. Has included all expenditures made during the year ended June 30, 2012, 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.
 - b. Appropriately identified and separated all ARRA awards within the SEFA.
60. 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.
61. The County has disclosed to you any interpretations of any compliance requirements that have varying interpretations.

62. The County 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.
63. 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.
64. 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.
65. 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.
66. 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.
67. 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.
68. The County has disclosed to you any communications from grantors and pass-through entities concerning possible noncompliance with the applicable compliance requirements, including communications received from the end of the period covered by the compliance audit to the date of the auditor's report.
69. We have disclosed to you the findings and related corrective actions taken for previous audits, attestation engagements, and internal or external monitoring that directly relate to the objectives of

Department of Finance

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

the compliance audit, including findings received and corrective actions taken from the end of the period covered by the compliance audit to the date of the auditor's report.

70. 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.
71. Federal financial reports and claims for advances and reimbursements are supported by the accounting records from which the financial statements have been prepared.
72. 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.
73. 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 sub-recipients have taken appropriate and timely corrective action on such findings.
74. The County has considered the results of subrecipient audits and has made any necessary adjustments to its own accounting records.
75. 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.
76. 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.
77. The County has accurately completed Part I of the data collection form.
78. The County has advised you of all contracts or other agreements with service organizations.
79. The County has disclosed to you all communications from its service organizations relating to noncompliance at the service organizations.
80. The County is not aware of any noncompliance occurring subsequent to the period for which compliance is audited.
81. The County has disclosed whether any changes in internal control over compliance or other

Department of Finance

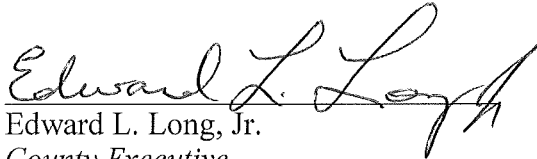
12000 Government Center Parkway, Suite 214
Fairfax, Virginia 22035
703-324-3120; TTY 711
www.fairfaxcounty.gov/finance

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.

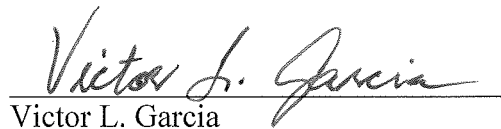
Further, we confirm that we are responsible for the fair presentation in the financial statements of financial position, changes in financial position, and cash flows in conformity with U.S. generally accepted accounting principles. We are also responsible for establishing and maintaining effective internal control over financial reporting.

Sincerely,

County of Fairfax, Virginia


Edward L. Long, Jr.
County Executive


Susan W. Datta
Chief Financial Officer


Victor L. Garcia
Director, Department of Finance

ATTACHMENT 2

Fairfax County Government
Summary of Unadjusted Audit Misstatements
For Year Ended 6/30/2012

Schedule 1

Amounts in (000)
Method Used to Quantify Audit Misstatements

ID	Description of misstatement	Type of misstatement	Identified During	Accounts	Debit	(Credit)
1	Improper recording of transfers of capital assets at fair market value	Known	Final Testwork at FCPA	DR: General revenue - Capital contributions not restricted to specific programs DR: Beginning net assets, invested in capital assets Cr. Land	12,743 6,467	-19210

Balance Sheet Effect - Debit (Credit)					
	Equity	Current Assets	Noncurrent Assets	Current Liabilities	Noncurrent Liabilities
1	12,743	0	0	0	0
	6,467	0	0	0	0
	0	0	-19210	0	0

Income Statement Effect - Debit (Credit)		Cash Flow Effect - Increase (Decrease)			Statement of Comprehensive Income - Debit (Credit)
	Income Effect Debit (Credit)	Operating Activities	Investing Activities	Financing Activities	Comprehensive Income
1	12,743	0	0	0	0
	0	0	0	0	0
	0	0	0	0	0

Fairfax County Government
Summary of Corrected Audit Misstatements

Schedule 2

For Year Ended 6/30/2012
000 Amounts in
Method Used to Quantify Audit Misstatements

ID	Description of misstatement	Type of misstatement	Identified During	Accounts	Debit	(Credit)
----	-----------------------------	----------------------	-------------------	----------	-------	----------

1	Deferred Revenue GASB33 Adjustment error	Known	Deferred Revenue Testing (H) series	Dr. Deferred Revenue/ Cr. (Receivabl: Property Taxes - Not Yet Due	97,696	(97,696)
---	---	-------	--	---	--------	----------

Balance Sheet Effect - Debit (Credit)					
Equity	Current Assets	Noncurrent Assets	Current Liabilities	Noncurrent Liabilities	
1	0	(97,696)	97,696		

Income Statement Effect - Debit (Credit)		Cash Flow Effect - Increase (Decrease)			Statement of Comprehensive Income - Debit (Credit)
Income Effect Debit (Credit)	Operating Activities	Investing Activities	Financing Activities		Comprehensive Income
1	0	0	0	0	0



KPMG LLP
Suite 12000
1801 K Street, NW
Washington, DC 20006

November 19, 2012

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, 2012, and have issued our report thereon dated November 19, 2012. 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 6.83%, 4.44%, and 16.30%, 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.

However, we identified a deficiency in internal control that we consider to be a significant deficiency, and communicated it in writing to the County Board of Supervisors on November 19, 2012. 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.

This communication is intended solely for the information and use of County management, the County Board of Supervisors, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

KPMG LLP



COUNTY OF FAIRFAX, VIRGINIA

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

June 30, 2012

(With Independent Auditors' Reports Thereon)

COUNTY OF FAIRFAX, VIRGINIA

Table of Contents

	Page
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 <i>Government Auditing Standards</i>	1
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	8
Schedule of Expenditures of Federal Awards	10
Notes to Schedule of Expenditures of Federal Awards	16
Schedule of Findings and Questioned Costs	22



KPMG LLP
Suite 12000
1801 K Street, NW
Washington, DC 20006

**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, 2012, which collectively comprise the County's basic financial statements and have issued our report thereon dated November 19, 2012. Our report was modified to include a reference to the adoption of a new accounting standard effective July 1, 2011. 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

Management of the County is responsible for establishing and maintaining effective 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. However, we identified certain deficiencies in internal control over financial reporting that we consider to be a significant deficiency and are described in Appendix A to this report. A significant deficiency is a deficiency, or combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.



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*.

The County's response to the finding identified in our audit is described in the Appendix A. We did not audit the County's response described in Appendix A and, accordingly, we express no opinion on it.

We noted certain matters that we reported to management of the County of Fairfax, Virginia, in a separate letter date November 19, 2012.

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 19, 2012

Appendix A – Significant Deficiency in Internal Control Over Financial Reporting

Finding 2012-FSA01 – Weaknesses in the County’s General Information Technology (GITC) Access Controls Related to FOCUS

Background:

General Information Technology Controls (GITCs) provide the foundation for a well-controlled technology environment that supports the consistent processing and reporting of operational and financial data in accordance with management’s directives.

The County’s GITC environment underwent significant transition during fiscal year 2012, as the County retired legacy financial, procurement, and human resource systems and implemented an all-inclusive SAP system (i.e., FOCUS).

Our audit included an assessment of GITCs in four key control areas: access to programs and data, program changes, program development, and computer operations. During our assessment, we noted that, as a result of the ongoing FOCUS implementation, significant access to programs and data deficiencies existed during fiscal year 2012.

Conditions:

The deficiencies identified are as follows:

1. From November 2011 to May 2012, password configurations for standard FOCUS access did not enforce the following County policy requirements:
 - Password history is stored for a specified number of previous password generations.
 - Passwords must be changed every 90 days.

In addition, User ID was not revoked (locked) after a specified number of invalid login attempts. In May 2012, this deficiency was resolved when the County activated additional login features.

2. Super user access account issues included:
 - Active generic RFC User, SAP_ALL and SAP_NEW “dialogue” and “system” accounts existed in FOCUS from the application’s go-live date (i.e., November 7, 2011) until May 2012. These accounts were set-up by the County’s contractor during the FOCUS system’s design and implementation but some were not removed. Until the County identified and addressed these accounts in May 2012, they were accessible to employees and consultants.

Once these access gaps were identified, the County utilized various reports to monitor unusual activity within FOCUS. In May 2012, the County changed these generic accounts to non-accessible accounts, thus mitigating the risk associated with these generic accounts.

- One generic user ID with Super User capabilities could be accessed by at least ten users including County employees and off-site contractors from November 2011 to the end of fiscal year 2012. The County is not currently monitoring the activities conducted with this User ID.
- A FOCUS generated list was not available to detail when each of the emergency temporary “Firefighter” IDs had been activated between November 2011 and the end of fiscal year 2012.

However, the County has established a process detailing how a firefighter ID is to be requested, activated, monitored, and re-locked and was also able to produce documentation for the approval, monitoring, and closure of certain Firefighter IDs.

3. During our separated employee test work at the County, we identified 101 employees separated during the fiscal year that retained access to FOCUS subsequent to their termination date. This occurred because between November 2011 and April 2012, the County did not have a new process in place to identify and remove terminated users. Additionally, ten separated employees were identified whose FOCUS user accounts had been locked but still retained Active Directory accounts.

The County implemented a mitigating control by removing employee's Active Directory (AD) access upon their termination. Once an employee's AD account is removed, they are unable to access FOCUS with their FOCUS user account and, therefore, cannot make unauthorized changes. Our testwork confirmed that each of the 101 employees with active FOCUS user accounts did not have a current AD user account.

Also during our separated employee test work at Fairfax County Public Schools (FCPS), we identified 30 employees separated during the fiscal year that retained access to FOCUS subsequent to their termination date. FCPS management stated that a process to identify and remove FOCUS user accounts associated with FCPS terminated employees was not yet implemented. As a result, user accounts related to FCPS terminated employees were frequently not removed on a timely basis.

4. The County did not have a central system of record for its contractors who work on-site or use the County's systems at an off-site location. As a result, the County was unable to provide a list of contractors who were terminated from the County during fiscal year 2012 and whose user accounts were removed from the system.
5. Through inquiry with Fairfax Business Support Group and Fairfax Schools Support Group management, we were informed that a complete review of users with access to FOCUS was not performed for County or FCPS users in fiscal year 2012.
6. Focus segregation of duties (SOD) conflicts were not updated in the Role Conflict Matrix between November 2011 and May 2012, even though several changes to FOCUS roles occurred. Additionally, we performed a SOD analysis over FOCUS and identified a significant number of potential high-risk SOD conflicts. After discussing the potential conflicts with County management, we were informed that additional security mechanisms might be in place to mitigate some of the potential conflicts identified. However, due to the significant level of effort required to identify and document these mitigating controls, the County elected not to perform additional procedures in this area.

Criteria:

The following publications were utilized in our GITC test work over the County:

- National Institute of Standards and Technology (NIST) Special Publication (SP) 800-53, Revision 3, *Recommended Security Controls for Federal Information Systems and Organizations*, August 2009
- National Institute of Standards and Technology (NIST) Special Publication (SP) 800-12, *An Introduction to Computer Security: The NIST Handbook*, October 1995
- Fairfax County's *IT Security Policy*, Section 1.5

Cause/Effect:

Specific causes related to the individual conditions noted above are as follows:

1. The County did not install identity authentication software until June 2012. Prior to the software implementation, password configurations in place for standard access did not enforce compliance with some of the County's security policy requirements.
2. Since multiple phases of FOCUS were being implemented over the course of fiscal year 2012, it was not always practical to turn some of the Super User accounts on and off frequently.
3. Due to demands stemming from the implementation and stabilization of FOCUS, the County was not able to implement a comprehensive process for application user terminations until April 2012. Additionally, the employees performing this function were new and had significant other responsibilities during the FOCUS stabilization period.
4. The County has not identified a central method of tracking contractor access to the County's applications. As a result, the County is not able to implement a process to help ensure terminated contractors are removed from the system within an appropriate period.
5. Due to the demands of the implementation activities for a major new module of FOCUS, the Fairfax Business Support Group did not have the resource capacity necessary to complete a comprehensive access review.
6. FOCUS SAP is much more complex than the County's legacy systems and offers the ability to create and customize a variety of roles. The process to manage the resulting high number of roles and prevent SOD conflicts is very demanding, especially if an automatic access tool is not available. There were hundreds of County and Public Schools employees with new roles and responsibilities in the new system, which was expected. In addition, a new FOCUS Business Support Group with new integrated County and Public Schools responsibilities was created and took some time to implement and refine joint processes and controls.

These above-noted conditions increase the risk that unauthorized users can access sensitive system functions and negatively impact the confidentiality, integrity, and availability of application data. We noted that County management remediated several control deficiencies during fiscal year 2012.

Recommendations:

- A. We recommend that County management monitor the effectiveness of newly implemented control activities on a regular and periodic basis.
- B. In addition, to the extent the above noted findings have not been remediated, we recommend that County management:
 1. Implement and enforce the following password requirements for all login methods for FOCUS:
 - Password history is stored for a specified number of previous password generations.
 - User ID is revoked (locked) after a specified number of invalid log-in attempts.
 - Passwords contain a mixture of alpha and numeric characters.
 2. Revise its current IT Security policy to include any of the items noted in recommendation B.1 not already covered in its policy.

3. Modify the existing requirement that passwords be six characters in length to eight characters.
4. Continue to limit the use of generic super user accounts. Where generic user accounts are required, monitor their activities by creating a critical transaction list, regularly run audit reports to scan for suspicious activity related to these transactions, assign an independent employee to review them, and follow-up on any unauthorized actions.
5. Identify a report to allow the County to identify each instance a Firefighter ID is activated.
6. Revisit and strengthen the process instituted in April 2012 for removing terminated employees' user access from FOCUS as well as its practice of removing the user's Active Directory account upon termination, and periodically monitor adherence to these control activities, as well as implement a quarterly user review.
7. Coordinate with FCPS to establish a central contractor system of record, or implement more frequent contractor access reviews to better identify contractor terminations or role modifications.
8. And FCPS management perform a full user access review of all FOCUS users on an annual or more frequent basis. If this review is not performed at least quarterly, the County and FCPS should develop a list of roles with super user or excessive access and monitor those on a more frequent basis.
9. Update its FOCUS Role Conflict Matrix regularly to capture the effects of any role changes, review the results of the SOD analysis performed and documenting any compensating controls that help mitigate the risks identified, and consider automated tools that can proactively monitor SOD conflicts within FOCUS.

Management's Response:

The County appreciates the depth of the financial systems IT audit conducted by KPMG. However, the County does not agree with the overall KPMG conclusion of a 'significant deficiency' in internal controls over financial reporting. Major control deficiencies were identified and addressed or mitigated. We recognize a number of control deficiencies have been identified during the audit period. Since the implementation occurred in mid-year, some of the modules were not operational and therefore the full complement of internal controls were not yet in place during the audit. Due to the fact it was a mid-year implementation, we strongly disagree with the determination that a complete review of users with access to FOCUS did not occur during Fiscal Year 2012 since access for all users was established during the period.

Senior County and FCPS management were aware of the aggressive schedule and the phased implementation of modules and capabilities throughout the year. They were aware that as a result of limited time and available resources, there would be a time period before fixes and all access and controls could be fully configured. The County's priority during this time was to stabilize the system and become fully operational as soon as possible. In order to perform and show due diligence, the County had pre-project planning and consultation from GFOA (Government Financial Officers Association), conducted research with Gartner, and investigated other ERP implementations for practices and results. The county also contracted for a real-time systems assessment during the design and configuration of FOCUS Finance and Logistics modules with KPMG to assist with controls and risk management.

County management understands the need for a strong control environment to ensure the security and accuracy of the data contained in the computer systems and will give consideration to the recommendations made, many of which have been addressed, or will be as the FOCUS project progresses.

Prior to FOCUS go-live, the County purchased software designed to assist in the management of SOD conflicts, but the remaining elements of the FOCUS system project are the immediate priority. Additional systems and procedural controls are in place which help ensure the accuracy of the data and that no security breaches occur. The financial auditors expanded their samples and test-work and found no issues.

KPMG's Response:

Our audit was conducted in accordance with Generally Accepted Government Auditing Standards. As a result, we considered the aggregation of the individual GIRC conditions identified during our audit, the duration that the conditions existed during fiscal year 2012, and the impact these conditions had on the overall control environment; therefore we believe that the classification of a significant deficiency is appropriate.



KPMG LLP
Suite 12000
1801 K Street, NW
Washington, DC 20006

**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 U.S. Office of Management and Budget (*OMB Circular A-133 Compliance Supplement*) that could have a direct and material effect on each of the County's major federal programs for the year ended June 30, 2012. 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 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.

In our opinion the County complied, in all material respects, with the compliance 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, 2012. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 2012-SA01.

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.



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. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the accompanying schedule of findings and questioned costs as items 2012-SA01 and 2012-SA02. 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.

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, 2012, and have issued our report thereon dated November 19, 2012, which was modified to refer to other auditors. Our audit was conducted for the purpose of forming our 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 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 basic 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 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 expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

The County'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 County's responses and, accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of 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 19, 2012

COUNTY OF FAIRFAX, VA

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2012

Federal Grantor/Recipient State Agency/Program Title	Federal Catalogue Number	Expenditures
Office of National Drug Control Policy		
Passed Through the University of Maryland:		
High Intensity Drug Trafficking Area (HIDTA)	7.999	\$ 665,967
Department of Agriculture		
Direct Awards:		
National School Lunch Program	10.555	3,588,085
Fresh Fruit and Vegetable Program	10.582	256,394
ARRA - Watershed Rehabilitation Program	10.916	86,921
Pass Through the Commonwealth of Virginia:		
<u>Department of Education</u>		
School Breakfast Program	10.553	4,255,051
National School Lunch Program	10.555	20,728,403
Healthier Schools	10.574	139,000
<u>Department of Health</u>		
Special Supplemental Nutrition Program for Women,	10.557	3,626,557
Child and Adult Care Food Program	10.558	4,353,539
Summer Food Service Program for Children	10.559	405,920
<u>Department of Agriculture</u>		
Child and Adult Care Food Program	10.558	871,847
<u>Department of Social Services</u>		
Child and Adult Care Food Program	10.558	166,199
State Administrative Matching Grants for the	10.561	7,322,482
<u>Department of Behavioral Health and Developmental Services</u>		
State Administrative Matching Grants for the	10.561	145,280
Department of Commerce:		
Direct Awards:		
MWEE - NOAA Bay Watershed Education and Training	11.457	66,659
Department of Defense		
Direct Awards:		
Junior ROTC (Department of Navy)	12.000	534,042
Army Youth Programs in Your Neighborhood	12.003	70,144
Competitive Grants: Promoting K-12 Student	12.556	783,188
Passed Through the Commonwealth of Virginia:		
<u>Department of Transportation</u>		
Community Economic Adjustment Assistance for	12.607	882,132
Department of Housing and Urban Development		
Direct Awards:		
Supportive Housing for Persons with Disabilities	14.181	254,652
Community Development Block Grants/Entitlement	14.218	8,039,172

COUNTY OF FAIRFAX, VA

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2012

Federal Grantor/Recipient State Agency/Program Title	Federal Catalogue Number	Expenditures
Emergency Shelter Grants Program	14.231	\$ 261,849
Supportive Housing Program	14.235	854,894
Shelter Plus Care	14.238	1,688,665
Home Investment Partnerships Program	14.239	2,914,671
Community Development Block Grants/Brownfields	14.246	24,713
Community Development Block Grant ARRA	14.253	556,681
Homelessness Prevention and Rapid Re-Housing	14.257	394,529
Fair Housing Assistance Program_State and Local	14.401	106,763
Public and Indian Housing	14.850	2,075,107
Resident Opportunity and Supportive Services (ROSS)	14.870	7,578
Resident Opportunity and Supportive Services (ROSS)	14.870	16,529
Resident Opportunity and Supportive Services (ROSS)	14.870	152,532
Resident Opportunity and Supportive Services (ROSS)	14.870	50,494
Resident Opportunity and Supportive Services (ROSS)	14.870	2,701
Section 8 Housing Choice Vouchers	14.871	48,060,678
Public Housing Capital Fund	14.872	1,094,436
Department of the Interior / National Park Service		
Passed Through the Commonwealth of Virginia:		
<u>Department of Historical Resources</u>		
Outdoor Recreation_Acquisition, Development and	15.916	125,000
Department of Justice		
Direct Awards:		
Part E - Developing, Testing and Demonstrating	16.541	74,779
The Community-Defined Solutions to Violence Against	16.590	377,972
State Criminal Alien Assistance Program	16.606	461,983
Bulletproof Vest Partnership Program	16.607	59,872
Public Safety Partnership and Community Policing	16.710	187,977
Edward Byrne Memorial Justice Assistance Grant	16.738	205,870
Recovery Act - Edward Byrne Memorial Justice	16.804	17,777
Passed Through the Commonwealth of Virginia:		
<u>Department of Criminal Justice Services</u>		
Prisoner Reentry Initiative Demonstration	16.202	197,673
Juvenile Accountability Block Grants	16.523	64,048
Supervised Visitation, Safe Havens for Children	16.527	95,529
Juvenile Justice and Delinquency Prevention_Allocation	16.540	79,765
Crime Victim Assistance	16.575	79,837
Crime Victim Assistance/Discretionary Grants	16.582	
Violence Against Women Formula Grants	16.588	64,565
Passed Through the County of Loudoun, Virginia:		
Anti-Gang Initiative	16.544	381,291
Passed Through the Northern Virginia Gang Task Force:		
Congressionally Recommended Awards	16.753	64,071

COUNTY OF FAIRFAX, VA

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2012

Federal Grantor/Recipient State Agency/Program Title	Federal Catalogue Number	Expenditures
Department of Labor		
Passed Through the Commonwealth of Virginia:		
<u>Virginia Community College System</u>		
WIA Adult Program	17.258	\$ 1,259,138
WIA Youth Activities	17.259	588,342
WIA Dislocated Workers	17.260	94,288
ARRA - WIA Dislocated Workers	17.260	193,984
Northern Virginia Growing America Through	17.269	44,740
WIA Dislocated Worker Formula Grants	17.278	1,206,051
Department of Transportation		
Direct Awards:		
Federal Transit_Capital Investment Grants	20.500	448,645
Job Access_Reverse Commute	20.516	79,668
Passed Through the Commonwealth of Virginia:		
<u>Department of Transportation</u>		
Highway Planning and Construction	20.205	1,765,310
<u>Department of Motor Vehicles</u>		
State and Community Highway Safety	20.600	94,669
Department of the Treasury / Internal Revenue Service (IRS)		
Direct Awards:		
Taxpayer Service	21.003	76,687
Equal Employment Opportunity Commission		
Direct Awards:		
Employment Discrimination_Private Bar Program	30.005	137,974
National Aeronautics and Space Administration		
Direct Awards:		
Aerospace Education Services Program	43.001	30,801
Environmental Protection Agency		
Direct Awards:		
ARRA - National Clean Diesel Emissions Reduction	66.039	10,000
Department of Energy		
Direct Awards:		
ARRA - Energy Efficiency and Conservation Block	81.128	2,636,883
Department of Education		
Direct Awards:		
Impact Aid	84.041	4,215,961
Fund for the Improvement of Education	84.215	525,433

COUNTY OF FAIRFAX, VA

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2012

Federal Grantor/Recipient State Agency/Program Title	Federal Catalogue Number	Expenditures
Passed Through the Commonwealth of Virginia:		
<u>Department of Education</u>		
Adult Education - Basic Grants to States	84.002	\$ 880,816
Title I Grants to Local Educational Agencies	84.010	20,736,818
Title I Program for Neglected and Delinquent Children	84.013	93,408
Special Education_Grants to States	84.027	32,535,212
Career and Technical Education -- Basic Grants to States	84.048	1,504,683
Special Education_Preschool Grants	84.173	744,534
Education for Homeless Children and Youth	84.196	125,868
Twenty-First Century Community Learning Centers	84.287	227,020
Education Technology State Grants	84.318	92,040
English Language Acquisition Grants	84.365	5,011,915
Improving Teacher Quality State Grants	84.367	3,918,776
Education Technology State Grants, Recovery Act	84.386	50,563
Title I Grants to Local Educational Agencies, Recovery	84.389	636,636
Special Education Grants to States, Recovery Act	84.391	1,312,434
Special Education - Preschool Grants, Recovery Act	84.392	740
Education Jobs Fund	84.410	21,952,632
<u>Department of Behavioral Health and Developmental Services</u>		
Special Education-Grants for Infants and Families	84.181	2,056,293
Special Education - Grants for Infants and Families,	84.393	396,566
Department of Health and Human Services		
Direct Awards:		
Drug-Free Communities Support Program Grants	93.276	10,573
Affordable Care Act (ACA) Grants to States for Health	93.511	674,646
Community Transformation Grants and National	93.531	90,746
Head Start	93.600	7,073,001
ARRA - Early Head Start	93.709	190,604
Medicare_Prescription Drug Coverage	93.770	1,495,907
Medical Assistance Program	93.778	1,105,724
Passed Through the Commonwealth of Virginia:		
<u>Department for the Aging</u>		
Special Programs for the Aging_Title VII, Chapter	93.041	1,042
Special Programs for the Aging_Title VII, Chapter	93.042	48,241
Special Programs for the Aging_Title III, Part	93.043	232
Special Programs for the Aging_Title III, Part B_Grants	93.044	344,561
Special Programs for the Aging_Title III, Part	93.045	1,074,845
National Family Caregiver Support, Title III, Part E	93.052	139,961
Nutrition Services Incentive Program	93.053	136,598
ARRA - Communities Putting Prevention to Work:	93.725	49,738
Medicare_Supplementary Medical Insurance	93.774	1,269

COUNTY OF FAIRFAX, VA

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2012

Federal Grantor/Recipient State Agency/Program Title	Federal Catalogue Number	Expenditures
<u>Department of Health</u>		
Public Health Emergency Preparedness	93.069	\$ 539,870
Project Grants and Cooperative Agreements for Immunization Grants	93.116	193,023
ARRA - Immunization	93.268	66,033
Maternal and Child Health Services Block Grant to the	93.712	9,336
	93.994	267,221
<u>Department of Behavioral Health and Developmental Services</u>		
Projects for Assistance in Transition from Homelessness	93.150	158,414
Block Grants for Community Mental Health Services	93.958	1,143,238
Block Grants for Prevention and Treatment of Substance	93.959	3,263,982
<u>Department of Social Services</u>		
Promoting Safe and Stable Families	93.556	721,465
Temporary Assistance for Needy Families	93.558	4,224,044
Refugee and Entrant Assistance_State Administered	93.566	237,502
Low-Income Home Energy Assistance	93.568	291,348
Community Services Block Grant	93.569	565,162
Child Care and Development Block Grant	93.575	6,304,564
Child Care Mandatory and Matching Funds of the Child	93.596	6,298,527
Chafee Education and Training Vouchers Program	93.599	61,099
Child Welfare Services_State Grants	93.645	10,460
Foster Care_Title IV-E	93.658	4,426,302
Adoption Assistance	93.659	2,292,003
Social Services Block Grant	93.667	2,706,696
Family Violence Prevention and Services/Grants for	93.671	10,200
Chafee Foster Care Independence Program	93.674	68,110
ARRA - Child Care and Development Block Grant	93.713	11,830
Children's Health Insurance Program	93.767	208,149
Medical Assistance Program	93.778	4,538,027
<u>National Association of County and City Health Officials (NACCHO)</u>		
Medical Reserve Corps Small Grant Program	93.008	3,391
Department of Homeland Security		
Direct Awards:		
National Urban Search and Rescue (US&R) Response	97.025	1,783,000
Assistance to Firefighters Grant	97.044	233,221
Passed Through the Commonwealth of Virginia:		
<u>Department of Emergency Management</u>		
Pilot Demonstration or Earmarked Projects	97.001	63,086
Disaster Grants - Public Assistance (Presidentially	97.036	754,450
Emergency Management Performance Grants	97.042	72,989
State Homeland Security Program (SHSP)	97.073	341,416
Repetitive Flood Claims	97.092	711,145

COUNTY OF FAIRFAX, VA

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2012

<u>Federal Grantor/Recipient State Agency/Program Title</u>	<u>Federal Catalogue Number</u>	<u>Expenditures</u>
<u>District of Columbia Homeland Security & Emergency Management Agency</u> Homeland Security Grant Program	97.067	\$ 13,742,977
Agency for International Development		
Direct Awards:		
USAID Foreign Assistance for Programs Overseas	98.001	<u>1,885,397</u>
		\$ <u><u>294,373,353</u></u>

COUNTY OF FAIRFAX, VIRGINIA

Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2012

(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). As required by GAAP, the County's financial statements present the financial data of the County and its component units. The financial data of the component units are included in the County's basic financial statements because of the significance of their operational or financial relationships with the County. The County and its component units are together referred to herein as the reporting entity. The Schedule has been prepared on the modified 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 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 \$216,027 for the year ended June 30, 2012.

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 \$14,611,000 at June 30, 2012. In addition, FCRHA held Federal Housing Administration (FHA) - insured mortgage revenue bonds secured by land, buildings, and equipment of \$4,485,000 at June 30, 2012.

COUNTY OF FAIRFAX, VIRGINIA

Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2012

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. Several Washington, DC metropolitan jurisdictions receive funding under this program. 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, 2012, Fairfax County purchased and transferred equipment or supplies valued at \$812,041 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 programs funds are received both directly and through a pass-through entity, and some are 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:

<u>Program Title</u>	<u>Number</u>	<u>Program</u>
National School Lunch Program	10.555	\$ 24,316,488
Child and Adult Care Food Program	10.558	5,391,585
State Administrative Matching Grants for the Supplemental Nutrition Assista	10.561	7,467,762
Resident Opportunity and Supportive Services	14.870	229,834
WIA Dislocated Workers	17.260	288,272
Medical Assistance Program	93.778	5,643,751

(4) Totals by Clusters

Federal programs with different Catalog of Federal Domestic Assistance (CFDA) 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, 2012

Name of Cluster	Programs Title	Federal Catalogue	Total by
		Number	Program
Child Nutrition Cluster	School Breakfast Program	10.553	\$ 4,255,051
	National School Lunch Program	10.555	24,316,488
	Summer Food Service Program for Children	10.559	405,920
Child Nutrition Cluster Total			28,977,459
SNAP Cluster	State Administrative Matching Grants for Supplemental Nutrition Assistance Program	10.561	7,322,482
	ARRA - State Administrative Matching Grants for Supplemental Nutrition Assistance Program	10.561	145,280
SNAP Cluster Total			7,467,762
CDBG - Entitlement Grants Cluster	Community Development Block Grant/Entitlement Grants	14.218	8,039,172
	Community Development Block Grant ARRA Entitlement Grants (CDBG-R) (Recovery Act Funded)	14.253	556,681
CDBG - Entitlement Grants Cluster Total			8,595,853
Housing Voucher Cluster	Section 8 Housing Choice Vouchers	14.871	48,060,678
Housing Voucher Cluster Total			48,060,678
CFP Cluster	Public Housing Capital Fund	14.872	1,094,436
CFP Cluster Total			1,094,436
JAG Program Cluster	Edward Byrne Memorial Justice Assistance Grant Program	16.738	205,870
	Recovery Act - Edward Byrne Memorial Justice Assistance Grant (JAG) Program / Grants to Units of Local Government	16.804	17,777
JAG Program Cluster Total			223,647
WIA Cluster	WIA Adult Program	17.258	1,259,138
	WIA Youth Activities	17.259	588,342
	WIA Dislocated Worker Formula Grants	17.278	1,206,051
WIA Cluster Total			3,053,531
Highway Planning and Construction Cluster	Highway Planning and Construction	20.205	1,765,310
Highway Planning and Construction Cluster Total			1,765,310

COUNTY OF FAIRFAX, VIRGINIA

Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2012

Federal Transit Cluster	Federal Transit_Capital Investment Grants	20.500	448,645
Federal Transit Cluster Total			448,645
Highway Safety Cluster	State and Community Highway Safety	20.600	94,669
Highway Safety Cluster Total			94,669
Title I, Part A Cluster	Title I Grants to Local Educational Agencies	84.010	20,736,818
	Title I Grants to Local Educational Agencies, Recovery Act	84.389	636,636
Title I, Part A Cluster Total			21,373,454
Special Education Cluster (IDEA)	Special Education_Grants to States	84.027	32,535,212
	Special Education_Preschool Grants	84.173	744,534
	Special Education Grants to States, Recovery Act	84.391	1,312,434
	Special Education - Preschool Grants, Recovery Act	84.392	740
Special Education Cluster (IDEA) Total			34,592,920
Impact Aid Cluster	Impact Aid	84.041	4,215,961
Impact Aid Cluster Total			4,215,961
Early Intervention Servcies (IDEA) Cluster	Special Education-Grants for Infants and Families	84.181	2,056,293
	Special Education - Grants for Infants and Families, Recovery Act	84.393	396,566
Early Intervention Servcies (IDEA) Cluster Total			2,452,859
Educational Technology State Grants Cluster	Education Technology State Grants	84.318	92,040
	Education Technology State Grants, Recovery Act	84.386	50,563
Educational Technology State Grants Cluster Total			142,603
Education of Homeless Children and Youth Cluster	Education for Homeless Children and Youth	84.196	125,868
Independent Living State Grants Cluster Total			125,868

COUNTY OF FAIRFAX, VIRGINIA

Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2012

Aging Cluster	Special Programs for the Aging Title III, Part B Grants for Supportive Services and Senior Centers	93.044	344,561
	Special Programs for the Aging Title III, Part C Nutrition Services	93.045	1,074,845
	Nutrition Services Incentive Program	93.053	136,598
Aging Cluster Total			<u>1,556,004</u>
Immunization Cluster	Immunization Grants	93.268	66,033
	ARRA - Immunization	93.712	9,336
Immunization Cluster Total			<u>75,369</u>
TANF Cluster	Temporary Assistance for Needy Families (TANF) State Programs	93.558	4,224,044
TANF Cluster Total			<u>4,224,044</u>
CSBG Cluster	Community Services Block Grant	93.569	565,162
CSBG Cluster Total			<u>565,162</u>
CCDF Cluster	Child Care and Development Block Grant	93.575	6,304,564
	Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	6,298,527
CCDF Cluster Total			<u>12,603,091</u>
Head Start Cluster	Head Start	93.600	7,073,001
	ARRA - Early Head Start	93.709	190,604
Head Start Cluster Total			<u>7,263,605</u>
Medicaid Cluster	Medical Assistance Program	93.778	1,105,724
Medicaid Cluster Total			<u>1,105,724</u>

COUNTY OF FAIRFAX, VIRGINIA

Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2012

(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 Subrecipients
Community Development Block Grant/Entitlement Grants	14.218	\$ 1,616,902
Shelter Plus Care	14.238	1,688,665
Community Services Block Grant	93.569	565,162
Head Start	93.600	1,399,759
Homeland Security Grant Program	97.067	15,000
TOTAL		\$ 5,285,488

COUNTY OF FAIRFAX, VIRGINIA

Schedule of Findings and Questioned Costs

Year ended June 30, 2012

(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? **Yes**

Material weakness identified? **None**

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

D. Significant deficiencies in internal control over major programs noted? **Yes, findings 2012-SA01 and 2012-SA02.**

E. Material weaknesses in internal control over major programs noted? **None**

F. Type of report issued on compliance for major programs: **All major programs have Unqualified opinions.**

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) Supplemental Nutrition Assistance Program (SNAP) Cluster (CFDA #10.551/10.561-ARRA)
- (2) Little River Glen Loan Guarantees (CFDA #14.000)
- (3) Community Development Block Grants /Entitlement Grants Cluster (CDBG) (CFDA #14.218/14.253-ARRA) and Section 108 Loan Guarantees Program (Section 108 Loans)
- (4) Homelessness Prevention and Rapid Re-Housing (HPRP) (CFDA #14.257-ARRA)
- (5) Section 8 Housing Voucher Cluster (CFDA #14.871/14.879/14.880)
- (6) Energy Efficiency and Conservation Block Grant (CFDA #81.128-ARRA)
- (7) Early Intervention Services (IDEA Part C) Cluster (CFDA #84.181/84.393-ARRA)
- (8) English Language Acquisition Grants (CFDA #84.365)
- (9) Improving Teacher Quality State Grants (Title II) (CFDA #84.367)
- (10) Education Jobs Fund (CFDA #84.410-ARRA)
- (11) Temporary Assistance for Needy Families (TANF) Cluster (CFDA #93.558/93.714)
- (12) Head Start Cluster (CFDA #93.600/93.708/93.709-ARRA)
- (13) Foster Care - Title IV-E (CFDA #93.658)
- (14) Social Services Block Grant (SSBG) (CFDA #93.667)
- (15) Medicaid Cluster (CFDA #93.778)
- (16) Homeland Security Cluster (CFDA #97.067)

COUNTY OF FAIRFAX, VIRGINIA

Schedule of Findings and Questioned Costs

Year ended June 30, 2012

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

Finding 2012-FSA01 – Weaknesses in the County’s General Information Technology (GITC) Access Controls Related to FOCUS

Background:

General Information Technology Controls (GITCs) provide the foundation for a well-controlled technology environment that supports the consistent processing and reporting of operational and financial data in accordance with management’s directives.

The County’s GITC environment underwent significant transition during fiscal year 2012, as the County retired legacy financial, procurement, and human resource systems and implemented an all-inclusive SAP system (i.e., FOCUS).

Our audit included an assessment of GITCs in four key control areas: access to programs and data, program changes, program development, and computer operations. During our assessment, we noted that, as a result of the ongoing FOCUS implementation, significant access to programs and data deficiencies existed during fiscal year 2012.

Conditions:

The deficiencies identified are as follows:

1. From November 2011 to May 2012, password configurations for standard FOCUS access did not enforce the following County policy requirements:
 - Password history is stored for a specified number of previous password generations.
 - Passwords must be changed every 90 days.

In addition, User ID was not revoked (locked) after a specified number of invalid login attempts. In May 2012, this deficiency was resolved when the County activated additional login features.

2. Super user access account issues included:
 - Active generic RFC User, SAP_ALL and SAP_NEW “dialogue” and “system” accounts existed in FOCUS from the application’s go-live date (i.e., November 7, 2011) until May 2012. These accounts were set-up by the County’s contractor during the FOCUS system’s design and implementation but some were not removed. Until the County identified and addressed these accounts in May 2012, they were accessible to employees and consultants.

COUNTY OF FAIRFAX, VIRGINIA

Schedule of Findings and Questioned Costs

Year ended June 30, 2012

Once these access gaps were identified, the County utilized various reports to monitor unusual activity within FOCUS. In May 2012, the County changed these generic accounts to non-accessible accounts, thus mitigating the risk associated with these generic accounts.

- One generic user ID with Super User capabilities could be accessed by at least ten users including County employees and off-site contractors from November 2011 to the end of fiscal year 2012. The County is not currently monitoring the activities conducted with this User ID.
- A FOCUS generated list was not available to detail when each of the emergency temporary “Firefighter” IDs had been activated between November 2011 and the end of fiscal year 2012.

However, the County has established a process detailing how a firefighter ID is to be requested, activated, monitored, and re-locked and was also able to produce documentation for the approval, monitoring, and closure of certain Firefighter IDs.

3. During our separated employee test work at the County, we identified 101 employees separated during the fiscal year that retained access to FOCUS subsequent to their termination date. This occurred because between November 2011 and April 2012, the County did not have a new process in place to identify and remove terminated users. Additionally, ten separated employees were identified whose FOCUS user accounts had been locked but still retained Active Directory accounts.

The County implemented a mitigating control by removing employee’s Active Directory (AD) access upon their termination. Once an employee’s AD account is removed, they are unable to access FOCUS with their FOCUS user account and, therefore, cannot make unauthorized changes. Our testwork confirmed that each of the 101 employees with active FOCUS user accounts did not have a current AD user account.

Also during our separated employee test work at Fairfax County Public Schools (FCPS), we identified 30 employees separated during the fiscal year that retained access to FOCUS subsequent to their termination date. FCPS management stated that a process to identify and remove FOCUS user accounts associated with FCPS terminated employees was not yet implemented. As a result, user accounts related to FCPS terminated employees were frequently not removed on a timely basis.

4. The County did not have a central system of record for its contractors who work on-site or use the County’s systems at an off-site location. As a result, the County was unable to provide a list of contractors who were terminated from the County during fiscal year 2012 and whose user accounts were removed from the system.
5. Through inquiry with Fairfax Business Support Group and Fairfax Schools Support Group management, we were informed that a complete review of users with access to FOCUS was not performed for County or FCPS users in fiscal year 2012.

COUNTY OF FAIRFAX, VIRGINIA

Schedule of Findings and Questioned Costs

Year ended June 30, 2012

6. Focus segregation of duties (SOD) conflicts were not updated in the Role Conflict Matrix between November 2011 and May 2012, even though several changes to FOCUS roles occurred. Additionally, we performed a SOD analysis over FOCUS and identified a significant number of potential high-risk SOD conflicts. After discussing the potential conflicts with County management, we were informed that additional security mechanisms might be in place to mitigate some of the potential conflicts identified. However, due to the significant level of effort required to identify and document these mitigating controls, the County elected not to perform additional procedures in this area.

Criteria:

The following publications were utilized in our GITC test work over the County:

- National Institute of Standards and Technology (NIST) Special Publication (SP) 800-53, Revision 3, *Recommended Security Controls for Federal Information Systems and Organizations*, August 2009
- National Institute of Standards and Technology (NIST) Special Publication (SP) 800-12, *An Introduction to Computer Security: The NIST Handbook*, October 1995
- Fairfax County's *IT Security Policy*, Section 1.5

Cause/Effect:

Specific causes related to the individual conditions noted above are as follows:

1. The County did not install identity authentication software until June 2012. Prior to the software implementation, password configurations in place for standard access did not enforce compliance with some of the County's security policy requirements.
2. Since multiple phases of FOCUS were being implemented over the course of fiscal year 2012, it was not always practical to turn some of the Super User accounts on and off frequently.
3. Due to demands stemming from the implementation and stabilization of FOCUS, the County was not able to implement a comprehensive process for application user terminations until April 2012. Additionally, the employees performing this function were new and had significant other responsibilities during the FOCUS stabilization period.
4. The County has not identified a central method of tracking contractor access to the County's applications. As a result, the County is not able to implement a process to help ensure terminated contractors are removed from the system within an appropriate period.
5. Due to the demands of the implementation activities for a major new module of FOCUS, the Fairfax Business Support Group did not have the resource capacity necessary to complete a comprehensive access review.
6. FOCUS SAP is much more complex than the County's legacy systems and offers the ability to create and customize a variety of roles. The process to manage the resulting high number of roles and prevent SOD conflicts is very demanding, especially if an automatic access tool is not

COUNTY OF FAIRFAX, VIRGINIA

Schedule of Findings and Questioned Costs

Year ended June 30, 2012

available. There were hundreds of County and Public Schools employees with new roles and responsibilities in the new system, which was expected. In addition, a new FOCUS Business Support Group with new integrated County and Public Schools responsibilities was created and took some time to implement and refine joint processes and controls.

These above-noted conditions increase the risk that unauthorized users can access sensitive system functions and negatively impact the confidentiality, integrity, and availability of application data. We noted that County management remediated several control deficiencies during fiscal year 2012.

Recommendations:

- A. We recommend that County management monitor the effectiveness of newly implemented control activities on a regular and periodic basis.
- B. In addition, to the extent the above noted findings have not been remediated, we recommend that County management:
 1. Implement and enforce the following password requirements for all login methods for FOCUS:
 - Password history is stored for a specified number of previous password generations.
 - User ID is revoked (locked) after a specified number of invalid log-in attempts.
 - Passwords contain a mixture of alpha and numeric characters.
 2. Revise its current IT Security policy to include any of the items noted in recommendation B.1 not already covered in its policy.
 3. Modify the existing requirement that passwords be six characters in length to eight characters.
 4. Continue to limit the use of generic super user accounts. Where generic user accounts are required, monitor their activities by creating a critical transaction list, regularly run audit reports to scan for suspicious activity related to these transactions, assign an independent employee to review them, and follow-up on any unauthorized actions.
 5. Identify a report to allow the County to identify each instance a Firefighter ID is activated.
 6. Revisit and strengthen the process instituted in April 2012 for removing terminated employees' user access from FOCUS as well as its practice of removing the user's Active Directory account upon termination, and periodically monitor adherence to these control activities, as well as implement a quarterly user review.
 7. Coordinate with FCPS to establish a central contractor system of record, or implement more frequent contractor access reviews to better identify contractor terminations or role modifications.

COUNTY OF FAIRFAX, VIRGINIA

Schedule of Findings and Questioned Costs

Year ended June 30, 2012

8. And FCPS management perform a full user access review of all FOCUS users on an annual or more frequent basis. If this review is not performed at least quarterly, the County and FCPS should develop a list of roles with super user or excessive access and monitor those on a more frequent basis.
9. Update its FOCUS Role Conflict Matrix regularly to capture the effects of any role changes, review the results of the SOD analysis performed and documenting any compensating controls that help mitigate the risks identified, and consider automated tools that can proactively monitor SOD conflicts within FOCUS.

Management's Response:

The County appreciates the depth of the financial systems IT audit conducted by KPMG. However, the County does not agree with the overall KPMG conclusion of a 'significant deficiency' in internal controls over financial reporting. Major control deficiencies were identified and addressed or mitigated. We recognize a number of control deficiencies have been identified during the audit period. Since the implementation occurred in mid-year, some of the modules were not operational and therefore the full complement of internal controls were not yet in place during the audit. Due to the fact it was a mid-year implementation, we strongly disagree with the determination that a complete review of users with access to FOCUS did not occur during Fiscal Year 2012 since access for all users was established during the period.

Senior County and FCPS management were aware of the aggressive schedule and the phased implementation of modules and capabilities throughout the year. They were aware that as a result of limited time and available resources, there would be a time period before fixes and all access and controls could be fully configured. The County's priority during this time was to stabilize the system and become fully operational as soon as possible. In order to perform and show due diligence, the County had pre-project planning and consultation from GFOA (Government Financial Officers Association), conducted research with Gartner, and investigated other ERP implementations for practices and results. The county also contracted for a real-time systems assessment during the design and configuration of FOCUS Finance and Logistics modules with KPMG to assist with controls and risk management.

County management understands the need for a strong control environment to ensure the security and accuracy of the data contained in the computer systems and will give consideration to the recommendations made, many of which have been addressed, or will be as the FOCUS project progresses.

Prior to FOCUS go-live, the County purchased software designed to assist in the management of SOD conflicts, but the remaining elements of the FOCUS system project are the immediate priority. Additional systems and procedural controls are in place which help ensure the accuracy of the data and that no security breaches occur. The financial auditors expanded their samples and test-work and found no issues.

COUNTY OF FAIRFAX, VIRGINIA

Schedule of Findings and Questioned Costs

Year ended June 30, 2012

KPMG's Response:

Our audit was conducted in accordance with Generally Accepted Government Auditing Standards. As a result, we considered the aggregation of the individual GIRC conditions identified during our audit, the duration that the conditions existed during fiscal year 2012, and the impact these conditions had on the overall control environment; therefore we believe that the classification of a significant deficiency is appropriate.

(3) Findings and Questioned Costs for Federal Awards

Finding 2012-SA01 – Reporting

Program:

Community Development Block Grant/Entitlement Grants (CFDA No. 14.218 / 14.253 ARRA / 14.254)

Federal Agency:

U.S. Department of Housing and Urban Development

Pass-through Entity:

None

Condition:

During the year under audit, the Community Development Block Grant (CDBG) Program as administered by the Fairfax County Redevelopment and Housing Authority (FCRHA) did not have any knowledge of the Federal Funding Accountability and Transparency Act (FFATA) and its reporting requirements under FFATA and therefore, were unable to comply with these requirements. Since Fairfax County has a decentralized structure regarding the administration of these programs, each program is responsible for complying with FFATA.

Criteria:

Aspects of the Federal Funding Accountability and Transparency Act (Pub. L. No. 109-282) (Transparency Act), as amended by Section 6202(a) of the Government Funding Transparency Act of 2008 (Pub. L. No. 111-252), that relate to subaward reporting (1) under grants and cooperative agreements were implemented as interim final guidance by OMB in 2 CFR part 170, effective October 1, 2010 (75 FR 55663 *et seq.*, September 14, 2010) and (2) under contracts, by the regulatory agencies responsible for the Federal Acquisition Regulation (FAR) in an interim rule, effective July 8, 2010 (75 FR 39414 *et seq.*, July 8, 2010). The interim final guidance and the interim rule have the same effect as final guidance or a final rule and will remain in effect until superseded by final issuances. If the final issuances include any changes to the interim requirements, they will have new effective dates. The requirements pertain to recipients (i.e., direct recipients) of grants or cooperative agreements who make first-tier subawards and contractors (i.e., prime contractors) that award first-tier subcontracts. There are limited exceptions as specified in 2 CFR part 170 and the FAR. The guidance at 2 CFR part

COUNTY OF FAIRFAX, VIRGINIA

Schedule of Findings and Questioned Costs

Year ended June 30, 2012

170 does currently applies only to Federal financial assistance awards in the form of grants and cooperative agreements, e.g., it does not apply to loans made by a Federal agency to a recipient; however, subaward reporting requirement apply to all types of first-tier subawards under a grant or cooperative agreement.

As provided in the 2 CFR part 170 and FAR Subpart 4.14, respectively, Federal agencies are required to include the award term specified in Appendix A to 2 CFR part 170 or the contract clause in FAR 52.204-10, Reporting Executive Compensation and First-Tier Subcontract Awards, as applicable, in awards subject to the Transparency Act.

For grants and cooperative agreements, the effective date is October 1, 2010 for all discretionary and mandatory awards equal to or exceeding \$25,000 made with a new Federal Assistance Identification Number (FAIN) on or after that date. The FAIN is the unique award number assigned to a particular grant or cooperative agreement by the Federal awarding agency (as opposed to the CFDA number, which pertains to a program generally). In some programs, a new award number is used each year and that new award number is considered a new FAIN. In some programs, where awards are made for a multi-year project, but may be funded in increments, even though a suffix may be added, e.g., -02 or -03 designating the subsequent years of an approved project, this is not considered a new FAIN. Therefore, if the FAIN for an award made in November 2009 was AB-12345 and for an award under the same program made in November 2010 was AB-56789, the latter would be considered a new FAIN. However, if the FAIN for an award made in November 2009 was AB-12345-02 and for an award under the same program made in November 2010 was AB-12345-03, the latter would **not** be considered a new FAIN.

Once the requirement applies, the recipient must report, for any subaward under that award with a value of \$25,000 or more, each obligating action of \$25,000 or more in Federal funds. Recipients are not required to report on subawards made on or after October 1, 2010 that use funds awarded prior to that date.

Cause:

Program management was not monitoring new compliance requirements set forth in new laws and regulations generally applicable to the program.

Effect:

Noncompliance with FFATA reporting requirements regarding the Community Development Block Grant program.

Questioned Costs:

None

Related Noncompliance:

Noncompliance

COUNTY OF FAIRFAX, VIRGINIA

Schedule of Findings and Questioned Costs

Year ended June 30, 2012

Recommendation:

We recommend that the Community Development Block Grant Program Management as administered by Fairfax County enhance policies and internal control procedures to ensure that new program requirements are identified and processes are established to ensure compliance.

Management Response:

Fairfax County will continue to enhance the policies and internal control procedures to ensure that new program requirements are identified and processes are established to ensure program compliance.

The Grants Management Division (Program Management) will continue to monitor new compliance requirements set forth in new laws and regulation that are generally applicable to the program. Grants Management staff will periodically, at a minimum on a quarterly basis, meet and/or discuss with HUD Field Office representative to ensure compliance.

Finding 2012-SA02 – Procurement, Suspension & Debarment

Program:

Title II - Improving Teacher Quality (CFDA No. 84.367)
Head Start Cluster (CFDA No. 93.600 / 93.708/93.709-ARRA)
Homeland Security (CFDA No. 97.067)

Federal Agency:

Title II - U.S. Department of Health
Head Start Cluster - U.S. Department of Health and Human Services
Homeland Security - U.S. Department of Homeland Security

Pass-through Entity:

Title II - Virginia's Department of Education
Head Start Cluster – None
Homeland Security - District of Columbia's Homeland Security and Emergency Management Agency

Pass-through Award Number:

Title II - S367A090044
Head Start Cluster - 03CH027023 and 03SA027002
Homeland Security - 9UASI019-01; 9UASI583-02; 9UASI583-01; 11UASI530-01; 11UASI531-05;
11UASI531-04; 9UASI533-04; 10UASI533-04

Conditions:

During our suspension and debarment testwork over the above referenced program's procurement of goods and services, we determined that the programs did not have adequate controls in place to verify that covered transactions did not occur with vendors that were suspended or debarred. The programs did not meet the compliance requirements since the program or the Office of Procurement Services failed to check the Excluded Parties List System (EPLS), collect a certification from the vendor, or add

COUNTY OF FAIRFAX, VIRGINIA

Schedule of Findings and Questioned Costs

Year ended June 30, 2012

a clause or condition to the contract to verify the vendor had not been suspended or debarred by the federal government. We noted the following instances during our testwork:

- Title II - One out of two vendors tested, with transactions totaling \$33,192, did not meet the compliance requirements.
- Head Start Cluster – One out of three vendors tested, with transactions totaling \$26,268, did not meet the compliance requirements.
- Homeland Security - One out of three vendors tested, with transactions totaling \$1,681,818, did not meet the compliance requirements.

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:

The programs do not have sufficient policies and procedures in place to (a) maintain documentation of the EPLS search, (b) communicate requirements to all applicable departments in managing program compliance, and (c) to monitor compliance with the Procurement, Suspension and Debarment requirements.

Effect:

Without internal controls in place to adequately review and monitor whether vendors are suspended and debarred from doing business with the federal government (including federal grant programs) the program could be noncompliant with requirements of federal grants. [KPMG confirmed that these vendors were not suspended or debarred.]

Questioned Costs:

None

Related Noncompliance:

None

COUNTY OF FAIRFAX, VIRGINIA

Schedule of Findings and Questioned Costs

Year ended June 30, 2012

Recommendations:

We recommend that Fairfax County and Fairfax County Public Schools program management referenced at the beginning of this finding:

1. Implement policies and procedures to ensure vendors are reviewed for suspension and debarment prior to the program procuring services should be communicated to all departments managing the program.
2. For those vendors already under contract, a periodic review should be performed for suspension and debarment to ensure ongoing compliance.
3. Ensure all of the individual departments take responsibility for performing a check on the EPLS website, and retain evidence of such a check, when procurements are over the \$25,000 threshold.
4. Lastly, departments should notify the Office of Procurement Services when soliciting new procurements over the same threshold with federal funding so the appropriate language can be added to contracts.

Management Response:

The Department of Finance (DOF) is sending to all agencies a directive to assure that required verification actions are taken and documented. DOF will obtain certifications from agencies that they have complied with this directive and will implement a plan to follow up that these certifications are made timely.

In FY 2011, the County contracted with a nationally recognized firm to receive periodic reports identifying any vendor doing business with the County that appeared on the EPLS. We see value in continuing to receive reports of vendors appearing on the EPLS. If this service is affordably available, we will subscribe to it and integrate such data in our compliance efforts.

We will continue to explore this and other options to take advantage of automation that supports and expands on monitoring by agencies managing federal grants.