

TOWN OF COLONIAL BEACH, VIRGINIA

SINGLE AUDIT REPORT

JUNE 30, 2011

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MEMBERS, AMERICAN INSTITUTE OF
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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

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

We have audited the financial statements of the governmental activities, the business-type activity, the aggregate discretely presented component unit, and each major fund of the Town of Colonial Beach, Virginia, as of and for the year ended June 30, 2011, which collectively comprise the Town of Colonial Beach, Virginia's basic financial statements, and have issued our report thereon dated December 29, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the *Specifications for the Audit of Counties, Cities, and Towns* issued by the Auditor of Public Accounts of the Commonwealth of Virginia and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses as items 2011-01 through 2011-03.

A significant deficiency is a deficiency or 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.

Compliance and Other Matters

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

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

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

A handwritten signature in black ink, reading "Mike Foley George". The signature is fluid and cursive, with a long horizontal stroke at the end.

Fredericksburg, Virginia
December 29, 2011



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

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

Compliance

We have audited the compliance of the Town of Colonial Beach, Virginia with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Town of Colonial Beach, Virginia's major federal programs for the year ended June 30, 2011. The Town of Colonial Beach, Virginia's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of law, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Town of Colonial Beach, Virginia's management. Our responsibility is to express an opinion on the Town of Colonial Beach, Virginia's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Town of Colonial Beach, Virginia's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Town of Colonial Beach, Virginia's compliance with those requirements.

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

Internal Control Over Compliance

Management of the Town of Colonial Beach, Virginia is responsible for establishing and maintaining effective internal control over compliance with requirements of law, regulation, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Town of Colonial Beach, Virginia's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over

compliance in accordance with OMB 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 Town of Colonial Beach, Virginia's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. However, as discussed below, we identified a deficiency in internal control over compliance that we consider to be a material weakness.

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. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2011-04 to be a material weakness.

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 activity, the aggregate discretely presented component unit, and each major fund of the Town of Colonial Beach, Virginia, as of and for the year ended June 30, 2011, and have issued our report thereon dated December 29, 2011. Our audit was performed for the purpose of forming our opinions on the financial statements that collectively comprise the Town of Colonial Beach, Virginia's basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by *U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain other procedures, including comparing and reconciling such information directly to the underlying accounting records and other records used to prepare the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

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

Miller Foley Sharp

Fredericksburg, Virginia
December 29, 2011

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TOWN OF COLONIAL BEACH, VIRGINIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2011

SUMMARY OF AUDITORS' RESULTS

1. The auditors' report expresses an unqualified opinion on the financial statements of the Town of Colonial Beach, Virginia.
2. Three significant deficiencies disclosed during the audit of the financial statements are reported in the *Report on Internal Control over Financial Reporting and Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards*. All of the deficiencies are reported as material weaknesses.
3. No instances of noncompliance material to the financial statements of the Town of Colonial Beach, Virginia, which would be required to be reported in accordance with Government Auditing Standards, were disclosed during the audit.
4. A significant deficiency relating to the audit of the major federal award programs is reported in the *Independent Auditors' Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133*. The deficiency is reported as a material weakness.
5. The auditors' report on compliance for the major federal award programs for the Town of Colonial Beach, Virginia expresses an unqualified opinion on all major programs.
6. Audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 are reported in this Schedule.
7. The programs tested as major programs include:

<u>Name of Federal Program or Cluster</u>	<u>CFDA Number</u>
Title I, Part A Cluster	84.010, 84.389
School Improvement Grants Cluster	84.377, 84.388

8. The threshold for distinguishing Types A and B Programs was \$300,000.
9. The Town of Colonial Beach, Virginia did not qualify as a low-risk auditee.

TOWN OF COLONIAL BEACH, VIRGINIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2011

FINDINGS – FINANCIAL STATEMENT AUDIT

2011-01 School capital assets

Condition: The School Board did not provide the Town with an accurate capital assets schedule or entries to properly record fixed assets in a timely manner.

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

Effect: A capital asset schedule and related prior year and current year entries were provided by the School Board for capital assets after the Town closed its books and provided the trial balance for audit.

Cause: The School Board did not provide the Town with an accurate capital assets schedule and entries in a timely manner.

Recommendation: The School Board should provide the Town with all schedules and required entries at year end and before the close of the Town's books.

Views of responsible officials: During the course of preparing the books for the June 30, 2011 audit, there were a number of factors that negatively, but temporarily, affected the preparation of the required workpapers and adjusting entries. The position of the Director of Finance was vacant for approximately two weeks in July due to the resignation of the then current director. In addition, in August, 2011 the Town of Colonial Beach endured a major flood as well as an earthquake that created emergency situations and disrupted the normal flow of work. We do not anticipate any such recurrence of these mitigating factors in the future and will provide the Town with the appropriate schedules and entries in a timely fashion.

2011-02 School accruals

Condition: The School Board did not provide the Town with accrual entries for revenues and expenses in a timely manner.

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

Effect: Audit entries were provided by the School Board for school accrual amounts after the Town closed its books and provided the trial balance for audit.

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

Recommendation: The School Board should provide the Town with all necessary closing entries at year end and before the close of the Town's books.

TOWN OF COLONIAL BEACH, VIRGINIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2011

Views of responsible officials: During the course of preparing the books for the June 30, 2011 audit, there were a number of factors that negatively, but temporarily, affected the preparation of the required workpapers and adjusting entries. The position of the Director of Finance was vacant for approximately two weeks in July due to the resignation of the then current director. In addition, in August, 2011 the Town of Colonial Beach endured a major flood as well as an earthquake that created emergency situations and disrupted the normal flow of work. We do not anticipate any such recurrence of these mitigating factors in the future and will provide the Town with the appropriate schedules and entries in a timely fashion.

2011-03 Town debt allocation

Condition: Debt borrowed jointly between the general fund and the utility fund was incorrectly allocated between the funds when originally borrowed.

Criteria: Debt should be properly allocated between funds based on amounts utilized when borrowed.

Effect: Current year financial statements were restated to correct the error.

Cause: Unknown

Recommendation: Future debt borrowed jointly should be allocated to the respective funds based on the utilization of proceeds.

Views of responsible officials: Town administration is comfortable that the 2004 debt has been fully researched and is now appropriately allocated as reflected in the 2010/2011 financials. All other debt reflects the appropriate allocation and repayment by fund.

TOWN OF COLONIAL BEACH, VIRGINIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2011

FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

2011-04 School schedule of federal expenditures

Condition: The School Board did not provide an accurate schedule of federal expenditures.

Criteria: The School Board is responsible for the accuracy and correct reporting of its schedule of federal expenditures.

Effect: A major program was not included in the initial scope of the single audit because of the inaccuracies of the schedule.

Cause: The School Board did not reconcile the schedule of federal expenditures to the school general ledger to insure the report was accurate and materially incorrect amounts were remitted for audit.

Recommendation: The School Board should provide a complete and accurate schedule of federal expenditures.

Views of responsible officials: The School Board will implement procedures to insure that a complete and accurate schedule of Federal expenditures is provided. Submission dates for the 11-12 school audit will be identified per the Town Manager's advice.

TOWN OF COLONIAL BEACH, VIRGINIA

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2011

Federal Granting Agency/Recipient State Agency/Grant program/Grant Number	Federal Catalogue Number	Agency or Pass- Through Number	Federal Expenditure
U.S. Department of Agriculture:			
Commodities	10.555	515	\$ 16,859
Pass-Through Payments:			
Department of Education:			
School Breakfast Program	10.553	197	26,112
National School Lunch Program	10.555	197	107,791
			<u>\$ 150,762</u>
U.S. Department of Education			
Pass-Through Payments:			
Department of Education:			
Title I Grants to Local Educational Agencies	84.010	197	\$ 434,138
Special Education - Grants to States	84.027	197	90,436
Career and Technical Education - Basic Grants to States	84.048	197	17,488
Safe and Drug Free Schools and Communities State Grants	84.186	197	4,892
Twenty First Century Community Learning Centers	84.287	197	20,300
Education Technology State Grants	84.318	197	2,262
Rural Education	84.358	197	37,064
Improving Teacher Quality Grant	84.367	197	32,891
ARRA - Education Technology State Grants, Recovery Act	84.386	197	3,057
School Improvement Grants	84.377	197	50,116
ARRA - School Improvement Grants, Recovery Act	84.388	197	532,942
ARRA - Title I Grants to Local Educational Agencies, ARRA - Special Education - Grants to States, Recovery Act	84.391	197	113,348
ARRA - Special Education - Preschool Grants, Recovery Act	84.392	197	1,975
ARRA - State Fiscal Stabilization Fund - Education State Grants, Recovery Act	84.394	197	257,373
ARRA - Education Jobs Fund	84.410	197	49,951
			<u>\$ 1,823,408</u>
			<u>\$ 1,974,170</u>

TOWN OF COLONIAL BEACH, VIRGINIA

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2011

A. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Town of Colonial Beach, Virginia and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some of the amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

B. COMMODITIES

Nonmonetary assistance is reported in the schedule at the fair market value of the commodities received and disbursed.