

County of Spotsylvania, Virginia

COMPLIANCE REPORTS

For the Year Ended June 30, 2014

County of Spotsylvania, Virginia

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**Report of Independent Auditor 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 the Board of Supervisors
County of Spotsylvania, Virginia

We have audited, in accordance with the auditing standards generally accepted in the United States of America, 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, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the County of Spotsylvania, Virginia (the County), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated November 20, 2014. That report recognizes that the County implemented one new accounting standard effective July 1, 2013. Our report included an emphasis paragraph indicating that the governmental activities, business-type activities and aggregate discretely presented component unit net position as of June 30, 2013 has been restated.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control 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 and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2014-01 and 2014-02 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the County's financial statements are free from 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* and one instance required to be reported under the *Specifications for Audits of Counties, Cities and Towns*, which is described as item 2014-03 in the accompanying schedule of findings and questioned costs.

County of Spotsylvania, Virginia's Response to Findings

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

Purpose of this Report

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

A handwritten signature in blue ink that reads "Cheryl Behrman CP". The signature is written in a cursive style.

Richmond, Virginia
November 20, 2014

Report of Independent Auditor on Compliance For Each Federal Major Program and on Internal Control Over Compliance Required By OMB Circular A-133

To the Honorable Members of the Board of Supervisors
County of Spotsylvania, Virginia

Report on Compliance for Each Major Federal Program

We have audited the County of Spotsylvania, Virginia's (the "County") 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 or material effect on each of the County's major federal programs for the year ended June 30, 2014. 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.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each of the Other Major Federal Programs

In our opinion, the County complied, in all material respects, with the types of 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, 2014.

Report on Internal Control over Compliance

Management of the County is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the County's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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. 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.

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 material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the County as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the County's basic financial statements. We issued our report thereon dated November 20, 2014, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for the purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

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



Richmond, Virginia
November 20, 2014

COUNTY OF SPOTSYLVANIA, VIRGINIA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2014

Federal Granting Agency/Recipient State Agency/Grant Program/Grant Number	Federal Catalogue Number	Agency or Pass-Through Number	Federal Expenditures
<i>U.S. Department of Agriculture:</i>			
Pass through Payments:			
State Department of Agriculture:			
National School Lunch Program	10.555	301	\$ 613,048
Department of Social Services:			
Administrative			
Matching Grants	10.561	765	846,644
Department of Education:			
School Breakfast Program	10.553	197	927,711
National School Lunch Program	10.555	197	3,510,534
Direct Payments:			
Farm and Ranchland Protection Program	10.913	N/A	60,000
Total United States Department of Agriculture			\$ 5,957,937
<i>U.S. Department of Health and Human Services:</i>			
Direct Payments:			
Head Start	93.600	N/A	\$ 796,648
Pass-Through Payments:			
Department of Social Services::			
Promoting Safe and Stable Families	93.556	765	31,191
Temporary Assistance for Needy Families	93.558	765	746,006
Refugee and Entrant Assistance - State Administered Programs	93.566	765	10,697
Low Income Home Energy Assistance	93.568	765	35,343
Child Care Mandatory and Matching Funds of the Child Care and Development Funds	93.596	765	63,483
Chafee Education and Training Vouchers Program	93.599	765	4,423
Child Welfare Services - State Grants	93.645	765	3,163
Foster Care Title IV-E	93.658	765	770,389
Adoption Assistance	93.659	765	330,481
Social Services Block Grant	93.667	765	392,475
Chafee Foster Care Independence Program	93.674	765	19,391
Children's Health Insurance Program	93.767	765	24,476
Medical Assistance Program	93.778	765	737,905
Total U.S. Department of Health and Human Services			\$ 3,966,071
<i>U.S. Department of Homeland Security:</i>			
Pass-through Payments:			
Emergency Management Performance Grants	97.042	127	\$ 37,646
Direct Payments:			
Staffing for Adequate Fire and Emergency Response	97.083	N/A	41,697
Total U.S. Department of Homeland Security			\$ 79,343

COUNTY OF SPOTSYLVANIA, VIRGINIA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2014

Federal Granting Agency/Recipient State Agency/Grant Program/Grant Number	Federal Catalogue Number	Agency or Pass-Through Number	Federal Expenditures
<i>U.S. Department of Education:</i>			
Direct Payments:			
Impact Aid	84.041	N/A	\$ 172,374
JROTC	99.900	N/A	151,332
Pass through Payments:			
Department of Education:			
Adult Education - State Grant Program	84.002	197	343,038
Title I - Grants to Local Educational Agencies	84.010	197	2,243,282
Title I Neglected and Delinquent Children	84.013	197	53,639
Title VIB Special Education - State Grant Program	84.027	197	4,194,410
Career and Technical Education	84.048	197	261,891
Title VIB Special Education - Preschool Gants	84.173	197	80,142
Title III English Language Acquisition Grants	84.365	197	148,048
Title II Part A Improving Teacher Quality State Grants	84.367	197	358,420
Total U.S. Department of Education			\$ 8,006,576
<i>U.S. Department of Justice:</i>			
Direct Payments:			
State Criminal Alien Assistance Program	16.606	N/A	\$ 16,466
Edward Byrne Memorial Justice Assistance Grant program	16.738	N/A	45,020
Pass-Through Payments:			
Department of Criminal Justice Services:			
Crime Victim Assistance	16.575	140	53,021
Total U.S. Department of Justice			\$ 114,507
<i>U.S. Department of Transportation:</i>			
Direct Payments:			
Transportation Enhancement Activities	20.200	N/A	\$ 59,901
ARRA - Recovery Act - Highway Planning and Construction	20.205	N/A	2,027,233
Pass-Through Payments:			
Department of Motor Vehicles:			
Selective Enforcement for Speed	20.600	154	25,526
Alcohol Open Container Requirements	20.607	154	39,463
Total U.S. Department of Transportation			\$ 2,152,123
<i>U.S. Department of Interior:</i>			
Direct Payments:			
Network to Freedom	15.946	N/A	\$ 3,961
Total U.S. Department of Interior			\$ 3,961
<i>U.S. Department of Treasury:</i>			
Pass-Through Payments:			
Office of the Attorney General			
Equitable Transfer Agreement for the Abbott Laboratory	21.000	N/A	\$ 89,660
Total U.S. Department of Treasury			\$ 89,660
TOTAL			\$ 20,370,178

COUNTY OF SPOTSYLVANIA, VIRGINIA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - NOTES
Year Ended June 30, 2014

Note 1 - General

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federally assisted programs of the County of Spotsylvania, Virginia. The County's reporting entity is defined in Note 1 of the County's basic financial statements. All federal awards received directly from federal agencies, as well as federal awards passed through other government agencies, are included in the schedule.

Note 2 - Basis of Accounting

The Schedule of Expenditures of Federal Awards is presented using the modified accrual basis of accounting, which is described in Note 1 to the County's basic financial statements.

The County participated in federal programs in which non-cash benefits are provided through the Commonwealth to eligible program participants: Food Distribution Programs (CFDA Number 10.555) - The value of food commodities (\$613,048) was calculated using the U.S. Department of Agriculture's Food and Nutrition Service commodity price lists.

Note 2 - Program Clusters

	<u>CFDA</u>	<u>Expenditures</u>
National School Lunch Program	10.555	\$ 613,048
School Breakfast Program	10.553	927,711
National School Lunch Program	10.555	<u>3,510,534</u>
Total cluster		<u>\$ 5,051,293</u>
	<u>CFDA</u>	<u>Expenditures</u>
Title VIB Special Education - State Grant Program	84.027	\$ 4,194,410
Title VIB Special Education - Preschool Grants	84.173	<u>80,142</u>
Total cluster		<u>\$ 4,274,552</u>

County of Spotsylvania, Virginia
Schedule of Findings and Questioned Costs
Year ended June 30, 2014

A. Summary of Auditor's Results

1. The type of report issued on the financial statements: **Unmodified opinion**
2. Significant deficiencies in internal control disclosed by the audit of the financial statements: **None reported**
3. Material weaknesses: **Yes, 2014-01 and 2014-02**
4. Noncompliance, which is material to the financial statements: **No**
5. Significant Deficiencies in internal control over major programs: **None reported**
6. Material weaknesses: **No**
7. The type of report issued on compliance for major programs: **Unmodified opinion**
8. Audit findings which are required to be reported under Section 510(a) of OMB Circular A-133: **No**
9. The programs tested as major programs were:

<u>Name of Program</u>	<u>CFDA #</u>
Highway Planning and Construction cluster	20.205
Special Education Cluster	84.027/84.173
Temporary Assistance for Needy Families	93.558
Head Start Cluster	93.600
Foster Care	93.658
Medicaid Cluster	93.778

10. Dollar threshold to distinguish between Type A and Type B Programs: **\$611,105**
11. Spotsylvania County was determined to be a low risk auditee.

B. Findings Relating to the Financial Statements Reported in Accordance with Government Auditing Standards:

2014-01: Material Weakness – Internal Control over Financial Reporting – Prior Period Restatement

Criteria: In order to prepare financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP), accurate and complete subsidiary records must be maintained to support the existence and valuation of all assets and liabilities, revenues and expenditures/expenses to ensure an accurate presentation of the financial position at year end.

Condition and Effect: During the year end financial statement preparation process, an error related to prior fiscal years' activity was identified by Spotsylvania County School Board (School Board) finance personnel relating to previously unreported funds on hand with their self-insurance third party administrator. Consequently, as of June 30, 2013, the School Board's governmental activities' net position has been

restated by \$3,100,152 to reflect the Schools' recordation of cash on hand with a self-insurance third party administrator.

Cause: The School Board third party administrator, Anthem, confirmed to School Board management that an error in their reporting procedures prevented them from sending the School Board an account statement at June 30, 2013 detailing the accumulation of cash reserves greater than claims experience. Although subsequent months' statements were provided, the School Board's internal control processes did not identify the unrecorded amount timely enough for external financial reporting.

Recommendation: To ensure that the self-insurance activity is appropriately recorded within the School Board's financial records, we recommend that the School Board specifically confirm balances held by Anthem at least twice a year, with one confirmation being at fiscal year end, to ensure that balances are monitored and that the accurate balance is reflected in the year end financial statements.

Views of Responsible Officials:

When the school division transitioned to a self-funded health insurance plan in FY 2011, it incurred a deficit of the health insurance plan at the end of plan year 2012 and a health insurance reserve was established through its third-party health insurance administrator. This claims fluctuation reserve account was first established in FY 2013 and because this was a new initiative, the omission of the claims fluctuation reserve statement by the third-party administrator was inadvertently overlooked by Anthem and staff until several months later. Consequently, school finance personnel have met with the third-party administrator and both parties have implemented additional controls to prevent a future occurrence.

2014-02: Material Weakness – Internal Control over Financial Reporting – Prior Period Restatement

Criteria: In accordance with GAAP, derived tax revenues should be recorded as assets in the period when the underlying exchange has occurred or when resources are received, whichever is first, and as revenues in the period when the underlying exchange has occurred. When modified accrual accounting is used, resources also should be available.

Condition and Effect: Prior to year-end close, County Finance management elected to restate prior period net position to properly reflect the nature of June sales tax receipts remitted to the County from the Commonwealth in August. Although the County and Schools had historically recorded one month (May) of the sales tax remittances at fiscal year end, in accordance with GAAP, both months (May and June) should have been recorded as assets and revenues in the full accrual government-wide financial statements.

Accordingly, at the government-wide financial statement level, the County and School Board have recorded the August 2014 remittances as revenue for the fiscal year ended June 30, 2014 and restated the 2013 net positions to record the August 2013 remittances, \$1,396,621 (County) and \$2,047,896 (School Board), as revenue for the fiscal year ended June 30, 2013. This original entry to record the second month of sales tax remittances would have occurred during the implementation of GASB Statement No. 34 in 2002. The net revenue impact over the period from fiscal year 2002 to 2014 was nominal and only represented any one year-over-year difference in annual sales tax collected as 12 months of receipts were recorded in each year subsequent to the implementation.

Cause: Management elected to restate a previous error with the restatement required with the implementation of GASB Statement No. 65 in the current year.

Recommendation: Continue to record sales tax remittances going forward consistent with presentation in fiscal year 2014.

Views of Responsible Officials:

GASB Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments* (GASB34) was a historic change and represented “the largest innovation in state and local government financial reporting)” (*Journal of Accountancy* Nov. 2001). GASB34 introduced a complete new set of full accrual financial statements with related note disclosures and analysis similar to for-profit enterprises. Part of this new standard also required a reconciliation, or conversion statement, between the already prepared modified accrual fund statements and the new full accrual GASB34 statements. Due to the monumental endeavor of implementing this standard, coupled with the fact our previous external auditors drafted our CAFR at that time, County management elected to outsource the conversion required as part of this new standard. During this first year conversion in 2002, one month of sales tax earned in June and remitted by the Commonwealth to the County in late August, was not recorded. Based on the length of time between then and today we can only make assumptions that the amount was immaterial to the then-new full accrual financial statements, as it is still immaterial today. However, in fiscal year 2014 the County was mandated to restate their beginning net position (full accrual statements) due to GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. As the County was now forced to work through the process of reporting a prior period restatement, management felt it was best to explore all other areas of possible restatement to improve efficiency in future reporting periods. One such area was the reporting of sales tax revenues. Although still not material in fiscal year 2014, management recognizes the potential for the revenue line to be material in future years based on feasible changes in legislation or economic environment. As such, we felt it in the County’s interest to proceed with the restatement in the current fiscal year.

C. Findings and Questioned Costs Relating to Federal Awards:

None

D. Findings and Questioned Costs Relating to Compliance with Commonwealth of Virginia Laws, Regulations, Contracts, and Grants

2014-03: Virginia’s Initiative for Employment not Welfare (VIEW) Purchased Services

Criteria: Per the *Specifications for Audits of Counties, Cities and Towns*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia Section 3-15, an auditor is required to “Select a random sample of VIEW purchased service transactions and determine whether the services are in accordance with policy and appropriate based on the individual VIEW Participants Activity and Service Plan.”

Condition: For one of 25 VIEW disbursements tested, the County was unable to provide documentation supporting the expenditure.

Cause: The County did not follow its established procedures and policies over expenditure documentation retention.

Effect: The County’s inability to provide documentation supporting all grant expenditures may result in costs disallowed by the Commonwealth or reduced future funding for this program.

Recommendation: The County should implement a corrective action plan aimed at enhancing internal controls related to VIEW disbursements to ensure that accurate and complete documentation is maintained in accordance with County and Virginia record retention requirements.

Views of Responsible Officials:

It is management's position that this occurrence is not a reflection of the lack of internal control processes sufficient to ensure the accuracy and completeness of appropriate documentation but a lapse in the performance of an individual employee in following established, documented, and communicated policies and procedures. The employee has been counseled and case activity is being fully monitored by a senior worker and acting supervisory staff until self-sustainable improvement is demonstrated. In broader application, the agency has been engaged in the process of developing and inserting job specific criteria with associated metrics into the agency's formal employee performance evaluation protocol to facilitate the targeted and timely review and discussion of worker performance in key duties/responsibilities with accompanying appropriate action(s) needed.

Status of Prior Year Findings Relating to Federal Awards

None reported