



Martha S. Mavredes, CPA  
Auditor of Public Accounts

# Commonwealth of Virginia

## *Auditor of Public Accounts*

P.O. Box 1295  
Richmond, Virginia 23218

July 17, 2015

Audrey Davis  
Davis and Associates  
10480 Little Patuxent Parkway  
Suite 400  
Columbia, Maryland 21044

We have reviewed the working papers for the audit of the City of Manassas Park, Virginia, for the year ended June 30, 2014. The purpose of our review was to determine whether:

- A. the audit complies with the Specifications for Audits of Counties, Cities, and Towns, issued by the Auditor of Public Accounts;
- B. the audit complies with Government Auditing Standards, issued by the Comptroller General of the United States;
- C. the audit complies with Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations;
- D. the annual financial reports comply with generally accepted accounting principles for governmental entities; and
- E. the auditor has performed the agreed upon procedures for the Comparative Report Transmittal Forms as set forth in the Uniform Financial Reporting Manual, issued by the Auditor of Public Accounts.

We conducted our review in accordance with the 2014 Quality Control Review Program for Audits of Local Governments, developed by the Auditor of Public Accounts. The review was limited to the audit of the City of Manassas Park, Virginia, and did not extend to any other engagements performed by your firm.

During our review, we noted the following deficiencies that the firm should address to further enhance the quality and effectiveness of its local government audits.

### **Improve Working Paper Documentation**

*Comment* – Government Auditing Standards and American Institute of Certified Public Accountants (AICPA) standards require that audit documentation contain sufficient information to enable an experienced auditor having no previous connection with the audit to ascertain from the audit documentation the nature, timing, and extent of audit procedures performed and the evidence that supports the auditor's significant judgments and conclusions.

For some audit procedures performed, the firm's documentation was not in accordance with professional standards. Additionally, no written evidence was available to support the following areas: performance of several procedures required in APA specifications, examination of material journal entries and other adjustments made during the course of preparing the financial statements, evaluation of the government's quantitative determination of major funds to determine whether all required major funds are separately displayed in the fund financial statements, and consideration of possible management override of controls as a significant risk during the risk assessment process.

There were multiple instances in which verbal explanation from the auditor was required in order for the reviewer to understand the nature and extent of audit procedures performed. For example, for the procedures relevant to the local government's participation in the Virginia Retirement System, it was not clearly evident that all required census data in the VNAV system was tested against source documents and the audit procedure also did not mention purchase of prior year service. Through discussions with the engagement personnel, we determined the auditors completed procedures that they did not fully document in the working papers, or did not document at all. However, current auditing standards do not allow the use of oral explanations as support for work the auditor performed or conclusions reached.

Additionally, we noted numerous instances where the working papers did not contain sufficient documentation for us to determine how samples were selected. When selecting a sample of items for testing, auditing standards require the auditor to consider the relationship of the sample to the relevant audit objective, the auditor's allowable risk of incorrect acceptance or assessing control risk too low, characteristics of the population, and tolerable misstatement or the maximum rate of deviations from prescribed controls that would support the planned assessed level of control risk. During our review, we noted instances where the firm did not document the total population amount, sample size, or justification for the sample size based on the risk of material misstatement.

*Recommendation* – We recommend the firm ensure it follows all applicable standards when performing and documenting audit test work and when selecting a sample of items for testing. Specifically, we recommend the firm ensure its working papers reflect all procedures and explicitly document significant judgments and conclusions.

#### **Ensure Compliance with Most Recent GASB Pronouncements**

*Comment* – Governmental Accounting Standards Board (GASB) Statements 62, 63, and 65 required certain changes in the presentation of the financial statements and relevant footnotes. We noted several instances when the firm did not notice that the City used superseded terminology in the City of Manassas Park's fiscal year 2014 Comprehensive Annual Financial Report (CAFR). For example, the Long-Term Obligations Footnote was not compliant with GASB 65. The wording used in Footnote 1 related to the "Measurement Focus, Basis of Accounting, and Financial Statement Presentation,"

Audrey Davis, Davis and Associates  
July 17, 2015  
Page Three

was not compliant with GASB 62. The firm also did not notice the City used the following superseded terminology in the CAFR: deferred revenues and reserved /unreserved fund balance.

*Recommendation* – We recommend that when performing its audit, the firm ensures that the financial statements are in compliance with the most recent GASB pronouncements.

**Properly Project OMB A-133 Questioned Costs Identified in a Sample**

*Comment* – Office of Management and Budget (OMB) Circular A-133 sets forth standards for the audit of local governments expending federal awards and requires that the Schedule of Findings and Questioned Costs include all findings and questioned costs identified in the audit documentation which met any of the conditions identified in A-133. We noted nearly \$5,600 in known questioned costs identified in a sample within the CFDA 10.555 working papers. AICPA guidance requires the auditor to extrapolate out the 'likely questioned costs', and when likely questioned costs exceed \$10,000, the known questioned costs and a corresponding finding should be reported. In this case, we believe that the questioned costs should have been reported.

*Recommendation* – We recommend the firm exercise due professional care in complying with OMB Circular A-133 and AICPA guidance when it identifies known questioned costs during compliance audits.

We found that, for the audit of the City of Manassas Park, Virginia, for the year ended June 30, 2014, except for the deficiencies described above, the working papers appropriately supported the requirements listed in A through E above. Firms can receive a rating of pass, pass with deficiencies or fail. Davis and Associates has received a review rating of pass with deficiencies.

We discussed these matters with your firm on April 17, 2015. We will perform a follow up review in the coming year to ensure the firm has addressed the issues we noted during our review.

This report is intended for the information and use of management. However, it is a public record and its distribution is not limited.

Sincerely,

Martha S. Mavredes  
Auditor of Public Accounts

cc: City of Manassas Park  
Virginia Board of Accountancy  
Virginia Society of Certified Public Accountants