COUNTY OF LOUDOUN, VIRGINIA

Audit of Federal Awards Programs

Year ended June 30, 2010

(With Independent Auditors' Reports Thereon)

COUNTY OF LOUDOUN, VIRGINIA

Audit of Federal Awards Programs

Year ended June 30, 2010

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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 Loudoun, Virginia

We have audited the financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the County of Loudoun, Virginia (the County) as of and for the year ended June 30, 2010, and have issued our report thereon dated November 22, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Specifications for Audits of Counties, Cities, and Towns* (the Specifications) issued by the Auditor of Public Accounts of the Commonwealth of Virginia.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the County's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing an opinion on the financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information, 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.

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. Also, the Auditor of Public Accounts of the Commonwealth of Virginia requires us to test the County's compliance with certain matters specified in the Code of Virginia, including budget and appropriations laws; cash and investments; conflicts of interest; debt provisions; procurement; unclaimed property; education; Comprehensive Service Act funds; Route 28 Highway Transportation Improvement District; and Social Services. 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.

We noted certain matters that we reported to management of the County in a separate letter dated November 22, 2010.

This report is intended solely for the information and use of management, the Board of Supervisors, 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 22, 2010

KPMG LLP
2001 M Street, NW
Washington, DC 20036

Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Program, Internal Control over Compliance, and the Schedule of Expenditures of Federal Awards in Accordance with OMB Circular A-133

The Board of Supervisors
County of Loudoun Virginia

Compliance

We have audited the compliance of the County of Loudoun, Virginia (the County) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2010. 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 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. 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 requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2010.

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 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 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 weakness, 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 2010-1, 2010-2, 2010-3 and 2010-4. A significant deficiency in internal control over compliance is a deficiency, or 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.

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.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the 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, 2010, and have issued our report thereon dated November 22, 2010. Our audit was performed 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 purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of management, the Board of Supervisors, 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 22, 2010

COUNTY OF LOUDOUN, VIRGINIA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2010

Federal Granting Agency	Pass-through Agency	Program	Federal Catalog	Total 2010 Federal Expenditures
United States Office of National Drug Control Policy				
Pass through Payments:	University of Maryland	High Intensity Drug Trafficking Areas (HIDTA)	07.999	$ 321,128
	Total	**United States Office of National Drug Control Policy**		**$ 321,128**
United States Department of Agriculture				
Pass through Payments:	State Department of Education:	School Breakfast Program	10.553	$ 642,636
Pass through Payments:	State Department of Agriculture:	Food Distribution - Non-cash Commodities-National School Lunch Program	10.555	$ 868,464
Pass through Payments:	State Department of Education:	National School Lunch Program	10.555	$ 3,853,160
Pass through Payments:	State Department of Juvenile Justice:	National School Lunch Program	10.555	$ 23,968
		Total of	**10.555**	**$ 4,745,592**
Pass through Payments:	State Department of Education:	Special Milk Program for Children	10.556	$ 66,880
Pass through Payments:	State Department of Social Services:	ARRA_State Administrative Matching Grants for Food Stamp Program	10.561	$ 33,305
Pass through Payments:	State Department of Social Services:	State Administrative Matching Grants for Food Stamp Program	10.561	$ 1,023,907
		Total of	**10.561**	**$ 1,057,212**
	Total	**United States Department of Agriculture**		**$ 6,512,320**
United States Department of Commerce				
Pass through Payments:	Fairfax County, Virginia	Public Safety Interoperable Communications Grant Program	11.555	$ 921,969
	Total	**United States Department of Commerce**		**$ 921,969**
United States Department of Housing and Urban Development				
Pass through Payments:	Virginia Housing Development Authority	Housing Counseling Assistance	14.169	$ 683
Direct Payments:		Supportive Housing for Persons With Disabilities	14.181	$ 743,507
Direct Payments:		Community Development Block Grant/Entitlement Grants	14.218	$ 694,855
Pass through Payments:	State Department of Housing & Community Development	Community Development Block Grant	14.228	$ 1,875,758
Pass through Payments:	State Department of Housing and Community Development	Emergency Shelter Grants Program	14.231	$ 17,833
Direct Payments:		Supportive Housing Program - Transitional Housing Assistance	14.235	$ 168,339
Direct Payments:		ARRA - Community Development Block Grant	14.253	$ 244,615

Continued

COUNTY OF LOUDOUN, VIRGINIA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2010

Federal Granting Agency	Pass-through Agency	Program	Federal Catalog	Total 2010 Federal Expenditures
Pass through Payments:	State Department of Housing & Community Development	ARRA - Homelessness Prevention and Rapid Re-Housing Program	14.257	$ 165,152
Direct Payments:		Section 8 Housing Choice Vouchers	14.871	$ 7,356,987
	Total	**United States Department of Housing and Urban Development**		**$ 11,267,729**
United States Department of the Interior				
Direct Payments:		Payment in Lieu of Taxes	15.226	$ 2,909
	Total	**United States Department of the Interior**		**$ 2,909**
United States Department of Justice				
Pass through Payments:	State Department of Criminal Justice Services:	Juvenile Accountability Incentive Block Grant	16.523	$ 28,802
Pass through Payments:	State Department of Criminal Justice Services:	Juvenile Justice and Delinquency Prevention Allocation to States	16.540	$ 4,362
Pass through Payments:	Virginia State Police	Missing Children's Assistance	16.543	$ 6,036
Direct Payments:		Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grant	16.580	$ 368,144
Pass through Payments:	International Association of Chiefs of Police	Crime Victim Assistance/Discretionary Grants	16.582	$ 67,597
Direct Payments:		Drug Court Discretionary Grant Program	16.585	$ 20,958
Pass through Payments:	State Department of Criminal Justice Services:	Violence Against Women Formula Grants	16.588	$ 58,885
Direct Payments:		Grants to Encourage Arrest Policies and Endorsement of Protection Orders	16.590	$ 159,618
Direct Payments:		State Criminal Alien Assistance Program	16.606	$ 64,111
Direct Payments:		Edward Byrne Memorial -Drug Treatment	16.738	$ 31,601
Pass through Payments:	Department of Criminal Justice Services	Edward Byrne Memorial JAG	16.738	$ 5,517
		Total of	**16.738**	**$ 37,118**
Direct Payments:		Congressionally Recommended Awards	16.753	$ 693,520
Pass through Payments:	City of Manassas Park, Virginia	Congressionally Recommended Awards	16.753	$ 188,093
		Total of	**16.753**	**$ 881,613**
Pass through Payments:	State Compensation Board	ARRA - Edward Byrne Memorial Justice Assistance Grant (JAG) Program/ Grants to States and Territories	16.803	$ 641,485
Direct Payments:		ARRA - Edward Byrne Memorial Justice Assistance Grant (JAG) Program / Grants To Units Of Local Government	16.804	$ 26,064
	Total	**United States Department of Justice**		**$ 2,364,793**
United States Department of Transportation				
Pass through Payments:	State Department of Transportation:	Highway Planning and Construction	20.205	$ 2,554,873

Continued

COUNTY OF LOUDOUN, VIRGINIA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2010

Federal Granting Agency	Pass-through Agency	Program	Federal Catalog	Total 2010 Federal Expenditures
Pass through Payments:	State Department of Motor Vehicles:	Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grant	20.601	$ 40,790
	Total	**United States Department of Transportation**		**$ 2,595,663**
United States Environmental Protection Agency				
Direct Payments:		Congressionally Mandated Projects	66.606	$ 155,026
	Total	**United States Environmental Protection Agency**		**$ 155,026**
United States Department of Energy				
Direct Payments:		ARRA Energy Efficiency and Conservation Block Grant Program (EECBG)	81.128	$ 314,035
	Total	**United States Department of Energy**		**$ 314,035**
United States Department of Education				
Pass through Payments:	State Department of Education:	Adult Education-State Grant Program	84.002	$ 89,772
Pass through Payments:	State Department of Education:	Title I - Grants to Local Educational Agencies	84.010	$ 1,316,041
Pass through Payments:	State Department of Education:	Special Education - Grants to State	84.027	$ 9,428,578
Direct Payments:		Impact Aid	84.041	$ 154,135
Pass through Payments:	State Department of Education:	Vocational Education Basic Grants to States	84.048	$ 390,118
Pass through Payments:	State Department of Education:	Special Education - Preschool	84.173	$ 144,807
Pass through Payments:	State Department of Mental Health and Mental Retardation:	Special Education Grants for Infants and Families with Disabilities	84.181	$ 268,784
Direct Payments:		Safe and Drug-Free Schools and Communities	84.184	$ 438,929
Pass through Payments:	State Department of Education:	Safe and Drug-Free Schools and Communities State Grants	84.186	$ 95,357
Direct Payments:		Fund for Improvement of Education	84.215	$ 347,840
Pass through Payments:	State Department of Education:	State Grants for Innovative Program	84.298	$ 547
Pass through Payments:	City of Fredericksburg Virginia	Education Technology State Grants	84.318	$ 3,000
Pass through Payments:	State Department of Education:	Education Technology State Grants	84.318	$ 18,216
		Total of	**84.318**	**$ 21,216**
Pass through Payments:	State Department of Education:	English Language Acquisition Grant	84.365	$ 775,508
Pass through Payments:	State Department of Education:	Title II Improving Teacher Quality State Grants	84.367	$ 562,721
Pass through Payments:	State Department of Education:	ARRA Special Education Grants to States	84.391	$ 4,171,674
Pass through Payments:	State Department of Education:	ARRA Special Education - Preschool Grants	84.392	$ 140,412

Continued

COUNTY OF LOUDOUN, VIRGINIA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2010

Federal Granting Agency	Pass-through Agency	Program	Federal Catalog		Total 2010 Federal Expenditures
Pass through Payments:	State Department of Mental Health and Mental Retardation:	ARRA - Special Education Grants for Infants and Families with Disabilities	84.393	$	72,080
Pass through Payments:	State Department of Education:	ARRA State Fiscal Stabilization Fund (SFSF) - Education State Grants	84.394	$	17,438,287
Pass through Payments:	State Compensation Board	ARRA State Fiscal Stabilization Fund	84.397	$	8,005,221
	Total	**United States Department of Education**		**$**	**43,862,027**
United States Department of Health and Human Services					
Direct Payments:		Aging Services Network Community Based Enrollment Campaign	93.000	$	7,850
Pass through Payments:	State Department of Mental Health and Mental Retardation:	Public Health and Social Services Emergency Fund	93.003	$	875
Pass through Payments:	National Association of County and City Health Officials	Medical Reserve Corps Small Grant Program	93.008	$	5,000
Pass through Payments:	State Department for the Aging:	Special Programs for the Aging Title VII Chapter 3	93.041	$	915
Pass through Payments:	State Department for the Aging:	Special Programs for the Aging-Title III, Part D	93.043	$	6,851
Pass through Payments:	State Department for the Aging:	Special Programs for the Aging-Title III, Parts B	93.044	$	77,133
Pass through Payments:	State Department for the Aging:	Special Program for the Aging Title III, Part C-Nutrition Services	93.045	$	103,486
Pass through Payments:	State Department for the Aging:	National Family Caregiver Support	93.052	$	25,531
Pass through Payments:	State Department for the Aging:	Nutrition Services Incentive Program	93.053	$	80,768
Pass through Payments:	State Department of Mental Health and Mental Retardation:	Projects for Assistance in Transition from Homeless (PATH)	93.150	$	47,303
Direct Payments:		Projects of Regional and National Significance	93.243	$	45,274
Pass through Payments:	State Department of Social Services:	Promoting Safe and Stable Families	93.556	$	46,083
Pass through Payments:	State Department of Housing and Community Development:	Temporary Assistance for Needy Families	93.558	$	56,878
Pass through Payments:	State Department of Social Services:	Temporary Assistance for Needy Families	93.558	$	866,983
		Total of	**93.558**	**$**	**923,861**
Pass through Payments:	State Department of Social Services:	Refugee and Entrant Assistance State Administered Program	93.566	$	37,341
Pass through Payments:	State Department of Social Services:	Low-Income Home Energy Assistance	93.568	$	25,553
Pass through Payments:	State Department of Social Services:	Community Services Block Grant	93.569	$	173,636
Pass through Payments:	State Department of Social Services:	Child Care and Development Block Grant	93.575	$	1,077,885
Pass through Payments:	State Department of Social Services:	Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	$	1,093,993
Pass through Payments:	State Department of Social Services:	Chafee Education and Training Vouchers Program	93.599	$	7,815

Continued

COUNTY OF LOUDOUN, VIRGINIA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2010

Federal Granting Agency	Pass-through Agency	Program	Federal Catalog	Total 2010 Federal Expenditures
Direct Payments:		Head Start	93.600	$ 968,139
Pass through Payments:	ARRA State Department of Social Services:	Foster are-Title IV-E	93.658	$ 16,737
Pass through Payments:	State Department of Social Services:	Foster are-Title IV-E	93.658	$ 802,406
		Total of	**93.658**	**$ 819,143**
Pass through Payments:	ARRA State Department of Social Services:	Adoption Assistance	93.659	$ 13,150
Pass through Payments:	State Department of Social Services:	Adoption Assistance	93.659	$ 179,884
		Total of	**93.659**	**$ 193,034**
Pass through Payments:	State Department of Social Services:	Social Services Block Grant	93.667	$ 277,542
Pass through Payments:	State Department of Social Services:	Chafee Foster Care Independence Program	93.674	$ 11,676
Pass through Payments:	State Department for the Aging:	ARRA - Aging Home-Delivered Nutrition Services for States	93.705	$ 5,705
Pass through Payments:	State Department for the Aging:	ARRA - Aging Congregate Nutrition Services for States	93.707	$ 11,589
Direct Payments:		ARRA - Head Start	93.708	$ 38,711
Pass through Payments:	State Department of Social Services:	ARRA - Community Services Block Grant	93.710	$ 181,994
Pass through Payments:	State Department of Social Services:	ARRA Child Care And Development Block Grant	93.713	$ 182,813
Pass through Payments:	State Department of Social Services:	State Children's Insurance Program	93.767	$ 26,569
Pass through Payments:	State Department of Social Services:	Medicaid Assistance Program	93.778	$ 641,164
Pass through Payments:	State Department for the Aging:	Centers for Medicare and Medicaid Services Research, Demonstrations and Evaluations	93.779	$ 22,451
Pass through Payments:	State Department of Mental Health and Mental Retardation:	Block Grants for Community Mental Health Services	93.958	$ 38,107
Pass through Payments:	State Department of Mental Health and Mental Retardation:	Block Grant for Prevention and Treatment of Substance Abuse	93.959	$ 400,542
	Total	**United States Department of Health and Human Services**		**$ 7,606,332**
United States Corporation for National and Community Service				
Direct Payments:		Retired Seniors' Volunteer Program	94.002	$ 29,524
	Total	**United States Corporation for National and Community Service**		**$ 29,524**

Continued

COUNTY OF LOUDOUN, VIRGINIA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2010

Federal Granting Agency	Pass-through Agency	Program	Federal Catalog	Total 2010 Federal Expenditures
United States Department of Homeland Security				
Pass through Payments:	County of Fairfax, Virginia	Urban Areas Security Initiative 2007	97.008	$ 69,043
Pass through Payments:	State Department of Emergency Services	Disaster Grant - Public Assistance	97.036	$ 313,220
Pass through Payments:	State Department of Emergency Services	Emergency Management Performance Grants 2006	97.042	$ 246
Pass through Payments:	City of Manassas, Virginia	Homeland Security Grant Program 2007	97.067	$ 51,396
Pass through Payments:	City of Rockville, Maryland	Homeland Security Grant Program 2006	97.067	$ 65,460
Pass through Payments:	County of Arlington, Virginia	Homeland Security Grant Program 2008	97.067	$ 123,120
Pass through Payments:	Government of The District of Columbia	Homeland Security Grant Program 2006	97.067	$ 117,461
Pass through Payments:	Government of The District of Columbia	Homeland Security Grant Program 2007	97.067	$ 1,645,697
Pass through Payments:	Government of The District of Columbia	Homeland Security Grant Program 2008	97.067	$ 180,793
Pass through Payments:	Northern Virginia Regional Commission	Homeland Security Grant Program 2007	97.067	$ 23,293
		Total of	**97.067**	**$ 2,207,220**
Pass through Payments:	State Department of Criminal Justice Services:	Homeland Security Grant Program 2008	97.073	$ 260,132
Pass through Payments:	State Department of Emergency Services	Homeland Security Grant Program 2007	97.073	$ 24
Pass through Payments:	State Department of Emergency Services	Homeland Security Grant Program 2008	97.073	$ 26,916
		Total of	**97.073**	**$ 287,072**
	Total	**United States Department of Homeland Security**		**$ 2,876,801**
	Total	**Expenditures of Federal Awards**	**$**	**78,830,256**

See notes to Schedule of Expenditures of Federal Awards

COUNTY OF LOUDOUN, VIRGINIA

Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2010

(1) Summary of Significant Accounting Policies

(a) Reporting Entity

The accompanying schedule of expenditures of federal awards (the Schedule) includes the activity of all federal award programs administered by the County of Loudoun, Virginia (the County), and its component unit, the Loudoun County Public Schools. The County's reporting entity is defined in note 1(a) of the County's basic financial statements.

Federal award programs include direct expenditures, monies passed through to other governmental entities (i.e., payments to subrecipients), and nonmonetary assistance.

(b) Basis of Presentation

The information in the Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*. Therefore, some amounts presented in the Schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements. Federal award program titles are reported as presented in the Catalog of Federal Domestic Assistance (CFDA) in effect for the year in which the award was granted.

(c) Basis of Accounting

The Schedule has been prepared on the modified accrual basis of accounting as defined in note 1(c) of the County's basic financial statements.

(d) Matching Costs

Matching costs, the nonfederal share of certain program costs, are not included in the Schedule.

(2) Relationship to Federal Financial Reports

The regulation and guidelines governing the preparation of federal financial reports vary by federal agency and among programs administered by the same agency. Accordingly, the amounts reported in the federal financial reports do not necessarily agree with the amounts reported in the accompanying Schedule.

(3) Noncash and Other Programs

The County received $69,043 in noncapitalizable pass-through property sub-awards under the Urban Area Security Initiative grant (CFDA 97.008), $107,204 in noncapitalzable pass-through property sub-awards under the Homeland Security Grant Program (CFDA 97.067), $352,126 in capitalizable pass-through property sub-awards under the Homeland Security Grant Program (CFDA 97.067), and $921,969 in capitalizable pass-through property sub-awards under the Public Safety Interoperable Communications Grant Program (CFDA 11.555) for the year ended June 30, 2010. Such amounts are reflected in the accompanying Schedule and in the basic financial statements.

Also, due to a change in policy at the U.S. Department of Agriculture (USDA) and the Commonwealth of Virginia Department of Agriculture and Consumer Services, the value of USDA commodities remaining on hand at June 30, 2010 for CFDA number 10.555 is no longer required to be reported separately. Therefore, the amounts received are reported as federal expenditures in the accompanying Schedule.

(4) Amounts Passed-Through to Subrecipients

Grant proceeds in the amount of $494,642 and $1,178,267 were passed through to subrecipients for Congressionally Recommended Awards (CFDA 16.753) and Urban Area Security Initiative (CFDA 97.008), respectively, for the year ended June 30, 2010. It was not practicable to determine amounts passed through to subrecipients for nonmajor programs.

COUNTY OF LOUDOUN, VIRGINIA

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

I. Summary of Auditors' Results

Financial Statements

Type of auditors' report issued on the financial statements:	Unqualified
Internal control over financial reporting:	
Material weaknesses identified?	None Reported
Significant deficiencies identified that are not considered to be material weaknesses?	No
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs:	
Material weaknesses identified?	None Reported
Significant deficiencies identified that are not considered to be material weaknesses?	Yes

Major Programs with Reportable Conditions

Type of report issued on compliance for major programs:	Unqualified
Any findings which are required to be reported under Section .510(a) of OMB Circular A-133?	None Reported

Identification of major programs:

Grant Program	Federal CFDA Number
Child Nutrition Cluster	10.553, 10.555. and 10.556
Section 8 Housing Choice Voucher	14.871
Special Education (IDEA) Cluster	84.027, 84.173, 84.391, and 84.392
State Fiscal Stabilization Fund Cluster	84.394 and 84.397
Special Education-Grants for Infants and Families with Disabilities	84.181 and 84.393
Justice Assistance Grant (JAG)	16.803 and 16.804

Dollar threshold used to distinguish between Type A and Type B programs:	$2,364,908
Auditee qualified as a low-risk auditee?	Yes

II. Findings Related to Financial Statements

None Reported

III. Findings Related to Federal Awards

2010-01

Program

Section 8 Housing Choice Voucher (HCV), CFDA No. 14.871

Compliance Requirement

Rent Reasonableness Special Test and Provision

Condition

During our compliance special tests for rent reasonableness, we noted that documentation for the determination of current rent reasonableness was not available for 1 of the 50 sample items selected.

Criteria

24 CFR sections 982.507 and 982.158(f)(7)

"Comparability. The Public Housing Agency (PHA) must determine whether the rent to owner is a reasonable rent in comparison to rent for other comparable unassisted units. To make this determination, the PHA must consider: (1) The location, quality, size, unit type, and age of the contract unit; and (2) Any amenities, housing services, maintenance and utilities to be provided by the owner in accordance with the lease."

"The PHA must keep the following records for at least three years: Records to document the basis for PHA determination that rent to owner is a reasonable rent (initially and during the term of a Housing Assistant Payment (HAP) contract)."

Cause

The County could not locate the rent reasonableness documentation for the one HAP contract.

Effect

Lack of adequate rent reasonableness documentation could result in excessive HAP payments. Further, noncompliance with the rent reasonableness requirement could result in a reduction in or loss of federal funding for the HCV program.

Questioned Cost:

$ 816 out of $55,828 tested is questioned cost. The total rental assistant payments in FY2010 is $6,929,502.

Recommendation

We recommend that the County ensure that all rent reasonableness documentation for HAP contracts are properly maintained.

Views of Responsible Officials

Policies and procedures have been updated to require a rent reasonableness comparison be performed:

1. At the time of initial leasing
2. Before any increases of rent to owner
3. Or at least annually

HCV Program Division Manager will include review of the comparisons during this random client file audits.

2010-02

Program

Section 8 Housing Choice Voucher (HCV), CFDA No. 14.871

Compliance Requirement

Depository Agreement Special Provisions

Condition

During the compliance test work over the special tests and provisions, we noted that the depository agreement in effect for the County does not contain the provisions required by the U.S. Department of Housing and Urban Development (HUD) for deposits of Section 8 HCV HAP funding and administrative fee funding. We noted that the agreement does not provide third-party rights to HUD.

Criteria

24 CFR section 982.156

"The PHA must enter into an agreement with the depositary in the form required by HUD. If required under a written freeze notice from HUD to the depositary, the depositary may not permit any withdrawal by the PHA of funds held under the depositary agreement unless expressly authorized by written notice from HUD to the depositary; and the depositary must permit withdrawals of such funds by HUD. HUD must send the PHA a copy of the freeze notice from HUD to the depositary."

Cause

County does not perform a review over the depository agreement to confirm that the agreement is in compliance with the provisions required by HUD for deposits of Section 8 HAP funding and administrative fee funding.

Effect

Not maintaining a depository agreement in accordance with HUD regulations could result in a reduction in or loss of funding for the Loudoun County Section 8 HCV program.

Questioned Cost:

None

Recommendation

We recommend that the County update its depository agreement to ensure that it is in compliance with the required HUD provisions

Views of Responsible Officials

The County will open a separate, independent back account for Section 8 Housing Choice voucher program. A depository agreement that is in compliance with the provisions required by HUD will be signed.

2010-03

Program

Section 8 Housing Choice Voucher (HCV), CFDA No. 14.871

Compliance Requirement

Allowable Costs/Cost Principles

Condition

During our test work over payroll expenditures, we noted that time and effort certifications are not completed by employees that charge 100% of their time to the HCV program. We examined 15 Section 8 payroll expenditures and noted that the employees had responsibilities associated with both HCV program (CFDA 17.871) and another federal grant called Supportive Housing for Persons with Disabilities (CFDA 14.181) program. We could not obtain sufficient evidence to determine the appropriate allocation of payroll expenditures for each employee to the HCV program as there were no timesheets or time and effort certifications. Payroll accounted for approximately 8% of total HCV FY2010 program expenditures. The total payroll cost charged to the program is $706,267.

Criteria

OMB Circular No. A-87, Attachment B, 8(h):

(3) Where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi annually and will be signed by the employee or supervisory official having firsthand knowledge of the work performed by the employee.

(4) Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation which meets the standards in subsection (5) unless a statistical sampling system (see subsection (6)) or other substitute system has been approved by the cognizant Federal agency. Such documentary support will be required where employees work on:

a) More than one Federal award

b) A Federal award and a non Federal award

c) An indirect cost activity and a direct cost activity

d) Two or more indirect activities which are allocated using different allocation bases, or

e) An unallowable activity and a direct or indirect cost activity.

(5) Personnel activity reports or equivalent documentation must meet the following standards:

a) They must reflect an after the fact distribution of the actual activity of each employee

b) They must account for the total activity for which each employee is compensated

c) They must be prepared at least monthly and must coincide with one or more pay periods, and

d) They must be signed by the employee

e) Budget estimates or other distribution percentages determined before the services are performed do not qualify as support for charges to Federal awards but may be used for interim accounting purposes…"

Cause

The County's policies and procedures for the HCV program do not require the periodic submission of time and effort certifications or personnel activity reports for employees that charge time to the program.

Effect

Payroll expenditures that were charged to the HCV program during FY 2010 are not adequately supported.

Questioned Cost:

None

Recommendation

We recommend that the County update its policies and procedures to require periodic time and effort certifications for employees that expect to charge 100% of their time to the HCV program and require personnel activity reports for employees that expect to charge their time to two or more programs in compliance with federal compliance requirements.

Views of Responsible Officials

Policies and procedures have been updated to require staff:

1. Who solely work on a single federal award will complete semi-annual certifications stating that worked solely on that program for the period covered by the certification. Certifications will be signed by employee and approved by the HCV Division Manager.

2. Who work on different federal awards will complete a manual timesheet for each pay period documenting the distribution of labor spent on each federal award. Timesheets will be signed by employee and approved by HCV Division Manager.

2010-04

Program

Special Education-Grants for Infants and Families with Disabilities, CFDA No. 84.181 and 84.393

Compliance Requirement

Maintenance of Effort

Condition

During our compliance testwork over Maintenance of Effort requirement, we noted that $1,127,230 of State and local funds budgeted for expenditures in FY2010, which consisted of $121,664 State funding and $1,005,566 local funding, was less than the $1,180,676 actually expended through State and local funds in FY2009, which consisted of $205,042 State funding and $975,634 local funding.

Criteria

20 USC 1437(b)(5); 34 CFR section 303.124

" the total amount of State and local funds budgeted for expenditures in the current fiscal year for early intervention services for children eligible under this part and their families must be at least equal to the total amount of State and local funds actually expended for early intervention services for these children and their families in the most recent preceding fiscal year for which the information is available. Allowance may be made for:

1. Decreases in the number of children who are eligible to receive early intervention services under this part; and

2. Unusually large amounts of funds expended for such long-term purposes as the acquisition of equipment and the construction of facilities."

Cause

The overall reduction of the funds budgeted is a result of a reduction of the State's budget. The State's funding amount was determined by the State Department of Mental Health and Mental Retardation. The County does not have any control over the State's budget. In FY2010, the $1,005,566 funded by the County was more than FY2009 actual local expenses of $975,634.

Effect

Lack of compliance with the Maintenance of Effort requirements could result in Federal funds to be used to supplant State and Funds, which goes against the Code of Federal Regulations. Such a non-compliance may jeopardize County's ability to participate in the Federally funded Special Education for Infants and Families programs.

Questioned Cost:

None

Recommendation

We recommend that the County implement controls to ensure compliance with Maintenance of Effort requirement during their budgetary process.

Views of Responsible Officials

This program has maintained or increase service levels to clients. The funding difference is related to staff salaries and benefits. Operations expenses have remained constant for many years. Although the County cannot control the state allocation, we will ensure that during the County budget process, funding for this program remains constant.