

CITY OF FALLS CHURCH, VIRGINIA

**AUDIT OF FEDERAL AWARDS PERFORMED IN
ACCORDANCE WITH U.S. OFFICE OF MANAGEMENT
AND BUDGET CIRCULAR A-133**

Year Ended June 30, 2012

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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 Members of City Council and School Board
City of Falls Church, Virginia

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Falls Church, Virginia (the "City"), as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements, and have issued our report thereon dated December 20, 2012. 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 *Specifications for Audits of Counties, Cities, and Towns* and *Specifications for Audits of Authorities, Boards, and Commissions* issued by the Auditor of Public Accounts of the Commonwealth of Virginia.

Internal Control over Financial Reporting

Management of the City is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City'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 City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

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.

Internal Control over Financial Reporting (Continued)

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. **We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified a deficiency in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs that we consider to be a significant deficiency in internal control over financial reporting.** A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. **We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 12-1 to be a significant deficiency.**

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. **The results of our tests disclosed three instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 12-2 through 12-4.**

We noted certain other matters that we reported to management of the City in a separate letter dated December 20, 2012.

The City'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 City's responses, and accordingly, we express no opinion on them.

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

Brown, Edwards & Company, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

Harrisonburg, Virginia
December 20, 2012

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

To the Members of City Council and School Board
City of Falls Church, Virginia

Compliance

We have audited the City of Falls Church, Virginia's (the "City") compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012. The City'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 City's management. Our responsibility is to express an opinion on the City'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 City'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 on the City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

Internal Control over Compliance

Management of the City 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 City's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with *OMB Circular A-133*, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. **Accordingly, we do not express an opinion on the effectiveness of the City'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 the internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. **We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.**

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City, as of and for the year ended June 30, 2012, and have issued our report thereon dated December 20, 2012 which contained unqualified opinions on those financial statements. Our audit was performed for the purpose of forming opinions on the financial as a whole. 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 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 financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

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

Brown, Edwards & Company, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

Harrisonburg, Virginia
December 20, 2012

CITY OF FALLS CHURCH, VIRGINIA
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2012

Federal Granting Agency/Recipient State Agency/ Grant Program	Federal CFDA Number	Federal Expenditures	Total Expenditures by Cluster
U.S. Department of Agriculture			
Pass-through payments:			
Commonwealth of Virginia Department of Agriculture and Consumer Services			
National School Lunch Program	10.555	\$ 121,180	
School Breakfast Program	10.553	9,256	
Subtotal for Cluster			\$ 130,436
Total U.S. Department of Agriculture		130,436	130,436
US Department of Treasury			
Direct payments:			
Seized assets	21.000	81,417	81,417
		81,417	81,417
U.S. Department of Homeland Security			
Direct payments:			
United States Secret Service			
High Intensity Drug Trafficking Area	97.000	14,261	14,261
Total U.S. Department of Homeland Security		14,261	14,261
U.S. Environmental Protection Agency			
Pass-through payments:			
Virginia Department of Environmental Quality			
Congressionally Mandated Projects	66.202	7,946	7,946
Total U.S. Environmental Protection Agency		7,946	7,946
U.S. Department of Housing and Urban Development			
Pass-through payments:			
County of Arlington, Virginia:			
Community Development Block Grants/Entitlement Grants	14.218	48,577	48,577
Home Investments Partnership Program	14.239	76,417	76,417
Total U.S. Department of Housing and Urban Development		124,994	124,994
U.S. Department of Justice			
Direct payments:			
Recovery Act	16.000	10,830	10,830
Seized assets	16.000	66,874	66,874
Pass-through payments:			
County of Loudoun			
Congressionally Recommended Awards	16.753	29,523	29,523
Total U.S. Department of Justice		107,227	107,227
U.S. Department of Transportation			
Pass-through payments:			
Commonwealth Virginia Department of Transportation			
Highway Planning and Construction	20.205	557,251	
Recovery Act - Highway Planning and Construction	20.205	104,980	
Subtotal for Cluster			662,231
State and Community Highway Safety	20.600	8,119	8,119
Total U.S. Department of Transportation		670,350	670,350

See accompanying notes to the schedule.

CITY OF FALLS CHURCH, VIRGINIA
Schedule of Expenditures of Federal Awards (Continued)
For the Year Ended June 30, 2012

Federal Granting Agency/Recipient State Agency/ Grant Program	Federal CFDA Number	Federal Expenditures	Total Expenditures by Cluster
U.S. Department of Education			
Pass-through payments:			
Commonwealth of Virginia Department of Education:			
Special Education - Grants to States	84.027	409,267	
Recovery Act - Special Education Grants to States	84.391	145,756	
Special Education - Preschool Grants	84.173	10,382	
Recovery Act - Special Education - Preschool Grants	84.392	15,009	
Subtotal for Cluster			580,414
Title I - Grants to Local Educational Agencies	84.010	35,072	35,072
Safe and Drug-free Schools and Communities - State Grants	84.186	2,786	2,786
English Language Acquisition Grants	84.365	15,557	15,557
Improving Teacher Quality State Grants	84.367	24,797	24,797
Recovery Act - State Fiscal Stabilization Fund (SFSF) - Education, State Grants (Education Jobs Fund)	84.410	214,962	214,962
Vocational Education - Basic Grants to States	84.048	11,547	11,547
 Total U.S. Department of Education		885,135	885,135
 Total Expenditures of Federal Awards		\$ 2,021,766	\$ 2,021,766

See accompanying notes to the schedule.

CITY OF FALLS CHURCH, VIRGINIA

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2012**

Note 1: Basis of Presentation

The accompanying schedule of expenditures of federal awards is presented on the modified accrual basis of accounting as contemplated by generally accepted accounting principles.

The information presented in this Schedule is presented in accordance with OMB-Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the City's CAFR.

Note 2: Subrecipients

The accompanying Schedule of Expenditures of Federal Awards includes grants to sub-recipients during fiscal year 2012 as follows:

Subrecipient Name	Federal CFDA Number	Federal Funds Awarded
HOME Investments Partnership Program Homestretch, In.c	14.239	\$ 14,736
Community Development Block Grants/State's Program	14.218	
Falls Church Community Services		3,738
Arlington Home Ownership Made Easier		1,064
Falls Church Housing Corporation		9,910
Rebuilding Together Arlington		5,000
Total Community Development Block Grants/State's Program		19,712
Total Subrecipient Awards		\$ 34,448

Note 3: Non-Cash Assistance

The City of Falls Church participated in the National School Lunch Program, CFDA Number 10.555, which provides non-cash benefits. The accompanying Schedule of Expenditure of Federal Awards includes commodity distributions of \$31,576 from the National School Lunch Program.

CITY OF FALLS CHURCH, VIRGINIA
SUMMARY OF COMPLIANCE MATTERS
June 30, 2012

As more fully described in the Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*, we performed tests of the City's compliance with certain provisions of the laws, regulations, contracts, and grants shown below.

STATE COMPLIANCE MATTERS

Code of Virginia

Budget and Appropriation Laws

Cash and Investment Laws

Conflicts of Interest Act

Local Retirement Systems

Debt Provisions

Procurement Laws

Uniform Disposition of Unclaimed Property Act

Sheriff Internal Controls

State Agency Requirements

Education

Urban Highway Maintenance

FEDERAL COMPLIANCE MATTERS

Compliance Supplement for Single Audits of State and Local Governments

Provisions and conditions of agreements related to federal programs selected for testing.

LOCAL COMPLIANCE MATTERS

City Charter

City Code

Other City Regulations

CITY OF FALLS CHURCH, VIRGINIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2012

A. SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses an **unqualified opinion** on the financial statements.
2. **One significant deficiency** relating to the audit of the financial statements were reported in the 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*.
3. **No instances of noncompliance** material to the financial statements were disclosed.
4. **No significant deficiencies** relating to the audit of the major federal award programs were reported in the Independent Auditor's Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control over Compliance in Accordance with *OMB Circular A-133*.
5. The auditor's report on compliance for the major federal award programs expresses an **unqualified opinion**.
6. The audit disclosed **no audit findings relating to major programs**.
7. The major programs of the City are:

<u>Name of Program</u>	<u>CFDA #</u>
Title IV-B – Special Education – Grants to States	84.027
Title IV-B – Special Education – Preschool Grants	84.173
ARRA – Special Education – Grants to States	84.391
ARRA – Special Education – Preschool Grants	84.392
Highway Planning and Construction	20.205
ARRA - Highway Planning and Construction	20.205

8. The **threshold for** distinguishing Type A and B programs was **\$300,000**.
9. The City was **not** determined to be a **low-risk auditee**.

CITY OF FALLS CHURCH, VIRGINIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2012

B. FINDINGS – FINANCIAL STATEMENT AUDIT

12-1: SEGREGATION OF DUTIES (Significant Deficiency)

Condition:

One of the more important aspects of any internal control structure is the segregation of duties. In an ideal system of internal controls, no individual would perform more than one duty in connection with any transaction or series of transactions. In particular, no one individual should have access to both physical assets and the related accounting records. Such access may allow errors or irregularities to occur and either not be detected or concealed. We noted segregation of duties issues related to cash receipts, write-off of receivables, and payroll at the City, and accounts payable, payroll, and journal entries at the School Board.

Recommendation:

We recommended that proper segregation of duties be implemented wherever possible.

Management's Response:

The auditee concurs with this recommendation.

C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

None.

D. FINDINGS AND QUESTIONED COSTS – COMMONWEALTH OF VIRGINIA

12-2: Highway Maintenance – Work Orders

Condition:

In our sample of twenty work orders charged to highway maintenance, we noted four in which a specific street was not identified. It could not be determined if the street was an eligible street per the Department of Transportation's annual listing. The City could incorrectly use state funds to perform maintenance on a street that is deemed ineligible by the Department of Transportation.

Recommendation:

We recommend that all work orders track the street that work is performed on.

Management Response:

The auditee concurs with the recommendation though it should be noted that 97% of streets in the City are eligible under the program.

CITY OF FALLS CHURCH, VIRGINIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2012

**D. FINDINGS AND QUESTIONED COSTS – COMMONWEALTH OF VIRGINIA
(Continued)**

12-3: Highway Maintenance – Ineligible Street

Condition:

In our sample of twenty work orders charged to highway maintenance, we noted one for which work was performed on an ineligible street.

Recommendation:

We recommend that street eligibility is determined prior to maintenance being performed.

Management's Response:

The auditee concurs with the recommendation.

12-4: Commonwealth of Virginia Disclosure Statement

Condition:

We noted that one member of the School Board failed to file their statement of economic interest as required by the *Code of Virginia*.

Recommendation:

Steps should be taken to ensure that all statements are filed and in a timely manner.

Management's Response:

The auditee concurs with the recommendation.