Office of the City Auditor

Single Audit and State Compliance Follow-Up
for the year ended June 30, 2013

Report Date: December 5, 2013
Office of the City Auditor

“Promoting Accountability and Integrity in City Operations”

Lyndon Remias, CPA, CIA  City Auditor
Gretchen Hudome, CIA  Deputy City Auditor

www.vbgov.com/cityauditor
I am pleased to communicate management’s response and planned corrective actions for the Single Audit and/or state compliance findings related to the annual financial audit of the City performed by Cherry Bekaert, LLP for the fiscal year ended June 30, 2013.

In addition to the requirements for a Single Audit, the Code of Virginia, Section 15.2-2511, requires all localities to have “all their accounts and records, including all accounts and records of their constitutional officers, audited annually as of June 30 by an independent certified public accountant in accordance with the specifications furnished by the Auditor of Public Accounts”. The Office of the City Auditor is tasked with managing the contract for this audit.

For the fiscal year ended June 30, 2013, Cherry Bekaert, LLP identified one Single Audit finding and one matter of noncompliance with State compliance requirements related to a program within the Department of Human Services. Management’s response to these findings and planned corrective action are included herein.

The Office of the City Auditor reports to City Council through the City’s Audit Committee and is organizationally independent of all other City Departments. This report is intended solely for the information and use of the Audit Committee, City Council, management, Federal awarding and pass-through entities, the Virginia Auditor of Public Accounts and affected State agencies. It is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

If you have any questions about this report, or any audit-related issue, I can be reached at 385.5872 or via email at lremias@vbgov.com.

Respectfully submitted,

Lyndon S. Remias, CPA, CIA
City Auditor

C: City Council Members
   Audit Committee Members
   Cindy Curtis, Deputy City Manager
   Andy Friedman, Director, Housing and Neighborhood Preservation
   Dannette Smith, Director, Department of Human Services
# TABLE OF CONTENTS

Transmittal Letter ....................................................................................................................... i

Purpose and Scope .................................................................................................................... 1

Single Audit and State Requirements ........................................................................................ 2

Auditee’s Responsibilities .......................................................................................................... 4

Single Audit and State Compliance Findings ............................................................................. 5

Schedule of Findings and Questioned Costs ........................................................................ APPENDIX A

Corrective Action Plans ........................................................................................................ APPENDIX B

Summary Schedule of Prior Audit Findings ........................................................................ APPENDIX C
Purpose and Scope

The purpose of this report is twofold:

1. To ensure the City’s compliance with OMB Circular A-133, Audits of State, Local Governments and Non-Profit Organizations, in regard to the auditee’s responsibilities in responding to the single audit findings of the external auditors; and,

2. To communicate management’s planned corrective action to address the comments and findings noted in the external auditor’s report.

This report documents the City’s corrective action plan(s) developed by City management concerning Single Audit and/or State compliance findings as set forth in the City’s Comprehensive Annual Financial Report (CAFR) Schedule of Findings and Questioned Costs for the fiscal year ended June 30, 2013.
Single Audit Act and State Requirements

The Single Audit Act Amendments of 1996 and OMB Circular A-133, *Audits of States, Local Governments and Non-Profits Organizations*, apply to non-Federal entities, including local governmental units, that expend $500,000 or more in Federal awards in a year. A single audit is defined as an audit which includes both the entity’s financial statements and its Federal awards. The audit procedures governed by the single audit process are performed by the City’s external auditors as part of their annual audit of the City.

A single audit includes:

- Performing an audit of the entity’s financial statements in accordance with generally accepted auditing standards and Government Auditing Standards.
- Obtaining an understanding of the entity’s internal controls over Federal programs sufficient to plan the audit to support a low assessed level of control risk for major programs.
- Determining whether the auditee has complied with laws, regulations, and the provisions of contracts or grant agreements that could have a direct and material effect on its Federal programs. There are 14 principal areas of compliance. They are:
  - Activities allowed or unallowed
  - Allowable costs/cost principles
  - Cash management
  - Davis-Bacon Act
  - Eligibility
  - Equipment and real property management
  - Matching, level of effort, earmarking
  - Period of availability of Federal funds
  - Procurement and suspension and debarment
  - Program income
  - Real property acquisition and relocation assistance
  - Reporting
  - Subrecipient monitoring
  - Special tests and provisions (as required by the awarding agency)

- Following up on prior audit findings, performing procedures to assess the reasonableness of the summary schedule of prior audit findings prepared by the auditee.
The single audit process does not limit the authority of Federal agencies to conduct or arrange for additional audits of the City’s Federal awards. However, any additional audits should be “planned and performed in such a way as to build upon the work performed by other auditors.”

The City of Virginia Beach expended $142,137,225 in Federal awards during the fiscal year ended June 30, 2013.

In addition to the requirements of the Single Audit Act, the Code of Virginia, Section 15.2-2511, requires all localities to have “all their accounts and records, including all accounts and records of their constitutional officers, audited annually as of June 30 by an independent certified public accountant in accordance with the specifications furnished by the Auditor of Public Accounts”. The Specifications for Audits of Counties, Cities, and Towns sets standards for audits of local governments in Virginia. These specifications are designed to help ensure the quality of local government audits and compliance with state laws and regulations.

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1 OMB Circular A-133, Audits of States, Local Governments and Non-Profit Organizations
Auditee Responsibilities

The auditee’s responsibilities pertaining to the single audit are outlined in OMB Circular A-133, Subpart C, Section §__.300 entitled Auditee Responsibilities. The City, as the auditee, shall:

- Identify, in its accounts, all Federal awards received and expended and the Federal programs under which they were received.
- Maintain internal control over Federal programs that provides reasonable assurance that the City is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs.
- Comply with laws, regulations, and the provisions of contracts or grant agreements related to each of its Federal programs.
- Prepare appropriate financial statements, including the schedule of expenditures of Federal awards in accordance with OMB Circular A-133, Subpart C, Section §__.310 entitled Financial Statements. This section requires the auditee to prepare financial statements that reflect its financial position, results of operations or changes in net assets, and, where appropriate, cash flows for the fiscal year audited and a schedule of expenditures of Federal awards for the same period.
- Ensure that the audits required by OMB Circular A-133 are properly performed and submitted when due.
- Follow up and take corrective action on audit findings, including preparation of a summary schedule of prior audit findings and a corrective action plan in accordance with the requirements listed in §__.315, Audit Findings Follow-Up, of the Circular.

The City makes every effort to properly identify all Federal awards and expenditures, and to maintain internal controls to provide reasonable assurance that the City is managing Federal rewards in compliance with applicable laws, regulations and the provisions of contract or grant agreements. The required annual financial statements, including the schedule of expenditures of Federal awards, and the independent auditor’s report are presented in the City’s Comprehensive Annual Financial Report (CAFR).

The FY13 Federal reporting package which includes the City’s financial statements, schedule of expenditures of Federal awards, summary of prior audit findings (if required), auditor’s reports and necessary corrective action plans will be submitted to the Federal Audit Clearinghouse and required State agencies in December 2013.
Single Audit and/or State Compliance Findings

This report addresses the requirement pertaining to the auditee’s responsibility to follow up and take corrective action on all audit findings. The FY13 Schedule of Findings and Questioned Costs, which details the external auditors’ findings, is attached as Appendix A.

The City’s external auditors identified two matters of noncompliance with Federal and State requirements which are described in the schedule of findings and questioned costs. Exhibit 1, below, provides an overview of these findings.

Exhibit 1.
Overview of Single Audit and State Compliance Findings
for the year ended June 30, 2013

<table>
<thead>
<tr>
<th>Ref#</th>
<th>Finding</th>
<th>Status</th>
<th>Status Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013-1</td>
<td><strong>14.239 HOME Investment Partnerships Program</strong></td>
<td>Corrected</td>
<td>11/21/13</td>
</tr>
<tr>
<td></td>
<td><strong>14.218 Community Development Block Grants/Entitlement Grants</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>The City had not reported its HOME and Community Development Block Grants subawards through the Federal Funding Accountability and Transparency Act Subaward Reporting System; therefore, the City of Virginia Beach was not in compliance with the Government Funding Transparency Act of 2008.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2013-2</td>
<td><strong>Child Welfare Trust</strong></td>
<td>Corrected</td>
<td>11/21/13</td>
</tr>
<tr>
<td>(State Finding)</td>
<td>Two instances where an allowance was not credited timely to the Special Welfare Account; therefore, the City is not in compliance with Section 3-15 of the Specifications for Audits of Counties, Cities and Towns.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Management has addressed these findings. Detailed corrective action plans are provided in Appendix B.

The City’s Summary Schedule of Prior Audit Findings prepared by Cherry Bekaert is included as Appendix C.
1) **Summary of Auditors’ Results**

**Financial Statements:**

Type of auditor’s report issued on the financial statements: *Unmodified*

Internal control over financial reporting:
- Material weaknesses identified: *No*
- Significant deficiencies identified: *None reported*

Noncompliance material to the financial statements noted? *No*

**Federal Awards:**

Type of auditor’s report issued on compliance for major programs: *Unmodified*

Internal control over major programs:
- Material weaknesses identified: *No*
- Significant deficiencies identified: *None reported*

Any audit findings disclosed that are required to be reported in Accordance with Section 510(a) of OMB Circular A-133? *Yes*

Identification of major federal programs:

<table>
<thead>
<tr>
<th>Name of Program</th>
<th>CFDA #</th>
</tr>
</thead>
<tbody>
<tr>
<td>Department of Agriculture:</td>
<td></td>
</tr>
<tr>
<td>Food Stamps Program - Administration</td>
<td>10.561</td>
</tr>
<tr>
<td>Department of Housing and Urban Development:</td>
<td></td>
</tr>
<tr>
<td>Community Development Block Grant</td>
<td>14.218</td>
</tr>
<tr>
<td>Home Investment Partnerships Program</td>
<td>14.239</td>
</tr>
<tr>
<td>Department of Interior:</td>
<td></td>
</tr>
<tr>
<td>Coastal Wetlands Planning, Protection and Restoration Act – Pleasure House Acquisition</td>
<td>15.614</td>
</tr>
<tr>
<td>Department of Labor:</td>
<td></td>
</tr>
<tr>
<td>Workforce Investment Act Cluster</td>
<td>17.258/17.259/17.278</td>
</tr>
<tr>
<td>Environmental Protection Agency:</td>
<td></td>
</tr>
<tr>
<td>Capitalization Grants for Clean Water State Revolving Funds – Pleasure House Point Acquisition</td>
<td>66.458</td>
</tr>
<tr>
<td>Department of Education:</td>
<td></td>
</tr>
<tr>
<td>Title I, Part A Cluster</td>
<td>84.010</td>
</tr>
<tr>
<td>School Assistance in Federally Affected Areas Cluster</td>
<td>84.041</td>
</tr>
</tbody>
</table>

Dollar threshold to distinguish between Types A and B Programs: *$3,000,000*

The City of Virginia Beach was qualified as a low risk auditee? *Yes*
2) Findings - Financial Statement Audit

None

3) Findings and Questioned Costs - Major Federal Awards Compliance

2013-1 – 14.239 HOME Investment Partnerships Program
14.218 Community Development Block Grants/Entitlement Grants

Criteria
The Government Funding Transparency Act of 2008, Pub. L. No. 111-252 requires that grant and cooperative agreement recipients and contracts register in the Federal Funding Accountability and Transparency Act Sub-award Reporting System (FSRS) and report sub-award data through FSRS.

Condition/Context
While performing our audit procedures to ensure compliance with the Government Funding Transparency Act of 2008 we noted that the City was not reporting its HOME and Community Development Block Grants sub-awards through the Federal Funding Accountability and Transparency Act Sub-award Reporting System.

Cause
Procedures were not in place to ensure sub-awards were properly reported in the Federal Funding Accountability and Transparency Act Sub-award Reporting System.

Questioned Cost
None

Effect
The City of Virginia Beach is not in compliance with the Government Funding Transparency Act of 2008.

Recommendation
We recommend a procedure be put in place to ensure all sub-awards be properly reported in the Federal Funding Accountability and Transparency Act Sub-award Reporting System.

Management’s Response
We agree. The department has taken steps to address this issue including reporting the City’s HOME and CDBG subawards in the Federal Funding Accountability and Transparency Act Subaward Reporting System (FSRS) and adding the data submission requirements to the Contracts Checklist and review process.
4) Findings and Questioned Costs – State Compliance

2013-2 – Social Services, Child Welfare Trusts

Criteria
The Code of Virginia, Section 63.2-320 requires that receipts be credited timely and accurately to Special Welfare accounts.

Condition/Context
While performing our audit procedures to ensure compliance with Section 3-15 of the Specifications for Audits of Counties, Cities and Towns, we noted two instances where an allowance was not credited timely to the Special Welfare Account.

Cause
Procedures were not in place to ensure allowances are posted in a timely manner to Special Welfare Accounts.

Effect
The City of Virginia Beach is not in compliance with Section 3-15 of the Specifications for Audits of Counties, Cities and Towns.

Recommendation
We recommend a procedure be put in place to ensure receipts are credited timely and accurately to Special Welfare Accounts.

Management's Response
We agree. The department has made changes to their procedures to ensure that Special Welfare funds are posted in a timely manner. These changes include requiring a second person review and reconcile the report of collections and individual accounts monthly and enlisting the assistance of the City Treasurer’s Office to ensure frequent and timely reporting of the social security payments received.

5) Resolution of Prior Year's Findings

2012-1 Corrected
2012-2 Corrected
2012-3 Corrected
City of Virginia Beach

Corrective Action Plan

FY13 Single Audit and/or State Compliance Finding 2013-1
14.239 HOME Investment Partnerships Program
14.218 Community Development Block Grants/Entitlement Grants

Finding: While performing our audit procedures to ensure compliance with the Government Funding Transparency Act of 2008, we noted that the City was not reporting its HOME and Community Development Block Grants subawards through the Federal Funding Accountability and Transparency Act Subaward Reporting System.

Criteria: The Government Funding Transparency Act of 2008, Pub. L. No. 111-252 requires that grant and cooperative agreement recipients and contracts register in the Federal Funding Accountability and Transparency Act Subaward Reporting System (FSRS) and report subaward data through FSRS.

Cause: Procedures were not in place to ensure that subawards were properly reported in the Federal Funding Accountability and Transparency Act Subaward Reporting System.

Effect: The City of Virginia Beach is not in compliance with the Government Funding Transparency Act of 2008.

Recommendation: We recommend a procedure be put in place to ensure that all subawards be properly reported in the Federal Funding Accountability and Transparency Act Subaward Reporting System.

Response: ☑ Agree ☐ Disagree

Corrective Action: The department has taken steps to address this issue including reporting the City’s HOME and CDBG subawards in the Federal Funding Accountability and Transparency Act Subaward Reporting System (FSRS) and adding the data submission requirements to the Contracts Checklist and review process.

Department: Department of Housing and Neighborhood Services

Status: ☑ Resolved ☐ Unresolved
Finding: While performing our audit procedures to ensure compliance with Section 3-15 of the Specifications for Audits of Counties, Cities and Towns, we noted two instances where an allowance was not credited timely to the Special Welfare Account.

Criteria: The Code of Virginia, Section 63.2-320 requires that receipts be credited timely and accurately to Special Welfare accounts.

Cause: Procedures were not in place to ensure allowances are posted in a timely manner to Special Welfare Accounts.

Effect: The City of Virginia Beach is not in compliance with Section 3-15 of the Specifications for Audits of Counties, Cities and Towns.

Recommendation: We recommend a procedure be put in place to ensure receipts are credited timely and accurately to Special Welfare Accounts.

Response: ☑ Agree ☐ Disagree

Corrective Action: The department has made changes to their procedures to ensure that Special Welfare funds are posted in an accurate and timely manner. These changes include requiring a second person review and reconcile the report of collections and individual accounts monthly; and, enlisting the assistance of the City Treasurer’s Office to ensure frequent and timely reporting of the social security payments received.

Department: Department of Human Services

Status: ☑ Resolved ☐ Unresolved
## City of Virginia Beach

### Summary Schedule of Prior Audit Findings

As of November 20, 2013

<table>
<thead>
<tr>
<th>Ref#</th>
<th>Finding</th>
<th>Status</th>
<th>Status Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012-1</td>
<td><strong>Special Welfare Trust</strong></td>
<td>Corrected</td>
<td>11/20/13</td>
</tr>
<tr>
<td>(State Finding)</td>
<td>One instance where an allowance of $140 was posted to the wrong individual’s account and not corrected in a timely manner. Procedures were not in place to ensure that receipts are recorded to the proper individual’s account; therefore, the City is not in compliance with Section 3-15 of the <em>Specifications for Audits of Counties, Cities and Towns</em>.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2012-2</td>
<td><strong>Special Welfare Trust</strong></td>
<td>Corrected</td>
<td>11/20/13</td>
</tr>
<tr>
<td>(State Finding)</td>
<td>Two instances where the balance for a child who left the agency’s custody were not properly refunded to the applicable funding source or escheated to the State. The total amount of $772 should have been refunded or escheated on a more timely basis. Procedures were not in place to ensure balances of individuals who leave the agency’s custody are properly refunded to the applicable funding sources or escheated to the State; therefore, the City is not in compliance with Section 3-15 of the <em>Specifications for Audits of Counties, Cities and Towns</em>.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2012-3</td>
<td><strong>SNAPET</strong></td>
<td>Corrected</td>
<td>11/20/13</td>
</tr>
<tr>
<td>(State Finding)</td>
<td>Two months where a temporary employee’s salary was reported to SNAPET when it should have been reported to VIEW. Procedures were not in place to ensure expenditures are reported to the correct program; therefore, the City is not in compliance with Section 3-15 of the <em>Specifications for Audits of Counties, Cities and Towns</em>.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

NOTE: Status updated from FY13 Schedule of Findings and Questioned Costs.