



**COUNTY OF SPOTSYLVANIA, VIRGINIA**

**COMPLIANCE REPORTS**

*For the Year Ended June 30, 2016*

**COUNTY OF SPOTSYLVANIA, VIRGINIA**

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**Report of Independent Auditor on Internal Control over Financial Reporting  
and on Compliance and Other Matters Based on an Audit of Financial Statements  
Performed in Accordance with *Government Auditing Standards***

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and the *Specifications for Audits of Counties, Cities and Towns*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia, the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the County of Spotsylvania, Virginia (the "County"), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated November 17, 2016. That report recognizes that the County implemented a new accounting standard effective July 1, 2015. That report included an emphasis paragraph indicating that the governmental activities' and discretely presented component unit's net position balances as of June 30, 2015 have been restated.

### **Internal Control over Financial Reporting**

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

*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. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items 2016-001 and 2016-002, which we consider to be material weaknesses.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the County's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and one instance required to be reported under the *Specifications for Audits of Counties, Cities and Towns*, which is described in the accompanying schedule of findings and questioned costs as item 2016-005.

### **County of Spotsylvania, Virginia's Responses to Findings**

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

### **Purpose of this Report**

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

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

Richmond, Virginia  
November 17, 2016

**Report of Independent Auditor on Compliance for Each Federal Major Program  
and on Internal Control over Compliance Required by the Uniform Guidance**

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

**Report on Compliance for Each Major Federal Program**

We have audited the County of Spotsylvania, Virginia's (the "County") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the County's major federal programs for the year ended June 30, 2016. The County's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

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

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of the County's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

***Basis for Qualified Opinion on Medical Assistance Program (Medicaid Cluster)***

As described in the accompanying schedule of findings and questioned costs as item 2016-003, the County did not comply with the eligibility requirements of the Medical Assistance Program (Medicaid Cluster - CFDA 93.778). Compliance with such requirements is necessary, in our opinion, for the County to comply with the requirements applicable to that program.

***Qualified Opinion on Medical Assistance Program (Medicaid Cluster)***

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, the County complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the Medical Assistance Program (Medicaid Cluster - CFDA 93.778) for the year ended June 30, 2016.

***Unmodified Opinion on Each of the Other Major Federal Programs***

In our opinion, the County complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its other major federal programs identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs for the year ended June 30, 2016.

**Other Matters**

The results of our auditing procedures disclosed another instance of noncompliance, which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as item 2016-004. Our opinion on each major federal program is not modified with respect to this matter.

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

**Report on Internal Control over Compliance**

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

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be a material weakness and a significant deficiency.

*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. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2016-003 to be a material weakness.

*A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2016-004 to be a significant deficiency.

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

**Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance**

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the County, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the County's basic financial statements. We issued our report thereon dated November 17, 2016, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for the purposes of additional analysis as required by the Uniform Guidance and is not a required part of the financial statements.

Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

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

*Cheryl Behrnt CP*

Richmond, Virginia  
December 22, 2016

# COUNTY OF SPOTSYLVANIA, VIRGINIA

## SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2016

Federal Agency	Pass-thru Entity	Program Title	Federal CFDA Number	Cluster Name	Pass-through Entity Identifying Number	Federal Expenditures	Cluster Total	Program Total	Passed Through to Subrecipients		
U.S. Department of Agriculture	Virginia Department of Agriculture Food and Nutrition Service	National School Lunch Program - Commodities	10.555	Child Nutrition Cluster	Not available	\$ 646,026					
		Virginia Department of Education	School Breakfast Program	10.553	Child Nutrition Cluster	17901-40253 17901-40591	1,121,241				
	Virginia Department of Education	National School Lunch Program	10.555	Child Nutrition Cluster	17901-40254	3,752,663					
		National School Lunch Program - Total	10.555						4,398,689		
		Child Nutrition Cluster - Total			17901-40623			5,519,930			
	Virginia Department of Social Services	State Administrative Matching Grants for Supplemental Nutrition Assistance Program	SNAP Cluster	10.561		84322-90212 85503-91103 85803-91403 85504-91104 85804-91404	817,671	817,671			
			<b>Total U.S. Department of Agriculture</b>				<u>6,337,601</u>				
			U.S. Department of Defense	Direct Payments	Junior ROTC Program	12.000	<b>Total U.S. Department of Defense</b>	not applicable	<u>151,887</u>		
									<u>151,887</u>		
	U.S. Department of Health and Human Services	Direct Payments	Head Start	93.600		not applicable	848,788				
Virginia Department of Social Services			Promoting Safe and Stable Families	93.556		85529-91129 86601-90359 86602-90360 86605-90361	64,538				
Virginia Department of Social Services		Temporary Assistance for Needy Families	TANF Cluster	93.558		80801-90603 85509-91109 85510-91110 85511-91111 85512-91112 85527-91127 86701-90621 87201-90365 87202-90366 87207-90377	640,562	640,562			
			Refugee and Entrant Assistance_State Administered Programs	93.566		81901-90623 85513-91113	2,508				
			Virginia Department of Social Services	Low-Income Home Energy Assistance	93.568		85514-91114	43,346			
			Virginia Department of Social Services	Child Care and Development Block Grant	93.575	Child Care Cluster	88801-90564	(3,192)			
Virginia Department of Social Services		Child Care Mandatory and Matching Funds of the Child Care and Development Fund	Child Care Cluster	93.596		85516-91116 85517-91117 85518-91118 87102-90541	66,740				
			<b>Child Care Cluster - Total</b>					63,548			

See accompanying notes to the schedule of expenditures of federal awards.



**COUNTY OF SPOTSYLVANIA, VIRGINIA**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

*YEAR ENDED JUNE 30, 2016*

Federal Agency	Pass-thru Entity	Program Title	Federal CFDA Number	Cluster Name	Pass-through Entity Identifying Number	Federal Expenditures	Cluster Total	Program Total	Passed Through to Subrecipients
Virginia Department of Social Services	Virginia Department of Social Services	Chafee Education and Training Vouchers Program (ETV)	93.599		86101-90353		8,041		
Virginia Department of Social Services	Virginia Department of Social Services	Stephanie Tubbs Jones Child Welfare Services Program	93.645		85531-91131		2,743		
Virginia Department of Social Services	Virginia Department of Social Services	Foster Care_Title IV-E	93.658		81107-90636 81108-90637 81110-90639 81112-90657 81113-90658 81601-90608 84319-90209 85505-91105 85506-91106 85507-91107 85533-91133 85538-91138 85547-91147 85548-91148 85805-91405 85806-91406 85807-91407 85833-91433 85838-91438 85847-91447 85848-91448 87301-90047 87302-90368	750,006			
Virginia Department of Social Services	Virginia Department of Social Services	Adoption Assistance	93.659		81201-90606 81202-90627 81203-90607 84324-90214 85508-91108 85808-91408		412,255		
Virginia Department of Social Services	Virginia Department of Social Services	Social Services Block Grant	93.667		81701-90648 82905-90358 83304-90340 85520-91120 85522-91122 85523-91123 85524-91124 85525-91125 85526-91126 85542-91142 86401-90351 89501-90379		420,982		
Virginia Department of Social Services	Virginia Department of Social Services	Chafee Foster Care Independence Program	93.674		85534-91134 86201-90356		13,244		
Virginia Department of Social Services	Virginia Department of Social Services	Children's Health Insurance Program	93.767		85202-90172 85502-91102 85802-91402		34,273		

*See accompanying notes to the schedule of expenditures of federal awards.*

**COUNTY OF SPOTSYLVANIA, VIRGINIA**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

*YEAR ENDED JUNE 30, 2016*

Federal Agency	Pass-thru Entity	Program Title	Federal CFDA Number	Cluster Name	Pass-through Entity Identifying Number	Federal Expenditures	Cluster Total	Program Total	Passed Through to Subrecipients
	Virginia Department of Social Services	Medical Assistance Program	93.778	Medicaid Cluster	84323-90213 85201-90171 85501-91101 85546-91146 85550-91150 85801-91401 85846-91446 85850-91450	1,035,661	1,035,661		
				<b>Total U.S. Department of Health and Human Services</b>		<b>4,340,495</b>			
U.S. Department of Homeland Security	Direct Payments	Staffing for Adequate Fire and Emergency Response (SAFER)	97.083		not applicable	638,346			
	Direct Payments	Assistance to Firefighters Grant	97.044		not applicable	239,213			
	Virginia Department of Emergency Management	Emergency Management Performance Grants	97.042		77501-62744 77501-62745	49,440			
				<b>Total U.S. Department of Homeland Security</b>		<b>926,999</b>			
U.S. Department of Education	Direct Payments	Impact Aid	84.041		not applicable	133,445			
	Virginia Department of Education	Adult Education - Basic Grants to States	84.002		17901-42801 17901-61380	344,787			
	Virginia Department of Education	Title I Grants to Local Educational Agencies	84.010		17901-42901	2,379,429			
	Virginia Department of Education	Title I State Agency Program for Neglected and Delinquent Children and Youth	84.013		17901-42948 18102-86594	38,696			
	Virginia Department of Education	Special Education_Grants to States	84.027	Special Education Cluster	17901-43071 17901-60180 17901-61215	4,376,121			
	Virginia Department of Education	Career and Technical Education - Basic Grants to States	84.048		17901-61095	214,378			
	Virginia Department of Education	Special Education_Preschool Grants	84.173	Special Education Cluster	17901-60957 17901-62521	89,411			
				<b>Special Education Cluster - Total</b>			<b>4,465,532</b>		
	Virginia Department of Education	English Language Acquisition State Grants	84.365		17901-60509 17901-60512 17901-60760	107,020			
	Virginia Department of Education	Mathematics and Science Partnerships	84.366		17901-60730	16,651			
	Virginia Department of Education	Supporting Effective Instruction State Grant	84.367		17901-61480	537,610			
				<b>Total U.S. Department of Education</b>		<b>8,237,548</b>			

*See accompanying notes to the schedule of expenditures of federal awards.*

**COUNTY OF SPOTSYLVANIA, VIRGINIA**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)**

*YEAR ENDED JUNE 30, 2016*

Federal Agency	Pass-thru Entity	Program Title	Federal CFDA Number	Cluster Name	Pass-through Entity Identifying Number	Federal Expenditures	Cluster Total	Program Total	Passed Through to Subrecipients
U.S. Department of Justice	Direct Payments	State Criminal Alien Assistance Program	16.606		not applicable	6,217			6,217
	Direct Payments	Edward Byrne Memorial Justice Assistance Grant Program	16.738		not applicable	22,108			
	Virginia Department of Criminal Justice Services	Crime Victim Assistance	16.575		39001-86015	93,907			
				<b>Total U.S. Department of Justice</b>		<b>122,232</b>			
U.S. Department of Transportation	Direct Payments	Highway Research and Development Program	20.200		not applicable	58,104			
	Virginia Department of Motor Vehicles	State and Community Highway Safety	20.600	Highway Safety Cluster	60507-55028	43,806	43,806		
	Virginia Department of Motor Vehicles	Alcohol Open Container Requirements	20.607		60507-55027	73,060			
				<b>Total U.S. Department of Transportation</b>		<b>174,970</b>			
U.S. Department of Treasury	Office of the Attorney General	Equitable Transfer Agreement for the Abbott Laboratory	21.000		not available	156,810			
				<b>Total U.S. Department of Treasury</b>		<b>156,810</b>			
				<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>		<b>\$ 20,448,542</b>			

*See accompanying notes to the schedule of expenditures of federal awards.*

**COUNTY OF SPOTSYLVANIA, VIRGINIA**  
**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

*YEAR ENDED JUNE 30, 2016*

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**Note 1 - General**

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

**Note 2 - Basis of Accounting**

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

The County participated in federal programs in which non-cash benefits are provided through the Commonwealth to eligible program participants: Food Distribution Programs (CFDA Number 10.555). The value of food commodities (\$646,026) was calculated using the U.S. Department of Agriculture's Food and Nutrition Service commodity price lists.

**Note 3 - Indirect Costs**

The County has not elected to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

**COUNTY OF SPOTSYLVANIA, VIRGINIA**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

YEAR ENDED JUNE 30, 2016

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**A. Summary of Auditor's Results**

**Financial Statement Section**

1. The type of auditor's report issued: **Unmodified opinion**
2. Significant deficiencies in internal controls over financial reporting: **None reported**
3. Material weaknesses in internal controls over financial reporting: **Yes, 2016-001 and 2016-002**
4. Noncompliance, which is material to the financial statements: **No**

**Federal Awards Section**

5. Significant deficiencies in internal control over major programs: **Yes, 2016-004**
6. Material weaknesses in internal controls over major programs: **Yes, 2016-003**
7. The type of report issued on compliance for major programs:

**Qualified opinion** regarding eligibility of the Medical Assistance Program (Medicaid Cluster - CFDA Number 93.778).

**Unmodified opinions** over other applicable compliance requirements for all other major programs.

8. Audit findings which are required to be reported under the Uniform Guidance: **Yes**
9. The programs tested as major programs were:

<u>Name of Program</u>	<u>CFDA #</u>
Child Nutrition Cluster	10.553 and 10.555
SNAP Cluster	10.561
Special Education Cluster	84.027 and 84.173
Medical Assistance Program (Medicaid Cluster)	93.778

10. Dollar threshold to distinguish between Type A and Type B Programs: **\$750,000**
11. Spotsylvania County was determined to be a high risk auditee.

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

**2016-001: Material Weakness – Financial Reporting**

**Condition:** Subsequent to the issuance of the financial statements for the fiscal year ended June 30, 2015, the Spotsylvania County Public Schools ("Schools") determined that the reported amount of contributions to the Virginia Retirement System ("VRS") as deferred outflows was erroneously understated by \$2,290,520. This under recording was not in accordance with accounting principles generally accepted in the United States of America (GAAP).

# COUNTY OF SPOTSYLVANIA, VIRGINIA

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2016

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**Criteria:** The *Code of Virginia* requires the County to file annual financial statements prepared in all material respects in accordance with GAAP.

**Cause:** Fiscal Year (FY) 2015 marked the first year of new GAAP requirements related to VRS pension activity. Schools' Finance staff interpreted the requirements to exclude the summer VRS payment for ten and eleven month employees as an expense.

**Effect:** Schools' governmental activities net position at June 30, 2015 was understated by \$2,290,520. The effect of this error has been corrected in the June 30, 2016 Statement of Activities by restating beginning net position.

**Recommendation:** The Schools' finance staff already made the appropriate correction within their financial system. We recommend that the Schools continue to apply the revised methodology in future financial statements.

**Views of responsible officials and planned corrective actions:** GASB 68 accounting standard was issued to improve the accounting and financial reporting by state and local governments for pensions and was first implemented during the FY15 audit. As part of the FY15 audit, the portion of the pooled teacher plan was recorded on the CAFR. In completing the calculations to reclass the FY15 employer contributions as a deferred outflow of resources, school finance had to separate the VRS employer contributions for the pooled teacher plan and the non-professional plan. After much thought and discussion a data dump of payroll data for FY15 was completed to determine the amount of the VRS contributions to the teacher pooled plan. After receiving the actuarial data from VRS for the FY16 audit on September 8, 2016, which states the amount of FY15 employer contributions for the teacher pool, the difference of the numbers were noted. After discussions and analyzing the data from the snapshot, it was determined that the methodology of determining the employer contributions would give a more accurate account if it were determined from the July to June snapshots for that particular year on the contribution basis and not including the deferral basis from payroll data (paying VRS over 12 checks instead of 10 during the fiscal year). As corrective action, for the FY16 audit and future, our methodology will be using the VRS snapshot on a creditable compensation basis from July to June of each year to record the employer contributions for the fiscal year. In addition, with the MUNIS system implementation the school finance department will be moving towards paying VRS on a 10 pay basis verses a 12 pay basis.

### 2016-002: Material Weakness – Financial Reporting

**Condition:** Subsequent to the issuance of the financial statements for the fiscal year ended June 30, 2015, Spotsylvania County ("County") determined that the reported capital asset related balances were inaccurately overstated in the Statement of Net Position by \$2,292,222 and not in accordance with GAAP. The County discovered this condition when reviewing historical capital asset activity as part of a new financial system implementation. Of the County's more than 3,800 assets reviewed, one (1) was capitalized when it should have been expensed and twenty-nine (29) were determined to have not been depreciated in error.

**Criteria:** The *Code of Virginia* requires the County to file annual financial statements prepared in all material respects in accordance with GAAP.

**Cause:** Prior to 2008, the County did not have appropriate policies and procedures in place surrounding the financial close and reporting process to ensure that the financial statements were prepared in accordance with GAAP and free of material misstatement. Since that time, controls over capital assets have been improved to include a quality review of each addition by the County's Accounting Manager. It was noted that all of the capital assets included in the restatement were from 2006 and earlier, before the County's improved control procedures were implemented.

# COUNTY OF SPOTSYLVANIA, VIRGINIA

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2016

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**Effect:** At June 30, 2015, governmental activities' capital assets and net position were overstated by \$2,292,222. The effect of this error has been corrected in the June 30, 2016 Statement of Activities by restating beginning net position.

**Recommendation:** We recommend that the County continue to follow its financial close and reporting process, including the review of capital asset activity to ensure that only valid costs are capitalized and that all assets which should be subjected to depreciation are, in fact, depreciated.

**Views of responsible officials and planned corrective actions:** Management agrees with the above finding and will continue to follow its current financial close and reporting processes.

### C. Findings and Questioned Costs Relating to Federal Awards:

#### 2016-003: Material Weakness and Material Noncompliance: Eligibility (Repeat Finding – 2015-001)

**Program:** Medical Assistance Program (Medicaid Cluster) (CFDA Number 93.778 - U.S. Department of Health and Human Services - Virginia Department of Social Services; Federal Award Number: not available; Federal Award Year: 2016)

**Criteria:** Participants in the Medicaid program must meet specified eligibility criteria to receive program assistance. For participants in the program longer than one year, a redetermination of eligibility is required to be performed at least every twelve months.

**Condition:** As of June 2016, the County had over 900 Medicaid participants whose eligibility redeterminations were past due (i.e., eligibility had not been verified within the last twelve months).

**Cause:** The County did not follow established policies and procedures for complying with the program's requirements for timely redetermination of participant eligibility.

**Questioned Costs:** Undeterminable.

**Recommendation:** The County should implement a plan to enhance internal controls related to participant's eligibility to ensure redeterminations are performed on timely basis in accordance with program requirements.

**Views of Responsible Officials:** Timely completion of Medicaid has been a state wide issue since February 2014 and then continuing through 2016 for a large number of local social services agencies. Primary causes to the lack of timely processing are the increase in volume of Medicaid applications that accompanied the deployment of the Affordable Care Act (ACA), the concurrent state transition in systems supporting Medicaid eligibility determination and case management (completed September 2015 but with lingering issues), and a lack of staffing resources available to meet the increased volume. In October 2013 the state transitioned a limited number of Medicaid categories from the existing system of ADAPT to VaCMS. The new system had a number of deployment issues and was inconsistent in both ability and availability though March 2014, creating significant backlogs in Medicaid renewals. The agency has dedicated resources (overtime, temporary part time, and reassignment of workers) to addressing the issues of overdue renewals, and as of November 7, 2016 had reduced the number of overdue renewals to 565, down from a high of 1,778 in March 2015. The audit finding cites the number of participants (enrollees), not the number of cases. Cases are subject to renewal, not the individual enrollees. Even so, approximately 93% of the Medicaid caseload is current with renewals, within 4 points of federal performance target of 97%. Additional resources were requested in the FY 2017 budget process to support on-going cases and reduce the utilization of overtime and temporary part-time workers but were not approved; resources are again requested in the FY 2018 budget.

# COUNTY OF SPOTSYLVANIA, VIRGINIA

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2016

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### **2016-004: Significant Deficiency and Noncompliance: Allowable Costs (Repeat Finding – 2015-002)**

**Program:** Medical Assistance Program (Medicaid Cluster) (CFDA Number 93.778 - U.S. Department of Health and Human Services - Virginia Department of Social Services; Federal Award Number: not available; Federal Award Year: 2016); Supplemental Nutrition Assistance Program Cluster (CFDA Number 10.561 - U.S. Department of Health and Human Services - Virginia Department of Social Services; Federal Award Number: not available; Federal Award Year: 2016)

**Condition:** For two of twenty-five forms sampled, the RMS Observation Form report was not completed properly.

**Criteria:** Local social service departments are required to participate in Virginia's Department of Social Services "Random Moment Sampling" process. A Random Moment Sampling (RMS) Observation Form is used to document the specific program and activity a worker is engaged in at a randomly selected moment in time. The information reported on the RMS Observation Form is used to determine how various programs will be funded with local, state, and federal dollars. The RMS process allows localities to identify and allocate activities carried out by its service and benefit workers without keeping minute-by-minute records of activities during the day.

**Cause:** The County did not follow established policies and procedures for complying with the Commonwealth's requirements for the RMS Observation Forms.

**Effect:** The adequacy of the Commonwealth's system to draw down available federal funds to finance this program is dependent on the willingness and ability of local Social Service departments to accurately identify the work that staff is performing at the selected observation moment. The County's noncompliance could result in improper allocation of certain program expenses.

**Questioned Costs:** Undeterminable.

**Recommendation:** The County should implement internal controls to ensure compliance with the Commonwealth's RMS Observation Form process.

**Views of Responsible Officials:** Policies are in place for the complying with RMS requirements. The two forms that were noted as not being completed properly escaped correction at time of submission due to the RMS Coordinator experiencing an unusual lapse in diligence compounded by the transition of the state to a new reporting RMS format. In fall of 2015 it was announced the state would be migrating to the use of on-line reporting system; deployment to occur in January 2016. Deployment was deferred to February 2016. The state migrated ran a dual system from February 2016 through June 2016 before fully transitioning to the on-line system. Both errors in completion of forms occurred during this transition period.



**COUNTY OF SPOTSYLVANIA, VIRGINIA**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

YEAR ENDED JUNE 30, 2016

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

**2016-005: Property Taxes and Property Taxes Receivable - Noncompliance**

**Condition:** For one (1) of twenty-five (25) abatements tested, the County was unable to provide documentation supporting proper approval.

**Criteria:** Per Section 2-4 of the *Specifications for Audits of Counties, Cities and Towns*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia, an auditor is required to "select a sample of abatement forms and determine whether they have been properly approved."

**Cause:** The County did not follow its established procedures and policies for the approvals of abatements.

**Effect:** Ineffective controls over the approval of tax abatements cause inaccurate recorded tax revenues.

**Recommendation:** The County should implement a corrective action plan aimed at enhancing internal controls related to the approval of tax abatements.

**Views of Responsible Officials:** Management agrees with above finding and has implemented controls to address this weakness. To ensure future compliance, the Commissioner of Revenue is requesting within the fiscal year 2018 budget to fully fund an available personal property clerk position. The Treasurer will also be requesting a new part-time position.

**E. Status of Prior Year Findings**

**2015-001** – Repeated as 2016-003

**2015-002** – Repeated as 2016-004

**2015-003** – Not repeated

**2015-004** – Not repeated

**2015-005** – Not repeated