



**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 Honorable Members of City Council  
City of Newport News, Virginia

We have audited the financial statements of the City of Newport News, Virginia (the "City") as of and for the year ended June 30, 2004, and have issued our report thereon dated January 20, 2005. 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*, 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 City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We note no matters involving the internal control over financial reporting and its operation that we consider to be a material weakness.

We did note other matters involving internal control over financial reporting that we have reported to management of the City of Newport News, Virginia in a separate letter dated January 20, 2005.

**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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the City Council, management, federal and state awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Cherry, Bekaert & Holland, L.L.P.*

Richmond, Virginia  
January 20, 2005



**Independent Auditors' Report on Compliance with Requirements  
Applicable to Each Major Program and on Internal Control  
over Compliance in Accordance With OMB Circular A-133**

The Honorable Members of City Council  
City of Newport News, Virginia

**Compliance**

We have audited the compliance of the City of Newport News, Virginia (the "City") 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, 2004. The City's major federal programs are identified in the summary of auditors' 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 required 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 consider necessary in the circumstances. We believe that our audit provided a reasonable basis for our opinion. Our audit does not provide a legal determination of the City's compliance with those requirements.

In our opinion, the City 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, 2004. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as item 2004-1 and 2004-2.

**Internal Control Over Compliance**

The management of the City is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grant agreements applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with 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.

Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control over compliance that, in our judgment, could adversely affect the City's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts and grants. We noted several matters involving internal control over compliance and its operation that we consider to be reportable conditions. The reportable conditions are described in the accompanying schedule of findings and questioned costs as items 2004-1 and 2004-2.

Our consideration of internal control over compliance would not necessarily disclose all matters of internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grant agreements that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. However, we do not believe that the reportable conditions described above are material weaknesses.

This report is intended for the information and use of the City Council, management, 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.

*Cherry, Beckett & Holland, L.L.P.*

Richmond Virginia  
January 20, 2005



**Independent Auditors' Report on Compliance with  
Commonwealth Of Virginia's Laws, Regulations,  
Contracts And Grants**

The Honorable Members of City Council  
City of Newport News, Virginia

We have audited the basic financial statements of the City of Newport News, Virginia (the "City"), as of and for the year ended June 30, 2004, and have issued our report thereon dated January 20, 2005.

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*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the City's compliance with certain provisions of the Commonwealth of Virginia's laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, the objective of our audit of the basic financial statements was not to provide an opinion on overall compliance with such provisions, and, accordingly, we do not express such an opinion.

The following is a summary of the Commonwealth of Virginia's laws, regulations, contracts, and grants for which we performed tests of compliance:

<u>Code of Virginia</u>	<u>State Agency Requirements</u>	
Budget and Appropriation Laws	Procurement	Comprehensive Services Act
Cash and Investments	Unclaimed Property	Social Services
Conflicts of Interest	Enhanced 911 Service Taxes	Highway Maintenance Funds
Debt Provisions	Personal Property Tax Relief Act	
Retirement Systems		

The results of our tests disclosed no instances of noncompliance with the provisions referred to in the preceding paragraph.

This report is intended solely for the information of City Council, management, the Auditor of Public Accounts and applicable state agencies, and is not intended to be and should not be used by anyone other than these specified parties.

*Cherry, Bekaert & Holland, L.L.P.*

Richmond, Virginia  
January 20, 2005

**CITY OF NEWPORT NEWS, VIRGINIA**

Schedule of Expenditures of Federal Awards

Year ended June 30, 2004

<u>Federal Granting Agency/Recipient State Agency</u>	<u>CFDA number</u>	<u>Federal expenditures</u>
Department of Homeland Security:		
Pass-through payments -		
Department of Emergency Services-		
State Domestic Preparedness Equip. Support Program	97.004	\$ 154,569
Public Assistance Grants	97.036	6,485,888
Emergency Management Performance Grants	97.042	49,427
State and Local All Hazards Emergency Operations Planning	97.051	29,724
Social Security Administration -		
Direct payments -		
Social Security Incentive Program	96.006	4,800
Department of Health and Human Services:		
Pass-through payments -		
Department of Social Services:		
Medical Assistance Program - Title XIX	93.778	257,244
Social Services Block Grant	93.667	854,578
Foster Care - Title IV-E	93.658	718,429
Developmental Disabilities Basic Support	93.630	717
Child Care and Development Mandatory Matching Funds	93.596	1,677,540
Community-Based Family Resources and Support Grants	93.590	38,369
Refugee and Entrant Assistance - Discretionary Grants	93.576	5,994
Child Care and Development Block Grant of 1990	93.575	2,300,904
Low-Income Home Energy Assistance	93.568	65,921
Refugee and Entrant Assistance - State Administered Programs	93.566	2,290
Temporary Assistance for Needy Families	93.558	1,746,524
Promoting Safe and Stable Families	93.556	1,111,744
Department of Education:		
Direct payments -		
School Assistance in Federally Affected Areas	84.041	3,336,722
Pass-through payments -		
Education Consolidation and Improvement Act of 1981 -		
Adult Education - State Administered Program	84.002	214,618
Title I Grants to Local Educational Agencies	84.010	8,054,411
Comprehensive School Reform Demonstrations	84.332	10,381
Reading First State Grants	84.357	556,035
Teacher Quality Enhancement Grants	84.336	2,150
Improving Teacher Quality State Grants	84.367	1,822,775
Transition to Teaching	84.350A	277,022
Reading Excellence Act	84.338	38,172
Technology Literacy Challenge Fund Grants	84.318	214,218
Community Technology Centers	84.341	407,470
English Language Acquisition Grants	84.365	10,466
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334	650,292
Twenty-first Century Community Learning Centers	84.287	114,712
State Grants for Innovative Programs	84.298	294,545
Assistance to States for Handicapped Children	84.027	5,536,663
Vocational Education - Basic Grants to States	84.048	786,797
Fund for the Improvement of Education	84.215	392,087
Special Education Preschool Grants	84.173	195,309
Class Size Reduction	84.340	4,980
Drug-Free Schools and Communities	84.186	330,045
Other state agencies -		
Indirect costs	84.000	322,489

**CITY OF NEWPORT NEWS, VIRGINIA**

Schedule of Expenditures of Federal Awards

Year ended June 30, 2004

<u>Federal Granting Agency/Recipient State Agency</u>	<u>CFDA number</u>	<u>Federal expenditures</u>
Federal Emergency Management Agency:		
Pass-through payments:		
Department of Emergency Services:		
Public Assistance Grants	83.544	\$ 632
Environmental Protection Agency, Office of Water		
Pass-through payments:		
Virginia Revolving Loan Fund		
Capitalization Grants for Clean Water	66.456	1,228,830
National Science Foundation -		
Pass-through payments -		
Department of Education -		
Education and Human Resources	47.076	670,554
Department of Transportation -		
Pass-through payments -		
Department of Transportation -		
Highway Planning and Construction	20.205	126,333
Department of Motor Vehicles:		
State and Community Highway Safety	20.600	13,187
Department of Labor -		
Pass-through payments:		
Virginia Employment Commission:		
Workforce Investment Act - Youth Activities	17.259	132,514
Department of Justice:		
Direct payments:		
Office of Juvenile and Delinquency Prevention -		
Drug-Free Communities Support Program Grants	16.729	52,392
Office of Community Oriented Policing Services -		
Public Safety Partnership and Community Policing Grants	16.710	663,480
Office of Justice Programs:		
Local Law Enforcement Block Grants Program	16.592	319,591
State Domestic Preparedness Equipment Support Program	16.007	122,338
Pass-through payments:		
Department of Criminal Justice Service:		
Violence Against Women Formula Grants	16.588	30,141
Byrne Formula Grant Program	16.579	902,380
Crime Victims Assistance (VOCA)	16.575	211,449
Juvenile Justice and Delinquency Prevention -		
Juvenile Accountability Incentive Block Grants	16.523	87,089
Juvenile Justice and Delinquency Prevention Allocation	16.540	304,561
Title V Delinquency Prevention Program	16.548	46,933

**CITY OF NEWPORT NEWS, VIRGINIA**

Schedule of Expenditures of Federal Awards

Year ended June 30, 2004

<u>Federal Granting Agency/Recipient State Agency</u>	<u>CFDA number</u>	<u>Federal expenditures</u>
Department of Housing and Urban Development:		
Direct payments -		
Community Development Block Grants/Entitlement Grants	14.218	\$ 1,946,887
Brownsfield Economic Development Initiative	14.246	588
Pass-through payments -		
Department of Housing and Community Development:		
HOME Investment Partnerships Program	14.239	984,946
Department of Defense -		
Pass-through payments -		
State Department of Education:		
ROTC	12.000	452,832
Impact Aid	12.000	308,709
Department of Commerce -		
Pass-through payments -		
Chesapeake Bay Local Assistance Department -		
Coastal Zone Management Awards	11.419	18,610
Department of Agriculture -		
Pass-through payments:		
State Department of Agriculture:		
Food Distribution - Food Commodities	10.550	14,076
School Lunch Program - Food Commodities	10.555	784,014
Department of Social Services -		
State Administrative Matching Grants for Food Stamp Program	10.561	7,912,769
Department of Youth and Family Services -		
School Breakfast Program	10.553	1,290,227
Department of Education:		
School Breakfast Program	10.553	20,582
National School Lunch Program	10.555	5,158,923
Total		\$ <u>62,882,588</u>

See accompanying notes to schedule of expenditures of federal awards.

**CITY OF NEWPORT NEWS, VIRGINIA**

Schedule of Findings and Questioned Costs

Year ended June 30, 2004

**(1) Basis of Presentation**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of Newport News, Virginia (the City), except the Peninsula Airport Commission, which has a separate Single Audit Report, and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of 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 basic financial statements.

**(2) Relationship to Basic Financial Statements**

Federal expenditures are reported in the City's basic financial statements as follows:

	<b><u>Federal expenditures</u></b>
General Fund	\$ 23,625,279
Special Revenue Funds	5,798,199
Component Unit - Public Schools	<u>32,661,020</u>
Subtotal	<u>62,084,498</u>
Food commodities	<u>798,090</u>
Total expenditures	<u><u>\$ 62,882,588</u></u>

**CITY OF NEWPORT NEWS, VIRGINIA**

Schedule of Findings and Questioned Costs

Year ended June 30, 2004

**A. Summary of Auditors' Results**

1. The type of report issued on the basic financial statements: **Unqualified opinions**
2. Reportable conditions in internal control disclosed by the audit of the financial statements: **No**
3. Noncompliance, which is material to the financial statements: **No**
4. Reportable conditions in internal control over major programs: **Yes**

Material weaknesses: **No**

5. The type of report issued on compliance for major programs: **Unqualified opinion**
6. Any audit findings which are required to be reported under Section 510(1) of OMB Circular A-133: **Yes**
7. The programs tested as major programs were:

<u>Name of Program</u>	<u>CFDA #</u>
State Administrative Matching Grants for Food Stamps	10.561
Community Development Block Grants/Entitlement Grants	14.218
Public Assistance Grants	97.036
Child Care Cluster	93.575/93.596
Foster Care – Title IV-E	93.658

8. Dollar threshold to distinguish between Type A and Type B Programs: **\$1,886,478**
9. The City of Newport News was determined to be a low risk auditee.

**B. Findings Relating to the Financial Statements Reported in Accordance with Government Auditing Standards: None**

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

**Foster Care – Title IV-E; CFDA 93.658**

**2004-1: Allowable Costs**

**Criteria:**

Costs charged to the grant should be for allowable costs under the program.

## CITY OF NEWPORT NEWS, VIRGINIA

### Schedule of Findings and Questioned Costs

Year ended June 30, 2004

#### ***Condition:***

Exceptions were noted in three of the twenty five original case files examined. For two of the cases tested, the department continued to pay for foster children's residential therapeutic foster care from Title IV-E funds after both began receiving SSI, making them IV-E eligible but non-reimbursable. In a third case examined, the department paid the City's Parks & Recreation Department for childcare services of a foster child that were never approved or provided. When testing was expanded to thirty case files, additional errors were noted. Potential questioned costs related to this finding amount to \$72,058.

#### ***Cause:***

There is confusion among DSS workers regarding Title IV-E eligibility when a foster child begins receiving SSI payments and it appears workers do not always provide timely notification to eligibility staff so necessary changes can be made to assure compliance with state & federal regulations governing Title IV-E funds.

#### ***Recommendation:***

We recommend that the Department provide additional training and guidance to all workers involved with the Foster Care Unit to clarify proper procedures to follow whenever a foster child receives SSI payments. The Department should also consider providing additional training and/ or changing procedures for making warrant register payments.

### **2004-2: Controls Over Issuance & Re-issuance of Warrant Register Payments**

#### ***Criteria:***

Authority to issue payments without review should only be allowable for employees who have been trained on the Warrant Register system and understand Title IV-E regulations.

#### ***Condition:***

In two cases, two checks were issued for the same amount and entitlement. One was correctly issued for foster care maintenance and one erroneously to Newport News Parks & Recreation for child care services that were not provided. There was no purchase order to support the payments. It was also discovered that checks were re-issued to a foster care provider that lost the original checks without supporting documentation. Potential questioned costs related to this finding were \$4,800.

#### ***Cause:***

Controls over issuance of warrant register payments are either inadequate or are not working effectively.

#### ***Recommendation:***

The Department should ensure that workers are properly trained on STARS to minimize the risk of erroneous payments. Procedures for the issuance of duplicate checks should be reviewed for adequacy in limiting the risk of erroneous payments.