



**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, 2006, and have issued our report thereon dated December 21, 2006. 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. We did not audit the financial statements of Newport News Public Schools, nor did we audit the financial statements of the Peninsula Airport Commission, which represents 29% and 20% of the respective assets, and 93% and 2% of the respective operating revenues of the aggregate discretely presented component units. Those financial statements were audited by other auditors, whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for Newport News Public Schools and the Peninsula Airport Commission, are based on the reports of the other auditors.

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 noted no matters involving the internal control over financial reporting and its operation that we consider to be a material weakness.

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*.

However, we noted certain other matters which we have reported to management in a separate letter dated December 21, 2006.

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, Bekant & Holland, L.L.P.

Richmond, Virginia
December 21, 2006



**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, 2006. 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, 2006. 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 2006-1.

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.

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. We noted no matters involving the internal control over compliance and its operation that we consider to be 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, Bekaert & Holland, L.L.P.

Richmond Virginia
December 21, 2006

CITY OF NEWPORT NEWS, VIRGINIA

Schedule of Findings and Questioned Costs

Year ended June 30, 2006

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: **No**

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>
Title I	84.010
School Assistance in Federally Affected Areas	84.041
Title II – Improving Teacher Quality	84.367
Capitalization Grants for Clean Water State Revolving Loan Funds	66.458
Foster Care – Title IV-E	93.658

8. Dollar threshold to distinguish between Type A and Type B Programs: **\$1,865,010**
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

2006-1: Allowable Costs/Eligibility

Criteria:

Costs reimbursed with Foster Care – Title IV-E funds should be allowable based on compliance with eligibility determinations. Chapter 200, Sections 202.3.A and 202.4.C of the title IV-E Eligibility Manual (February 2006 revision), clarify the definitions of “removal home” and “specified relative”, emphasizing that the specified relative must have legal custody or the child will not be Title IV-E eligible. Section 202.1 also states that if the local agency obtains custody but leaves the child in the home in which he or she is being removed, the child will not be Title IV-E eligible. Broadcast 3627 titled “New Policy for Screening Foster Care Children for Title IV-E Foster Care” directed local

CITY OF NEWPORT NEWS, VIRGINIA

Schedule of Findings and Questioned Costs

Year ended June 30, 2006

departments to apply the February 2006 Administration for Children and Families (ACF) policy interpretation immediately and to re-screen and close active cases found to be ineligible under the new guidelines.

Condition:

Exceptions were noted in seven of the twenty-five case files examined due to the following conditions:

- Two children were determined to be ineligible after implementation of the 2006 ACF policy clarification and reinterpretation based on the definition of “removal home”. Both of these individuals had been found to be eligible in prior reviews conducted by the State. These cases have been closed since they were found to be ineligible under the new State requirements.
- One child’s discontinued SSA payments were reinstated but the information was not communicated in a timely manner from the service worker to eligibility and financial staff, resulting in ineligible costs reimbursed with Title IV-E funds.
- A clothing payment was reimbursed with Title IV-E funds to a child who was determined to be eligible but non-reimbursable due to receiving social security income. This erroneous reimbursement was due to a clerical error.
- Title IV-E funds were used to pay for daycare and monthly maintenance payments for two children while they were in provisional placements. Title IV-E funds is unallowable during the time period a child is in a provisional placement.
- Title IV-E funds were used to reimburse costs for a child in July 2005 whose court order had not been signed by the judge on or before the due date of June 30, 2005. The court order was signed on August 1, 2005.

Cause:

Application of the 2006 clarification and reinterpretation of ACF policy by the State, and the additional reviews to re-screen and apply those changes, caused the closure of several Title IV-E cases that were previously deemed eligible by the State. Other payment errors appear to relate to the usual programmatic difficulties that result from frequent changes in individual’s eligibility and placement.

Effect:

The above errors caused known questioned costs of \$1,901. Potential questioned costs arising from the 2006 ACF policy clarification and reinterpretation amount to \$3,854.

Recommendation:

Newport News Department of Social Services should continue to emphasize the importance of timely communication of all changes as they occur to each child’s case to allow eligibility and financial workers to make the necessary changes to comply with ACF policy and guidelines. Due to the complexity of Title IV-E program and the frequent changes in each child’s case, supervisory review remains an important control to assure compliance in a changing environment.



**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, 2006, and have issued our report thereon dated December 21, 2006.

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	Comprehensive Services Act
Cash and Investments	Social Services
Conflicts of Interest	
Debt Provisions	
Procurement	
Unclaimed Property	
Enhanced 911 Service Taxes	
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
December 21, 2006