



**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, 2008, and have issued our report thereon dated January 27, 2009. 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 the Peninsula Airport Commission, which represents 19% of the respective assets, and 4% 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 opinions, insofar as it relates to the amounts included 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 as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City’s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City’s internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City’s financial statements that is more than inconsequential will not be prevented or detected by the City’s internal control. We consider item 2008-01 described in the accompanying Schedule of Findings and Questioned Costs to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is 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*.

We noted certain matters that we reported to management of the City in a separate letter dated January 27, 2009.

The City's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the City's response and, accordingly, we express no opinion on it.

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, LLP

Richmond, Virginia
January 27, 2009

CITY OF NEWPORT NEWS, VIRGINIA

Schedule of Findings and Questioned Costs

Year Ended June 30, 2008



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, 2008. 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.

The City's basic financial statements include the operations of the Newport News Public Schools (a component unit), which expended \$38,850,259 in federal awards, which is not included in the Schedule of Expenditures of Federal Awards, during the year ended June 30, 2008. Our audit of federal awards, described below, did not include the operations of Newport News Public Schools because the Schools engaged other auditors to perform an audit in accordance with OMB Circular A-133.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination 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, 2008. 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 items 2008-02, 2008-03, and 2008-04.

CITY OF NEWPORT NEWS, VIRGINIA

Schedule of Findings and Questioned Costs

Year Ended June 30, 2008

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 grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the City's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

A control deficiency in a City's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the City's internal control. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 2008-02, 2008-3 and 2008-04 to be significant deficiencies.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the City's internal control. We did not consider any of the deficiencies described in the accompanying Schedule of Findings and Questioned Costs to be material weaknesses.

The City's response to the findings identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the City's response and, accordingly, we express no opinion on it.

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, LLP

Richmond, Virginia
January 27, 2009

CITY OF NEWPORT NEWS, VIRGINIA

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2008

Federal Granting Agency/Recipient State Agency	CFDA Number	Federal Expenditures
DEPARTMENT OF AGRICULTURE		
Pass-through Payments:		
Department of Social Services:		
State Administrative Matching Grants for Food Stamp Program	10.561	\$ 2,527,962
DEPARTMENT OF HOUSING & URBAN DEVELOPMENT		
Direct Payments:		
Community Development Block Grant Program	14.218	2,120,282
Community Development Block Grants/		
Pass-through Payments:		
Department of Housing & Community Development:		
Home Investment in Affordable Housing	14.239	910,043
DEPARTMENT OF JUSTICE		
Direct Payments -		
Office of Justice Programs:		
Community Capacity Development Office	16.595	202,765
Bulletproof Vest Partnership Program	16.607	7,230
Community Prosecution and Project Safe Neighborhoods	16.609	93,708
Office of Community Oriented Policing Services:		
Public Safety Partnership & Community Policing Grants	16.710	29,691
Office of Juvenile Justice & Delinquency Prevention		
Drug-Free Communities Support Program Grants	16.729	98,697
Pass-through Payments:		
Department of Criminal Justice Service:		
Victims of Crime Act (VOCA)	16.575	265,234
Drug Control & System improvement - Formula Grant	16.579	734,360
Violence Against Women Formula Grants	16.588	17,399
Office of Juvenile Justice & Delinquency Prevention		
Juvenile Accountability Incentive Block Grants	16.523	50,325
Juvenile Justice & Delinquency Prevention Allocation	16.540	39,920
Title V Delinquency Prevention Program	16.548	46,670
DEPARTMENT OF TRANSPORTATION		
Pass-through Payments:		
Va Department of Transportation:		
Highway Planning & Construction	20.205	247,070
Va Department of Motor Vehicles:		
State & Community Highway Safety	20.607	29,470
ENVIRONMENTAL PROTECTION AGENCY OFFICE OF WATER		
Pass-through Payments:		
Virginia Revolving Loan Fund		
Capitalization Grants for Clean Water State Revolving Funds	66.458	410,316
DEPARTMENT OF HEALTH & HUMAN SERVICES		
Pass-through Payments:		
Department of Social Services:		
Promoting Safe and Stable Families	93.556	272,776
Temporary Assistance for Needy Families	93.558	2,497,035
Refugee and Entrant Assistance	93.566	271,750
Low-Income Home Energy Assistance	93.568	225,022
Child Care and Development Block Grant Act of 1990	93.575	2,125,761
Child Care and Development Mandatory Matching Funds	93.596	1,963,579
Chafee Education and Training Vouchers Program	93.599	36,538
Child Welfare Services State Grants	93.645	15,598
Foster Care - Title IV-E	93.658	1,832,443
Adoption Assistance	93.659	1,406,032
Social Services Block Grant	93.667	2,614,155
Independent Living	93.674	106,976
State Children's Insurance Program	93.767	86,729
Medical Assistance Program - Title XIX	93.778	1,849,361
Department of Health:		
Centers for Disease Control and Prevention - Tech Assist	93.283	17,424
Preventive Health and Health Services Block Grant	93.991	6,540
Totals, page 1		<u>\$ 23,158,861</u>

CITY OF NEWPORT NEWS, VIRGINIA

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2008

Federal Granting Agency/Recipient State Agency	CFDA Number	Federal Expenditures
SOCIAL SECURITY ADMINISTRATION		
Direct Payments:		
Social Security Incentive Program	96.006	\$ 8,400
DEPARTMENT OF HOMELAND SECURITY		
Direct Payments:		
Disaster Grants - Public Assistance	97.036	222,491
Homeland Security Grant Program	97.067	4,995
Pass-through Payments:		
Department of Emergency Services:		
Emergency Management Performance Grants	97.042	52,408
Assistance to Firefighters Grant	97.044	422,972
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Totals, page 2		711,266
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Grand Totals		\$ 23,870,127
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Note: This report does not include Newport News Public Schools (NNPS) and Peninsula Airport Commission (PAC) programs. NNPS has conducted a separate audit and that report is issued by NNPS. PAC was not required to have a single audit for FY2008.

CITY OF NEWPORT NEWS, VIRGINIA

Notes to Schedule of Expenditures of Federal Awards

Year Ended June 30, 2008

(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 and the Newport News Public Schools, which have separate Single Audit Reports. 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:

	Federal expenditures
General Fund	\$ 18,621,132
Special Revenue Funds	<u>5,248,995</u>
Total expenditures	<u>\$ 23,870,127</u>

CITY OF NEWPORT NEWS, VIRGINIA

Schedule of Findings and Questioned Costs

Year Ended June 30, 2008

A. Summary of Auditors' Results

1. The type of report issued on the basic financial statements: **Unqualified opinions**
2. Significant deficiencies in internal control disclosed by the audit of the financial statements: **Yes**
Material weaknesses: **No**
3. Noncompliance, which is material to the financial statements: **No**
4. Significant deficiencies 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>
HOME Investment in Affordable Housing	14.239
Temporary Assistance for Needy Families	93.558
Foster Care – Title IV-E	93.658
Adoption Assistance	93.659
Social Services Block Grant	93.667
Medical Assistance Program	93.778

8. Dollar threshold to distinguish between Type A and Type B Programs: **\$716,104**
9. The City of Newport News was determined to be a low risk auditee.
10. Resolution of Prior Year Findings: **We agree with management's resolution of prior year findings.**

CITY OF NEWPORT NEWS, VIRGINIA

Schedule of Findings and Questioned Costs

Year Ended June 30, 2008

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

2008-01: Capital Asset Recognition

Condition:

A procedure has not been established and implemented to ensure that all completed capital projects are capitalized when completed.

Criteria:

At the time of completion, a project should be capitalized, and depreciation expense recognized.

Cause:

Procedures were not established to ensure all projects were capitalized when completed. There was a lack of coordination between departments completing the project and the finance department.

Effect:

Capital assets reported in the financial statements were not supported by detail asset listing and therefore misstated. Projects that were complete were in Construction in Progress and not depreciated.

Recommendation:

We recommend that the City establish written instructions to be included in the City's accounting policies and procedures to ensure capital assets are properly recorded at the time of completion. Establish procedures for coordination of an annual review of Construction in Progress.

Management Response:

We agree with the recommendation and will establish appropriate capitalization policy for Construction in Progress Projects.

CITY OF NEWPORT NEWS, VIRGINIA

Schedule of Findings and Questioned Costs

Year Ended June 30, 2008

C. Findings and Questioned Costs Relating to Federal Awards:

2008-02: Allowable Costs

Foster Care – Title IV-E; CFDA 93.658

Condition:

Unallowable payments totaling \$602.97 were made from Title IV-E Foster Care funding on behalf of four of the 25 children reviewed in the sample for the FY 2008 Foster Care audit.

Criteria:

When expenditures are non-reimbursable from Title IV-E funds due to a child's placement, Comprehensive Services (CSA) funding must be used. The Title IV-E Eligibility Manual, Chapter 202.7 IV-E Reimbursability – Placement does not allow payment to be made from IV-E funding when the Treatment Foster Care Provider's license is downgraded to provisional or when the child is placed in Detention.

In the case of clothing payments made for the other three children, the Virginia Department of Social Services Adoption Manual, Section 8 Subsidy, 8.B.1.5 (July 2006) allows for payments to begin from Adoption Assistance funding as soon as the Adoptive Home Placement and the Adoption Assistance Agreement have been signed and the child is placed in the adoptive home.

Cause:

There may have been delays in the Workers receiving the signed Adoption Assistance Agreements or the Workers may have been uncertain regarding timing requirements for changing the funding source for payments once the Agreements were signed.

Effect:

The delays in changing the funding source from Foster Care to Adoption Assistance for the four cases resulted in \$602.97 potential questioned costs.

Recommendation:

A Payment Accuracy Unit (PAU) has been established and is fully operational as of July 1, 2008; the Department should continue to experience fewer payment errors for all Foster Care and Adoption Assistance payments. Having the Unit to prepare all eligibility determinations, as well as make the monthly payments for all Foster Care and Adoption Assistance cases will enable case workers and supervisors to focus on meeting the needs of their clients.

We recommend the full implementation of the Payment Accuracy Unit and the related 'hotline' to improve communication and tracking of eligibility changes and reduce payment errors within the program.

Management Response:

As noted above, we have implemented the PAU which should improve tracking of eligibility changes and improve payment processing.

CITY OF NEWPORT NEWS, VIRGINIA

Schedule of Findings and Questioned Costs

Year Ended June 30, 2008

2008-03: Allowable Costs

Adoption Assistance – Title IV-E; CFDA 93.659

Condition:

Payments totaling \$14,945.40 were incorrectly charged to 783, the Title IV-E Adoption Assistance program, rather than 774, the State Special Needs Adoptions funding. Also, a maintenance payment of \$368.00 was incorrectly charged to 774 State funding which should have been paid with 783, the Federal Adoption Assistance funds.

Criteria:

For children who are IV-E eligible, when an Adoption Assistance Agreement is signed the Foster Care case is closed and future expenses are paid by the Federal Adoption Assistance program (Category 783) or the State Special Needs Adoptions funding (Category 774). Per the Virginia Department of Social Services Adoption Agency Placement Manual, Volume VII, Section III, Chapter C, Section 8.B.2 State Subsidies: State subsidies are used for children whose foster care expenses are paid from CSA pool funds. The Therapeutic Support & Supervision payments were being paid with CSA pool funds for both brothers prior to the Adoption Assistance Agreements being signed on 11/15/07.

For the other case, maintenance payments are paid from Federal Adoption Assistance funding (783) for children who were Title IV-E eligible at the time the petition for adoption is filed (The Virginia Department of Social Services Adoption Manual, Section 8 Subsidy, 8.B.1.7).

Cause:

Because the Adoption Assistance Agreements for the two brothers had just been signed on 11/15/07, there may have been a delay in notifying the necessary parties of the effective dates for funding changes, as well as confusion concerning which funding source to use.

Effect:

Charging Therapeutic Support & Supervision payments to the wrong funding source has resulted in \$14,945.40 potential questioned costs. The incorrectly classified maintenance payment in the third case added potential questioned costs of \$368.00.

Recommendation:

As of July 1, 2008, the Payment Accuracy Unit (PAU) is making all Foster Care and Adoption Assistance payments. The Unit's hotline allows workers to quickly report any changes that may affect eligibility. Since the Unit's two eligibility workers handle eligibility determinations for all Foster Care and Adoption Assistance cases, as well as making the monthly payments, case workers and supervisors will be able to focus their time on meeting their client's needs.

We recommend the Department, the workers and supervisors implement the Payment Accuracy Unit to reduce payment errors within the programs. These changes are already and should continue to result fewer errors in providing services and benefits in these difficult programs.

Management Response:

As noted above, we have implemented the PAU that should result in fewer payment errors.

CITY OF NEWPORT NEWS, VIRGINIA

Schedule of Findings and Questioned Costs

Year Ended June 30, 2008

2008-04: Activities Allowed Adoption Assistance; CFDA 93.659

Condition:

We found that three of the twenty-five subsidy case files tested were missing one or more annual affidavits as required per the Code of Virginia as a program control.

Criteria:

The Code of Virginia, Section 63.2-1302.B and the Virginia Department of Social Services Adoption Agency Placement Manual, Volume VII, Section III, Chapter C, Section 8 Subsidy, (8.B.1.6) both require that adoptive parents submit an annual notarized affidavit affirming that the child is still in their care and the conditions requiring subsidy are unchanged.

The State directs case workers to send notification to adoptive parents two months prior to the anniversary date of the Adoption Assistance Agreement to complete an affidavit, have it notarized and return it to the local agency prior to the anniversary due date.

Cause:

Upon investigation, the Department found that the problem was not a lack of compliance with program requirements by the adoptive parents, but rather involved an internal, personnel issue due to one or more case workers having not sent the missing annual affidavits forms to the parents for completion.

Effect:

NNDHS consulted with their Foster Care/Adoption Program Consultant and the Title IV-E Consultant who told NNDHS that there is no Federal statute or provision requiring adoptive parents to complete annual renewals of their adoption assistance agreements, but rather assigns responsibility to keep the State or local agency informed of circumstances that would make them ineligible of Title IV-E Adoption Assistance payments or would require a different amount.

Recommendation:

The Department should ensure that all Foster Care and Adoption workers understand the importance of the State's annual affidavit requirement as a program control which helps the local agency track each adoption and reminds the adoptive parents of their continuing responsibility to keep the State or the local agency informed of any change in the adoptive home situation.

Requiring an annual affirmation not only helps maintain some degree of oversight on the adoptive home situation, but also helps NNDHS ensure that they are complying with the Federal and State program requirements.

Management Response:

We agree with the recommendation and will take steps to ensure that all Foster Care and Adoption workers understand and comply with the State's annual affidavit requirements.