

INDEPENDENT AUDITOR'S 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

To the Honorable Members of City Council
City of Manassas, 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 units, each major fund, and the aggregate remaining fund information of the City of Manassas, Virginia (the "City"), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated November 28, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City'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 City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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. **We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as Item 2017-001, which we consider to be a material weakness.**

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. **We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as Item 2017-002, which we consider to be a significant deficiency.**

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City'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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as Items 2017-003 through 2017-007.**

City of Manassas, Virginia's Responses to Findings

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

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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Brown, Edwards & Company, S. L. P.
CERTIFIED PUBLIC ACCOUNTANTS

Harrisonburg, Virginia
November 28, 2017

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY
THE UNIFORM GUIDANCE**

To the Honorable Members of City Council
City of Manassas, Virginia

Report on Compliance for Each Major Federal Program

We have audited the City of Manassas, Virginia's (the "City") 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 City's major federal programs for the year ended June 30, 2017. The City'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 federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City'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 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the City's compliance.

Opinion on Each Major Federal Program

In our opinion, the City 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 major federal programs for the year ended June 30, 2017.

Report on Internal Control Over Compliance

Management of the City 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 City'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 City's internal control over compliance.

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. 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.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section 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. **We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.**

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.

Brown, Edwards & Company, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

Harrisonburg, Virginia
November 28, 2017

CITY OF MANASSAS, VIRGINIA

SUMMARY OF COMPLIANCE MATTERS

June 30, 2017

As more fully described in the Independent Auditor's 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*, we performed tests of the City's compliance with certain provisions of the laws, regulations, contracts, and grants shown below.

STATE COMPLIANCE MATTERS

Code of Virginia

Budget and Appropriation Laws

Cash and Investment Laws

Conflicts of Interest Act

Local Retirement Systems

Debt Provisions

Procurement Laws

Comprehensive Services Act

Uniform Disposition of Unclaimed Property Act

State Agency Requirements

Education

Social Services

Urban Highway Maintenance

Stormwater Management Program

FEDERAL COMPLIANCE MATTERS

Compliance Supplement for Single Audits of State and Local Governments

Provisions and conditions of agreements related to federal program selected for testing.

CITY OF MANASSAS, VIRGINIA

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2017**

A. SUMMARY OF AUDITOR’S RESULTS

1. The auditor’s report expresses an **unmodified opinion** on the financial statements.
2. **One material weakness and one significant deficiency** relating to the audit of the financial statements was reported in the Independent Auditor’s 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*.
3. **No instances of noncompliance** material to the financial statements, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. **No significant deficiencies** relating to the audit of the major federal award program were reported in the Independent Auditor’s Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by the Uniform Guidance.
5. The auditor’s report on compliance for the major federal award programs expresses an **unmodified opinion**.
6. The audit disclosed **no audit findings relating to a major program**.
7. The major programs of the City are:

| Name of Program | CFDA # |
|---|---------------|
| Child Nutrition Cluster - School Breakfast Program | 10.553 |
| Child Nutrition Cluster - National School Lunch Program | 10.555 |
| Child Nutrition Cluster - Summer Food Service Program | 10.559 |
| Special Education – Grants to States | 84.027 |
| Special Education – Preschool Grants | 84.173 |

8. The **threshold for** distinguishing Type A programs was **\$750,000**.
9. The City of Manassas was **not** determined to be a low-risk auditee.

CITY OF MANASSAS, VIRGINIA

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2017**

B. FINDINGS – FINANCIAL STATEMENT AUDIT

2017-001: Capital Assets (Material Weakness)

Condition:

In the previous two years and continuing in the current year, the City began a rigorous process to identify and properly capture capital asset activity in both government activities and business-type activities. As a result of this process, and the current year audit, one material adjustment was required to restate beginning net position.

Recommendation:

We recommend the City continue the procedures they have begun to help identify such issues and proceed with their plan to utilize capital asset tracking functions as part of their forthcoming enterprise resource planning software implementation.

Management's Response:

The auditee concurs with this recommendation.

2017-002: Property Taxes-Rate Setting (Significant Deficiency)

Condition:

During 2017, the City identified an issue where the business personal property tax rate for years 2014 through 2016 was higher than the general personal property tax rate, which was in violation of applicable state code. This indicates a control review procedure was not present during this time frame. The City properly took steps to recalculate amounts for the identified issue and amounts were refunded to taxpayers in the current year.

Recommendation:

We recommend continuing to involve knowledgeable parties in sensitive processes, such as tax rate setting, and ensuring that thorough reviews for compliance have occurred prior to approval.

Management's Response:

The auditee concurs with this recommendation.

C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

None.

CITY OF MANASSAS, VIRGINIA

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2017**

D. FINDINGS AND QUESTIONED COSTS – COMMONWEALTH OF VIRGINIA

2017-003: Investment Ratings

Condition:

Several corporate bonds fell below Virginia required minimum ratings during the year. These bonds amounted to \$167,597.

Recommendation:

We recommend moving funds away from corporate bonds that fall below the Virginia code and to investments that meet the requirements.

Management's Response:

The auditee concurs with this recommendation.

2017-004: Commonwealth of Virginia Disclosure Statements

Condition:

We noted one member of the City's various Boards and Commissions did not file a statement of economic interest by the January deadline as set forth by the *Code of Virginia*.

Recommendation:

Steps should be taken to ensure that these statements are filed by all required individuals in a timely manner.

Management's Response:

The auditee concurs with this recommendation.

CITY OF MANASSAS, VIRGINIA

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2017**

D. FINDINGS AND QUESTIONED COSTS – COMMONWEALTH OF VIRGINIA (CONTINUED)

2017-005: Social Services – Access Rights

Condition:

There is not a formalized yearly review of individual's access rights for VsCMS, ADAPT, OASIS and EAS.

Recommendation:

We recommend that Social Services review all access right of individuals for VaCMS, ADAPT, OASIS and EAS yearly.

Management's Response:

The auditee concurs with this recommendation.

2017-006: Social Services – Timely Removal of Terminated Employees

Condition:

A terminated employee was not removed from VDSS systems within three working days of termination.

Recommendation:

We recommend that Social Services follow up termination with proper removal from all VDSS system within three working days.

Management's Response:

The auditee concurs with this recommendation.

CITY OF MANASSAS, VIRGINIA

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2017**

D. FINDINGS AND QUESTIONED COSTS – COMMONWEALTH OF VIRGINIA (CONTINUED)

2017-007: Social Services – Segregation of Duties

Condition:

Staff issuing EBT cards work directly under the benefits program manager who processes benefits.

Recommendation:

We recommend that the BPS supervisor not supervise the Issuance Unit.

Management's Response:

The auditee concurs with this recommendation.

CITY OF MANASSAS, VIRGINIA

**SCHEDULE OF PRIOR AUDIT FINDINGS
Year Ended June 30, 2017**

A. FINDINGS – FINANCIAL STATEMENT AUDIT

2015-002: Capital Assets (Material Weakness)

Condition:

In the previous year and continuing in the current year, the City began a rigorous process to identify and properly capture capital asset activity in both government activities and business-type activities. As a result of this process, and the current year audit, a number of material adjustments were required to restate beginning net position as well as to reclassify balances between capital asset categories.

Current Year Status: Still applicable in the current year.

2016-001: Unbilled Accounts Receivable (Material Weakness)

Condition:

A material adjustment was required to properly state unbilled accounts receivable in the Electric Fund.

Current Year Status: No such issues were noted in the current year.

B. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

2016-002: Highway Planning and Construction – CFDA No. 20.205

Condition:

Equipment purchased with federal funds is not separately tracked and noted as federally funded in the City's capital asset software. Equipment acquired under federal awards must be tracked and contain information including a description, source, who holds title, acquisition date and cost, percentage of federal participation in the cost, location, condition, and any ultimate disposition data including, the date of disposal and sales price or method used to determine current fair market value. As a result, the City is not in compliance with the stated rules. There is a risk if such assets were sold, additional procedures required may not be followed.

Current Year Status: This program was not tested during the current year.

CITY OF MANASSAS, VIRGINIA

**SCHEDULE OF PRIOR AUDIT FINDINGS
Year Ended June 30, 2017**

C. FINDINGS AND QUESTIONED COSTS – COMMONWEALTH OF VIRGINIA

2015-005: Investment Ratings

Condition:

Several corporate bonds fell below Virginia required minimum ratings during the year. These bonds amounted to \$169,322.

Current Year Status: Still applicable in the current year.

2015-006: Commonwealth of Virginia Disclosure Statements

Condition:

We noted six members of the City's various Boards and Commissions did not file a statement of economic interest by the December deadline as set forth by the *Code of Virginia*.

Current Year Status: We noted one instance where a member did not file a statement of economic interest by the January deadline as set forth by the Code of Virginia.

2015-007: Public Accounts

Condition:

Funds were placed in an account that was not marked as a public account by the financial institute as required by the Virginia Security for Public Deposits Act.

Current Year Status: No such issues were noted in the current year.

CITY OF MANASSAS, VIRGINIA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2017

| Federal Granting Agency/Recipient State Agency/Grant Program | Federal CFDA Number | Pass-Through Identifying Number | Cluster Expenditures | Federal Expenditures |
|---|------------------------|---------------------------------------|-------------------------|-------------------------|
| U.S. Department of Agriculture | | | | |
| Pass-through payments: | | | | |
| Department of Education: | | | | |
| National School Breakfast Program | 10.553 | 10553-301-10 | \$ 693,359 | |
| National School Lunch Program - Food Donations | 10.555 | 00-571 | 243,916 | |
| National School Lunch Program | 10.555 | 10555-301-10 | 2,000,084 | |
| Summer Food Service Program for Children | 10.559 | 10559-301-10 | 57,158 | |
| Total Child Nutrition Cluster | | | <u>2,994,517</u> | \$ 2,994,517 |
| Department of Social Services: | | | | |
| State Administration: | | | | |
| SNAP Cluster | | | | |
| Matching Grants for Supplemental Nutrition Assistance Program | 10.561 | N/A | | 436,903 |
| Total U.S. Department of Agriculture | | | | <u>3,431,420</u> |
| U.S. Department of Housing and Urban Development | | | | |
| Pass through payments: | | | | |
| VHDA and Prince William County | | | | |
| Section 8 Housing Assistance Payments Program | 14.195 | 14195-165-10 | | 194,365 |
| Total U.S. Department of Housing and Urban Development | | | | <u>194,365</u> |
| U.S. Department of Justice | | | | |
| Direct payments: | | | | |
| State Criminal Alien Assistance Program | 16.606 | N/A | | 37,624 |
| Bulletproof Vest Partnership Program | 16.607 | N/A | | 6,248 |
| Edward Byrne Memorial Justice Assistance Program | 16.738 | N/A | | 19,116 |
| Total U.S. Department of Justice | | | | <u>62,988</u> |
| U.S. Department of Transportation | | | | |
| Direct payments: | | | | |
| Airport Improvement Program | 20.106 | N/A | | 332,554 |
| Pass-through payments: | | | | |
| Virginia Department of Transportation | | | | |
| Highway Planning and Construction | 20.205 | 61448 | | 230,391 |
| Virginia Department of Motor Vehicles | | | | |
| State and Community Highway Safety Program | 20.600 | 4369 | | 15,641 |
| Total U.S. Department of Transportation | | | | <u>578,586</u> |
| U.S. Department of Education | | | | |
| Pass-through payments: | | | | |
| Commonwealth of Virginia Department of Education: | | | | |
| Title I - Grants to Local Educational Agencies (Title I Part A Cluster) | 84.010 | 84010-197-10 | | 1,457,496 |
| Special Education - Grants to States (Special Education Cluster) | 84.027 | 84027-197-10 | 1,462,504 | |
| Special Education - Preschool Grants (Special Education Cluster) | 84.173 | 84173-197-10 | 31,518 | |
| Total Special Education Cluster: | | | <u>1,494,022</u> | |
| Career and Technical Education: Basic grants to states | 84.048 | 84048-197-10 | | 107,407 |
| English Language Acquisition Grants | 84.365 | 84365-197-10 | | 284,370 |
| Improving Teacher Quality State Grants | 84.367 | 84367-197-10 | | 130,463 |
| Total U.S. Department of Education | | | | <u>3,473,758</u> |
| Department of Homeland Security: | | | | |
| Pass-through Payments: | | | | |
| Department of Emergency Management: | | | | |
| Non-Profit Security Program | 97.008 | 97008-127-10 | | 15,520 |
| Emergency Management Performance Grants | 97.042 | 97042-127-10 | | 4,884 |
| Homeland Security Grant Program | 97.067 | 14UASI596 | | 112,045 |
| Total U.S. Department of Homeland Security | | | | <u>132,449</u> |

CITY OF MANASSAS, VIRGINIA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)
For the Year Ended June 30, 2017

| <u>Federal Granting Agency/Recipient State Agency/Grant Program</u> | <u>Federal CFDA Number</u> | <u>Pass-Through Identifying Number</u> | <u>Cluster Expenditures</u> | <u>Federal Expenditures</u> |
|--|--------------------------------|--|---------------------------------|---------------------------------|
| Department of Health and Human Services: | | | | |
| Pass-through Payments: | | | | |
| Department of Social Services: | | | | |
| Promoting Safe and Stable Families | 93.556 | | | \$ 16,239 |
| Temporary Assistance to Needy Families (TANF) | 93.558 | | | 252,940 |
| Refugee and Entrant Assistance - Discretionary Grants | 93.566 | | | 652 |
| Low Income Home Energy Assistance | 93.568 | | | 24,688 |
| Child Care Mandatory and Matching funds of the Child Care and Development Fund | 93.596 | | | 41,128 |
| Chafee Education and Training Vouchers Program | 93.599 | | | 17 |
| Child Welfare Services - State Grants | 93.645 | | | 392 |
| Foster Care - Title IV-E | 93.658 | | | 263,690 |
| Adoption Assistance | 93.659 | | | 111,120 |
| Social Services Block Grant | 93.667 | | | 160,842 |
| Chafee Foster Care Independence Program | 93.674 | | | 1,773 |
| Children's Health Insurance Program | 93.767 | | | 18,279 |
| Medical Assistance Program | 93.778 | | | 562,139 |
| | | | | <u>1,453,899</u> |
| Total U.S. Department of Health and Human Services | | | | <u>1,453,899</u> |
| Total Expenditures of Federal Awards | | | | <u>\$ 9,327,465</u> |

Notes to the Schedule of Expenditures of Federal Awards

Note 1: Basis of Presentation

The accompanying schedule of federal expenditures includes the activity of all federally assisted programs of the City of Manassas, Virginia and is presented on the modified accrual basis of accounting, as described in Note 1 to the City's basic financial statements. All federal awards received directly from federal agencies, as well as federal awards passed through other government agencies, are included on this schedule.

Note 2: Food Distribution

Nonmonetary assistance is reported in the schedule at the fair market value of the commodities received and disbursed.

Note 2: De Minimis Cost Rate

The entity did not elect to use the 10% de minimis indirect cost rate.