

COMPLIANCE SECTION

Chesapeake
VIRGINIA

CITY OF CHESAPEAKE, VIRGINIA

Schedule U-1

Schedule of Expenditures of Federal Awards
For the Period Ended June 30, 2008

Federal Granting Agency/Recipient State Agency/ Grant Program	Federal Catalogue Number	Expenditures
Department of Agriculture:		
Direct payments:		
Food and Nutrition Service		
Summer Food Service Program for Children	10.559	\$ 213,754
Animal and Plant Health Inspection Service	10.025	19,535
Pass-through payments:		
Virginia Department of Social Services:		
State Administrative Matching Grants for Food Stamp Program	10.561	1,384,384
Virginia Department of Education:		
School Breakfast Program	10.553	1,139,372
National School Lunch Program	10.555	3,702,840
Virginia Department of Agriculture and Consumer Services		
Food Distribution - commodities value - Schools' Food Services	10.555	915,106
Food Distribution - commodities value - Detention Home	10.555	27,325
Food Distribution - commodities value - Parks and Recreation Summer Feeding Program	10.559	2,603
Virginia Department of Forestry		
Department of Agriculture - Cooperative Forestry Assistance	10.664	4,777
		7,409,696
National Endowment for the Arts		
Direct Payments		
Challenge America	45.024	6,250
Department of Housing and Urban Development		
Direct payments:		
Community Development Block Grant Program		
Program year 2004	14.218	6,242
Program year 2005	14.218	17,480
Program year 2006	14.218	19,503
Program Year 2007	14.218	130,194
Program Year 2008	14.218	544,419
Section 108 Loan Program - 2008 Program	14.248	392,136
Portlock Area Drainage	14.228	332,807
Shelter Plus/Mckinney-Vento Grant	14.238	29,548
HOME Investment Partnerships Program:		
Program Year 2000	14.239	2,573
Program Year 2001	14.239	165
Program Year 2002	14.239	48,757
Program Year 2003	14.239	98,028
Program Year 2004	14.239	101,638
Program Year 2005	14.239	139,144
Program Year 2006	14.239	38,578
Program Year 2007	14.239	289,487
Program Year 2008	14.239	273,430
		2,464,129
Department of Health and Human Services:		
Pass-through payments:		
Department of Mental Health, Mental Retardation and Substance Abuse:		
Block Grants for Community Mental Health Services	93.958	154,842
Block Grants for Prevention and Treatment of Substance Abuse	93.959	839,652
Virginia Department of Social Services:		
Promoting Safe and Stable Families	93.556	272,217
Temporary Assistance for Needy Families	93.558	997,478
Refugee and Entrant Assistance - State Administered Program	93.566	6,421
Low Income Home Energy Assistance	93.568	33,649
Payments to States for Child Care Assistance	93.575	849,259
Child Care & Development Fund	93.596	1,300,083
Chaffee Education and Training Vouchers Program (ETV)	93.599	11,260
Child Welfare Services-State Grants	93.645	10,271
Foster Care-Title IV-E	93.658	944,642
Adoption Assistance	93.659	395,156
Social Services Block Grant	93.667	1,451,803
Independent Living	93.674	10,180
State Children's Insurance Program	93.767	62,431
Medical Assistance Program (Medicaid: Title XIX)	93.778	1,015,930

(Continued)

CITY OF CHESAPEAKE, VIRGINIA

Schedule U-1, Continued

Schedule of Expenditures of Federal Awards
For the Period Ended June 30, 2008

Federal Granting Agency/Recipient State Agency/ Grant Program	Federal Catalogue Number	Expenditures
Department of Health and Human Services (Continued)		
Pass-through payments (Continued):		
Virginia Department of Education		
Medical Assistance Program (Medicaid: Title XIX)	93.778	\$ 71,474
		8,426,748
Department of the Interior:		
Direct payments:		
Payment in Lieu of Taxes	15.226	3,603
Gateway Grants	15.000	58,557
U.S. Fish and Wildlife Service - Back Bay Grants	15.664	20,863
U.S. Fish and Wildlife Service - Refuge Revenue Sharing	15.226	51,867
		134,890
Department of Justice:		
Direct payments:		
Drug Control and System Improvement -		
Forfeited Asset Sharing Program - Drug Enforcement	16.579	97,768
Criminal Justice Records	16.579	48,476
State Criminal Alien Assistance Program	16.606	25,464
Office of Community Oriented Policing Services - Public Safety -		
Partnership and Community Policing Grants		
Fiscal year 2006	16.710	484,949
Pass-through payments:		
Bureau of Justice Assistance:		
Juvenile Account Incentive Block Grant		
Fiscal year 2007	16.523	46,814
Fiscal year 2008	16.523	25,599
Edward Byrne Grant Program		
Fiscal Year 2006	16.738	66,254
Fiscal Year 2007	16.579	27,565
		822,889
Environmental Protection Agency		
Direct Payment:		
Chesapeake Integrated Pest Management Initiative	66.716	5,999
		5,999
Social Security Administration		
Direct payments:		
Social Security-Work Incentives Planning and Assistance Program	96.008	12,200
		12,200
U.S. Department of Transportation:		
Pass-through payments:		
Department of Motor Vehicles - Alcohol Traffic Safety and		
Drunk Driving Prevention Incentive Grants		
Fiscal year 2007	20.607	3,041
Fiscal year 2008	20.607	15,793
Virginia Department of Transportation:		
Federal Highway Administration - Planning and Construction		
Route 104 Steel Bridge	20.205	2,207,640
Dismal Swamp Trail	20.205	251,699
Gum Road Multi Use Path	20.205	10,639
Portsmouth Blvd Bike Path	20.205	338,241
Portsmouth Blvd Phase IV	20.205	61,536
Poindexter Site Improvements	20.205	728,652
Hanbury/Battlefield Interchange	20.205	66,125
Greenbrier/Eden Way	20.205	267,882
Woodlake	20.205	193,921
Johnstown and Waters	20.205	37,511
Volvo Parkway	20.205	70,072
Battlefield Visitor Center	20.205	11,853
Virginia Department of Emergency Management		
Pre-Disaster Mitigation Grant	97.047	50,741
Hazard Mitigation Program	83.580	31,163
		4,346,509

CITY OF CHESAPEAKE, VIRGINIA

Schedule U-1, Continued

Schedule of Expenditures of Federal Awards
For the Period Ended June 30, 2008

Federal Granting Agency/Recipient State Agency/ Grant Program	Federal Catalogue Number	Expenditures
Federal Emergency Management		
Department of Defense:		
Pass-through payments:		
Department of Education		
Payments to States in Lieu of Real Estate Taxes	12.112	\$ 4,761
		4,761
Department of Education:		
Direct payments:		
Impact Aid	84.041	3,921,248
Pass-through payments:		
Virginia Department of Education:		
Adult Education - State Grant Program	84.002	225,626
Title I, Part D - Program for Neglected & Delinquent Childrer	84.013	18,805
Title I Grants to Local Educational Agencies	84.010	5,252,608
Title V, Part A - State Grants for Innovative Programs	84.298	48,298
Special Education - Grants to States	84.027	7,523,445
Special Education - Preschool Grants	84.173	208,574
Title II, Part A - Improving Teacher Quality State Grants	84.367	1,588,194
Vocational Education - Basic Grants to States	84.048	571,761
Title IV, Part A - Safe and Drug-Free Schools and Communities	84.186	152,011
Title III, Part A - English Language Acquisition Grants	84.365	65,305
Title II, Part D - Enhancing Education Through Technology Program	84.318	99,828
Advanced Placement Program	84.330	1,166
Twenty-First Century Community Learning Centers	84.287	5,339
Part C Funds	84.181	162,304
		19,844,512
Department of Homeland Security:		
Direct payments:		
Assistance to Firefighters	97.044	137,616
Pass-through payments:		
Virginia Department of Emergency Management:		
Hazard Mitigation Grant	97.039	1,018,449
Home Security Grant Program	97.055	1,488,213
Citizen Preparedness and Citizen Corps Program - 2005	97.053	12,625
Citizen Preparedness and Citizen Corps Program - 2006	97.053	2,229
		2,659,132
Corporation for National and Community Service:		
Pass-through payments:		
Virginia Department of Education:		
Learn and Serve America - School and Community-Based Programs	94.004	30,506
		30,506
		\$ 46,168,221

Notes to Schedule of Expenditures of Federal Awards
Year ended June 30, 2008

(1) General

The accompanying schedule of expenditures of federal awards presents the activity of all federally assisted programs of the City of Chesapeake, Virginia. The City of Chesapeake's reporting entity is defined 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 the schedule.

(2) Basis of Accounting

The accompanying schedule of expenditures of federal awards is presented using the modified accrual basis of accounting, which is described in Note 1 to the City's basic financial statements.

(3) Relationship to Financial Statements

Federal expenditures, revenues, and capital contributions are reported in the City's basic financial statements as follows:

Intergovernmental revenues per the basic financial statements:

Primary government:	
General Fund	\$ 205,274
Capital Projects Fund	3,691,166
Special Revenue Funds:	
Virginia Public Assistance Fund	8,704,473
Community Services Fund	1,156,798
Community Development Fund	1,967,727
Grants Fund	3,921,049
<u> Total primary government</u>	<u>19,646,487</u>
Component unit - Public Schools:	
School Operating Fund	20,005,328
School Food Services Fund	4,842,212
<u> Total component unit - Public Schools</u>	<u>24,847,540</u>
<u> Total federal expenditures from intergovernmental revenue</u>	<u>44,494,027</u>
Other reconciling items	1,674,194
<u> Total federal expenditures per the Schedule of</u>	
<u> Expenditures of Federal Awards</u>	<u>\$ 46,168,221</u>

(Continued)

Notes to Schedule of Expenditures of Federal Awards
Year ended June 30, 2008

(4) Subrecipients

The Chesapeake Redevelopment and Housing Authority, the Community Services Board, and the Planning Department are the subrecipients for all federal awards received from the Department of Housing and Urban Development.

The Planning Council is the subrecipient for \$1,300,083 related to the Child Care Development Fund received from the Department of Social Services.

CITY OF CHESAPEAKE

Schedule of Findings, Questioned Costs, and Management’s Response
Year Ended June 30, 2008

(1) Summary of Auditors’ Results

- (a) The type of report issued on the basic financial statements: **UNQUALIFIED OPINIONS**
- (b) Reportable conditions in internal control disclosed by the audit of the financial statements: **NO**
- (c) Noncompliance, which is material to the financial statements: **NO**
- (d) Reportable conditions in internal control over major programs: **NO**
- (e) The type of report issued on compliance for major programs: **UNQUALIFIED OPINION**
- (f) Any audit findings which are required to be reported under Section 510(a) of OMB Circular A-133: **NO**
- (g) The programs tested as major programs were:

<u>Name of Program</u>	<u>CFDA #</u>
Department of Agriculture:	
State Administrative Matching Grants for Food Stamp Program	10.561
Department of Health and Human Services:	
Foster Care Title IV-E	93.658
Temporary Assistance for Needy Families	93.558
Social Services Block Grant	93.667
Department of Homeland Security:	
Home Security Grant Program	97.055
Department of Education:	
Impact Aid	84.041
Title I Grants to Local Educational Agencies	84.010

- (h) Dollar threshold to distinguish between Types A and B Programs: **\$1,385,047**
- (i) The City of Chesapeake was determined to be a low risk auditee.

(2) Findings - Financial Statement Audit: NONE

(3) Findings and Questioned Costs - Major Federal Awards: NONE

CITY OF CHESAPEAKE

Schedule of Findings, Questioned Costs, and Management's Response
Year Ended June 30, 2008

(4) Schedule of Commonwealth of Virginia Findings and Questioned Costs

Virginia Department of Social Services

Child Welfare Trust Accounts

State Finding 08-1: Accounts Without Recent Activity are Necessary and Unexpended Funds are Returned

Section 63.2-320 of the Code of Virginia authorizes local agencies to accept and expend special welfare trust funds for foster care or other children placed by or entrusted to the board when there is no appointed guardian. The statute provides for final disposition of remaining funds in the child's account when the local board discharges the child from its care. Accounts without recent activity should be monitored to determine they are necessary, and if no longer necessary, those funds should be returned to the child or escheated to the State. In performing our Child Welfare Trust audit procedures, we noted two instances of inactive accounts where the funds should have been returned. We recommend that the Social Services department implement review procedures at least on a semi-annual basis to ensure that inactive accounts are timely returned.

Management agrees with this finding. The City's Department of Social Services (CDSS) has determined where the funds belong in the two instances noted and funds will be returned to the appropriate person and/or agency. CDSS has been successful in working with the Social Workers, Social Security Administration, and Division of Child Support Enforcement to determine how much the agency can recoup towards room and board charges as well as any other ancillary services owed. Procedures have been put in the place to ensure a review of Special Welfare Fund balances per child is performed monthly and outstanding account balances are determined and proper disposition of the funds takes place.



**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 the City of Council
City of Chesapeake, Virginia

We have audited the basic financial statements of the City of Chesapeake, Virginia (the "City") as of and for the year ended June 30, 2008, and have issued our report thereon dated November 21, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. We did not audit the financial statements of the Chesapeake Airport Authority, which represents 3.88% and 0.38%, respectively, of the assets and revenues of the aggregate discretely presented component units. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinions, insofar as it relates to the amounts included for the Chesapeake Airport Authority, is based on the report 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.

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 entity'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 entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

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 entity's internal control.

Our consideration of 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 internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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 November 21, 2008.

This report is intended for the information 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, Bekant - Holland, L. L. P.

Virginia Beach, Virginia
November 21, 2008



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

The Honorable Members of the City Council
City of Chesapeake, Virginia

Compliance

We have audited the compliance of the City of Chesapeake, Virginia 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 of Chesapeake'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 of Chesapeake's management. Our responsibility is to express an opinion on the City of Chesapeake'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 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 material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Chesapeake'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 on the City of Chesapeake's compliance with those requirements.

In our opinion, the City of Chesapeake 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.

Internal Control Over Compliance

The management of the City of Chesapeake is responsible for establishing and maintaining effective internal control over compliance with 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.

A *control deficiency* in an entity'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 entity'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 entity's internal control.

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 entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

The report is intended for the information of the Board of Supervisors, 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, Bekant & Holland, L.L.P.

Virginia Beach, Virginia
November 21, 2008



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

The Honorable Members of the City Council
City of Chesapeake, Virginia

We have audited the basic financial statements of the City of Chesapeake, Virginia, (the "City") as of and for the year ended June 30, 2008, and have issued our report thereon dated November 21, 2008.

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	Education
Cash and Investments	Comprehensive Services Act
Conflicts of Interest	Social Services
Debt Provisions	Governors Opportunity Fund
Retirement Systems	Highway Maintenance
Procurement	
Unclaimed Property	

The results of our tests discovered one instance of noncompliance with those requirements that is required to be reported in accordance with the *Specifications for Audits of Counties, Cities, and Towns*, which are described in the accompanying schedule of findings and questioned costs as state finding 08-1.

This report is intended solely for the information of the 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.

Virginia Beach, Virginia
November 21, 2008

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Chesapeake
VIRGINIA