

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 and Authorities, Boards and Commissions*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia, the financial statements of the governmental activities, the business-type activities, the aggregate 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, 2018, 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, 2018.

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.

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. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section 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. **We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as Item 2018-001, which 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 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* which are described in the accompanying schedule of findings and questioned costs as Items 2018-003 through 2018-005.**

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 questioned 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, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

Harrisonburg, Virginia
November 28, 2018

**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, 2018. 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, 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, 2018.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as Item 2018-002. Our opinion on each major federal program is not modified with respect to this matter.

The City's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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. **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, 2018

CITY OF MANASSAS, VIRGINIA

SUMMARY OF COMPLIANCE MATTERS

June 30, 2018

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.

FEDERAL AVIATION ADMINISTRATION COMPLIANCE MATTERS

Passenger Facility Charge Audit Guide for Public Agencies

Requirements of laws and regulations required by the Federal Aviation Administration in relation to the passenger facility charge program.

CITY OF MANASSAS, VIRGINIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2018

A. SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses an **unmodified opinion** on the financial statements.
2. **One material weakness** 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 **one audit finding relating to a major program**.
7. The major programs of the City are:

<u>Name of Program</u>	<u>CFDA #</u>
Child Nutrition Cluster - School Breakfast Program	10.553
Child Nutrition Cluster - National School Lunch Program	10.555
Airport Improvement Program	20.106

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, 2018**

B. FINDINGS – FINANCIAL STATEMENT AUDIT

2018-001: Capital Assets (Material Weakness)

Condition and Criteria:

The City's capitalization policy is to capitalize individual costs of more than \$5,000 and an estimated useful life of more than one year. In the previous three 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, one material adjustment for donated assets was required to restate beginning net position.

Cause:

Ongoing changes and improvements in recording and tracking fixed assets continues to discover necessary corrections.

Effect:

The financial statements may be misstated due to capital asset activity not being identified and recorded in a timely manner.

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 ongoing enterprise resource planning software implementation. Controls should be in place to properly identify capital assets either by performing a detail review of capital outlay and detail capital listings and/or comparing budgetary amounts to actual costs.

Views of Responsible Officials and Planned Corrective Action:

The Fixed Asset module of Munis will be implemented for FY2019. Other controls regarding clean-up and sign offs will continue, and analysis of capital outlay accounts and discussion with departments will be scheduled on a more routine basis. A checklist to help identify donated assets will be developed.

CITY OF MANASSAS, VIRGINIA

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2018**

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

2018-002: Airport Improvement Program – Reporting

Condition and Criteria:

The SF-425 report was not filed with the federal agency by the December 31, 2017 deadline.

Cause:

This occurred because no procedure was in place to ensure that the report was filed in a timely manner.

Effect:

Applicable balances may be restricted or withheld.

Recommendation:

We recommend the grant manager maintain a calendar of due dates to ensure they are filed timely.

Views of Responsible Officials and Planned Corrective Action:

The auditee concurs with this recommendation and plans to implement corrective action. The airport's Administrative Coordinator will be trained as the grant administrator and will develop a calendar that will have important dates for the administration of federal and state grants. They will also work with the airport's two engineering firms to establish the dates in which they will submit the annual reports to the grant administrator so they can be reviewed and sent to the FAA in a timely manner.

CITY OF MANASSAS, VIRGINIA

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2018**

D. FINDINGS AND QUESTIONED COSTS – COMMONWEALTH OF VIRGINIA

2018-003: Social Services – Purchases

Condition:

During review of a random sample of VIEW purchased service transactions, one instance was noted of items being purchased with no Activity and Service Plan in place.

Recommendation:

Someone other than the case worker should review activity to ensure all expenses are allowed per Activity and Service Plans.

Views of Responsible Officials and Planned Corrective Action:

The auditee concurs with this recommendation. The corrective action in place requires that all workers complete a Service plan, case documentation and/or case activity within the 30 days of the case being open as required by VDSS. In addition, all workers must have their manager's approval for all purchases up to \$250.00 and Director approval for all purchases above \$250.00.

2018-004: Investment Ratings

Condition:

Several corporate bonds of the City fell below Virginia required minimum ratings during the year. These bonds amounted to \$584,299.

Recommendation:

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

Views of Responsible Officials and Planned Corrective Action:

The auditee concurs with this recommendation. In accordance with Section J of the City's Investment Policy, the Treasurer, in consultation with the City's Investment Advisor, will make the determination of whether or not to dispose of the downgraded security at the appropriate economically feasible time in the event of a securities downgrade.

CITY OF MANASSAS, VIRGINIA

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2018**

2018-05: Commonwealth of Virginia Disclosure Statements

Condition:

We noted eight members of the City's various Boards and Commissions did not file a statement of economic interest by the February 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.

Views of Responsible Officials and Planned Corrective Action:

The auditee concurs with this recommendation and plans to better communicate and educate the members of the Boards and Commissions on the requirement to file the appropriate Statement of Economic Interest Forms in a timely manner. This will be accomplished by providing information at Board and Commission meetings and sending reminders in the weeks prior to distribution of the forms and the February 1 deadline.

CITY OF MANASSAS, VIRGINIA

**SCHEDULE OF PRIOR AUDIT FINDINGS
Year Ended June 30, 2018**

A. 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.

Current Status:

Still applicable for current year. See current year finding.

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.

Current Status:

No such issues were noted in the current year.

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

None

CITY OF MANASSAS, VIRGINIA
SCHEDULE OF PRIOR AUDIT FINDINGS
Year Ended June 30, 2018

C. 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.

Current Status:

Still applicable for current year. See current year finding.

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*.

Current Status:

Still applicable for current year. See current year finding.

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.

Current Status:

No such issues were noted in the current year.

CITY OF MANASSAS, VIRGINIA
SCHEDULE OF PRIOR AUDIT FINDINGS
Year Ended June 30, 2018

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

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.

Current Status:

No such issues were noted in the current year.

2017-007: Social Services – Segregation of Duties

Condition:

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

Current 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, 2018

Federal Granting Agency/Recipient State Agency/Grant Program	Federal CFDA Number	Pass-Through Identifying Number	Cluster Expenditures	Federal Expenditures
Department of Agriculture:				
Pass through payments: Virginia Department of Agriculture and Consumer Services				
Child Nutrition Cluster:				
School Breakfast Program	10.553	10553-301-10	\$ 617,659	
National School Lunch Program - Food Donations	10.555	00-571	232,511	
National School Lunch Program	10.555	10555-301-10	2,034,169	
State Admin. Exp. For Child Nutrition	10.560	10560-301-10	256	
Total Child Nutrition Cluster:			<u>2,884,595</u>	\$ 2,884,595
National Summer Feeding	10.225			67,818
Pass through payments: Virginia Department of Social Services				
State Administrative Matching Grants for Supplemental Nutritional Assistance Program	10.561	10561-765-10		<u>478,574</u>
Total Department of Agriculture				<u>3,430,987</u>
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		<u>196,415</u>
Total Department of Housing and Urban Development				<u>196,415</u>
Department of Education:				
Pass through payments: Virginia Department of Education				
Title I Grants to Local Educational Agencies	84.010	84010-197-10		1,041,477
Special Education Cluster (IDEA):				
Special Education: Grants to States	84.027	84027-197-10	1,538,304	
Special Education: Preschool Grants	84.173	84173-197-10	31,519	
Total Special Education Cluster:			<u>1,569,823</u>	
Career and Technical Education: Basic Grants to States	84.048	84048-197-10		111,611
English Language Acquisition State Grants	84.365	84365-197-10		208,854
Improving Teacher Quality State Grants	84.367	84367-197-10		242,440
Student Support and Academic Enrichment Grants	84.424	84424-197-10		<u>35,363</u>
Total Department of Education				<u>3,209,568</u>
Department of Health and Human Services:				
Pass through payments: Virginia Department of Social Services				
Promoting Safe and Stable Families	93.556	93556-765-10		13,901
Temporary Assistance for Needy Families	93.558	93558-765-10		238,566
Refugee and Entrant Assistance: State Administered Programs	93.566	93566-765-10		5,046
Low-Income Home Energy Assistance	93.568	93568-765-10		25,984
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	93596-765-10		35,937
Chafee Education and Training Vouchers Program (ETV)	93.599	93599-765-10		760
Stephanie Tubbs Joens Child Welfare Services Program	93.645	93645-765-10		599
Foster Care: Title IV-E	93.658	93658-765-10		270,396
Adoption Assistance	93.659	93659-765-10		154,122
Social Services Block Grant	93.667	93667-765-10		152,901
Chafee Foster Care Independence Program	93.674	93674-765-10		2,750
Children's Health Insurance Program	93.767	93767-765-10		18,926
Medical Assistance Program	93.778	93778-765-10		<u>477,915</u>
Total Department of Health and Human Services				<u>1,397,803</u>

Continued

CITY OF MANASSAS, VIRGINIA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2018

Federal Granting Agency/Recipient State Agency/Grant Program	Federal CFDA Number	Pass-Through Identifying Number	Cluster Expenditures	Federal Expenditures
Department of Homeland Security:				
Pass through payments: Department of Emergency Management				
Emergency Management Performance Grants	97.042	97042-127-10		23,080
Citizen Preparedness	97.073	97073-127-10		13,957
Emergency Food & Shelter Program	97.024	97021-127-10		3,224
Homeland Security Grant Program	97.067	UASI596		<u>123,862</u>
Total Department of Homeland Security				<u>164,123</u>
Department of Justice:				
Direct payments:				
Bulletproof Vest Partnership Program	16.607	N/A		8,033
Edward Byrne Memorial Justice Assistance Program	16.738	N/A		<u>15,645</u>
Total Department of Justice				<u>23,678</u>
Department of Transportation:				
Federal Aviation Administration:				
Direct payments:				
Airport Improvement Program	20.106	N/A		1,782,434
Federal Highway Administration				
Pass through payments: Virginia Department of Motor Vehicles				
State and Community Highway Safety	20.600	4369		13,651
Federal Transit Administration				
Pass through payments: Virginia Department of Transportation				
Highway Planning and Construction	20.205	61448		<u>188,010</u>
Total Department of Transportation				<u>1,984,095</u>
Federal Emergency Management Agency:				
Pass through payments: Department of Emergency Management				
Public Assistance Grants - Snow Removal	97.036	683-94476-00 683-48952-00		<u>222,056</u>
Total Federal Emergency Management Agency				<u>222,056</u>
Total Expenditures of Federal Awards				<u><u>\$ 10,628,725</u></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 3: De Minimis Cost Rate

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