



**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***

To the Honorable Members of the Board of Supervisors
County of Hanover, Virginia

We have audited 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 County of Hanover, Virginia (the "County") as of and for the year ended June 30, 2011, and have issued our report thereon dated November 16, 2011. 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.

Internal Control Over Financial Reporting

Management of the County is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the County's internal control over financial reporting as a basis for designing our auditing procedures 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 County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over financial reporting.

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 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.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the County'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*.

This report is intended for the information of the finance committee, the Board of Supervisors, School Board, 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.

Cheng Eckert + Holland, L.L.P.

Richmond, Virginia
November 16, 2011



**Independent Auditors' Report On Compliance With Requirements That Could Have a
Direct and Material Effect on Each Major Program and on Internal Control Over
Compliance in Accordance With OMB Circular A-133**

To the Honorable Members of the Board of Supervisors
County of Hanover, Virginia

Compliance

We have audited the compliance of the County of Hanover, Virginia, (the "County"), with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011. The County's major federal programs are identified in the summary of auditor's 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 County's management. Our responsibility is to express an opinion on the County's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance 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 County'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 County's compliance with those requirements.

In our opinion, the County, complied, in all material respects, with the 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, 2011.

Internal Control Over Compliance

The management of the County 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 County'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 and to test and report on internal control over

compliance in accordance with OMB Circular A-133, 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 County's internal control over compliance.

A deficiency in 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 material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a possibility material compliance with a type of compliance requirement of a federal program will not be prevented detected and corrected on a timely basis.

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 deficiencies, 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. This report is intended for the information of the finance committee, the Board of Supervisors, School Board, 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.

Cheng Beckert + Holland, L.L.P.

Richmond, Virginia
November 16, 2011

COUNTY OF HANOVER, VIRGINIA
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2011

Federal Granting Agency/Recipient State Agency/ Grant Program	Federal Catalog Number	Program Clusters	Federal Expenditures
DEPARTMENT OF AGRICULTURE:			
Passed Through the Commonwealth of Virginia:			
Department of Agriculture and Consumer Services:			
National School Lunch Program - Cafeteria (commodities)	10.555	\$ 270,459	
Department of Education:			
School Breakfast Program	10.553	246,667	
National School Lunch Program	10.555	<u>1,035,644</u>	
Total Child Nutrition Cluster			\$ 1,552,771
Department of Health:			
Child & Adult Care Food Program	10.558		29,251
Department of Social Services:			
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	531,164	
ARRA - State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	<u>51,037</u>	
Total SNAP Cluster			582,200
DEPARTMENT OF DEFENSE:			
Direct Payments:			
JROTC	12.000		197,394
DEPARTMENT OF THE INTERIOR:			
Direct Payments:			
Payments in Lieu of Taxes (PILT)	15.226		8,189
DEPARTMENT OF JUSTICE:			
Direct Payments:			
Bulletproof Vest Partnership Program	16.607		4,700
Passed Through the Commonwealth of Virginia:			
Department of Criminal Justice Services:			
Title V_Delinquency Prevention Program (10-A6158TV08)	16.548		2,603
Department of Social Services:			
Crime Victim Assistance (SVC-09-038-28)	16.575		30,333
DEPARTMENT OF TRANSPORTATION:			
Direct Payments:			
Department of Aviation:			
Airport Improvement Program	20.106		540,601
Passed Through the Commonwealth of Virginia:			
Department of Transportation:			
Highway Planning and Construction	20.205	<u>274,427</u>	
Total Highway Planning and Construction Cluster			274,427
Department of Motor Vehicles:			
Alcohol Open Container Requirements	20.607		44,629
ENVIRONMENTAL PROTECTION AGENCY:			
Direct Payments:			
Congressional Mandated Projects	66.202		63,681
Passed Through the Commonwealth of Virginia:			
Virginia Department of Environmental Quality:			
ARRA - Leaking Underground Storage Tank Trust Fund Corrective Action Program	66.805		342,275
DEPARTMENT OF ENERGY:			
Direct Payments:			
ARRA - Energy Efficiency & Conservation Block Grant Program (EECBG)	81.128		252,636
DEPARTMENT OF EDUCATION:			
Passed Through the Commonwealth of Virginia:			
Department of Education:			
Adult Education - Basic Grants to States (V002A080046)	84.002		96,380
Title I Grants to Local Educational Agencies (S010A080046)	84.010	<u>628,082</u>	
Total Title I, Part A Cluster			628,082
Career and Technical Education - Basic Grants to States (V0488A080046)	84.048		165,680
Special Education_Grants to States (H027A080107; H027A090107/FFY09)	84.027	2,680,670	
Special Education_Preschool Grants (H173A080112)	84.173	78,291	
ARRA - Special Education Grants to States, Recovery Act (H391A090107)	84.391	1,610,318	
ARRA - Special Education - Preschool Grants, Recovery Act	84.392	<u>110,100</u>	
Total Special Education Cluster (IDEA)			4,479,379
Education Technology State Grants (S318X080046)	84.318	<u>8,089</u>	
Total Educational Technology State Grants Cluster			8,089
English Language Acquisition Grants	84.365		13,575
Improving Teacher Quality State Grants (S367A080044)	84.367		305,729
ARRA - State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act	84.394	<u>5,399,991</u>	
Total State Fiscal Stabilization Fund Cluster			5,399,991

COUNTY OF HANOVER, VIRGINIA
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2011

Federal Granting Agency/Recipient State Agency/ Grant Program	Federal Catalog Number	Program Clusters	Federal Expenditures
DEPARTMENT OF EDUCATION, CONTINUED:			
Department of Behavioral Health & Developmental Services:			
Special Education - Grants for Infants & Families (720C-04118-07-13)	84.181	\$ 51,161	
ARRA - Special Education - Grants for Infants & Families, Recovery Act	84.393	<u>95,479</u>	
Total Early Intervention Services (IDEA) Cluster			\$ 146,640
DEPARTMENT OF HEALTH AND HUMAN SERVICES:			
Direct Payments:			
Head Start (03CH0337)	93.600	<u>944,967</u>	
Total Head Start Cluster			944,967
Passed Through the Regional Drug Free Alliance:			
Drug-Free Communities Support Program Grants	93.276		547
Passed Through the Commonwealth of Virginia:			
Department of Social Services:			
Promoting Safe and Stable Families	93.556		28,714
Temporary Assistance for Needy Families	93.558	<u>337,538</u>	
Total TANF Cluster			337,538
Refugee & Entrant Assistance_State Administered Programs	93.566		1,079
Low-Income Home Energy Assistance	93.568		12,677
Child Care and Development Block Grant	93.575	412,366	
ARRA - Child Care and Development Block Grant	93.713	32,431	
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	248,570	
ARRA - Child Care Mandatory & Matching Funds of the Child Care & Development Fund	93.596	<u>4,826</u>	
Total CCDF Cluster			698,193
Chafee Education and Training Vouchers Program (ETV)	93.599		12,600
Stephanie Tubbs Jones Child Welfare Services Program	93.645		1,422
Foster Care_Title IV-E	93.658		428,436
ARRA - Title IV-E Foster Care	93.658		14,939
Adoption Assistance	93.659		174,787
ARRA - Title IV-E Adoption Assistance	93.659		11,318
Social Services Block Grant	93.667		193,712
Chafee Foster Care Independence Program	93.674		6,586
Department of Medical Assistance Services:			
Children's Health Insurance Program	93.767		140,555
Medical Assistance Program	93.778	<u>396,891</u>	
Total Medicaid Cluster			396,891
Department of Behavioral Health and Developmental Services:			
Block Grants for Community Mental Health Services (44506-50138)	93.958		67,025
Block Grants for Prevention and Treatment of Substance Abuse (44501-50148 & 50178; 720C-04220-09M06)	93.959		386,392
DEPARTMENT OF HOMELAND SECURITY:			
Direct Payments:			
Staffing for Adequate Fire & Emergency Response (SAFER)	97.083		362,640
Passed Through the United Way:			
Emergency Food and Shelter National Board Program	97.024	<u>10,000</u>	
Total Emergency Food and Shelter Program Cluster			10,000
Passed Through the Commonwealth of Virginia:			
Department of Emergency Management:			
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036		36,305
Interoperable Emergency Communications	97.055		<u>115,981</u>
			<u>\$19,552,538</u>

COUNTY OF HANOVER, VIRGINIA

Notes to Schedule of Expenditures of Federal Awards
Year Ended June 30, 2011

1. GENERAL

The accompanying Schedule of Expenditures of Federal Awards (the Schedule or SEFA) includes all federal grant activity of the County of Hanover, Virginia (the County), and its component units. The County's reporting entity is defined in Note 1 of the County's basic financial statements. All federal financial assistance received directly from federal agencies, as well as federal financial assistance passed through other government agencies or not-for-profit organizations, is included on the Schedule.

2. BASIS OF ACCOUNTING

The Schedule is presented using the modified accrual basis of accounting for governmental funds and the accrual basis of accounting for proprietary funds, as described in Note I. C. to the County's basic financial statements. The information in this Schedule is presented in accordance with the requirements of Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in the Schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements. This fiscal year, the County participated in the following federal programs in which non-cash benefits were provided through the state to eligible participants:

National School Lunch Program – Cafeteria (Commodities) (CFDA Number 10.555) – The value of food commodities was calculated using the U.S. Department of Agriculture's Food and Nutrition Service commodity price lists.

Supplemental Nutrition Assistance Program (CFDA Number 10.551) – The Virginia Department of Social Services uses an Electronic Benefits Transfer (EBT) process for Supplemental Nutrition Assistance benefit distribution. Due to the State administration of the EBT process, those benefits are not included in the Schedule.

3. AMERICAN RECOVERY AND REINVESTMENT ACT (ARRA) OF 2009

The American Recovery and Reinvestment Act of 2009 (ARRA, or Act) was signed into law on February 17, 2009. As of June 30, 2011, the County has been both a direct recipient and a sub-recipient of ARRA funds, and has separately identified the expenditure of these Federal awards on the accompanying Schedule of Expenditure of Federal Awards by inclusion of the prefix "ARRA" in the grant program name.

Pursuant to the Act, the County is required to report all direct ARRA awards received and expended on a cumulative basis, to www.FederalReporting.gov, by the 10th day after each calendar quarter. Citizens may access the ARRA reports at www.Recovery.gov.

COUNTY OF HANOVER, VIRGINIA
Notes to Schedule of Expenditures of Federal Awards
Year Ended June 30, 2011

4. RELATIONSHIP TO THE BASIC FINANCIAL STATEMENTS

GASB 33 provides that grant revenue should be recognized when all applicable eligibility requirements are met, and, under modified accrual accounting, when the resources are available. Therefore, the proceeds of grants which do not specify time requirements, and for which all other eligibility requirements have been met, are recognized as revenues in the current fiscal year. Expenditures, however, are recognized in the fiscal year spent for the required purpose. In addition, direct Federal interest rate subsidies related to the County's Build America Bonds totaling \$272,459 are included in revenues from the Federal government in the General Fund, but are not subject to the Single Audit Act and are not reported on the SEFA. The following schedule reconciles revenue from the Federal government per the basic financial statements to Federal expenditures per the Schedule.

Revenue from the Federal government - financial statements	\$ 20,151,749
Less: Direct Federal interest rate subsidies	(272,459)
Add (subtract) Federal awards revenue recognized:	
In prior fiscal years, spent this fiscal year	99,967
In current fiscal years, but not spent	(426,719)
Expenditures of Federal awards	<u>\$ 19,552,538</u>

5. RELATIONSHIP TO FEDERAL FINANCIAL REPORTS

Amounts reported in the accompanying Schedule agree with amounts reported in the related federal financial reports, except that certain federal financial reports are prepared on the cash basis of accounting and the Schedule is prepared on the basis of accounting described in the preceding note 2.

COUNTY OF HANOVER, VIRGINIA
 Schedule of Findings and Questioned Costs
 For the Fiscal Year Ended June 30, 2011

A. Summary of Auditors' Results

1. The type of report issued on the basic financial statements: **UNQUALIFIED OPINION**
2. Significant deficiencies in internal control disclosed by the audit of the financial statements: **NONE REPORTED**
3. Material weaknesses in internal control disclosed by the audit of the financial statements: **NO**
4. Noncompliance, which is material to the financial statements: **NO**
5. Significant deficiencies in internal control over major programs: **NONE REPORTED**
6. Material weaknesses in internal control over major programs: **NO**
7. The type of report issued on compliance for major programs: **UNQUALIFIED OPINION**
8. Any audit findings which are required to be reported under Section 510(a) of OMB Circular A-133: **NO**
9. The programs tested as major programs were:

<u>Name of Federal Program or Cluster</u>	<u>CFDA Numbers</u>
Child Nutrition Cluster	10.553 and 10.555
Leaking Underground Storage Tank Trust Fund Corrective Action Program	66.805
Special Education Cluster (IDEA)	84.027, 84.173, 84.391, 84.392
Energy Efficiency & Conservation Block Grant Program (EECBG)	81.128
Title I Grants to Local Educational Agencies	84.010
State Fiscal Stabilization Fund (SFSF)-Education State Grants, Recovery Act	84.394

10. Dollar threshold to distinguish between Types A and B Programs: **\$586,576**
11. The County of Hanover was determined to be a low risk auditee.

B. Findings - Financial Statement Audit

NONE

C. Findings and Questioned Costs - Major Federal Awards

NONE

D. Resolution of Prior Year's Findings

There were no findings reported in the prior year.