



COUNTY OF FAIRFAX, VIRGINIA

Financial and Compliance Audit
Pursuant to OMB Circular A-133
(Single Audit)

June 30, 2012

(With Independent Auditors' Reports Thereon)

COUNTY OF FAIRFAX, VIRGINIA

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**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 Board of Supervisors
County of Fairfax, Virginia:

We have audited 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 County of Fairfax, Virginia (the County) as of and for the year ended June 30, 2012, which collectively comprise the County's basic financial statements and have issued our report thereon dated November 19, 2012. Our report was modified to include a reference to the adoption of a new accounting standard effective July 1, 2011. Our report was also modified to include a reference to other auditors. 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, and the *Specifications for Audits of Counties, Cities, and Towns* (the Specifications) issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Other auditors audited the financial statements of the Fairfax County Redevelopment and Housing Authority, a discretely presented component unit of the County. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

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 opinion 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 over financial reporting 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 over financial reporting, 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 weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting that we consider to be a significant deficiency and are described in Appendix A to this report. A significant deficiency is a deficiency, or combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.



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*.

The County's response to the finding identified in our audit is described in the Appendix A. We did not audit the County's response described in Appendix A and, accordingly, we express no opinion on it.

We noted certain matters that we reported to management of the County of Fairfax, Virginia, in a separate letter date November 19, 2012.

This report is intended solely for the information and use of the Board of Supervisors, County management, the Auditor of Public Accounts of the Commonwealth of Virginia, 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.

KPMG LLP

November 19, 2012

Appendix A – Significant Deficiency in Internal Control Over Financial Reporting

Finding 2012-FSA01 – Weaknesses in the County’s General Information Technology (GITC) Access Controls Related to FOCUS

Background:

General Information Technology Controls (GITCs) provide the foundation for a well-controlled technology environment that supports the consistent processing and reporting of operational and financial data in accordance with management’s directives.

The County’s GITC environment underwent significant transition during fiscal year 2012, as the County retired legacy financial, procurement, and human resource systems and implemented an all-inclusive SAP system (i.e., FOCUS).

Our audit included an assessment of GITCs in four key control areas: access to programs and data, program changes, program development, and computer operations. During our assessment, we noted that, as a result of the ongoing FOCUS implementation, significant access to programs and data deficiencies existed during fiscal year 2012.

Conditions:

The deficiencies identified are as follows:

1. From November 2011 to May 2012, password configurations for standard FOCUS access did not enforce the following County policy requirements:
 - Password history is stored for a specified number of previous password generations.
 - Passwords must be changed every 90 days.

In addition, User ID was not revoked (locked) after a specified number of invalid login attempts. In May 2012, this deficiency was resolved when the County activated additional login features.

2. Super user access account issues included:
 - Active generic RFC User, SAP_ALL and SAP_NEW “dialogue” and “system” accounts existed in FOCUS from the application’s go-live date (i.e., November 7, 2011) until May 2012. These accounts were set-up by the County’s contractor during the FOCUS system’s design and implementation but some were not removed. Until the County identified and addressed these accounts in May 2012, they were accessible to employees and consultants.

Once these access gaps were identified, the County utilized various reports to monitor unusual activity within FOCUS. In May 2012, the County changed these generic accounts to non-accessible accounts, thus mitigating the risk associated with these generic accounts.

- One generic user ID with Super User capabilities could be accessed by at least ten users including County employees and off-site contractors from November 2011 to the end of fiscal year 2012. The County is not currently monitoring the activities conducted with this User ID.
- A FOCUS generated list was not available to detail when each of the emergency temporary “Firefighter” IDs had been activated between November 2011 and the end of fiscal year 2012.

However, the County has established a process detailing how a firefighter ID is to be requested, activated, monitored, and re-locked and was also able to produce documentation for the approval, monitoring, and closure of certain Firefighter IDs.

3. During our separated employee test work at the County, we identified 101 employees separated during the fiscal year that retained access to FOCUS subsequent to their termination date. This occurred because between November 2011 and April 2012, the County did not have a new process in place to identify and remove terminated users. Additionally, ten separated employees were identified whose FOCUS user accounts had been locked but still retained Active Directory accounts.

The County implemented a mitigating control by removing employee's Active Directory (AD) access upon their termination. Once an employee's AD account is removed, they are unable to access FOCUS with their FOCUS user account and, therefore, cannot make unauthorized changes. Our testwork confirmed that each of the 101 employees with active FOCUS user accounts did not have a current AD user account.

Also during our separated employee test work at Fairfax County Public Schools (FCPS), we identified 30 employees separated during the fiscal year that retained access to FOCUS subsequent to their termination date. FCPS management stated that a process to identify and remove FOCUS user accounts associated with FCPS terminated employees was not yet implemented. As a result, user accounts related to FCPS terminated employees were frequently not removed on a timely basis.

4. The County did not have a central system of record for its contractors who work on-site or use the County's systems at an off-site location. As a result, the County was unable to provide a list of contractors who were terminated from the County during fiscal year 2012 and whose user accounts were removed from the system.
5. Through inquiry with Fairfax Business Support Group and Fairfax Schools Support Group management, we were informed that a complete review of users with access to FOCUS was not performed for County or FCPS users in fiscal year 2012.
6. Focus segregation of duties (SOD) conflicts were not updated in the Role Conflict Matrix between November 2011 and May 2012, even though several changes to FOCUS roles occurred. Additionally, we performed a SOD analysis over FOCUS and identified a significant number of potential high-risk SOD conflicts. After discussing the potential conflicts with County management, we were informed that additional security mechanisms might be in place to mitigate some of the potential conflicts identified. However, due to the significant level of effort required to identify and document these mitigating controls, the County elected not to perform additional procedures in this area.

Criteria:

The following publications were utilized in our GITC test work over the County:

- National Institute of Standards and Technology (NIST) Special Publication (SP) 800-53, Revision 3, *Recommended Security Controls for Federal Information Systems and Organizations*, August 2009
- National Institute of Standards and Technology (NIST) Special Publication (SP) 800-12, *An Introduction to Computer Security: The NIST Handbook*, October 1995
- Fairfax County's *IT Security Policy*, Section 1.5

Cause/Effect:

Specific causes related to the individual conditions noted above are as follows:

1. The County did not install identity authentication software until June 2012. Prior to the software implementation, password configurations in place for standard access did not enforce compliance with some of the County's security policy requirements.
2. Since multiple phases of FOCUS were being implemented over the course of fiscal year 2012, it was not always practical to turn some of the Super User accounts on and off frequently.
3. Due to demands stemming from the implementation and stabilization of FOCUS, the County was not able to implement a comprehensive process for application user terminations until April 2012. Additionally, the employees performing this function were new and had significant other responsibilities during the FOCUS stabilization period.
4. The County has not identified a central method of tracking contractor access to the County's applications. As a result, the County is not able to implement a process to help ensure terminated contractors are removed from the system within an appropriate period.
5. Due to the demands of the implementation activities for a major new module of FOCUS, the Fairfax Business Support Group did not have the resource capacity necessary to complete a comprehensive access review.
6. FOCUS SAP is much more complex than the County's legacy systems and offers the ability to create and customize a variety of roles. The process to manage the resulting high number of roles and prevent SOD conflicts is very demanding, especially if an automatic access tool is not available. There were hundreds of County and Public Schools employees with new roles and responsibilities in the new system, which was expected. In addition, a new FOCUS Business Support Group with new integrated County and Public Schools responsibilities was created and took some time to implement and refine joint processes and controls.

These above-noted conditions increase the risk that unauthorized users can access sensitive system functions and negatively impact the confidentiality, integrity, and availability of application data. We noted that County management remediated several control deficiencies during fiscal year 2012.

Recommendations:

- A. We recommend that County management monitor the effectiveness of newly implemented control activities on a regular and periodic basis.
- B. In addition, to the extent the above noted findings have not been remediated, we recommend that County management:
 1. Implement and enforce the following password requirements for all login methods for FOCUS:
 - Password history is stored for a specified number of previous password generations.
 - User ID is revoked (locked) after a specified number of invalid log-in attempts.
 - Passwords contain a mixture of alpha and numeric characters.
 2. Revise its current IT Security policy to include any of the items noted in recommendation B.1 not already covered in its policy.

3. Modify the existing requirement that passwords be six characters in length to eight characters.
4. Continue to limit the use of generic super user accounts. Where generic user accounts are required, monitor their activities by creating a critical transaction list, regularly run audit reports to scan for suspicious activity related to these transactions, assign an independent employee to review them, and follow-up on any unauthorized actions.
5. Identify a report to allow the County to identify each instance a Firefighter ID is activated.
6. Revisit and strengthen the process instituted in April 2012 for removing terminated employees' user access from FOCUS as well as its practice of removing the user's Active Directory account upon termination, and periodically monitor adherence to these control activities, as well as implement a quarterly user review.
7. Coordinate with FCPS to establish a central contractor system of record, or implement more frequent contractor access reviews to better identify contractor terminations or role modifications.
8. And FCPS management perform a full user access review of all FOCUS users on an annual or more frequent basis. If this review is not performed at least quarterly, the County and FCPS should develop a list of roles with super user or excessive access and monitor those on a more frequent basis.
9. Update its FOCUS Role Conflict Matrix regularly to capture the effects of any role changes, review the results of the SOD analysis performed and documenting any compensating controls that help mitigate the risks identified, and consider automated tools that can proactively monitor SOD conflicts within FOCUS.

Management's Response:

The County appreciates the depth of the financial systems IT audit conducted by KPMG. However, the County does not agree with the overall KPMG conclusion of a 'significant deficiency' in internal controls over financial reporting. Major control deficiencies were identified and addressed or mitigated. We recognize a number of control deficiencies have been identified during the audit period. Since the implementation occurred in mid-year, some of the modules were not operational and therefore the full complement of internal controls were not yet in place during the audit. Due to the fact it was a mid-year implementation, we strongly disagree with the determination that a complete review of users with access to FOCUS did not occur during Fiscal Year 2012 since access for all users was established during the period.

Senior County and FCPS management were aware of the aggressive schedule and the phased implementation of modules and capabilities throughout the year. They were aware that as a result of limited time and available resources, there would be a time period before fixes and all access and controls could be fully configured. The County's priority during this time was to stabilize the system and become fully operational as soon as possible. In order to perform and show due diligence, the County had pre-project planning and consultation from GFOA (Government Financial Officers Association), conducted research with Gartner, and investigated other ERP implementations for practices and results. The county also contracted for a real-time systems assessment during the design and configuration of FOCUS Finance and Logistics modules with KPMG to assist with controls and risk management.

County management understands the need for a strong control environment to ensure the security and accuracy of the data contained in the computer systems and will give consideration to the recommendations made, many of which have been addressed, or will be as the FOCUS project progresses.

Prior to FOCUS go-live, the County purchased software designed to assist in the management of SOD conflicts, but the remaining elements of the FOCUS system project are the immediate priority. Additional systems and procedural controls are in place which help ensure the accuracy of the data and that no security breaches occur. The financial auditors expanded their samples and test-work and found no issues.

KPMG's Response:

Our audit was conducted in accordance with Generally Accepted Government Auditing Standards. As a result, we considered the aggregation of the individual GITC conditions identified during our audit, the duration that the conditions existed during fiscal year 2012, and the impact these conditions had on the overall control environment; therefore we believe that the classification of a significant deficiency is appropriate.



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**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**

The Board of Supervisors
County of Fairfax, Virginia:

Compliance

We have audited Fairfax County, Virginia's (the County's) compliance 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 the County's major federal programs for the year ended June 30, 2012. 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 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, 2012. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 2012-SA01.

Internal Control Over Compliance

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 to determine the 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 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.

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 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. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the accompanying schedule of findings and questioned costs as items 2012-SA01 and 2012-SA02. 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.

Schedule of Expenditures of Federal Awards

We have audited 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 County as of and for the year ended June 30, 2012, and have issued our report thereon dated November 19, 2012, which was modified to refer to other auditors. Our audit was conducted for the purpose of forming our opinions on the financial statements that collectively comprise the County's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

The County's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the County's responses and, accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of 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.

KPMG LLP

November 19, 2012

COUNTY OF FAIRFAX, VA

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2012

<u>Federal Grantor/Recipient State Agency/Program Title</u>	<u>Federal Catalogue Number</u>	<u>Expenditures</u>
Office of National Drug Control Policy		
Passed Through the University of Maryland: High Intensity Drug Trafficking Area (HIDTA)	7.999	\$ 665,967
Department of Agriculture		
Direct Awards:		
National School Lunch Program	10.555	3,588,085
Fresh Fruit and Vegetable Program	10.582	256,394
ARRA - Watershed Rehabilitation Program	10.916	86,921
Pass Through the Commonwealth of Virginia:		
<u>Department of Education</u>		
School Breakfast Program	10.553	4,255,051
National School Lunch Program	10.555	20,728,403
Healthier Schools	10.574	139,000
<u>Department of Health</u>		
Special Supplemental Nutrition Program for Women, Child and Adult Care Food Program	10.557	3,626,557
Summer Food Service Program for Children	10.558	4,353,539
Summer Food Service Program for Children	10.559	405,920
<u>Department of Agriculture</u>		
Child and Adult Care Food Program	10.558	871,847
<u>Department of Social Services</u>		
Child and Adult Care Food Program	10.558	166,199
State Administrative Matching Grants for the	10.561	7,322,482
<u>Department of Behavioral Health and Developmental Services</u>		
State Administrative Matching Grants for the	10.561	145,280
Department of Commerce:		
Direct Awards:		
MWEE - NOAA Bay Watershed Education and Training	11.457	66,659
Department of Defense		
Direct Awards:		
Junior ROTC (Department of Navy)	12.000	534,042
Army Youth Programs in Your Neighborhood	12.003	70,144
Competitive Grants: Promoting K-12 Student	12.556	783,188
Passed Through the Commonwealth of Virginia:		
<u>Department of Transportation</u>		
Community Economic Adjustment Assistance for	12.607	882,132
Department of Housing and Urban Development		
Direct Awards:		
Supportive Housing for Persons with Disabilities	14.181	254,652
Community Development Block Grants/Entitlement	14.218	8,039,172

COUNTY OF FAIRFAX, VA

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2012

Federal Grantor/Recipient State Agency/Program Title	Federal Catalogue Number	Expenditures
Emergency Shelter Grants Program	14.231	\$ 261,849
Supportive Housing Program	14.235	854,894
Shelter Plus Care	14.238	1,688,665
Home Investment Partnerships Program	14.239	2,914,671
Community Development Block Grants/Brownfields	14.246	24,713
Community Development Block Grant ARRA	14.253	556,681
Homelessness Prevention and Rapid Re-Housing	14.257	394,529
Fair Housing Assistance Program_State and Local	14.401	106,763
Public and Indian Housing	14.850	2,075,107
Resident Opportunity and Supportive Services (ROSS)	14.870	7,578
Resident Opportunity and Supportive Services (ROSS)	14.870	16,529
Resident Opportunity and Supportive Services (ROSS)	14.870	152,532
Resident Opportunity and Supportive Services (ROSS)	14.870	50,494
Resident Opportunity and Supportive Services (ROSS)	14.870	2,701
Section 8 Housing Choice Vouchers	14.871	48,060,678
Public Housing Capital Fund	14.872	1,094,436
 Department of the Interior / National Park Service		
Passed Through the Commonwealth of Virginia:		
<u>Department of Historical Resources</u>		
Outdoor Recreation_Acquisition, Development and	15.916	125,000
 Department of Justice		
Direct Awards:		
Part E - Developing, Testing and Demonstrating	16.541	74,779
The Community-Defined Solutions to Violence Against	16.590	377,972
State Criminal Alien Assistance Program	16.606	461,983
Bulletproof Vest Partnership Program	16.607	59,872
Public Safety Partnership and Community Policing	16.710	187,977
Edward Byrne Memorial Justice Assistance Grant	16.738	205,870
Recovery Act - Edward Byrne Memorial Justice	16.804	17,777
 Passed Through the Commonwealth of Virginia:		
<u>Department of Criminal Justice Services</u>		
Prisoner Reentry Initiative Demonstration	16.202	197,673
Juvenile Accountability Block Grants	16.523	64,048
Supervised Visitation, Safe Havens for Children	16.527	95,529
Juvenile Justice and Delinquency Prevention_Allocation	16.540	79,765
Crime Victim Assistance	16.575	79,837
Crime Victim Assistance/Discretionary Grants	16.582	
Violence Against Women Formula Grants	16.588	64,565
 Passed Through the County of Loudoun, Virginia:		
Anti-Gang Initiative	16.544	381,291
 Passed Through the Northern Virginia Gang Task Force:		
Congressionally Recommended Awards	16.753	64,071

COUNTY OF FAIRFAX, VA

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2012

<u>Federal Grantor/Recipient State Agency/Program Title</u>	<u>Federal Catalogue Number</u>	<u>Expenditures</u>
Department of Labor		
Passed Through the Commonwealth of Virginia:		
<u>Virginia Community College System</u>		
WIA Adult Program	17.258	\$ 1,259,138
WIA Youth Activities	17.259	588,342
WIA Dislocated Workers	17.260	94,288
ARRA - WIA Dislocated Workers	17.260	193,984
Northern Virginia Growing America Through	17.269	44,740
WIA Dislocated Worker Formula Grants	17.278	1,206,051
Department of Transportation		
Direct Awards:		
Federal Transit_Capital Investment Grants	20.500	448,645
Job Access_Reverse Commute	20.516	79,668
Passed Through the Commonwealth of Virginia:		
<u>Department of Transportation</u>		
Highway Planning and Construction	20.205	1,765,310
<u>Department of Motor Vehicles</u>		
State and Community Highway Safety	20.600	94,669
Department of the Treasury / Internal Revenue Service (IRS)		
Direct Awards:		
Taxpayer Service	21.003	76,687
Equal Employment Opportunity Commission		
Direct Awards:		
Employment Discrimination_Private Bar Program	30.005	137,974
National Aeronautics and Space Administration		
Direct Awards:		
Aerospace Education Services Program	43.001	30,801
Environmental Protection Agency		
Direct Awards:		
ARRA - National Clean Diesel Emissions Reduction	66.039	10,000
Department of Energy		
Direct Awards:		
ARRA - Energy Efficiency and Conservation Block	81.128	2,636,883
Department of Education		
Direct Awards:		
Impact Aid	84.041	4,215,961
Fund for the Improvement of Education	84.215	525,433

COUNTY OF FAIRFAX, VA

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2012

<u>Federal Grantor/Recipient State Agency/Program Title</u>	<u>Federal Catalogue Number</u>	<u>Expenditures</u>
Passed Through the Commonwealth of Virginia:		
<u>Department of Education</u>		
Adult Education - Basic Grants to States	84.002	\$ 880,816
Title I Grants to Local Educational Agencies	84.010	20,736,818
Title I Program for Neglected and Delinquent Children	84.013	93,408
Special Education_Grants to States	84.027	32,535,212
Career and Technical Education -- Basic Grants to States	84.048	1,504,683
Special Education_Preschool Grants	84.173	744,534
Education for Homeless Children and Youth	84.196	125,868
Twenty-First Century Community Learning Centers	84.287	227,020
Education Technology State Grants	84.318	92,040
English Language Acquisition Grants	84.365	5,011,915
Improving Teacher Quality State Grants	84.367	3,918,776
Education Technology State Grants, Recovery Act	84.386	50,563
Title I Grants to Local Educational Agencies, Recovery	84.389	636,636
Special Education Grants to States, Recovery Act	84.391	1,312,434
Special Education - Preschool Grants, Recovery Act	84.392	740
Education Jobs Fund	84.410	21,952,632
<u>Department of Behavioral Health and Developmental Services</u>		
Special Education-Grants for Infants and Families	84.181	2,056,293
Special Education - Grants for Infants and Families,	84.393	396,566
 Department of Health and Human Services		
Direct Awards:		
Drug-Free Communities Support Program Grants	93.276	10,573
Affordable Care Act (ACA) Grants to States for Health	93.511	674,646
Community Transformation Grants and National	93.531	90,746
Head Start	93.600	7,073,001
ARRA - Early Head Start	93.709	190,604
Medicare_Prescription Drug Coverage	93.770	1,495,907
Medical Assistance Program	93.778	1,105,724
Passed Through the Commonwealth of Virginia:		
<u>Department for the Aging</u>		
Special Programs for the Aging_Title VII, Chapter	93.041	1,042
Special Programs for the Aging_Title VII, Chapter	93.042	48,241
Special Programs for the Aging_Title III, Part	93.043	232
Special Programs for the Aging_Title III, Part B_Grants	93.044	344,561
Special Programs for the Aging_Title III, Part	93.045	1,074,845
National Family Caregiver Support, Title III, Part E	93.052	139,961
Nutrition Services Incentive Program	93.053	136,598
ARRA - Communities Putting Prevention to Work:	93.725	49,738
Medicare_Supplementary Medical Insurance	93.774	1,269

COUNTY OF FAIRFAX, VA

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2012

<u>Federal Grantor/Recipient State Agency/Program Title</u>	<u>Federal Catalogue Number</u>	<u>Expenditures</u>
<u>Department of Health</u>		
Public Health Emergency Preparedness	93.069	\$ 539,870
Project Grants and Cooperative Agreements for Immunization Grants	93.116	193,023
ARRA - Immunization	93.268	66,033
Maternal and Child Health Services Block Grant to the	93.712	9,336
	93.994	267,221
<u>Department of Behavioral Health and Developmental Services</u>		
Projects for Assistance in Transition from Homelessness	93.150	158,414
Block Grants for Community Mental Health Services	93.958	1,143,238
Block Grants for Prevention and Treatment of Substance	93.959	3,263,982
<u>Department of Social Services</u>		
Promoting Safe and Stable Families	93.556	721,465
Temporary Assistance for Needy Families	93.558	4,224,044
Refugee and Entrant Assistance_State Administered	93.566	237,502
Low-Income Home Energy Assistance	93.568	291,348
Community Services Block Grant	93.569	565,162
Child Care and Development Block Grant	93.575	6,304,564
Child Care Mandatory and Matching Funds of the Child	93.596	6,298,527
Chafee Education and Training Vouchers Program	93.599	61,099
Child Welfare Services_State Grants	93.645	10,460
Foster Care_Title IV-E	93.658	4,426,302
Adoption Assistance	93.659	2,292,003
Social Services Block Grant	93.667	2,706,696
Family Violence Prevention and Services/Grants for	93.671	10,200
Chafee Foster Care Independence Program	93.674	68,110
ARRA - Child Care and Development Block Grant	93.713	11,830
Children's Health Insurance Program	93.767	208,149
Medical Assistance Program	93.778	4,538,027
<u>National Association of County and City Health Officials (NACCHO)</u>		
Medical Reserve Corps Small Grant Program	93.008	3,391
Department of Homeland Security		
Direct Awards:		
National Urban Search and Rescue (US&R) Response	97.025	1,783,000
Assistance to Firefighters Grant	97.044	233,221
Passed Through the Commonwealth of Virginia:		
<u>Department of Emergency Management</u>		
Pilot Demonstration or Earmarked Projects	97.001	63,086
Disaster Grants - Public Assistance (Presidentially	97.036	754,450
Emergency Management Performance Grants	97.042	72,989
State Homeland Security Program (SHSP)	97.073	341,416
Repetitive Flood Claims	97.092	711,145

COUNTY OF FAIRFAX, VA

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2012

<u>Federal Grantor/Recipient State Agency/Program Title</u>	<u>Federal Catalogue Number</u>	<u>Expenditures</u>
<u>District of Columbia Homeland Security & Emergency Management Agency</u> Homeland Security Grant Program	97.067	\$ 13,742,977
Agency for International Development		
Direct Awards:		
USAID Foreign Assistance for Programs Overseas	98.001	<u>1,885,397</u>
		\$ <u><u>294,373,353</u></u>

COUNTY OF FAIRFAX, VIRGINIA

Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2012

(1) Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (Schedule) includes all federal grant activity of the County of Fairfax, Virginia (County) and its component units, except that of the discretely presented tax credit partnership component units of the Fairfax County Redevelopment and Housing Authority (FCRHA). As required by GAAP, the County's financial statements present the financial data of the County and its component units. The financial data of the component units are included in the County's basic financial statements because of the significance of their operational or financial relationships with the County. The County and its component units are together referred to herein as the reporting entity. The Schedule has been prepared on the modified accrual basis of accounting.

The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

The American Recovery and Reinvestment Act of 2009 (Recovery Act) was enacted to promote economic recovery, make investments, and to minimize and avoid reductions in state and local government services. The stimulus dollars are identified in the accompanying schedule as "Recovery Act" or "ARRA".

(2) Non-Cash and Other Programs

Women, Infant and Children (WIC) program vouchers are issued by the Commonwealth of Virginia to eligible County citizens during the year. The value of these vouchers is not included on the accompanying schedule because the Virginia Department of Health determines eligibility for and monitors the WIC program. However, the County's administrative expenditures for the program are included on the accompanying schedule in the Special Supplemental Nutrition Program for Women, Infants and Children Grant (10.557).

The Commonwealth of Virginia Department of Agriculture and Consumer Services (VDACS), Division of Marketing, administers the United States Department of Agriculture (USDA) donated food program within the Commonwealth of Virginia. USDA provides values for all donated food. For CFDA number 10.555, the County received a net value of donated food in the amount of \$216,027 for the year ended June 30, 2012.

The U.S. Department of Housing and Urban Development (HUD) has insured certain mortgage loan borrowings made by the County through the FCRHA in connection with certain low income housing projects. These loans had outstanding principal due of \$14,611,000 at June 30, 2012. In addition, FCRHA held Federal Housing Administration (FHA) - insured mortgage revenue bonds secured by land, buildings, and equipment of \$4,485,000 at June 30, 2012.

COUNTY OF FAIRFAX, VIRGINIA

Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2012

The Homeland Security Grant Program (97.067) is granted by the U.S. Department of Homeland Security to enhance the ability of state and local governments to prepare, prevent, respond to, and recover from terrorist attacks and other disasters. Several Washington, DC metropolitan jurisdictions receive funding under this program. In addition to purchasing equipment or supplies for their own jurisdiction, they may purchase these items for surrounding jurisdictions and then transfer, or donate, the items to other jurisdictions per the federal government or pass-through entity's instructions. For the year ended June 30, 2012, Fairfax County purchased and transferred equipment or supplies valued at \$812,041 for the Homeland Security Grant Program (97.067) to other jurisdictions.

(3) Totals by Program

Federal programs are awarded to the County either directly by a federal agency or through a pass-through entity. Some programs funds are received both directly and through a pass-through entity, and some are received through multiple pass-through entities. Additionally, a federal agency may request the County to provide a higher level of detail on the Schedule of Expenditures of Federal Awards, rather than a total by federal catalogue number. The following programs, reported in multiple line items in the accompanying schedule, are totaled here:

<u>Program Title</u>	<u>Number</u>	<u>Program</u>
National School Lunch Program	10.555	\$ 24,316,488
Child and Adult Care Food Program	10.558	5,391,585
State Administrative Matching Grants for the Supplemental Nutrition Assista	10.561	7,467,762
Resident Opportunity and Supportive Services	14.870	229,834
WIA Dislocated Workers	17.260	288,272
Medical Assistance Program	93.778	5,643,751

(4) Totals by Clusters

Federal programs with different Catalog of Federal Domestic Assistance (CFDA) numbers are defined as a cluster of programs because they are closely related programs that share common compliance requirements as defined by OMB Circular A-133. Of the federal expenditures presented in the Schedule, programs that are parts of a cluster are shown as follows:

COUNTY OF FAIRFAX, VIRGINIA

Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2012

<u>Name of Cluster</u>	<u>Programs Title</u>	Federal Catalogue	Total by
		<u>Number</u>	<u>Program</u>
Child Nutrition Cluster	School Breakfast Program	10.553	\$ 4,255,051
	National School Lunch Program	10.555	24,316,488
	Summer Food Service Program for Children	10.559	405,920
Child Nutrition Cluster Total			28,977,459
SNAP Cluster	State Administrative Matching Grants for Supplemental Nutrition Assistance Program	10.561	7,322,482
	ARRA - State Administrative Matching Grants for Supplemental Nutrition Assistance Program	10.561	145,280
			7,467,762
SNAP Cluster Total			7,467,762
CDBG - Entitlement Grants Cluster	Community Development Block Grant/Entitlement Grants	14.218	8,039,172
	Community Development Block Grant ARRA Entitlement Grants (CDBG-R) (Recovery Act Funded)	14.253	556,681
			8,595,853
CDBG - Entitlement Grants Cluster Total			8,595,853
Housing Voucher Cluster	Section 8 Housing Choice Vouchers	14.871	48,060,678
Housing Voucher Cluster Total			48,060,678
CFP Cluster	Public Housing Capital Fund	14.872	1,094,436
CFP Cluster Total			1,094,436
JAG Program Cluster	Edward Byrne Memorial Justice Assistance Grant Program	16.738	205,870
	Recovery Act - Edward Byrne Memorial Justice Assistance Grant (JAG) Program / Grants to Units of Local Government	16.804	17,777
			223,647
JAG Program Cluster Total			223,647
WIA Cluster	WIA Adult Program	17.258	1,259,138
	WIA Youth Activities	17.259	588,342
	WIA Dislocated Worker Formula Grants	17.278	1,206,051
WIA Cluster Total			3,053,531
Highway Planning and Construction Cluster	Highway Planning and Construction	20.205	1,765,310
Highway Planning and Construction Cluster Total			1,765,310

COUNTY OF FAIRFAX, VIRGINIA

Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2012

Federal Transit Cluster	Federal Transit_Capital Investment Grants	20.500	<u>448,645</u>
Federal Transit Cluster Total			<u>448,645</u>
Highway Safety Cluster	State and Community Highway Safety	20.600	<u>94,669</u>
Highway Safety Cluster Total			<u>94,669</u>
Title I, Part A Cluster	Title I Grants to Local Educational Agencies	84.010	20,736,818
	Title I Grants to Local Educational Agencies, Recovery Act	84.389	<u>636,636</u>
Title I, Part A Cluster Total			<u>21,373,454</u>
Special Education Cluster (IDEA)	Special Education_Grants to States	84.027	32,535,212
	Special Education_Preschool Grants	84.173	744,534
	Special Education Grants to States, Recovery Act	84.391	1,312,434
	Special Education - Preschool Grants, Recovery Act	84.392	<u>740</u>
Special Education Cluster (IDEA) Total			<u>34,592,920</u>
Impact Aid Cluster	Impact Aid	84.041	<u>4,215,961</u>
Impact Aid Cluster Total			<u>4,215,961</u>
Early Intervention Services (IDEA) Cluster	Special Education-Grants for Infants and Families	84.181	2,056,293
	Special Education - Grants for Infants and Families, Recovery Act	84.393	<u>396,566</u>
Early Intervention Services (IDEA) Cluster Total			<u>2,452,859</u>
Educational Technology State Grants Cluster	Education Technology State Grants	84.318	92,040
	Education Technology State Grants, Recovery Act	84.386	<u>50,563</u>
Educational Technology State Grants Cluster Total			<u>142,603</u>
Education of Homeless Children and Youth Cluster	Education for Homeless Children and Youth	84.196	<u>125,868</u>
Independent Living State Grants Cluster Total			<u>125,868</u>

COUNTY OF FAIRFAX, VIRGINIA

Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2012

Aging Cluster	Special Programs for the Aging Title III, Part B Grants for Supportive Services and Senior Centers	93.044	344,561
	Special Programs for the Aging Title III, Part C Nutrition Services Nutrition Services Incentive Program	93.045 93.053	1,074,845 136,598
Aging Cluster Total			<u><u>1,556,004</u></u>
Immunization Cluster	Immunization Grants	93.268	66,033
	ARRA - Immunization	93.712	9,336
Immunization Cluster Total			<u><u>75,369</u></u>
TANF Cluster	Temporary Assistance for Needy Families (TANF) State Programs	93.558	4,224,044
TANF Cluster Total			<u><u>4,224,044</u></u>
CSBG Cluster	Community Services Block Grant	93.569	565,162
CSBG Cluster Total			<u><u>565,162</u></u>
CCDF Cluster	Child Care and Development Block Grant	93.575	6,304,564
	Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	6,298,527
CCDF Cluster Total			<u><u>12,603,091</u></u>
Head Start Cluster	Head Start	93.600	7,073,001
	ARRA - Early Head Start	93.709	190,604
Head Start Cluster Total			<u><u>7,263,605</u></u>
Medicaid Cluster	Medical Assistance Program	93.778	1,105,724
Medicaid Cluster Total			<u><u>1,105,724</u></u>

COUNTY OF FAIRFAX, VIRGINIA

Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2012

(5) Subrecipients

Of the federal expenditures presented in the schedule, the County provided federal awards to subrecipients as follows:

Program Title	Federal Catalogue Number	Amount Provided to Subrecipients
Community Development Block Grant/Entitlement Grants	14.218	\$ 1,616,902
Shelter Plus Care	14.238	1,688,665
Community Services Block Grant	93.569	565,162
Head Start	93.600	1,399,759
Homeland Security Grant Program	97.067	15,000
TOTAL		\$ 5,285,488

COUNTY OF FAIRFAX, VIRGINIA

Schedule of Findings and Questioned Costs

Year ended June 30, 2012

(1) Summary of Auditors' Results

A. Type of report issued on the financial statements: **Unqualified**

B. Internal control over financial reporting:

Significant deficiencies identified that are not considered a material weakness? **Yes**

Material weakness identified? **None**

C. Noncompliance material to financial statements noted? **None**

D. Significant deficiencies in internal control over major programs noted? **Yes, findings 2012-SA01 and 2012-SA02.**

E. Material weaknesses in internal control over major programs noted? **None**

F. Type of report issued on compliance for major programs: **All major programs have Unqualified opinions.**

G. Any findings which are required to be reported under Section .510(a) of OMB Circular A-133? **Yes**

H. Major programs are as follows:

- (1) Supplemental Nutrition Assistance Program (SNAP) Cluster (CFDA #10.551/10.561-ARRA)
- (2) Little River Glen Loan Guarantees (CFDA #14.000)
- (3) Community Development Block Grants /Entitlement Grants Cluster (CDBG) (CFDA #14.218/14.253-ARRA) and Section 108 Loan Guarantees Program (Section 108 Loans)
- (4) Homelessness Prevention and Rapid Re-Housing (HPRP) (CFDA #14.257-ARRA)
- (5) Section 8 Housing Voucher Cluster (CFDA #14.871/14.879/14.880)
- (6) Energy Efficiency and Conservation Block Grant (CFDA #81.128-ARRA)
- (7) Early Intervention Services (IDEA Part C) Cluster (CFDA #84.181/84.393-ARRA)
- (8) English Language Acquisition Grants (CFDA #84.365)
- (9) Improving Teacher Quality State Grants (Title II) (CFDA #84.367)
- (10) Education Jobs Fund (CFDA #84.410-ARRA)
- (11) Temporary Assistance for Needy Families (TANF) Cluster (CFDA #93.558/93.714)
- (12) Head Start Cluster (CFDA #93.600/93.708/93.709-ARRA)
- (13) Foster Care - Title IV-E (CFDA #93.658)
- (14) Social Services Block Grant (SSBG) (CFDA #93.667)
- (15) Medicaid Cluster (CFDA #93.778)
- (16) Homeland Security Cluster (CFDA #97.067)

COUNTY OF FAIRFAX, VIRGINIA

Schedule of Findings and Questioned Costs

Year ended June 30, 2012

I. Dollar threshold used to distinguish between Type A and Type B programs: **\$3,000,000**

J. Auditee qualified as a low-risk auditee? **No**

(2) Findings Relating to the Financial Statements Reported in Accordance with Government Auditing Standards

Finding 2012-FSA01 – Weaknesses in the County’s General Information Technology (GITC) Access Controls Related to FOCUS

Background:

General Information Technology Controls (GITCs) provide the foundation for a well-controlled technology environment that supports the consistent processing and reporting of operational and financial data in accordance with management’s directives.

The County’s GITC environment underwent significant transition during fiscal year 2012, as the County retired legacy financial, procurement, and human resource systems and implemented an all-inclusive SAP system (i.e., FOCUS).

Our audit included an assessment of GITCs in four key control areas: access to programs and data, program changes, program development, and computer operations. During our assessment, we noted that, as a result of the ongoing FOCUS implementation, significant access to programs and data deficiencies existed during fiscal year 2012.

Conditions:

The deficiencies identified are as follows:

1. From November 2011 to May 2012, password configurations for standard FOCUS access did not enforce the following County policy requirements:
 - Password history is stored for a specified number of previous password generations.
 - Passwords must be changed every 90 days.

In addition, User ID was not revoked (locked) after a specified number of invalid login attempts. In May 2012, this deficiency was resolved when the County activated additional login features.

2. Super user access account issues included:
 - Active generic RFC User, SAP_ALL and SAP_NEW “dialogue” and “system” accounts existed in FOCUS from the application’s go-live date (i.e., November 7, 2011) until May 2012. These accounts were set-up by the County’s contractor during the FOCUS system’s design and implementation but some were not removed. Until the County identified and addressed these accounts in May 2012, they were accessible to employees and consultants.

COUNTY OF FAIRFAX, VIRGINIA

Schedule of Findings and Questioned Costs

Year ended June 30, 2012

Once these access gaps were identified, the County utilized various reports to monitor unusual activity within FOCUS. In May 2012, the County changed these generic accounts to non-accessible accounts, thus mitigating the risk associated with these generic accounts.

- One generic user ID with Super User capabilities could be accessed by at least ten users including County employees and off-site contractors from November 2011 to the end of fiscal year 2012. The County is not currently monitoring the activities conducted with this User ID.
- A FOCUS generated list was not available to detail when each of the emergency temporary “Firefighter” IDs had been activated between November 2011 and the end of fiscal year 2012.

However, the County has established a process detailing how a firefighter ID is to be requested, activated, monitored, and re-locked and was also able to produce documentation for the approval, monitoring, and closure of certain Firefighter IDs.

3. During our separated employee test work at the County, we identified 101 employees separated during the fiscal year that retained access to FOCUS subsequent to their termination date. This occurred because between November 2011 and April 2012, the County did not have a new process in place to identify and remove terminated users. Additionally, ten separated employees were identified whose FOCUS user accounts had been locked but still retained Active Directory accounts.

The County implemented a mitigating control by removing employee’s Active Directory (AD) access upon their termination. Once an employee’s AD account is removed, they are unable to access FOCUS with their FOCUS user account and, therefore, cannot make unauthorized changes. Our testwork confirmed that each of the 101 employees with active FOCUS user accounts did not have a current AD user account.

Also during our separated employee test work at Fairfax County Public Schools (FCPS), we identified 30 employees separated during the fiscal year that retained access to FOCUS subsequent to their termination date. FCPS management stated that a process to identify and remove FOCUS user accounts associated with FCPS terminated employees was not yet implemented. As a result, user accounts related to FCPS terminated employees were frequently not removed on a timely basis.

4. The County did not have a central system of record for its contractors who work on-site or use the County’s systems at an off-site location. As a result, the County was unable to provide a list of contractors who were terminated from the County during fiscal year 2012 and whose user accounts were removed from the system.
5. Through inquiry with Fairfax Business Support Group and Fairfax Schools Support Group management, we were informed that a complete review of users with access to FOCUS was not performed for County or FCPS users in fiscal year 2012.

COUNTY OF FAIRFAX, VIRGINIA

Schedule of Findings and Questioned Costs

Year ended June 30, 2012

6. Focus segregation of duties (SOD) conflicts were not updated in the Role Conflict Matrix between November 2011 and May 2012, even though several changes to FOCUS roles occurred. Additionally, we performed a SOD analysis over FOCUS and identified a significant number of potential high-risk SOD conflicts. After discussing the potential conflicts with County management, we were informed that additional security mechanisms might be in place to mitigate some of the potential conflicts identified. However, due to the significant level of effort required to identify and document these mitigating controls, the County elected not to perform additional procedures in this area.

Criteria:

The following publications were utilized in our GITC test work over the County:

- National Institute of Standards and Technology (NIST) Special Publication (SP) 800-53, Revision 3, *Recommended Security Controls for Federal Information Systems and Organizations*, August 2009
- National Institute of Standards and Technology (NIST) Special Publication (SP) 800-12, *An Introduction to Computer Security: The NIST Handbook*, October 1995
- Fairfax County's *IT Security Policy*, Section 1.5

Cause/Effect:

Specific causes related to the individual conditions noted above are as follows:

1. The County did not install identity authentication software until June 2012. Prior to the software implementation, password configurations in place for standard access did not enforce compliance with some of the County's security policy requirements.
2. Since multiple phases of FOCUS were being implemented over the course of fiscal year 2012, it was not always practical to turn some of the Super User accounts on and off frequently.
3. Due to demands stemming from the implementation and stabilization of FOCUS, the County was not able to implement a comprehensive process for application user terminations until April 2012. Additionally, the employees performing this function were new and had significant other responsibilities during the FOCUS stabilization period.
4. The County has not identified a central method of tracking contractor access to the County's applications. As a result, the County is not able to implement a process to help ensure terminated contractors are removed from the system within an appropriate period.
5. Due to the demands of the implementation activities for a major new module of FOCUS, the Fairfax Business Support Group did not have the resource capacity necessary to complete a comprehensive access review.
6. FOCUS SAP is much more complex than the County's legacy systems and offers the ability to create and customize a variety of roles. The process to manage the resulting high number of roles and prevent SOD conflicts is very demanding, especially if an automatic access tool is not

COUNTY OF FAIRFAX, VIRGINIA

Schedule of Findings and Questioned Costs

Year ended June 30, 2012

available. There were hundreds of County and Public Schools employees with new roles and responsibilities in the new system, which was expected. In addition, a new FOCUS Business Support Group with new integrated County and Public Schools responsibilities was created and took some time to implement and refine joint processes and controls.

These above-noted conditions increase the risk that unauthorized users can access sensitive system functions and negatively impact the confidentiality, integrity, and availability of application data. We noted that County management remediated several control deficiencies during fiscal year 2012.

Recommendations:

- A. We recommend that County management monitor the effectiveness of newly implemented control activities on a regular and periodic basis.
- B. In addition, to the extent the above noted findings have not been remediated, we recommend that County management:
 1. Implement and enforce the following password requirements for all login methods for FOCUS:
 - Password history is stored for a specified number of previous password generations.
 - User ID is revoked (locked) after a specified number of invalid log-in attempts.
 - Passwords contain a mixture of alpha and numeric characters.
 2. Revise its current IT Security policy to include any of the items noted in recommendation B.1 not already covered in its policy.
 3. Modify the existing requirement that passwords be six characters in length to eight characters.
 4. Continue to limit the use of generic super user accounts. Where generic user accounts are required, monitor their activities by creating a critical transaction list, regularly run audit reports to scan for suspicious activity related to these transactions, assign an independent employee to review them, and follow-up on any unauthorized actions.
 5. Identify a report to allow the County to identify each instance a Firefighter ID is activated.
 6. Revisit and strengthen the process instituted in April 2012 for removing terminated employees' user access from FOCUS as well as its practice of removing the user's Active Directory account upon termination, and periodically monitor adherence to these control activities, as well as implement a quarterly user review.
 7. Coordinate with FCPS to establish a central contractor system of record, or implement more frequent contractor access reviews to better identify contractor terminations or role modifications.

COUNTY OF FAIRFAX, VIRGINIA

Schedule of Findings and Questioned Costs

Year ended June 30, 2012

8. And FCPS management perform a full user access review of all FOCUS users on an annual or more frequent basis. If this review is not performed at least quarterly, the County and FCPS should develop a list of roles with super user or excessive access and monitor those on a more frequent basis.
9. Update its FOCUS Role Conflict Matrix regularly to capture the effects of any role changes, review the results of the SOD analysis performed and documenting any compensating controls that help mitigate the risks identified, and consider automated tools that can proactively monitor SOD conflicts within FOCUS.

Management's Response:

The County appreciates the depth of the financial systems IT audit conducted by KPMG. However, the County does not agree with the overall KPMG conclusion of a 'significant deficiency' in internal controls over financial reporting. Major control deficiencies were identified and addressed or mitigated. We recognize a number of control deficiencies have been identified during the audit period. Since the implementation occurred in mid-year, some of the modules were not operational and therefore the full complement of internal controls were not yet in place during the audit. Due to the fact it was a mid-year implementation, we strongly disagree with the determination that a complete review of users with access to FOCUS did not occur during Fiscal Year 2012 since access for all users was established during the period.

Senior County and FCPS management were aware of the aggressive schedule and the phased implementation of modules and capabilities throughout the year. They were aware that as a result of limited time and available resources, there would be a time period before fixes and all access and controls could be fully configured. The County's priority during this time was to stabilize the system and become fully operational as soon as possible. In order to perform and show due diligence, the County had pre-project planning and consultation from GFOA (Government Financial Officers Association), conducted research with Gartner, and investigated other ERP implementations for practices and results. The county also contracted for a real-time systems assessment during the design and configuration of FOCUS Finance and Logistics modules with KPMG to assist with controls and risk management.

County management understands the need for a strong control environment to ensure the security and accuracy of the data contained in the computer systems and will give consideration to the recommendations made, many of which have been addressed, or will be as the FOCUS project progresses.

Prior to FOCUS go-live, the County purchased software designed to assist in the management of SOD conflicts, but the remaining elements of the FOCUS system project are the immediate priority. Additional systems and procedural controls are in place which help ensure the accuracy of the data and that no security breaches occur. The financial auditors expanded their samples and test-work and found no issues.

COUNTY OF FAIRFAX, VIRGINIA

Schedule of Findings and Questioned Costs

Year ended June 30, 2012

KPMG's Response:

Our audit was conducted in accordance with Generally Accepted Government Auditing Standards. As a result, we considered the aggregation of the individual GIRC conditions identified during our audit, the duration that the conditions existed during fiscal year 2012, and the impact these conditions had on the overall control environment; therefore we believe that the classification of a significant deficiency is appropriate.

(3) Findings and Questioned Costs for Federal Awards

Finding 2012-SA01 – Reporting

Program:

Community Development Block Grant/Entitlement Grants (CFDA No. 14.218 / 14.253 ARRA / 14.254)

Federal Agency:

U.S. Department of Housing and Urban Development

Pass-through Entity:

None

Condition:

During the year under audit, the Community Development Block Grant (CDBG) Program as administered by the Fairfax County Redevelopment and Housing Authority (FCRHA) did not have any knowledge of the Federal Funding Accountability and Transparency Act (FFATA) and its reporting requirements under FFATA and therefore, were unable to comply with these requirements. Since Fairfax County has a decentralized structure regarding the administration of these programs, each program is responsible for complying with FFATA.

Criteria:

Aspects of the Federal Funding Accountability and Transparency Act (Pub. L. No. 109-282) (Transparency Act), as amended by Section 6202(a) of the Government Funding Transparency Act of 2008 (Pub. L. No. 111-252), that relate to subaward reporting (1) under grants and cooperative agreements were implemented as interim final guidance by OMB in 2 CFR part 170, effective October 1, 2010 (75 FR 55663 *et seq.*, September 14, 2010) and (2) under contracts, by the regulatory agencies responsible for the Federal Acquisition Regulation (FAR) in an interim rule, effective July 8, 2010 (75 FR 39414 *et seq.*, July 8, 2010). The interim final guidance and the interim rule have the same effect as final guidance or a final rule and will remain in effect until superseded by final issuances. If the final issuances include any changes to the interim requirements, they will have new effective dates. The requirements pertain to recipients (i.e., direct recipients) of grants or cooperative agreements who make first-tier subawards and contractors (i.e., prime contractors) that award first-tier subcontracts. There are limited exceptions as specified in 2 CFR part 170 and the FAR. The guidance at 2 CFR part

COUNTY OF FAIRFAX, VIRGINIA

Schedule of Findings and Questioned Costs

Year ended June 30, 2012

170 does currently applies only to Federal financial assistance awards in the form of grants and cooperative agreements, e.g., it does not apply to loans made by a Federal agency to a recipient; however, subaward reporting requirement apply to all types of first-tier subawards under a grant or cooperative agreement.

As provided in the 2 CFR part 170 and FAR Subpart 4.14, respectively, Federal agencies are required to include the award term specified in Appendix A to 2 CFR part 170 or the contract clause in FAR 52.204-10, Reporting Executive Compensation and First-Tier Subcontract Awards, as applicable, in awards subject to the Transparency Act.

For grants and cooperative agreements, the effective date is October 1, 2010 for all discretionary and mandatory awards equal to or exceeding \$25,000 made with a new Federal Assistance Identification Number (FAIN) on or after that date. The FAIN is the unique award number assigned to a particular grant or cooperative agreement by the Federal awarding agency (as opposed to the CFDA number, which pertains to a program generally). In some programs, a new award number is used each year and that new award number is considered a new FAIN. In some programs, where awards are made for a multi-year project, but may be funded in increments, even though a suffix may be added, e.g., -02 or -03 designating the subsequent years of an approved project, this is not considered a new FAIN. Therefore, if the FAIN for an award made in November 2009 was AB-12345 and for an award under the same program made in November 2010 was AB-56789, the latter would be considered a new FAIN. However, if the FAIN for an award made in November 2009 was AB-12345-02 and for an award under the same program made in November 2010 was AB-12345-03, the latter would **not** be considered a new FAIN.

Once the requirement applies, the recipient must report, for any subaward under that award with a value of \$25,000 or more, each obligating action of \$25,000 or more in Federal funds. Recipients are not required to report on subawards made on or after October 1, 2010 that use funds awarded prior to that date.

Cause:

Program management was not monitoring new compliance requirements set forth in new laws and regulations generally applicable to the program.

Effect:

Noncompliance with FFATA reporting requirements regarding the Community Development Block Grant program.

Questioned Costs:

None

Related Noncompliance:

Noncompliance

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Recommendation:

We recommend that the Community Development Block Grant Program Management as administered by Fairfax County enhance policies and internal control procedures to ensure that new program requirements are identified and processes are established to ensure compliance.

Management Response:

Fairfax County will continue to enhance the policies and internal control procedures to ensure that new program requirements are identified and processes are established to ensure program compliance.

The Grants Management Division (Program Management) will continue to monitor new compliance requirements set forth in new laws and regulation that are generally applicable to the program. Grants Management staff will periodically, at a minimum on a quarterly basis, meet and/or discuss with HUD Field Office representative to ensure compliance.

Finding 2012-SA02 – Procurement, Suspension & Debarment

Program:

Title II - Improving Teacher Quality (CFDA No. 84.367)
Head Start Cluster (CFDA No. 93.600 / 93.708/93.709-ARRA)
Homeland Security (CFDA No. 97.067)

Federal Agency:

Title II - U.S. Department of Health
Head Start Cluster - U.S. Department of Health and Human Services
Homeland Security - U.S. Department of Homeland Security

Pass-through Entity:

Title II - Virginia's Department of Education
Head Start Cluster – None
Homeland Security - District of Columbia's Homeland Security and Emergency Management Agency

Pass-through Award Number:

Title II - S367A090044
Head Start Cluster - 03CH027023 and 03SA027002
Homeland Security - 9UASI019-01; 9UASI583-02; 9UASI583-01; 11UASI530-01; 11UASI531-05;
11UASI531-04; 9UASI533-04; 10UASI533-04

Conditions:

During our suspension and debarment testwork over the above referenced program's procurement of goods and services, we determined that the programs did not have adequate controls in place to verify that covered transactions did not occur with vendors that were suspended or debarred. The programs did not meet the compliance requirements since the program or the Office of Procurement Services failed to check the Excluded Parties List System (EPLS), collect a certification from the vendor, or add

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a clause or condition to the contract to verify the vendor had not been suspended or debarred by the federal government. We noted the following instances during our testwork:

- Title II - One out of two vendors tested, with transactions totaling \$33,192, did not meet the compliance requirements.
- Head Start Cluster – One out of three vendors tested, with transactions totaling \$26,268, did not meet the compliance requirements.
- Homeland Security - One out of three vendors tested, with transactions totaling \$1,681,818, did not meet the compliance requirements.

Criteria:

The A-102 Common Rule and OMB Circular A-110 (2 CFR part 215) require that non-Federal entities receiving Federal awards (i.e., auditee management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.

According to 2 CFR part 180.300, when a non-federal entity enters into a covered transaction with an entity at a lower tier, the non-federal entity must verify that the entity is not suspended or debarred or otherwise excluded. This verification may be accomplished by checking the EPLS, collecting a certification from the entity or adding a clause or condition to the covered transaction with that entity.

Cause:

The programs do not have sufficient policies and procedures in place to (a) maintain documentation of the EPLS search, (b) communicate requirements to all applicable departments in managing program compliance, and (c) to monitor compliance with the Procurement, Suspension and Debarment requirements.

Effect:

Without internal controls in place to adequately review and monitor whether vendors are suspended and debarred from doing business with the federal government (including federal grant programs) the program could be noncompliant with requirements of federal grants. [KPMG confirmed that these vendors were not suspended or debarred.]

Questioned Costs:

None

Related Noncompliance:

None

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Recommendations:

We recommend that Fairfax County and Fairfax County Public Schools program management referenced at the beginning of this finding:

1. Implement policies and procedures to ensure vendors are reviewed for suspension and debarment prior to the program procuring services should be communicated to all departments managing the program.
2. For those vendors already under contract, a periodic review should be performed for suspension and debarment to ensure ongoing compliance.
3. Ensure all of the individual departments take responsibility for performing a check on the EPLS website, and retain evidence of such a check, when procurements are over the \$25,000 threshold.
4. Lastly, departments should notify the Office of Procurement Services when soliciting new procurements over the same threshold with federal funding so the appropriate language can be added to contracts.

Management Response:

The Department of Finance (DOF) is sending to all agencies a directive to assure that required verification actions are taken and documented. DOF will obtain certifications from agencies that they have complied with this directive and will implement a plan to follow up that these certifications are made timely.

In FY 2011, the County contracted with a nationally recognized firm to receive periodic reports identifying any vendor doing business with the County that appeared on the EPLS. We see value in continuing to receive reports of vendors appearing on the EPLS. If this service is affordably available, we will subscribe to it and integrate such data in our compliance efforts.

We will continue to explore this and other options to take advantage of automation that supports and expands on monitoring by agencies managing federal grants.