

**CITY OF ANNAPOLIS  
Annapolis, Maryland**

**SINGLE AUDIT REPORT  
June 30, 2013**

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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 Honorable Mayor and Aldermen  
City of Annapolis, Maryland  
Annapolis, Maryland

We have audited, in accordance with the 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, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Annapolis, Maryland, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise City of Annapolis, Maryland's basic financial statements, and have issued our report thereon dated March 28, 2014.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered City of Annapolis, Maryland's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City of Annapolis, Maryland's internal control. Accordingly, we do not express an opinion on the effectiveness of City of Annapolis, Maryland's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses as items 2013-001, 2013-002 and 2013-003 to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and responses as items 2013-004, 2013-005 and 2013-006 to be significant deficiencies.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether City of Annapolis, Maryland's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **City of Annapolis, Maryland's Response to Findings**

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

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

The image shows a handwritten signature in black ink that reads "Clifton Larson Allen LLP". The signature is written in a cursive, flowing style.

Baltimore, Maryland  
March 28, 2014

**Independent Auditors' Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Federal Program, on Internal Control over Compliance, and on the Schedule of Expenditures of Federal Awards in Accordance with OMB Circular A-133**

The Honorable Mayor and Aldermen  
The City of Annapolis, Maryland

**Report on Compliance for Each Major Federal Program**

We have audited the City of Annapolis, Maryland's (the City) compliance with the types of compliance requirements described in the OMB Circular A-133 Compliance Supplement that could have a direct and material effect on each of the City's major federal programs for the year ended June 30, 2013. The City's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

***Auditors' Responsibility***

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and 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 City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City's compliance.

***Opinion on Each Major Federal Program***

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

### **Other Matters**

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2013-007 and 2013-008. Our opinion on each major federal program is not modified with respect to these matters.

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

### **Report on Internal Control Over Compliance**

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with 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 City's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as items 2013-007 and 2013-008 that we consider to be significant deficiencies.

The City's responses to the internal control over compliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The City's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on them.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the result of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

### **Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133**

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated March 28, 2014, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the 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 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 basic 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 expenditure of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

*CliftonLarsonAllen LLP*

Baltimore, Maryland  
March 28, 2014

**CITY OF ANNAPOLIS**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**June 30, 2013**

Federal Grantor/Pass-Through Grantor Program Title	CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
<b>U.S. Department of Justice</b>			
Direct:			
U.S.J. Congress	16.741	N/A	\$ 32,134
U.S.J. Cold Case	16.753	N/A	79,633
Byrne Justice V	16.580	N/A	2,800
U.S.J. COPS	16.710	N/A	92,790
<b>JAG Cluster:</b>			
Byrne Justice VII- ARRA	16.804	N/A	17,766
Byrne Justice VIII-ARRA	16.804	N/A	16,277
Byrne Justice IX-ARRA	16.804	N/A	20,686
Subtotal JAG Cluster			<u>54,729</u>
U.S.J. Equitable Sharing	16.922	N/A	171,120
Total U.S. Department of Justice			<u>433,206</u>
<b>U.S. Department of Homeland Security</b>			
Direct:			
Port Security - ARRA	97.116	N/A	45,450
Pass-Through Maryland Emergency Management Agency:			
		09USAI10UASI,11UASI,	
Terrorism XXVIII	97.008	12UASI	149,959
Terrorism LXXVII	97.008	10UASI	13,451
Terrorism LXXVIII	97.008	10UASI	10,200
Terrorism LXXIX	97.008	10UASI	50,363
Terrorism LXXX	97.008	10UASI	20,666
Terrorism LXXXI	97.008	10UASI	11,340
Terrorism LXXXIII	97.008	10UASI	129,428
Terrorism LXXXIV	97.008	10UASI	
Terrorism LXXXV	97.008	10UASI	27,972
Terrorism XC	97.008	11UASI844	22,788
Terrorism XCI	97.008	11UASI844	54,750
Terrorism XCII	97.008	11UASI844	24,503
Terrorism XCIII	97.008	11UASI844	6,525
Terrorism XCIV	97.008	11UASI844	7,973
Terrorism XCV 11 UASI	97.008	11UASI844	6,600
Terrorism XCVII	97.008	11UASI844	89,334
Terrorism II	97.008	10 UASI84	7,689
Terrorism EMPG 2012	97.042	12EMPG	20,035
TerrorismLXXVI	97.056	10PSGP844	6,854
Terrorism Res IV	97.073	10SHSP844, 11SHSP844	39,614
Terrorism LXXIV	97.073	10SHSP	53,533
Terrorism LXXV	97.073	10SHSP	68,612
Terrorism LXXXVII	97.073	11SHSP	11,302
Terrorism LXXXVIII	97.073	11SHSP	12,336
Total U.S. Department of Homeland Security			<u>845,826</u>

**CITY OF ANNAPOLIS**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**June 30, 2013**  
**(Continued)**

Federal Grantor/Pass-Through Grantor Program Title	CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
<b>U.S. Department of Energy</b>			
Pass-Through Maryland Energy Administration: ARRA - Energy Efficiency	81.128	none provided	\$ 18,216
Total U.S. Department of Energy			<u>18,216</u>
<b>U.S. Department of Housing and Community Development</b>			
Direct:			
Lighthouse Shelter	14.218	N/A	3,000
OIC	14.218	N/A	9,000
Restoration Community	14.218	N/A	9,000
OHLA	14.218	N/A	2,000
Center of Help	14.218	N/A	4,000
Community Act Agcy	14.218	N/A	3,400
Rehab Adv Ser 2010	14.218	N/A	39,650
Rehab Adv Ser 2012	14.218	N/A	20,092
Rehab Construc ACDS 2010	14.218	N/A	71,423
Rehab Construc ACDS 2011	14.218	N/A	123,975
Volunteer Center	14.218	N/A	7,000
Youth Services	14.218	N/A	3,000
Arundel Lodge	14.218	N/A	20,385
Newtowne CDC	14.218	N/A	6,215
Stanton Center Rehab	14.218	N/A	2,395
Community Health Center	14.218	N/A	63,335
ARC	14.218	N/A	<u>13,780</u>
Total U.S. Department of Housing and Community Development			<u>401,649</u>
<b>U.S. Department of Transportation</b>			
Pass-Through Baltimore Regional Council: Wayfinding System	20.506	N/A	30,559
Pass-Through FHWA: UPWP	20.205	N/A	59,831
Pass-Through Maryland Department Department of Transportation:			
Federal Capital Preventive Maintenance	20.507	MD-90-0111	162,000
Transit Capital	20.507	MD-90-0111	<u>251,218</u>
Total U.S. Department of Transportation			<u>503,608</u>
<b>Total Federal Expenditures</b>			<u>\$ 2,247,955</u>

**CITY OF ANNAPOLIS**  
**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**June 30, 2013**

**NOTE 1 – GENERAL**

The City of Annapolis, Maryland (the City) operates programs which are supported by funding from various federal and state agencies and other sources as indicated on the Schedule of Expenditures of Federal Awards.

**NOTE 2 – BASIS OF PRESENTATION**

The accompanying Schedule of Expenditures of Federal Awards includes Federal grant activity of the City including Federal awards passed through from other agencies. The Schedule has been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. The accompanying schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*.

**NOTE 3 – SUBRECIPIENTS**

Of the federal expenditures presented in the Schedule of Expenditures of Federal Awards, the City provided federal awards to subrecipients as follows:

<u>CFDA#</u>	<u>Grant Program</u>	<u>Amounts Provided to Subrecipients</u>
14.218	HUD - Community Development Block Grant Program	<u>\$ 297,539</u>

**CITY OF ANNAPOLIS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Year Ended June 30, 2013**

**I. Summary of Independent Auditor's Results**

**Financial Statements**

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified?   X   Yes        No
- Significant deficiency(ies) identified that are not considered to be material weaknesses?   X   Yes        None reported
- Noncompliance material to financial statements noted?        Yes   X   None

**Federal Awards**

Internal control over major programs:

- Material weakness(es) identified?        Yes   X   No
- Significant deficiency(ies) identified that are not considered to be material weaknesses?   X   Yes        None reported

Type of auditor's report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?   X   Yes        No

**Identification of Major Programs**

Name of Federal Program or Cluster	CFDA Number(s)
Urban Area Security Initiative	97.008
Community Development Block Grant	14.218
U.S.J. Equitable Sharing	16.922

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee?        Yes   X   No

**CITY OF ANNAPOLIS, MARYLAND  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
June 30, 2013**

**II. Financial Statement Findings**

1. Material Weakness in Internal Control Over Financial Reporting

**Finding 2013-001: Financial Statement Preparation**

**Condition**

The City was not able to complete the preparation of their financial statements in a timely manner, resulting in the need for CliftonLarsonAllen to considerably aid in the preparation of the financial statements.

**Criteria**

COSO/Internal Control Framework identifies the control environment factors to “include the integrity, ethical values and competence of the entity’s people; management’s philosophy and operating style; the way management assigned authority and responsibility, and organized and develops its people.”

**Cause**

This is a result of the limited resources of the City skill sets of personnel.

**Effect**

Significant delays were experienced in obtaining the financial statements for the period under audit. The year-end financial records that management presented to us to audit contained errors, inconsistencies, and omissions. Also, from our consideration of internal control over the preparation of financial statements for the purpose of planning our audit, we believe that the cause of the errors, inconsistencies, and omissions was inadequately designed control policies and procedures related to the preparation of the financial statements.

**Recommendation**

We recommend that management review control policies and procedures related to the preparation of the financial statements as well as review current staffing to determine the level of knowledge of each employee in order to appropriately match duties with skill sets. Furthermore, increased supervision is necessary over the financial statement process to ensure that the statements are properly prepared in accordance with generally accepted accounting principles as well as in compliance with the Government Accounting Standards Board.

***Management Response/Corrective Action Plan***

The City concurs with the observation and the suggested recommendations. The City has begun the staffing review, and will implement new procedures. Additionally, the Finance Department has reorganized the department in order to facilitate the changes and to improve financial reporting oversight.

**CITY OF ANNAPOLIS, MARYLAND**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**June 30, 2013**

**Finding 2013-002: Develop a Year-end Closing Schedule and Maintenance of Account Reconciliations**

**Condition**

Documentation and support for certain account balances were unable to be provided on a timely basis, and in some cases went unresolved.

**Criteria**

COSO/Internal Control Framework defines control activities as “policies and procedures that help ensure management’s directives are carried out.” Management review controls are defined as, “the activities of a person, different than the preparer, through analyzing and performing oversight of activities performed, and is an integral part of any internal control structure.”

**Cause**

This is a result of the limited resources of the City and internal administrative and personnel issues in which the person designated as the audit liaison did not have the suitable skill, knowledge or experience for this duty.

**Effect**

This year's closing process was delayed because some important procedures were not performed in a timely manner. The results were delays in producing closing entries, trial balances, schedules, reconciliations, account analyses, and other financial reports needed by management and the auditors. Also, the City incurred additional audit fees because our auditors had to prepare entries and schedules that City personnel should have prepared.

**Recommendation**

We believe that the year-end closing could proceed more quickly by developing a closing schedule and maintaining account reconciliations as well as a list that indicates who will perform each procedure and when completion of each procedure is due and accomplished. The timing of specific procedures could be coordinated with the timing of management's or the auditor's need for the information. The due dates should be monitored to determine that they are being met.

***Management Response/Corrective Action Plan***

The City concurs with the observation and the suggested recommendations. The City will improve the month-end closing procedures, including fully implementing an Accounting, General Ledger Account Reconciliation (AGLAR) review and oversight processes. The City will be expanding its daily, month-end, quarter-end and year-end check lists to improve the accuracy and timeliness of the closings and associated reports.

**CITY OF ANNAPOLIS, MARYLAND**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**June 30, 2013**

**Finding 2013-003: Material Audit Adjustments and Restatement of the Prior Period**

**Condition**

We discovered multiple material misstatements which required adjustment. These included entries related to accounts receivable, and debt. Additionally, prior period restatements were required to account for the 2005 Tax Increment Financing (TIF) bond issue and related assets in the Off Street Parking fund, recognition of the capital facility assessments in net assets of the Water and Sewer funds, and inclusion of the Incurred But Not Reported (IBNR) liability in the internal service fund.

**Criteria**

COSO/Internal Control Framework defines control activities as “policies and procedures that help ensure management’s directives are carried out.” Management review controls are defined as, “the activities of a person, different than the preparer, through analyzing and performing oversight of activities performed, and is an integral part of any internal control structure.”

**Cause**

Lack of management review over financial data.

**Effect**

Certain adjustments were required to be made to the accounting records subsequent to the start of the audit process. Material adjustments included the recording of prior year audit adjustments and prior period restatements to correct beginning balances due to the 2005 TIF, recognition of the capital facility assessments, and the IBNR liability.

**Recommendation**

We recommend that the City make improvements to their account reconciliation process to minimize adjustments at year-end. Furthermore, we recommend that the City establish a more efficient and effective responsibilities matrix for its close process to provide timely and accurate completion of financial reporting as well as timely review and approval by the Finance Director of all balance sheet reconciliations and account balances, respectively; assemble an inventory of financial spreadsheets used to support preparation of the financial statements and assign responsibility to review all such spreadsheets for accuracy of calculations and security access limitation. Finally, we recommend that management continually review the accounting and financial reporting requirements of its various funds and accounts.

***Management Response/Corrective Action Plan***

The City concurs with the observation and the suggested recommendations. As noted in the above observation/response, the Finance Department will be implementing procedures whereby greater emphasis and oversight will be placed on accounting operations; including general ledger and subsidiary ledger reconciliations.

**CITY OF ANNAPOLIS, MARYLAND  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
June 30, 2013**

2. Significant Deficiencies in Internal Control Over Financial Reporting

**Finding 2013-004: Claim Payment Approval**

**Condition**

Our test of 20 claim payments revealed that for 3 payments, there was no written or electronic approval documented.

**Criteria**

COSO/Internal Control Framework defines control activities as “policies and procedures that help ensure management’s directives are carried out.” Management review controls are defined as, “the activities of a person, different than the preparer, through analyzing and performing oversight of activities performed, and is an integral part of any internal control structure.”

**Cause**

Lack of management review over financial data.

**Effect**

Potential misappropriation of City funds.

**Recommendation**

We recommend that the City make improvements to their claim approval process to any potential misappropriation of City funds. The Special Funding Request form should have approval by the Director of Finance or someone in a senior role. Accounts Payable should not cut the check without approval on that form.

***Management Response/Corrective Action Plan***

The City does review claim payments starting with the Risk Manager and the Law Department, which authorize payment. Furthermore, the Finance Department reviews and signs off on the payment voucher. Based on this observation, the City will implement the recommendations.

**CITY OF ANNAPOLIS, MARYLAND**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**June 30, 2013**

**Finding 2013-005: Journal Entry Approvals**

**Condition**

There was no evidence of supervisory review and approval of ledger journal entries, specifically the adjustment for the allowance of doubtful accounts, and financial closing adjustments.

**Criteria**

COSO/Internal Control Framework defines control activities as “policies and procedures that help ensure management’s directives are carried out.” Management review controls are defined as, “the activities of a person, different than the preparer, through analyzing and performing oversight of activities performed, and is an integral part of any internal control structure.”

**Cause**

Limited resources.

**Effect**

The City did not maintain effective controls over the validity of general ledger journal entries. Specifically, the City has a general ledger system in which journal entries can be processed without appropriate approval. Additionally, reconciliations of the general ledger that would detect invalid journal entries were not operating effectively for certain general ledger accounts. This control deficiency resulted in adjustments, including audit adjustments, to the 2013 financial statements. In addition, this control deficiency could result in a material misstatement to the financial statements that would not be prevented or detected.

**Recommendation**

We recommend that the City review and make improvements to their journal entry process to establish a system where entries must be approved prior to being entered into the accounting system, and that each entry has the appropriate supporting documentation. Each entry should be identified as part of the monthly reconciliation process for the period close procedures.

***Management Response/Corrective Action Plan***

The department has a process currently in place which requires the Senior Accountant to review all journal vouchers and supporting documentation. However, based on these findings, the Finance Department will tighten the review and authorization controls.

**CITY OF ANNAPOLIS, MARYLAND**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**June 30, 2013**

**Finding 2013-006: Cut-off Procedures Related to Unrecorded Liabilities**

**Condition**

Cut-off procedures were inadequate to identify material misstatements related to liabilities/expenditures. We identified that multiple liabilities/expenditures were not recorded in the correct period.

**Criteria**

COSO/Internal Control Framework defines control activities as “policies and procedures that help ensure management’s directives are carried out.” Management review controls are defined as, “the activities of a person, different than the preparer, through analyzing and performing oversight of activities performed, and is an integral part of any internal control structure.”

**Cause**

This is a result of the limited resources of the City and the current cut-off procedures being performed.

**Effect**

Failure to perform adequate reviews over source documents can lead to misstatements in the financial reporting process.

**Recommendation**

We recommend that management review current review procedures over cutoff procedures for unrecorded liabilities to ensure timely review over monthly reconciliations.

***Management Response/Corrective Action Plan***

The City concurs with the observation and the suggested recommendations. The department will tighten procedures relative to closing cycles and the review process. Furthermore, prior period adjustments will not be allowed without Finance Director authorization.

**CITY OF ANNAPOLIS, MARYLAND  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
June 30, 2013**

**III. Federal Awards Findings and Questioned Costs**

**2013-007:                      Suspension and Debarment**

**Federal Agency:**            U.S. Department of Homeland Security  
   U.S. Department of Housing and Urban Development  
**Program, CFDA#:**            Urban Area Security Initiative, CFDA 97.008  
   Community Development Block Grant, CFDA 14.218

**Compliance Requirement:**      Suspension and Debarment  
**Type of Finding:**                Significant Deficiency, Noncompliance

***Condition/Context***

2 out of 3 Department of Homeland Security, and 2 out of 2 Department of Housing and Urban Development procurement contracts, did not have verification of the vendor’s suspension and debarment status.

***Criteria***

Non-Federal entities are prohibited from contracting with or making subawards under covered transactions to parties that are suspended or debarred, or whose principals are suspended or debarred. “Covered transactions” include those procurement contracts for goods and services awarded under a nonprocurement transaction (e.g., grant or cooperative agreement) that are expected to equal or exceed \$25,000 or meet certain other specified criteria. 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 Excluded Parties List System (EPLS) maintained by the General Services Administration (GSA), collecting a certification from the entity, or adding a clause or condition to the covered transaction with that entity (2 CFR section 180.300).

***Effect***

The City was unable to document its compliance with the federal suspension and debarment requirements.

***Cause***

The City is in the process of updating the procurement files, but has not yet completed the update for all files.

***Questioned Costs***

None of the vendors were suspended or debarred. There were no questioned costs related to the requirement.

***Recommendations***

We recommend that the City enhance its current policies and procedures to ensure that the documentation related to a vendor’s suspension and debarment status is maintained.

***Management Response/Corrective Action Plan***

Management has put in place a verification process for all vendors. Each vendor will be verified for good standing during the procurement process.

**CITY OF ANNAPOLIS, MARYLAND**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**June 30, 2013**

**Finding 2013-008:**        **Equipment**

**Federal Agency:**        U.S. Department of Homeland

**Programs:**                Urban Area Security Initiative, CFDA 97.008

**Compliance**

**Requirement:**            Equipment

**Type of Finding:**        Significant Deficiency, Noncompliance

***Condition/Context***

The City failed to properly identify and tag equipment purchased with federal funds for 3 out of 3 selected for testing. We were unable to identify the equipment in the fixed asset system and physical inventory count.

***Criteria***

The A-102 Common Rule requires that equipment be used in the program for which it was acquired, or when appropriate, other Federal programs. Equipment records shall be maintained, a physical inventory of equipment shall be taken at least once every two years that reconciles to the equipment records, an appropriate control system shall be used to safeguard equipment, and equipment shall be adequately maintained. Equipment records should include serial numbers, model numbers of other identification numbers, and location and condition of the equipment.

***Effect***

The City is not in compliance with the federal equipment requirements for maintaining equipment records.

***Cause***

The employee responsible for maintaining the equipment for this program left this position during 2013, and the duties were not reassigned.

***Questioned Costs***

None noted, the finding relates to the reporting of equipment purchased with federal funds. All costs were allowable.

***Recommendations***

We recommend that all equipment purchased with federal funds be tagged and recorded in the fixed asset system. The City should ensure that all of the federal requirements related to equipment record maintenance are included in the equipment procedures, and are consistently performed.

***Management Response/Corrective Action Plan***

The City has a policy to record and tag all fixed asset items. The City is currently instituting a new policy and reviewing the old policy to comply with federal requirements and address audit findings.

**CITY OF ANNAPOLIS**  
**SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS**  
**Year Ended June 30, 2013**

<b>Finding 2012-03:</b>	<b>Reporting</b>
<b>Federal Agencies:</b>	All Federal Agencies
<b>Federal Programs:</b>	All Federal Programs
<b>Compliance</b>	
<b>Requirement:</b>	Reporting
<b>Type of Finding:</b>	Significant Deficiency, Noncompliance

**Condition**

The City did not file the Data Clearing House reporting package within nine months of its year-end.

***Management's Response:***

The City met the federal reporting requirement for FY 12, and will continue the current procedures to ensure that internal controls over the reporting process are consistently performed.

***Current Year Status:***

Resolved.