

ANNE ARUNDEL COUNTY, MARYLAND

**Single Audit Together with Reports of
Independent Public Accountants**

For the Year Ended June 30, 2008



SB & COMPANY, LLC
EXPERIENCE • QUALITY • CLIENT SERVICE

June 30, 2008

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REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

The County Executive and
the Honorable Members of the County Council
Anne Arundel County, Maryland

We have audited the accompanying 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 Anne Arundel County, Maryland (the County), as of and for the year ended June 30, 2008, which collectively comprise the County's basic financial statements. These financial statements are the responsibility of the County's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We audited only the component unit financial statements of the Public Library of Annapolis and Anne Arundel County. We did not audit the other component unit financial statements. The component units we did not audit represent 98.88 percent, 98.94 percent, and 99.24 percent, respectively, of the assets, net assets and revenues of the total component units. We also did not audit the Pension Trust Funds as of and for the year ended December 31, 2007. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the component units and the Pension Trust Funds, is based on the reports of the 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 of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position 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 June 30, 2008, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the general fund, for the year then ended in conformity with accounting principles generally accepted in the United States of America.



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In accordance with *Government Auditing Standards*, we have issued our report dated December 19, 2008 on our consideration of the County's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and schedules of funding progress for single employer defined benefit pension plan and for post-retirement benefits are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We and the other auditors have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we and the other auditors did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County's basic financial statements. The accompanying combining fund statements, budgetary statements, other supporting schedules, and introductory and statistical sections, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining fund statements, budgetary statements, and other supporting schedules have been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, in our opinion, based on our audit and the reports of the other auditors, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory and statistical sections of this report have not been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, accordingly, we express no opinion on them.

SB & Company, LLC

Hunt Valley, Maryland
December 19, 2008



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**REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

The County Executive and
the Honorable Members of the County Council
Anne Arundel County, Maryland

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 Anne Arundel County, Maryland as of and for the year ended June 30, 2008, which collectively comprise Anne Arundel County, Maryland's (the County) basic financial statements and have issued our report thereon dated December 19, 2008. We did not audit the financial statements of Anne Arundel County Board of Education, Anne Arundel Community College, Anne Arundel Economic Development Corporation, the Tipton Airport Authority, the Anne Arundel Workforce Development Corporation and the Pension Trust Funds. The financial statements of Anne Arundel County Board of Education, Anne Arundel Community College, Anne Arundel Economic Development Corporation, the Tipton Airport Authority, the Anne Arundel Workforce Development Corporation and the Pension Trust Funds were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as they relate to the amounts included for these entities is based solely on the reports of 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 to the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the County's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a deficiency in internal control over financial reporting that we consider to be a significant deficiency.



A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the County's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the County's financial statements that is more than inconsequential will not be prevented or detected by the County's internal control. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 08-01 to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the County's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiency described is not a material weakness.

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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 08-02 through 08-04.

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 response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the County Executive and the Honorable Members of the County Council, and 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.

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**REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS ON COMPLIANCE
WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND
ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH
OMB CIRCULAR A-133**

The County Executive and
the Honorable Members of the County Council
Anne Arundel County, Maryland

Compliance

We have audited the compliance of Anne Arundel County, Maryland (the County) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major Federal programs for the year ended June 30, 2008. The County's major Federal programs are identified in the summary of independent public accountants' 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.

The County's basic financial statements include the operations of the Anne Arundel Community College and the Anne Arundel County Board of Education, component units which received Federal awards and which are not included in the accompanying Schedule of Federal Awards for the year ended June 30, 2008. Our audit described below does not include the operations of the Anne Arundel County Board of Education and Anne Arundel Community College because these entities engaged another auditor to perform an audit in accordance with OMB Circular A-133.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about the County's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the County's compliance with those requirements.



In our opinion, the County complied, in all material respects, with the requirements referred to above that are applicable to each of its major Federal programs for the year ended June 30, 2008. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements 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 item 08-02 through 08-04.

Internal Control Over Compliance

The management of the County is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to Federal programs. In planning and performing our audit, we considered the County's internal control over compliance with requirements that could have a direct and material effect on a major Federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over compliance.

Our consideration of the internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the County's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified a deficiency in internal control over compliance that we consider to be a significant deficiency.

A control deficiency in the County's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a Federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the County's ability to administer a Federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a Federal program that is more than inconsequential will not be prevented or detected by the County's internal control. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 08-03 to be a significant deficiency.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a Federal program will not be prevented or detected by the County's internal control. We did not consider the deficiency described in the accompanying schedule of finding and questioned costs to be a material weakness.



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Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprises 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 has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken 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 response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the County Executive and the Honorable Members of the County Council, and 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.

SB & Company, LLC

Hunt Valley, Maryland
December 19, 2008

ANNE ARUNDEL COUNTY, MARYLAND

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

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number	Grant Number	Federal Expenditures
Federal Direct Grants:			
Corporation for National & Community Service-			
Retired & Senior Volunteer Program:			
Year ending December 31, 2006	94.002	440-A045/18	\$ 17,461
Year ended December 31, 2007	94.002	440-A045/18	6,446
Foster Grandparents Program:			
Year ending December 31, 2006	94.011	439-A011/18	16,024
Year ended December 31, 2007	94.011	439-A011/18	38,669
Total Corporation for National & Community Service			78,600
Department of Defense-			
Community Planning Assistance:			
Sarah's House	12.607	DACA-31-1-85-25	760,500
Fort Meade Region BRAC Planning	12.607	RA0622-07-01	327,525
Total Department of Defense			1,088,025
Department of Housing & Urban Development-			
Community Development Block Grants:			
1994-1995	14.218	B-00-UC-24-0010	2,800
2000-2001		B-00-UC-24-0010	1,489
2001-2002		B-01-UC-24-0010	577
2002-2003		B-02-UC-24-0010	7,570
2003-2004		B-03-UC-24-0010	36,234
2004-2005		B-04-UC-24-0010	49,421
2005-2006		B-05-UC-24-0010	198,989
2006-2007		B-06-UC-24-0010	1,239,633
2007-2008		B-07-UC-24-0010	1,280,211
Emergency Shelter Grants:			
2006	14.231	S-06-UC-24-0001	41,931
2007		S-07-UC-24-0001	51,761
Supportive Housing Program:			
Continuum of Care-Anne Arundel Partnership	14.235	MD06B30-3001	18,947
Continuum of Care-Anchor House		MD06B30-3004	5,898
Continuum of Care-Arundel House of Hope		MD06B50-3001	38,434
Continuum of Care-Shelter Mental Health		MD06B50-3003	34,971
Continuum of Care-Sarah's House		MD06B50-3004	2,686
Continuum of Care-Sarah's House		MD06B50-3005	2,653
Continuum of Care		MD06B60-3008	129,051
Continuum of Care		MD06B60-3001	35,919
Continuum of Care		MD06B60-3003	244,411
Continuum of Care		MD06B60-3009	35,307

The accompanying notes are an integral part of this schedule.

ANNE ARUNDEL COUNTY, MARYLAND

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

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>CFDA Number</u>	<u>Grant Number</u>	<u>Federal Expenditures</u>
Department of Housing & Urban Development-continued			
Supportive Housing Program - continued:			
Continuum of Care		MD06B60-3002	169,033
Continuum of Care		MD06B60-3004	259,076
Continuum of Care		MD06B60-3005	329,983
Continuum of Care		MD06B60-3005	27,408
HOPWA:	14.241		
HOPWA 2007-2008		MD-08-UC-24-0200	40,327
HOME Investment Partnership Program:	14.239		
2002 - American Dream		M-02-UC-24-0200	20,613
2006		M-06-UC-24-0200	67,219
2007		M-07-UC-24-0200	143,524
Total Department of Housing & Urban Development			4,516,076
Department of Justice-			
Equitable Shared - Drug Enforcement Administration	16.000	MD 0020200	375,249
Paul Coverdell National Forensic Sciences	16.560	2006-DN-BX-0015	46,210
DNA Capacity Enhancement Program	16.560	2005-DN-BX-K151	28,595
Local Law Enforcement Block Grant	16.592	2002-LB-BX-0163	3,856
Juvenile Drug Court Implementation	16.585	2003-DC-BX-0064	13,331
Byrne Memorial Justice Grant	16.592	2005-DJ-BX-0682	11,318
Byrne Memorial Justice Grant	16.592	2006-DJ-BX-0265	24,000
Byrne Memorial Justice Grant	16.592	2007-DJ-BX-0349	55,119
Total Department of Justice			557,678
Total Federal Direct Grants			6,240,379
<u>Federal Pass-Through State Grants:</u>			
Department of Agriculture-			
Maryland State Health Department:			
Special Supplemental Food Program for Women, Infants and Children – 2007	10.557	4705/WI-174-WIC	933,128
Maryland State Department of Human Resources:			
Emergency Food Assistance Program:			
Food Bank – 2006	10.568	N/A	13,839
Total Department of Agriculture			946,967
MD Department of Natural Resources			
Coastal Communities Initiative	11.419	379776	12,600

The accompanying notes are an integral part of this schedule.

ANNE ARUNDEL COUNTY, MARYLAND

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

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number	Grant Number	Federal Expenditures
Department of Education-			
Maryland Department of Education: Library Services & Technology Act-Library Assoc. Training	45.310	700206	2,636
Staff Development	45.310	800908	10,844
Library Associate Training	45.310	800575	40,012
Staff Development	45.310	701934	3,000
Learning Design 2008	45.310	802240	1,195
Total Department of Education			57,687
Federal Emergency Management Agency-			
Maryland State Emergency Management Agency- Wellness and Fitness Program	97.044	206-FG-17591	568,172
Department of Justice Terrorism Response Equipment	97.004	MOA dated 6/19/03	258
FFY06 UASI Volunteer Centers	97.008	MOA dated 2/21/08	20,305
State Homeland Security Program	97.067	Pending	92,667
State Domestic Preparedness Personnel	97.067	MOU dated 3/23/05	21,689
Law Enforcement Terrorism Prev	97.067	MOA dated 1/24/08	127,114
State Homeland Security Program	97.067	MOA dated 1/24/08	174,585
Medical Surge	97.067	MOU dated 2/12/07	468,149
Total Federal Emergency Management Agency			1,472,939
Department of Homeland Security-			
Home Elevation: Hazard Mitigation Grant (2007-2008)	97.039	FEMDA-DR-1492- MD-0020	487,264
Hazard Mitigation Grant (2007-2008)	97.039	FEMA-PJ-03-2004-001	49,125
Maryland State Emergency Management Agency- Citizens Corps/Cert Grant	97.067	MOA dated 1/24/08	21,042
Total Department of Homeland Security			557,431
Department of Health and Human Services-			
Maryland State Department of Human Resources- Child Support Enforcement: Sheriff's Cooperative Agreement	93.563	CSEA/CR08-032	712,120
Sheriff's Incentive Grant	93.563	CSEA/CR08-032	2,824
Maryland State Office on Aging: Preventive Health Services	93.043	324-AAA-001	15,424
Care Givers (IIIE)	93.044	324-AAA-001	43,023
Human Services Title III B	93.044	324-AAA-001	26,433
Senior Care Title III-B	93.044	324-AAA-001	64,476
Home Delivery of Meals Title III C-2	93.045	324-AAA-001	96,761
Curb Abuse of Medicare & Medicaid	93.779	424-AAA-001	7,245

The accompanying notes are an integral part of this schedule.

ANNE ARUNDEL COUNTY, MARYLAND

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

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>CFDA Number</u>	<u>Grant Number</u>	<u>Federal Expenditures</u>
Department of Health and Human Services – continued			
Maryland State Office on Aging - continued			
Sr. Health Insurance Counsel Program	93.779	ST-2515-005	1,580
Long-Term Care Assessment	99.999	N/A	641,511
Administration - IA-IIIB	93.048	AAA-3-24-002	55,018
Telephone reinsurance - IA	93.048	AAA-3-24-002	3,415
NSIP (USDA) - Congrete	93.048	AAA-3-24-002	116,228
Maryland State Dept. of Health and Mental Hygiene:			
PHP: Planning & Readiness	93.283	43357	404,177
PHP: Pandemic Flu Guidance	93.283	43427 & 43428	169,125
PHP: Cities Readiness Initiative	93.283	43447	68,544
Diag. & Tmt of B & CC	93.283	4676	226,486
Senior Center Plus	93.778	N/A	47,745
Medicaid Waiver	93.778	ST-2217-001	410,691
Healthy Start	93.778	4564	200,000
Admin. Care Coord.	93.778	4730	177,247
PWC/MD Kids Ct	93.778	4731	319,386
M/A General Transportation	93.778	4738	572,592
Ryan White II-Consortia	93.917	4763/AD421CON	262,305
Family Planning	93.217	4691	146,283
School Health Targeted	93.994	4417	378,229
Immunization Service Delivery	93.268	4748	137,317
Adolescent Services	93.595	4855	152,390
Health Education risk Reduction	93.940	4764	135,240
Local Prevention Initiatives	93.940	4765	113,652
Ryan White I, (Assoc Black Charities)	93.914	4632	172,796
Addictions Prevention	93.959	4841/MU611ADP	117,922
Addictions Treatment	93.959	4843	1,583,612
Model Program Initiative: Strengthening Families	93.959	4857	92,596
Sexually Transmitted Diseases	93.977	4741	24,185
Nutrition Risk Reduction	93.991	4679/FH478NRR	57,842
Injury Prevention	93.136	4683	4,032
Oral Rabies Vaccine	10.028	4311	72,984
WIC Training Grant	10.557	4559	214,594
Sexual Assault Crisis Center	16.579	4507	63,708
Total Department of Health and Human Services			8,111,738

The accompanying notes are an integral part of this schedule.

ANNE ARUNDEL COUNTY, MARYLAND

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

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number	Grant Number	Federal Expenditures
Department of Justice-			
Maryland State Department of Human Resources:			
VOCA-Victims of Crime Assistance	16.575	CSA/CVA-04-018	166,091
Governor's Office of Crime Control & Prevention:			
Community Offenders Support	16.738	BJNT-2006-1330	28,631
Disproportionate Minority Contact Readiness	16.540	JJAC-2006-1035	53,192
Disproportionate Minority Contact Implementation	16.540	JJAC-2005-1027	37,623
Youth Empowerment Services Program	16.523	JABG-2005-1014	130,636
Paul Coverdell National Forensic Sciences	16.560	CFSI-2006-1016	-
BJAG Adult Treatment Program	16.738	BJAG-2005-1023	62,830
Law Enforcement Technology	16.738	BJAG-2006-1024	20,570
Project Safe Neighborhood	16.744	PSNI-20078-1011	5,013
VAWA-Victim Safety	16.588	VAWA-2008-1011	4,504
Shooting Reconstruct -LETS	16.738	BJAG-2006-1091	4,749
Basic Bloodstain Pattern Analy	16.738	BJAG-2006-1092	1,467
Paul Coverdell Formula	16.560	CSFI-20078-1001	12,943
LLEBG	16.592	2002-LB-BX-0163	11,639
Solving Cold Cases with DNA	16.592	CSA/CVA-04-018	14,484
Danger Assessment Advocate	16.738	BJAG-2007-1074	23,890
Direct Victim Service/Training	16.588	VAWA-2004-1049	4,862
Total Department of Justice			583,124
Department of Labor-			
Maryland Department of Labor, Licensing & Regulations:			
WIA Title 1 Grant	17.258/ 17.259/ 17.260	P00B3200021	984,004
Department of Transportation-			
Maryland Emergency Management Agency:			
Information Technology Enhance	16.710	C519600	91,374
Regional 911 Comm Backup Cntr	97.067	F531000	2,754,372
Department of Natural Resources:			
Name: Park Renovation	11.420	P479800	85,000
Regional Planning Council-Unified Planning Work Program:			
UPWP	20.505	L-70-B-C	32,384
Maryland State Department of Transportation-Safety Division:			
Impaired Driving/Comprehensive Planning	20.601	05-152	94,241

The accompanying notes are an integral part of this schedule.

ANNE ARUNDEL COUNTY, MARYLAND

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

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>CFDA Number</u>	<u>Grant Number</u>	<u>Federal Expenditures</u>
Department of Transportation-continued			
Mass Transit Administration:			
Ridesharing	20.507	MD-90-9078	193,397
Rural Transit	20.509	MD-18-4022	154,795
MDOT Alcohol/Traffic Safe 1998	20.601	08-152	<u>65,690</u>
Total Department of Transportation			<u>3,471,253</u>
<u>Federal Pass-Through Local Grants:</u>			
Department of Health and Human Services-			
Friends of The Family:			
Family Support Center	93.558	N/A	<u>22,779</u>
Total Department of Health and Human Services-			<u>22,779</u>
Total Pass-Through Grants			16,220,522
Total - Federal Expenditures			<u>\$ 22,460,901</u>

The accompanying notes are an integral part of this schedule.

ANNE ARUNDEL COUNTY, MARYLAND

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

All Federal grant operations of Anne Arundel County, Maryland (the County) are included in the scope of the Office of Management and Budget (OMB) Circular A-133 audit (the Single Audit) for the year ended June 30, 2008. The Single Audit was performed in accordance with the provisions of the OMB Circular A-133 (the Compliance Supplement). Compliance testing of all requirements, as described in the Compliance Supplement, was performed for the major grant programs noted below. The programs on the Schedule of Expenditures of Federal Awards represent all Federal award programs and other grants with fiscal year 2008 cash or non-cash expenditure activities. For our single audit testing, we tested all Federal award programs with 2008 cash and non-cash expenditures in excess of \$673,827 to ensure coverage of at least 50% of Federally granted funds. Our actual coverage was 51%.

Major Program	CFDA Number/ Grant Number	Federal Expenditures
Community Planning Assistance	12.607	\$ 1,088,025
Community Development Block Grants	14.218	2,816,924
Supportive Housing	14.235	1,333,777
Home Investment Partnership	14.239	231,356
PHP	93.283	868,332
Child Support Enforcement	93.563	714,944
Medical Assistance	93.778	1,727,661
Addiction Prevention/Treatment	93.959	1,794,130
WIA Title I Grant	17.258/17.259/ 17.260	984,004
Total		\$ 11,559,153

2. BASIS OF PRESENTATION

The Schedule of Expenditures of Federal Awards has been prepared on the accrual basis of accounting.

3. NON-CASH ASSISTANCE

The County receives food commodities from the Federal Government. During the year ended June 30, 2008, the fair market value of the commodities received was estimated at \$174,400. These commodities are delivered to the Anne Arundel County Food Bank, Inc., an independent organization, which is responsible for distributing the food to eligible County residents. This amount is not included in the Schedule of Expenditures of Federal Awards. Distribution costs related to the program were paid by the County and reimbursed by the Federal Government. These costs totaled approximately \$13,000 during the year ended June 30, 2008, and have been included in the Schedule of Expenditures of Federal Awards.

ANNE ARUNDEL COUNTY, MARYLAND

**Notes to the Schedule of Expenditures of Federal Awards
Year Ended June 30, 2008**

3. NON-CASH ASSISTANCE (continued)

The Special Supplemental Food Program for Women, Infants and Children (WIC) is a State of Maryland administered program that uses local governments to assist in screening participant eligibility and distribution of food commodity vouchers. Distributed food vouchers are issued, controlled, collected, valued, audited, and canceled by the State of Maryland. The value of WIC vouchers redeemed by Maryland residents living in the County are not included in the Schedule of Expenditures of Federal Awards.

4. REVOLVING LOAN PROGRAM

The County participates in the Environmental Protection Agency's Capitalization Grants for State Revolving Funds loan program (CFDA 66.458). The amount due to the State of Maryland under this program as of the beginning of the year ended June 30, 2007, was approximately \$28,632,000 and current year activity was a net paydown to the revolving loan program of approximately \$630,000 resulting in a balance due to the State of Maryland as of June 30, 2008 of approximately \$28,002,000. The County's activities relating to borrowings and debt payments under this loan program are not reflected in the Schedule of Expenditures of Federal Awards.

5. COMMUNITY DEVELOPMENT BLOCK GRANT, SECTION 108 LOAN GUARANTEE

A Section 208 Loan payable to HUD with interest at 5.0% is secured by future HUD allocations or grants which may become available to the County, program income, and all funds or investments in accounts established for the administration of this loan. Interest is payable semiannually and principal payments of \$410,000 are due annually beginning August 1, 2007 and ending August 1, 2011.

Maturities of the note are as follows:

<u>Years Ending June 30,</u>	
2009	410,000
2010	410,000
2011	410,000
2012	410,000
	<u>\$ 1,640,000</u>

6. MARYLAND STATE DEPARTMENT OF HEALTH AND MENTAL HYGIENE

The Maryland State Department of Health and Mental Hygiene pays expenses for employee salaries and employee benefits for certain County programs. The County records these amounts on the Schedule of Expenditures of Federal Awards and in its basic financial statements to fully reflect the operations of these programs.

ANNE ARUNDEL COUNTY, MARYLAND

**Schedule of Findings and Questioned Costs
June 30, 2008**

Section 1 - Summary of Independent Accountants' Results

Financial Statements

Type of independent public accountants' report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? ___ Yes X No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? X Yes ___ No

Noncompliance material to financial statements noted? ___ Yes X No

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 weakness(es) X Yes ___ No

Type of independent public accountants' report issued on compliance for major programs: Unqualified

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

Identification of Major Programs:

<u>Major Program</u>	<u>CFDA Number/ Grant Number</u>	<u>Federal Expenditures</u>
Community Planning Assistance	12.607	\$ 1,088,025
Community Development Block Grants	14.218	2,816,924
Supportive Housing	14.235	1,333,777
Home Investment Partnership	14.239	231,356
PHP	93.283	868,332
Child Support Enforcement	93.563	714,944
Medical Assistance	93.778	1,727,661
Addiction Prevention/Treatment	93.959	1,794,130
WIA Title I Grant	17.258/17.259/ 17.260	984,004

ANNE ARUNDEL COUNTY, MARYLAND

**Schedule of Findings and Questioned Costs
June 30, 2008**

Threshold for distinguishing between Type A and
B programs

673,827

Did the County Qualify as a low-risk auditee

Yes

No

Section II - Financial Statement Findings

See Finding 08-01

Section III - Federal Award Findings

See findings 08-02 through 08-04

ANNE ARUNDEL COUNTY, MARYLAND

Schedule of Current Year Findings and Questioned Costs June 30, 2008

Finding: 08-01
Program(s): All
Type of Finding(s): Significant Deficiency over the Financial Reporting Process

Criteria

OMB Circular A-133 Sub part C Section .300(b) requires “the auditee to maintain internal controls over compliance for Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs.” In addition, AICPA’s Audit Guide on Government Auditing Standards and Circular A-133 Audits provides in Chapter 10, Section 10.05, page 181, that one of the objectives of internal controls pertaining to compliance requirements for Federal programs is that “transactions are properly recorded and accounted for to permit the preparation of reliable financial statements and Federal reports.”

Condition

During the audit, we noted that the County’s schedule of Federal Awards included several errors. The schedule included approximately \$669,000 of non-Federal funding and approximately \$945,000 of expenditures related to a prior fiscal year. We also noted that the County did not have a process to clearly identify Federal versus non-Federal expenditures for awards funded by multiple funding sources.

Cause

Management did not have a mechanism to identify Federal versus non-Federal expenditures for each Federal program by fiscal year.

Effect

Federal expenditures may not be recorded in the period expended and non-federal expenditures may be reported as Federal expenditures.

Recommendation

We recommend that the Office of Finance implement procedures to improve the preparation of the Schedule of Federal Awards in accordance with A-133 guidelines. These procedures should include a mechanism to identify Federal versus non-Federal expenditures specific to the current fiscal year.

Questioned Costs

Questioned costs are not determinable.

Corrective Action Plan

The Office of Finance will monitor the expenditures at fiscal year-end and will meet with agency management to review activity and determine the actual federal expenditures incurred during the fiscal year. This will allow the Office of Finance to match expenditures to the appropriate fiscal year and funding source for proper reporting in accordance with OMB Circular A-133.

ANNE ARUNDEL COUNTY, MARYLAND

Schedule of Current Year Findings and Questioned Costs June 30, 2008

Finding: 08-02
Department of Defense
Program(s): 12.607 - Fort Meade Region BRAC Planning (BRAC Planning)
Type of Finding(s): Noncompliance
Compliance Requirement(s): Allowable Costs (Effort Reporting)

Criteria

Where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi-annually and will be signed by the employee or supervisory official having first-hand knowledge of the work performed by the employee. (OMB Circular A-87, Attachment B.8.h.3)

Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation. Personnel activity reports or equivalent documentation must meet the following standards: (a) they must reflect an after-the-fact distribution of the actual activity of each employee; (b) they must account for the total activity for which each employee is compensated; (c) they must be prepared at least monthly and must coincide with one or more pay periods, and (d) they must be signed by the employee. (OMB Circular A-87, Attachment B.8.h.4 and 5)

Budget estimates or other distribution percentages determined before the services are performed do not qualify as support for charges to Federal awards, but may be used for interim accounting purposes, provided that: (i) The governmental unit's system for establishing the estimates produces reasonable approximations of the activity actually performed; (ii) At least quarterly, comparisons of actual costs to budgeted distributions based on the monthly activity reports are made. Costs charged to Federal awards to reflect adjustments made as a result of the activity actually performed may be recorded annually if the quarterly comparisons show the differences between budgeted and actual costs are less than ten percent; and (iii) The budget estimates or other distribution percentages are revised at least quarterly, if necessary, to reflect changed circumstances. (OMB Circular A-87, Attachment B.8.h.5)

Substitute systems for allocating salaries and wages to Federal awards may be used in place of activity reports. These systems are subject to approval if required by the cognizant agency. Such systems may include, but are not limited to, random moment sampling, case counts, or other quantifiable measures of employee effort.

Condition

Employees who work for BRAC Planning are 100% charged to these programs and are therefore required to prepare semi-annual certifications in accordance with OMB Circular A-87 Attachment B.8.h.4 and 5) Certifications were not complete for employees charged to these grants. Total salaries for BRAC Planning for the fiscal year were \$158,016.

ANNE ARUNDEL COUNTY, MARYLAND

**Schedule of Current Year Findings and Questioned Costs
June 30, 2008**

Cause

Employees do not complete certifications to verify that 100% of their time has been properly allocated to the grant.

Effect

Total salary and benefit cost charged to programs for employees that did not work 100% on the Federal grant.

Recommendation

We recommend that management implement a process for employees to certify their time charged to the individual programs on a semi-annual basis. We also recommend that management reconcile the completed certifications to the program's budget.

Questioned Costs

Questioned costs are not determinable.

Corrective Action Plan

The Office of Finance will meet with the applicable grant monitor and provide the proper certification forms to be completed. Further, we will monitor this grant to assure certification forms are completed and filed in compliance with grant requirements.

ANNE ARUNDEL COUNTY, MARYLAND

**Schedule of Current Year Findings and Questioned Costs
June 30, 2008**

Finding: 08-03
Department of Housing & Urban Development
Program(s): 14.218 - Community Block Grants
14.235 - Supportive Housing Programs
14.239 - Home Investment Partnership Program
Department of Labor
17.258 - Development of Urban Workforce Investment Act Cluster
17.259
17.260
Type of Finding(s): Noncompliance, Significant Deficiency
Compliance Requirement(s): Subrecipient Monitoring

Criteria

A pass-through entity is responsible for (1) ensuring that subrecipients expending \$500,000 or more in Federal awards during the subrecipient's fiscal year have met the audit requirements of OMB Circular A-133 and that the required audits are completed within nine months of the end of the subrecipient's audit period; (2) issuing a management decision on audit findings within six months after receipt of the subrecipient's audit report; and (3) ensuring that the subrecipient takes timely and appropriate corrective action on all audit findings. In cases of continued inability or unwillingness of a subrecipient to have the required audits, the pass-through entity shall take appropriate action using sanctions. (OMB Circular A-133 Compliance Supplement, Part 3, Section M)

Additionally, a pass-through entity is responsible for evaluating the impact of its subrecipient's activities on the pass-through entity's ability to comply with applicable Federal regulations. (OMB Circular A-133 Compliance Supplement, Part 3, Section M)

Condition

Anne Arundel County failed to provide subrecipient monitoring through review of A-133 reports issued by subrecipients during the fiscal year and/or conduct subrecipient visits to evaluate and monitor subrecipient activities.

Cause

Anne Arundel County's office of finance had not fully implemented policies and procedures pertaining to subrecipient monitoring activities.

Effect

Noncompliance with the requirements of OMB Circular A-133 Compliance Supplement, Part 3, Section M.

ANNE ARUNDEL COUNTY, MARYLAND

Schedule of Current Year Findings and Questioned Costs June 30, 2008

Recommendation

We recommend that management enhance its current policies and procedures over subrecipient monitoring, specifically the during-the-award monitoring (i.e., performance reports, site visits, etc.), to ensure that its subrecipients are complying with program laws, regulations, and grant award provisions and that its performance goals and objectives are being achieved. We also recommend that the grant management staff review A-133 audit reports from the applicable subrecipients. The review should be documented and include inquires of findings and follow-up when required.

Lastly, management should also perform a risk assessment of the subrecipient to determine the level and extent of testing over the direct and material compliance requirements as required by Circular A-133.

Questioned Costs

Questioned costs are not determinable.

Corrective Action Plan

The Office of Finance will meet with the subrecipients and conduct risk assessments to evaluate their grant policies and procedures. Following that, we will meet with the subrecipients to ensure any concerns over their policies and procedures are addressed or otherwise at least annually to monitor their Federal grant activities and assure they have met the audit requirements of OMB Circular A-133.

ANNE ARUNDEL COUNTY, MARYLAND

**Schedule of Current Year Findings and Questioned Costs
June 30, 2008**

Finding: 08-04
Department of Defense
Program(s): 12.607 - Fort Meade Region BRAC Planning (BRAC Planning)
Type of Finding(s): Noncompliance
Compliance Requirement(s): Cash Management, Reporting

Criteria

Cash Management

Payment methods shall minimize the time elapsing between the transfer of funds from the United States Treasury and the issuance or redemption of checks, warrants or payment by other means by the recipients. (OMB A-110, Paragraph 22)

Recipients are to be paid in advance, provided they maintain or demonstrate the willingness to maintain (1) written procedures that minimize the time elapsing between the transfer of funds and disbursements by the recipient; and (2) financial management systems that meet the standards for fund control and accountability. Cash advances to a recipient organization shall be limited to the minimum amounts needed and be timed to be in accordance with the actual, immediate cash requirements of the recipient organization in carrying out the purpose for the approved program or project. The timing and amount of cash advances shall be as close as is administratively feasible to the actual disbursements by the recipient organization for direct program or project costs and the proportionate share of any allowable indirect costs. (OMB A-110, Paragraph 22)

Whenever possible, advances shall be consolidated to cover anticipated cash needs for all awards made by the Federal awarding agency to the recipient. Advance payment mechanisms include, but are not limited to, Treasury check and electronic funds transfer. (OMB A-110, Paragraph 22)

Reporting

Circular A-110 Subpart C, paragraph 21, requires that:

- (1) Accurate, current and complete disclosure of the financial results of each Federally-sponsored project or program in accordance with the reporting requirements set forth in Section __.52. If a Federal awarding agency requires reporting on an accrual basis from a recipient that maintains its records on other than an accrual basis, the recipient shall not be required to establish an accrual accounting system. These recipients may develop such accrual data for its reports on the basis of an analysis of the documentation on hand.
- (2) Records that identify adequately the source and application of funds for Federally-sponsored activities. These records shall contain information pertaining to Federal awards, authorizations, obligations, unobligated balances, assets, outlays, income and interest.
- (3) Account records including cost accounting records that are supported by source documentation.
- (4) Comparison of outlays with budget amounts for each award. Whenever appropriate, financial information should be related to performance and unit cost data.

ANNE ARUNDEL COUNTY, MARYLAND

**Schedule of Current Year Findings and Questioned Costs
June 30, 2008**

Condition

For one out of four “Form 270 Quarterly Request for Cash Advance or Reimbursement reports” selected for review, we could not reconcile the total program outlays and outlays for advance for the period 4/01/08 to 6/30/08 to supporting records.

Cause

Inadequate support retained from the general ledger to support the quarterly report and request for advance and reimbursement.

Effect

Financial reports are not supported by accounting records and may include inaccurate information.

Recommendation

We recommend that the County implement policies and procedures to maintain proper general ledger support for all financial reports. We also recommend that the County ensure proper documentation is maintained to ensure advance payments are expended timely for program cost in accordance with regulations.

Questioned Costs

Questioned costs are not determinable.

Corrective Action Plan

The Office of Finance will implement policies and procedures to generate assurance that financial reports are supported by the general ledger and will meet with departments where any issues are noted. These policies and procedures will include requirements that all payment documentation is properly maintained to demonstrate that payments are expended timely in accordance with regulations.

ANNE ARUNDEL COUNTY, MARYLAND

Schedule of Prior Year Findings and Questioned Costs June 30, 2008

Finding 07-01

Criteria

The Internal Control-Integrated Framework (COSO Report) requires adequate internal controls over financial reporting to ensure that transactions are properly recorded and accounted for to permit the preparation of reliable financial statements and demonstrate compliance with laws, regulations and other compliance requirements.

Condition

Our audit procedures identified several errors in the current year that related to the financial data prepared outside the Office of Finance and used to create financial reports.

1. Management did not adequately monitor incoming and outgoing grant funding. Expenditure reimbursements were not submitted timely to the awarding agency. Subrecipient monitoring was not consistently performed.
2. We identified errors in the County's prepayment program that permitted the prepayment of capital facility connection fees to avoid the July 1, 2007 approved rate increase.
3. The estimates prepared by Solid Waste management were inaccurate primarily due to clerical errors; which resulted in an understatement of closure cost of approximately \$132,000 and post-closure costs of \$4,020,000.
4. There were inaccuracies and omissions in the self-insured year-end settlements prepared by the County. Consequently, the CareFirst liability was understated by approximately \$690,000, and Optimum Choice and Caremark liabilities were overstated by approximately \$930,000.

Cause

The County has not assigned personnel with appropriate accounting experience to perform these functions, and many of the supervisors responsible for these areas lack the necessary expertise to review and approve the amounts reported in the County's financial reports.

Effect

Significant errors in processing financial information which results in inaccurate and unreliable financial reports.

Recommendations

We recommend that management:

1. Develop and implement policies and procedures to ensure adequate cash management of grant funding.
2. Require the Department of Public Works to perform a review of unusual or complicated transactions to ensure year-end balances are stated correctly.
3. Exercise greater care in preparing and reviewing the estimates of closure and post-closure costs, and
4. Prepare settlements for all periods in the self-insured plan year.

ANNE ARUNDEL COUNTY, MARYLAND

Schedule of Prior Year Findings and Questioned Costs June 30, 2008

Planned Corrective Action

The Office of Finance formed a risk assessment team, which included three manager-level staff. This team assessed risks of all County departments. The process was comprehensive and successfully identified risks and improved communications between those departments' staff and the Office of Finance. The team's reviews classified issues as low, moderate, or high risk and then focused on ensuring that the more serious issues be addressed first. Departments' staff has been responsive to the suggestions and, in several cases, has changed procedures. The team continues to follow-up on progress and assists in establishing new processes where necessary. Since most of the risk assessments were completed after June 30, many of the issues remained at the fiscal year end.

The Controller and his staff have met with department heads and managers about the specific issues discussed herein and have decided on improvements for fiscal year 2008 and beyond. We discussed both general and specific issues of data preparation and manager level reviews.

Departments have committed to improve their processes of data compilation and review. In the cases noted herein, Office of Finance staff will visit departments at the time of data compilation to test assumptions, validity of data, and the integrity of underlying spreadsheets. In addition, Finance staff will review the resulting data from a high-level conceptual perspective to help ensure accounting principles are properly applied.

Current Year Status

Grant management policies and procedures still need to be implemented. See current year 08-01 finding.

ANNE ARUNDEL COUNTY, MARYLAND

Schedule of Prior Year Findings and Questioned Costs June 30, 2008

Finding No. 07-02

Criteria

The Internal Control-Integrated Framework (COSO Report) states that computer and program controls should include:

- Access controls
- Computer general controls and security controls

Condition

During the audit we identified several inadequacies regarding internal controls over information system access.

1. Management does not review the ADP audit report that identifies all changes to the ADP program.
2. The Security Administrators within the ADP application have the ability to change “operator profile settings” enabling them to update their salary and benefit information.
3. One Security Administrator has the ability to add, delete, and change users and to modify user rights. A user may be granted improper system access.
4. User access was not terminated or modified for an employee transferred out of a department and no longer required the same level of access.
5. The Windows Domain Policy account lockout, lockout duration and password policies do not meet best practices related to complexity.

Cause

The current system does not have the capability to perform certain control functions and manual controls were not established to compensate for the lack of system controls.

Effect

The County may be unable to prevent and/or detect unauthorized access and changes to financial and personnel information.

Recommendation

We recommend that management review current processes and procedures related to system access to determine if the procedures will prevent and/or detect unauthorized/incompatible system access.

ANNE ARUNDEL COUNTY, MARYLAND

Schedule of Prior Year Findings and Questioned Costs June 30, 2008

Planned Corrective Action

We agree that there needs to be a process in place to ensure that changes are properly authorized and accurate, however, the ADP audit report is not the proper tool for this purpose. In order to achieve this goal, the Office of Personnel is undertaking a number of different steps. First, the Office of Personnel is in the process of acquiring a new HRIS system. The current contract expires in 2010. Whatever new system is implemented, requirements will include audit reports that identify changes made by each individual user as well as exception reports for any actions outside of specified ranges (large paychecks, salary increases, etc.). Second, the Office of Personnel is implementing a peer review of all entered work. Each user's work will be reviewed by a second user who verifies that the work was entered correctly. Finally, the Office of Personnel will research audit reports for the existing system that identify changes by individual user that can be reviewed and verified by a second user.

Current Year Status

The Office of Personnel agrees that there should be an audit of changes made in the human resources information system. In response to the fiscal year 2007 audit, the Office of personnel implemented procedures for peer review of work entered by Payroll and Records staff. The procedures outline the level and type of review depending on the level of risk associated with the entry. Transactions will be selected using the AUD01 report and ReportSmith reporting tools. These procedures went in to place on June 30, 2008. The Office of Personnel is continuing to research audit reports for the existing system that identify changes by individual users that can be reviewed and verified by a second user.

ANNE ARUNDEL COUNTY, MARYLAND

Schedule of Prior Year Findings and Questioned Costs June 30, 2008

Finding No. 07-03:

Criteria

The Internal Control-Integrated Framework (COSO Report) requires adequate segregation of duties between performance, review, and recordkeeping to ensure accuracy and reliability of financial records and reports.

Condition

Several employees in the Office of Finance can create standard voucher entries without second-level approval. Standard voucher entries are typically used to pay utility bills, employee expense reimbursements, tuition reimbursements, and other invoices for which there is no purchase order. Because no second level approval is required, the employees could make fictitious payments to vendors or to other employees.

One employee with the ability to create standard voucher entries also reviews and approves disbursements when another employee is absent. These duties are not compatible because the employee could create a standard voucher entry and make a fictitious payment to herself.

Certain employees in the Office of Finance and the Office of the Budget have “Administrator” rights within the EnterpriseOne General Accounting and Fixed Asset accounting modules. These rights are not compatible with the employees’ duties since the employees could make unauthorized changes to the financial records without detection.

Cause

Limited resources prevent the County from properly segregating job responsibilities over certain accounting functions.

Effect

Without second-level approval required, employees could make fictitious payments without detection. Having “Administrator” rights for the employees described above increases the risk that unauthorized changes could be made to financial records without detection.

Recommendation

We recommend that management require a second level of approval for all standard voucher entries before the disbursements can be made. Also, we recommend that management review the Accounts Payable staffs’ access to the EnterpriseOne financial system to ensure that anyone who is responsible for reviewing and approving invoices cannot create standard voucher entries.

We recommend that management re-examine the need for Office of Finance and Office of Budget to have “Administrator” access, and either limit their ability to initiate, approve and process transactions or develop additional compensating controls to mitigate this weakness.

ANNE ARUNDEL COUNTY, MARYLAND

Schedule of Prior Year Findings and Questioned Costs June 30, 2008

Planned Corrective Action

Management's Response: The Office of Finance has determined the specific changes needed to address the SVE issue. We are planning to isolate the initiation of SVE's to two AP clerks, while the other AP positions will perform a 2 level review and approval. As a result there will be a second review of all SVE transactions.

In order to implement these changes the AP module of EnterpriseOne must be altered to require a second step for these transactions. In addition, to reduce the staffs' workload to accommodate these additional procedures, certain labor intensive, manual processes will be automated. Specifically, manual reentry of batch transactions, such as tax and utility refunds, must be changed to automatic uploads. We are currently working with OIT to automate this data upload; however, recent OIT staffing issues have prevented completion of this step. OIT is currently working on this project and we intend to make all changes effective before the end of fiscal year 2008.

During the fall of 2007, the Office of Finance worked with OIT's EnterpriseOne team to reorganize access rights in the system to eliminate incompatibility. Employees in the Office of Finance have been divided into new access groups according to assigned duties, Administrator duties have been isolated to two individuals, and no one individual, including Administrators, can create and post a journal entry.

Current Year Status

No issued noted during 2008 audit.

ANNE ARUNDEL COUNTY, MARYLAND

**Schedule of Prior Year Findings and Questioned Costs
June 30, 2008**

Finding No. 07-04:

**Program(s): 14.218 - Department of Housing and Urban Development Community
Development Block Grants
14.248 - Department of Housing and Urban Development Community
Development Block Grants
17.258 - Development of Urban Workforce Investment Act Cluster
17.259
17.260**

Criteria

Circular A-133 requires the pass-through entity to document its monitoring of subrecipient's activities to provide reasonable assurance that the funds were used for the authorized purpose, the subrecipient complied with laws, regulations, provisions of the contract, the grant agreement and achieved performance goals.

A-102 Common Rule and OMB Circular A-110 (2 CFR part 215) require that non-Federal entities establish and maintain internal controls to provide reasonable assurance that Federal award information and compliance requirements are identified to subrecipients, subrecipient activities are monitored, subrecipient audit findings are resolved, and the impact of any subrecipient noncompliance on the pass-through entity is evaluated.

Condition

The County failed to monitor the program activities for the subrecipient responsible for administering the Community Development Block Grant and Work Force Investment programs.

Cause

Due to personnel constraints the County did not have staff available to assume the monitoring responsibilities.

Effect

The County is not in compliance with federal grantor's subrecipient monitoring requirements. The sub recipient may not administer the program in accordance with the grantor's and federal compliance requirements.

Recommendation

The County should develop and implement procedures for monitoring and documenting the program activities of its subrecipients.

ANNE ARUNDEL COUNTY, MARYLAND

**Schedule of Prior Year Findings and Questioned Costs
June 30, 2008**

Planned Corrective Action

A Grants Coordinator position was added in the Office of Finance to help direct and coordinate the County's grants management processes at the recipient departments. The person chosen will be responsible for ensuring that department staff has the appropriate processes established to comply with grant requirements. Finally, a project is underway that will standardize the grants accounting and reporting processes Countywide. This effort will ultimately provide for more accurate and consistent grants data for reporting and certification of grants availability.

Current Year Status

See current year 08-03 finding.