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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 County Executive and
The Honorable Members of the County Council
Anne Arundel County, 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, 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, 2016, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated December 28, 2016. The County's financial statements include the financial statements of the Anne Arundel County Board of Education, the Anne Arundel County Community College, the Anne Arundel Economic Development Corporation, Tipton Airport Authority, and the Anne Arundel Workforce Development Corporation as described in our report on the County's financial statements. This report does not include the results of the other auditors' testing of internal controls over financial reporting or compliance and other matters for the Anne Arundel County Board of Education, Anne Arundel Community College, Tipton Airport Authority and Anne Arundel Workforce Development Corporation that are reported on separately by those auditors. The Anne Arundel County Community College Foundation (which is included in the financial statements of the Anne Arundel County Community College) and Anne Arundel Economic Development Corporation were not audited in accordance with *Government Audit Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the County as of and for the year ended June 30, 2016, in accordance with auditing standards generally accepted in the United States of America, we considered the County's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control. Accordingly, we do not express an opinion on the effectiveness of the County'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 audit findings and responses, we identified certain deficiencies in internal control that we consider to be a material weakness and a significant deficiency.

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 County's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described as 2016-001 in the accompanying schedule of findings and responses to be a material weakness.

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 deficiency described as 2016-002 in the accompanying schedule of findings and responses to be a significant deficiency.

Compliance and Other Matters

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

Anne Arundel County Maryland's Response to Findings

The County's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. The County'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 County'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 County's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



CliftonLarsonAllen LLP

Baltimore, Maryland
December 28, 2016

**ANNE ARUNDEL COUNTY, MARYLAND
SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2016**

2016-001 OPEB Contribution

Condition:

The County did not properly record its OPEB (Other Post Employment Benefits) contribution during the current year. On July 1, 2015 the County established a separate irrevocable OPEB trust. With the establishment of this trust, assets that were previously held in a reserve cash account were transferred to the OPEB trust. Additional employer contributions were also remitted to the Trust during the year. The County did not use these contributions to reduce the OPEB liability.

Criteria:

Employer contributions remitted to the OPEB trust should reduce the OPEB liability.

Cause:

Due to management oversight, the County's calculation of the OPEB liability was misstated due to the omission of the trust contributions.

Effect:

A material audit adjustment was required to properly account for the trust contribution. This resulted in a decrease in expenditures and a decrease in the OPEB liability reported in several of the County's funds and opinion units.

Recommendation:

The Office of Finance should review its procedures for calculating the OPEB liability.

Management's Response:

In FY2016, the County worked with the external auditors to determine a process to prepare OPEB Trust Statements. This was a new process that was implemented in the current fiscal year. As a result of the OPEB Trust, there was a change in the way the County had previously determined the OPEB long-term liability. Although, the County was working closely with the auditors throughout year-end review to determine if all revised accounting procedures had been implemented correctly, the required change did not get identified early on in the process. It was implemented and corrected prior to financial statement submission. As in the past, the County has requested that the auditors work with the County when implementing new processes to ensure all new accounting requirements have been met. We believe that we have established procedures for properly accounting for the OPEB Trust and these procedures are consistently being applied. The County external auditors have reviewed and approved the final process.

**ANNE ARUNDEL COUNTY, MARYLAND
SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2016**

2016-002 Accounting for Construction in Process

Condition:

The County determined there were several projects in beginning construction in process that were not intended to be capitalized. The County's capital budget is structured such that appropriations are made at the project level (parent); however, certain projects may have sub-projects. Each year, the Office of Finance analyzes capital projects for completion based on certain criteria and to determine if the project will ultimately be capitalized. This analysis includes an inquiry of project managers and review of the project budget. Prior to this fiscal year, this analysis was being completed at the "parent" level only. Because this was noted in the prior year as a material weakness, Office of Finance performed this analysis at the sub-project as well as the project level for the current fiscal year. During this year's analysis, the Office of Finance discovered several sub-projects that should not be capitalized. This resulted in a prior period misstatement, adjusting beginning capital asset and net investment in capital asset balance for the water/wastewater and business-type funds.

Criteria:

Only expenditures which will ultimately become capital assets should remain in construction in process at year end.

Cause:

Improper determinations were made in prior years regarding whether these projects would become County assets, and as a result, costs related to these projects were not expensed in the proper year.

Effect:

Construction in process and fund balance were overstated requiring a prior period adjustment be made in the Wastewater fund and Business-type Activities.

Recommendation:

The Office of Finance should continue to work with project managers in analyzing the project and sub-project expenses recorded in construction in process to determine whether the projects should be capitalized.

Management's Response:

The County has implemented additional procedures to review all stand-alone and multi-year capital projects to determine if the construction related to the capital project will result in a capital asset owned by the County. The implementation of this extensive detailed review between finance and the County project managers began in FY15 and was expanded and finalized in FY16. As a result of this detailed review, the County identified additional projects in the construction in progress account that needed to be expensed, since upon completion of the capital project they would not result in the capitalization of an asset. The County has implemented procedures to work with project managers to determine proper accounting for construction in progress throughout the year. Finance is also working with the Office of Technology to assist in the improving and streamlining of the information process needed to determine the correct accounting for each capital project, such as status and ownership.