

INTERNAL CONTROL REPORT



CliftonLarsonAllen

CliftonLarsonAllen LLP
www.cliftonlarsonallen.com

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
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, the budgetary comparison for the General Fund, and the aggregate remaining fund information of Anne Arundel County, Maryland (the County), as of and for the year ended June 30, 2013, 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 23, 2013. We did not audit the financial statements of the Anne Arundel County Community College, the Anne Arundel Economic Development Corporation, Tipton Airport Authority, and the Anne Arundel Workforce Development Corporation, which represent 13 percent, 14 percent, and 13 percent, respectively, of the assets, net position, and revenues of the discretely presented component units. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Anne Arundel County Community College, the Anne Arundel Economic Development Corporation, Tipton Airport Authority, and the Anne Arundel Workforce Development Corporation, is based solely on the report of the other auditors. This report does not include the results of the other auditor's testing of internal control over financial reporting or compliance and other matters that are reported separately by those auditors. The financial statements of Anne Arundel Economic Development Corporation were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the County'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 the County's internal control. Accordingly, we do not express an opinion on the effectiveness of the County's internal control.

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. 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.



An independent member of Nexia International

Our consideration of internal control was for the limited purpose described in the first paragraph of this section 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a certain deficiency in internal control that we consider to be a significant deficiency.

We consider the deficiency 2013-1 described below to be a significant deficiency.

**2013-1 INADEQUATE MONITORING OF FINANCIAL DATA PROCESSED
BY THE DEPARTMENT OF PUBLIC WORKS**

Significant financial data is prepared or compiled by departments other than the Office of Finance. Our assessment of the internal controls of the Department of Public Works (DPW) revealed a need for enhanced review and reconciliation procedures.

Currently, the DPW tracks revenues, deferred revenues, and related receivables using detailed and complex spreadsheets with voluminous amounts of information (project file listing). The accuracy of the information in the project file listing is imperative to determine when revenues, deferred revenues, and related receivables should be recognized and reported to the Office of Finance. These records are adjusted on an annual basis rather than being updated automatically or at regular intervals. This lack of real time data increases the possibility that the financial data is not accurately accumulated and reported to the Office of Finance.

Furthermore, because heavy reliance is placed on spreadsheets that are used to track the receivables and deferred revenues processed by the DPW, there appears to be a lack of overall understanding of how adjustments to these spreadsheets, and other factors, including overall permitting activity, impact capital connection revenues recorded by the Office of Finance.

In the current year, we also noted that there were errors made by the DPW in calculating the allowance for uncollectible accounts related to a developer who was delinquent in paying deferred connection and assessment charges. In performing this calculation, the DPW inappropriately subtracted interest revenue relating to the 2014 fiscal year from the calculated allowance.

Finally, we noted that the checklist used by DPW to ensure that all year end closing procedures were complete, did not reflect current County Code requirements, including ensuring that all developers receiving approval from the Planning and Zoning department for adequacy of public facilities, as defined in the County Code, are included in the year end allocation records. We recommend that DPW update its checklist to ensure that it completely and accurately reflects County Code requirements, including a requirement that the Planning and Zoning department provide adequate documentation to DPW each time a development received adequacy of public facilities approval.

We understand that DPW and the Office of Finance work together to perform an annual review of this information. However, given the volume, complexity, and inherent lack of automated controls, an annual review is not sufficient to detect errors and misstatements on a timely basis. We recommend that management implement more frequent review procedures, including verifying the accuracy of the data, as well as reconciling revenue recorded to the underlying permitting data maintained by the DPW, in order to make this review more manageable and effective.

Management's Response:

The auditors correctly note that data management needs in the DPW Bureau of Utilities are voluminous, complex, and lack automation in some cases. The Office of Finance will work with DPW to refine and strengthen the current procedures and current review structure and add additional review and enhancements, where necessary, to both ensure complete and accurate information is obtained and reduce the possibility of errors. The Office of Finance also agrees to cooperate with DPW to pursue technology advancements, where available, to the extent that funding is made available to procure such advancements.

Compliance and Other Matters

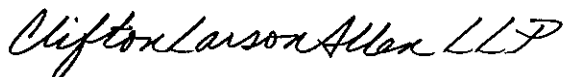
As part of obtaining reasonable assurance about whether the County's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material 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 Finding

The County's response to the finding identified in our audit is described above. The County's response was 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 23, 2013