

**Communications with those
charged with governance**

City of Annapolis

June 30, 2009



March 17, 2010

Summary

Scope of Services:

- Audit of June 30, 2009 financial statements
- Performance of OMB A-133 "Single-Audit"
- Performance of certain agreed upon procedures on Annapolis Department of Transportation
- Review of the Uniform Financial Report
- Available for year-round consultation

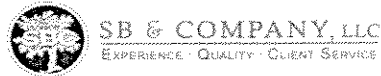
Results:

- Issued unqualified opinion on financial statements
- Issued unqualified opinions for Single Audit
- No significant deficiencies or material weaknesses noted
- We did not discover any instances of fraud
- Received full cooperation of management

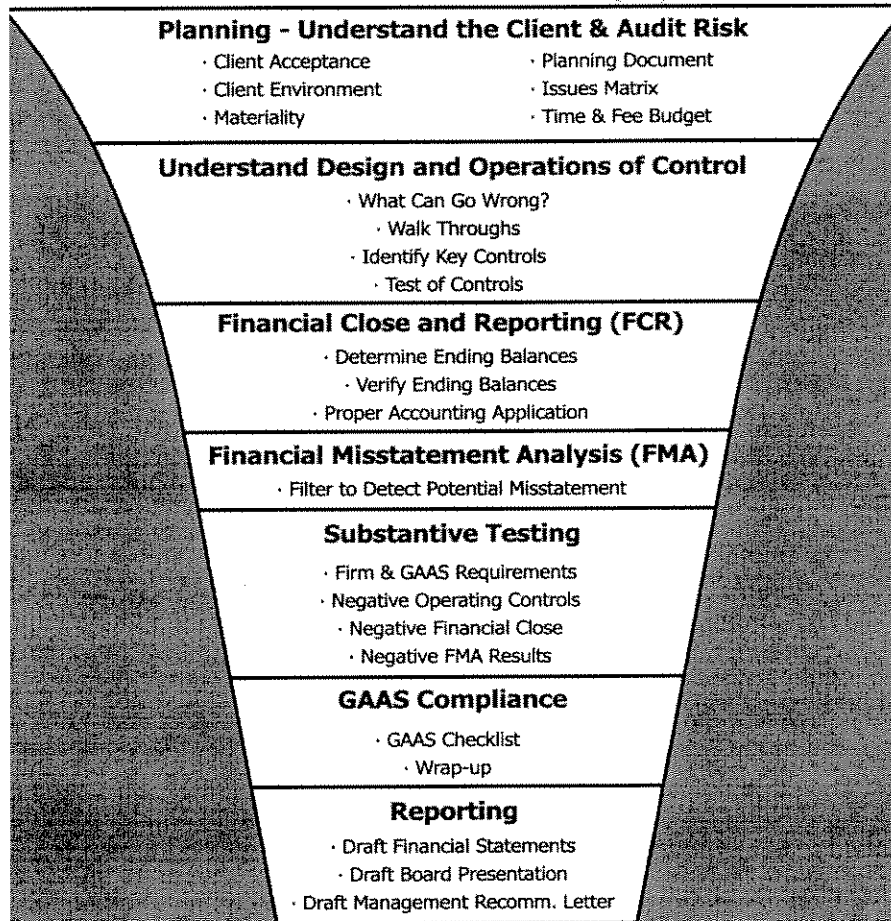
Summary Financials

Caption	2009	2008	2007
Net assets	\$ 15,228,000	\$ 54,519,000	\$ 57,397,000
Capital assets	124,646,000	109,608,000	103,509,000
Total assets	151,363,000	152,961,000	123,008,000
Fund balance	16,162,000	29,007,000	10,354,000
Budgeted general fund revenue	57,279,000	51,177,000	45,742,000
Actual general fund revenue	54,934,000	50,814,000	46,783,000
Budgeted general fund expenditures	58,834,000	51,247,000	45,931,000
Actual general fund expenditures	58,555,000	49,588,000	44,507,000
Enterprise fund operating loss	(5,712,000)	(6,150,000)	(4,829,000)
Debt	65,358,000	71,637,000	44,838,000
OPEB Liability	38,360,000	N/A	N/A
Debt as a % of capital assets	52%	65%	43%
Debt per capita	1,752	1,968	1,235
OPEB per capita	1,028	N/A	N/A

SBC Risk-Based Audit Approach



Risk-based Audit Approach



Evaluation and Assessment of Control Environment

Area	Points to Consider	Our Assessment
Control Environment	<ul style="list-style-type: none"> * Key executive integrity, ethics and behavior * Control consciousness and operating style * Commitment to competence * City Council's participation in governance and oversight * Organizational structure and assignment of authority and responsibility * HR policies and procedures 	Effective
Risk Assessment	<ul style="list-style-type: none"> * Mechanisms to anticipate, identify, and react to significant events * Process and procedures to identify changes in GAAP, business practices and internal control 	Effective
Information & Communications	<ul style="list-style-type: none"> * Adequate performance reports produced from the information system(s) * Information systems are connected with business strategy * Commitment of HR and finance to develop, test and monitor IT systems and programs * Business continuity/disaster plan for IT * Established communication channels for employees to fulfill responsibilities * Adequate communication across the organization 	Effective
Control Activities	<ul style="list-style-type: none"> * Existence of necessary policies and procedures * Clear financial objectives with active monitoring * Logical segregation of duties * Periodic comparisons of book to actual and physical count to books * Adequate safeguards of documents, records and assets * Access controls in place 	Effective
Monitoring	<ul style="list-style-type: none"> * Periodic evaluation of internal controls * Implementation of improvement recommendations * Internal audit function established to monitor activities 	Effective

Evaluation of Key Processes

Process	Function	Design	Operation
Treasury	Cash Management Investment Accounting	Effective	Effective
Estimation	Methodology Calculation	Effective	Effective
Financial Reporting	Accounting Principles and Disclosure Closing the Books General Ledger and Journal Entry processing Sustention and Review of Results	Effective	Effective
Expenditures	Purchasing Receiving Accounts Payable/Cash Disbursement	Effective	Effective
Payroll	Hiring Attendance Reporting Payroll Accounting and Processing Payroll Disbursements Separation	Effective	Effective
Revenue	Fee Calculation and Billing Cash Receipts	Effective	Effective
Fixed Assets	Physical Custody	Effective	Effective
Information Technology	Program Integrity and Change Management Information Security and Transaction Authorization Segregation of Duties and Management Oversight Computer Operations	Effective	Effective

Required Communications

1 Auditor's Responsibilities Under Generally Accepted Auditing Standards (GAAS)

The financial statements are the responsibility of management. Our audit was designed in accordance with auditing standards generally accepted in the United States of America and Government Auditing Standards, and provide for reasonable, rather than absolute, assurance that the financial statements are free of material misstatement.

2 Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by management are described in the notes to the financial statements.

3 Auditor's Judgments About the Quality of Accounting Principles

We discuss our judgments about the quality, not just the acceptability, of accounting principles selected by management, the consistency of their application, and the clarity and completeness of the financial statements, which include related disclosures.

We have reviewed the significant accounting policies adopted by the City, and have determined that these policies are acceptable accounting policies.

Required Communications, continued

4 Audit Adjustments

We are required to inform the City Council about adjustments arising from the audit (whether recorded or not) that could in our judgment either individually or in the aggregate have a significant effect on the entity's financial reporting process. We also inform the City Council about unadjusted audit differences that were determined by management to be individually and in the aggregate, immaterial.

We noted no significant adjustments.

5 Fraud and Illegal Acts

We report to the City Council fraud and illegal acts involving senior management and fraud and illegal acts (whether caused by senior management or other employees) that cause a material misstatement of the financial statements.

Our procedures identified no instances of fraud or illegal acts.

6 Material Weaknesses in Internal Control

We are required to communicate all significant deficiencies to the City Council, whether or not they are also material weaknesses.

No significant deficiencies or material weaknesses were noted during the audit.

Required Communications, continued

7 Other Information in Documents Containing Audited Financial Statements

None.

8 Disagreements with Management on Financial Accounting and Reporting Matters

None.

9 Serious Difficulties Encountered in Performing the Audit

None.

10 Major Issues Discussed with Management Prior to Retention

None.

11 Management Representations

We have requested certain representations from management as part of the financial statement and single audit.

12 Consultation with Other Accountants

To our knowledge, there were no consultations with other accountants since our appointment as the City's independent auditors.

13 Independence

As part of our client acceptance process, we go through a process to ensure we are independent of the City. We are independent of the City.

Required Communications, continued

14 Our Responsibility Related to Fraud

- Plan and perform audit to obtain reasonable assurance that there is no material misstatement caused by error or fraud
- Comply with GAAS SAS No. 99 “Consideration of Fraud in a Financial Statement Audit”
- Approach all audits with an understanding that fraud could occur in any entity, at any time, by anyone
- Perform mandatory procedures required by GAAS and our firm policies

Examples of Procedures Performed

- Discuss thoughts and ideas on where the financial statements might be susceptible to material misstatement due to fraud
- Understand pressures on the financial statement results
- Understand the tone and culture of the organization
- Look for unusual or unexpected transactions, relationships, or procedures
- Discussions with individuals outside of finance
- Evaluate key processes and controls
- Consider information gathered throughout the audit

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