



SB & COMPANY, LLC



Centreville, Maryland

TOWN OF CENTREVILLE
COMMUNICATIONS WITH THOSE CHARGED
WITH GOVERNANCE

FOR THE YEAR ENDED JUNE 30, 2011

APRIL 19, 2012

EXPERIENCE



QUALITY



CLIENT SERVICE

Summary



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Scope of Services

- Audit of June 30, 2011 financial statements
- OMB-Circular A-133 Single Audit and Data Collection Form
- Assistance in preparation of financial statements
- Review of the Uniform Financial Report
- Available for year-round consultation

Results

- Issued an unqualified opinion on financial statements and A-133 Audit
- No significant deficiencies or material weaknesses noted
- We did not discover any instances of fraud
- Received full cooperation of management

Items for discussion

- Industry Update
- SBC Risk-Based Audit Approach
- Assessment of Control Environment
- Evaluation of Key Processes
- Summary Financials
- Single Audit Results
- Required Communications
- Fraud Assessment
- Engagement Team

Industry Update



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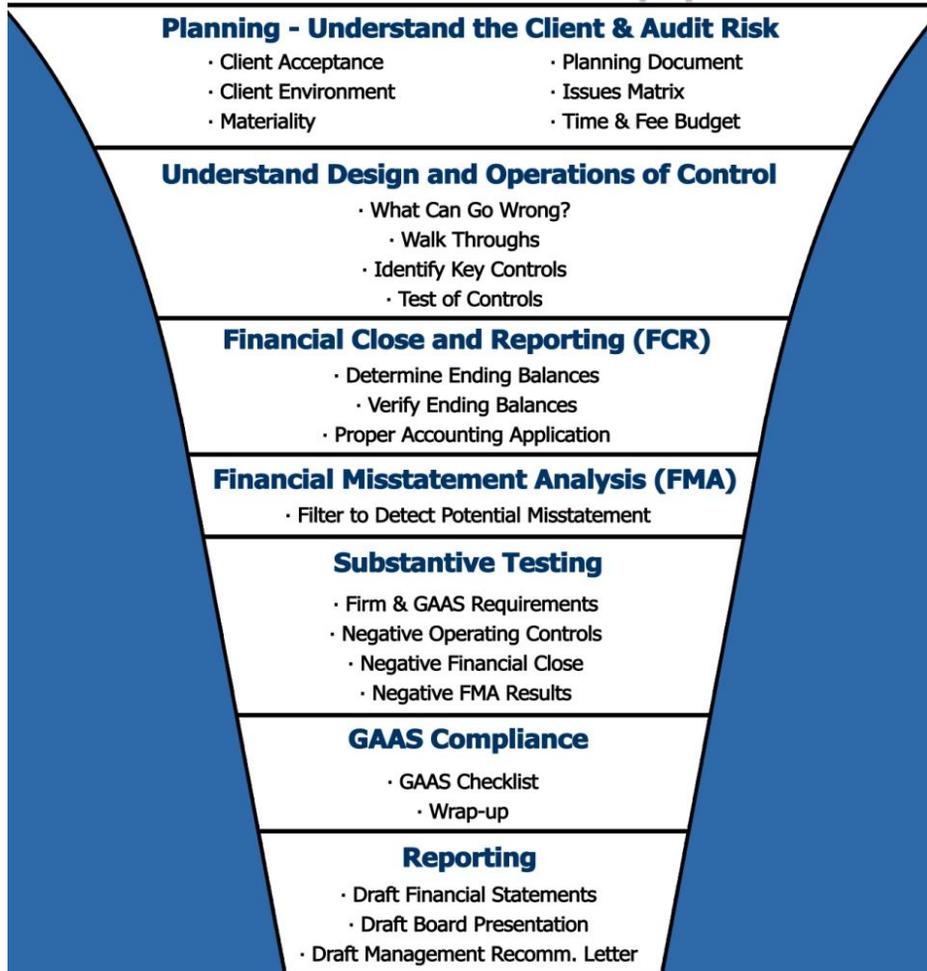
- Standard and Poor's Municipal Bond Downgrades;
- Municipal and County bankruptcies and potential impact on debt market;
- Management and the Town should be aware that because of the present economic times and slow down in our economy, there will be greater financial pressures on the Town's employees and potential customers, which increases the Town's risk of fraud from its employees and customers;
- Risk management concerns related to employees have become an issue among local governments. Governments should be proactive in initiating risk management policies to minimize liability exposure;
- Potential loss of tax exempt debt issuances if benefit plans not adequately funded;
- Pension and OPEB liability recognition on the statements of net assets (entity wide);
- State of Maryland shifting costs to counties and municipalities;
- Increased needs for fiscal transparency; and
- Potential industry movement to zero-based budgeting.

SBC Risk-Based Audit Approach



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Risk-based Audit Approach



Focus During this Stage

- Identify internal, external and financial statements risks
- Develop audit plans
- Evaluate your controls and processes
- Test your key controls
- Evaluate your processes to report correct amounts
- Evaluate reporting policies
- Review financial statement for misstatements
- Verify selected account balances
- Obtain third party verification
- Professional standards requirements
- Obtain representation
- Evaluate results of audit procedures
- Communicate results and prepare reports to issue

Assessment of Control Environment



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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 ▪ 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 ▪ Processes and procedures to identify changes in GAAP, business practices and internal control 	Effective
Information & Communication	<ul style="list-style-type: none"> ▪ Adequate performance reports produced from information systems ▪ Information systems are connected with the 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 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 evaluations of internal controls ▪ Implementation of improvement recommendations 	Effective

Evaluation of Key Processes



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Process	Function	Design	Operation
Treasury	<ul style="list-style-type: none"> ▪ Cash Management ▪ Investment Accounting 	Effective	Effective
Estimation	<ul style="list-style-type: none"> ▪ Methodology ▪ Calculation 	Effective	Effective
Financial Reporting	<ul style="list-style-type: none"> ▪ Accounting Principles and Disclosure ▪ Closing the Books ▪ General Ledger and Journal Entry Processing ▪ Verification and Review of Results 	Effective	Effective
Expenditures	<ul style="list-style-type: none"> ▪ Purchasing ▪ Receiving ▪ Accounts Payable/Cash Disbursement 	Effective	Effective
Payroll	<ul style="list-style-type: none"> ▪ Hiring ▪ Attendance Reporting ▪ Payroll Accounting and Processing ▪ Payroll Disbursements ▪ Separation 	Effective	Effective
Revenue	<ul style="list-style-type: none"> ▪ Billing ▪ Cash Receipts 	Effective	Effective
Fixed Assets	<ul style="list-style-type: none"> ▪ Physical Custody ▪ Asset Accounting 	Effective	Effective
Compliance	<ul style="list-style-type: none"> ▪ Assess Internal and External Risk ▪ Regulatory Compliance ▪ Monitor Compliance ▪ Grant Compliance 	Effective	Effective
Information Technology	<ul style="list-style-type: none"> ▪ Program Integrity and Change Management ▪ Information Security and Transaction Authorization ▪ Segregation of Duties and Management Oversight ▪ Computer Operations 	Effective	Effective

Summary Financials



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Caption	2011	2010	2009
Net assets	\$ 36,950,000	\$ 36,598,000	\$ 36,803,000
Capital assets	33,648,000	31,657,000	31,054,000
Total assets	51,666,000	47,474,000	48,015,000
General fund balance	5,370,000	5,152,000	5,314,000
Budgeted general fund revenue	3,985,000	4,168,000	3,480,000
Actual general fund revenue	3,536,000	3,715,000	3,377,000
Budgeted general fund expenditures	5,187,000	5,125,000	5,874,000
Actual general fund expenditures	3,826,000	3,741,000	3,055,000
Debt	11,236,000	8,957,000	9,449,000
Enterprise fund revenue	1,515,000	1,349,000	1,966,000
Debt as a % of capital assets	33%	28%	30%
Debt per capita	2,622	2,090	2,732

Single Audit Results



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Major Federal Award Program Description	Federal CFDA Number	Federal Expenditures
Capitalization Grants for Clean Water State Revolving Funds - Rt. 213 and 304 Sanitary Sewer Upgrade (ARRA)	66.458	\$ 1,034,115
Total Expenditures of Federal Awards		\$ 1,251,355
Major Program Coverage		83%

Results:

Area	Opinion
Financial reporting controls and compliance	Unqualified
Major programs compliance	Unqualified

Required Communications



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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 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 Town and have determined that these policies are acceptable accounting policies.

Required Communications



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(continued)

4. **Audit Adjustments**

We are required to inform the Town 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 are required to inform the Town Council about unadjusted audit differences that were determined by management to be individually and in the aggregate, immaterial.

We provided assistance with cash-to-accrual adjustments.

5. **Fraud and Illegal Acts**

We are required to report to the Town Council any 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 in the Town's systems of internal controls, whether or not they are also material weaknesses.

There were no significant deficiencies or material weaknesses noted during the audit.

Required Communications



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(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 Acceptance

None.

11. Management Representations

We will receive certain written representations from management as part of the completion of the audit.

12. Consultation with Other Accountants

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

13. Independence

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

Required Communications



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(continued)

14. Our Responsibility Related to Fraud

- Plan and perform the 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; and
- 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;
- Discuss with individuals outside of finance;
- Evaluate key processes and controls; and
- Consider information gathered throughout the audit.



Opportunity

- Generally provided through weaknesses in internal control
- Tone at the top is important
- We assess controls and tone at the top

Pressure

- Pressure can be imposed due to economic troubles, personal vices, and unrealistic deadlines and performance goals
- There are increased pressures due to economy and minimal salary increases

Rationalization

- Individuals develop a justification for their fraudulent activities
- Increased rationalization due to minimal salary increases and less personnel

Engagement Team



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