

CITY OF ANNAPOLIS

SINGLE AUDIT REPORT

YEAR ENDED JUNE 30, 2022



CITY OF ANNAPOLIS

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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 Mayor, Aldermen, and Alderwomen
City of Annapolis
Annapolis, 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, each major fund, and the aggregate remaining fund information of City of Annapolis, Maryland (the City), as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated February 17, 2023.

Report on Internal Control Over Financial Reporting

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

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. We identified certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as item 2022-001 that we consider to be a material weakness.

City of Annapolis, Maryland's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the City's response to the findings identified in our audit and described in the accompanying schedule of findings and questioned costs. The City's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City'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 financial statements. 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*.

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 City'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 City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

UHY LLP

Columbia, Maryland
February 17, 2023

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH
MAJOR FEDERAL PROGRAM, REPORT ON INTERNAL CONTROL OVER
COMPLIANCE, AND REPORT ON THE SCHEDULE OF EXPENDITURES
OF FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE**

The Honorable Mayor, Aldermen, and Alderwomen
City of Annapolis
Annapolis, Maryland

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited the City of Annapolis, Maryland's (the City) compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended June 30, 2022. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2022.

Basis for Opinion on Each Major Federal Program

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 the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the City and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the City's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the City's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the City's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the City's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the City's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the City's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control over Compliance

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not

identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City, as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated February 10, 2023, which contained unmodified opinions on those financial statements. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

UHY LLP

Columbia, Maryland
February 17, 2023

**CITY OF ANNAPOLIS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2022**

<u>Federal Grantor/Pass-Through Grantor Program Title</u>	<u>Assistance Listing Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Pass-Through to Subrecipients</u>	<u>Federal Expenditures</u>
U.S. Department of Homeland Security				
Pass-Through Maryland Emergency Management Agency: Hazard Mitigation Assistance	97.039	FMA-PL-03-MD-2019-002	\$ -	\$ 20,520
2020 Emergency Management Performance Grants	97.042	EMP-2020-EP-0009-S01	-	72,625
2021 Emergency Management Performance Grants	97.042	EMP-2021-EP-0006-S01	-	47,125
Total Emergency Management Performance Grants			-	119,750
2018 State Homeland Security Program	97.067	EMW-2018-SS-00023-SHSP	-	114,998
2019 State Homeland Security Program	97.067	EMW-2019-SS-00064-SHSP	-	96,956
2020 State Homeland Security Program	97.067	EMW-2020-SS-00010-SHSP	-	53,204
2021 State Homeland Security Program	97.067	EMW-2021-SS-00047-SHSP	-	50,828
2018 Urban Area Security Initiative	97.067	EMW-2018-SS-00023-S01	-	10,314
2019 Urban Area Security Initiative	97.067	EMW-2019-SS-00064-UASI	-	264,477
2020 Urban Area Security Initiative	97.067	EMW-2020-SS-00010-UASI	-	306,381
Total Homeland Security Grant Program			-	897,158
2021 Urban Area Security Initiative	97.068	EMW-2021-SS-00047-UASI	-	3,723
Total U.S. Department of Homeland Security			-	1,041,151
U.S. Department of Defense				
Community Economic Adjustment Assistance for Responding to Threats to the Resilience of a Military Installation	12.003	MIR1225-20-01	-	180,803
Total U.S. Department of Defense			-	180,803
U.S. Department of Housing and Urban Development				
CDBG - Entitlement Grans Cluster:				
Community Development Block Grants/Entitlement Grants	14.218	N/A	-	625,115
Total CDBG - Entitlement Grants Cluster			-	625,115
Total U.S. Department of Housing and Urban Development			-	625,115

**CITY OF ANNAPOLIS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2022**

<u>Federal Grantor/Pass-Through Grantor Program Title</u>	<u>Assistance Listing Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Pass-Through to Subrecipients</u>	<u>Federal Expenditures</u>
U.S. Department of Interior				
Pass-Through Maryland Department of Natural Resources:				
Clean Vessel Act	15.616	14-21-2908-CVA	\$ -	\$ 22,202
Clean Vessel Act	15.616	14-22-3025-CVA	-	21,524
Total Clean Vessel Act			<u>-</u>	<u>43,726</u>
Total U.S. Department of Interior			-	43,726
U.S. Department of Justice				
Comprehensive Opioid, Stimulant, and Substance Abuse Program	16.838	COAP-2019-0009	-	23,091
Equitable Sharing on Forfeitures	16.922	N/A	-	132,170
Total U.S. Department of Justice			<u>-</u>	<u>155,261</u>
U.S. Department of the Treasury				
Pass-Through Anne Arundel County:				
COVID-19 Coronavirus Relief Fund	21.019	240185-ON	-	542,834
COVID-19 Coronavirus State & Local Fiscal Recovery Funds	21.027	SLT-0698	320,770	320,770
Total U.S. Department of the Treasury			<u>320,770</u>	<u>863,604</u>

**CITY OF ANNAPOLIS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2022**

<u>Federal Grantor/Pass-Through Grantor Program Title</u>	<u>Assistance Listing Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Pass-Through to Subrecipients</u>	<u>Federal Expenditures</u>
U.S. Department of Transportation				
Pass-Through Maryland Department of Transportation:				
Highway Safety Cluster -				
State and Community Highway Safety	20.600	69A37519300004020MDO	-	1,192
Total Highway Safety Cluster			-	1,192
Highway Planning and Construction Cluster -				
Highway Planning and Construction	20.205	MD-2020-014-00	-	143
Total Highway Planning and Construction Cluster			-	143
Federal Transit Cluster -				
COVID-19 Federal Transit - Formula Grants	20.507	AN25CARES07O2020	-	1,095,344
Total Federal Transit Cluster			-	1,095,344
Pass-Through Maryland Emergency Management Agency:				
Interagency Hazardous Materials Public Sector Training and Planning Grants				
Total Interagency Hazardous Materials Public Sector	20.703	HM-HMP-0546-16-01-00	-	16,851
			-	16,851
Total U.S. Department of Transportation			-	1,113,530
Total Federal Expenditures			\$ -	\$ 4,023,190

**CITY OF ANNAPOLIS
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2022**

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of the City of Annapolis (the City) under programs of the federal government for the year ended June 30, 2022. The information in this Schedule is presented in accordance with the requirements of 2 CFR Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the City, it is not intended to and does not present the financial position, changes in net position, or cash flows of the City.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance for all awards with the exception of Assistance Listing Number 21.019, which follows criteria determined by the Department of Treasury for allowability of costs. Under these principles, certain types of expenditures are not allowable or are limited as to reimbursement.

NOTE 3 - INDIRECT COST RATE

The City has not elected to use the 10 percent de minimis indirect cost rate allowed under Uniform Guidance.

NOTE 4 - REVOLVING LOAN FUNDS

The Safe Drinking Water State Revolving Fund are revolving loan funds. Federally funded new loan proceeds provided under this program are included as expenditures on the Schedule of Expenditures of Federal Awards in the year incurred; however, there were no expenditures during the current year. The City had the following loan balance outstanding at June 30, 2022:

	<u>Assistance Listing Number</u>	<u>Amounts Outstanding</u>
Drinking Water State Revolving Fund	66.468	<u>\$ 22,747,863</u>

**CITY OF ANNAPOLIS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2022**

Section I - Summary of Independent Auditors' Results

Financial Statements

1. Type of auditor's report issued: Unmodified
2. Internal control over financial reporting:
- Material weakness(es) identified: X yes no
 - Significant deficiency(ies) identified? yes X none reported
3. Noncompliance material to basic financial statements noted? yes X no

Federal Awards

1. Internal control over major federal programs:
- Material weakness(es) identified? yes X no
 - Significant deficiency(ies) identified? yes X none reported
2. Type of auditors' report issued on Compliance for major federal programs: Unmodified
3. Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? yes X no

Identification of Major Federal Programs:

Assistance Listing Numbers

20.507
97.067

Name of Federal Program or Cluster

COVID-19 Federal Transit - Formula Grants
Homeland Security Grant Program

Dollar threshold used to determine Type A projects: \$750,000

Auditee qualify as low-risk auditee? X yes no

**CITY OF ANNAPOLIS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2022**

Section II - Financial Statement Findings

2022 - 001 – Overstated Construction in Progress

Type of Finding: Material Weakness in Internal Control over Financial Reporting

Condition: During the fiscal year 2022 audit, it was noted that capital assets were overstated as of June 30, 2022 due to the inclusion of expenditures in construction in progress that either should have been expensed or put in service and depreciated in prior years. The restatement for the governmental activities business type activities, and each major fund follows:

	<u>Government Wide Financial Statements</u>			
	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Totals</u>	
Total Assets				
As originally presented, June 30, 2021	191,786,534	156,533,830	348,320,364	
Restatement	(9,262,250)	(5,763,319)	(15,025,569)	
As restated June 30, 2021	182,524,284	150,770,511	333,294,795	
Total Net Position				
As originally presented, June 30, 2021	16,578,231	60,635,532	77,213,763	
Restatement	(9,262,250)	(5,763,319)	(15,025,569)	
As restated June 30, 2021	7,315,981	54,872,213	62,188,194	
Proprietary Funds				
	<u>Sewer</u>	<u>Water</u>	<u>Parking</u>	<u>Non-Major Enterprise Funds</u>
Total Assets				
As originally presented, June 30, 2021	35,364,714	83,329,524	27,092,851	9,911,790
Restatement	(1,574,491)	(2,721,487)	(1,175,240)	(292,101)
As restated June 30, 2021	33,790,223	80,608,037	25,917,611	9,619,689
Total Net Position				
As originally presented, June 30, 2021	20,444,406	25,624,880	8,024,782	7,799,338
Restatement	(1,574,491)	(2,721,487)	(1,175,240)	(292,101)
As restated June 30, 2021	18,869,915	22,903,393	6,849,542	7,507,237

Criteria or specific requirement: Performing reconciliations in a timely manner are key elements of an effective internal control environment to mitigate the risk of noncompliance, whether due to fraud or error.

Effect: The error caused fixed assets to be overstated from 2012 to the present. The City restated its beginning net position as of July 1, 2021.

**CITY OF ANNAPOLIS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2022**

Cause: The issue exists because the City does not have a comprehensive reconciliation to the general ledger of all projects included in construction in progress to assure that the construction in progress accounts include the appropriate expenditures and projects, and to assure completed projects are being properly moved to depreciable capital assets.

Repeat Finding: No.

Recommendation: We recommend a list of open projects be maintained and periodically reconciled to the general ledger.

Views of responsible officials: There is no disagreement with this finding. The overstatement of the balance accumulated during fiscal years 2012 through 2018. The City will initiate a reconciliation of the construction in progress totals to the open capital projects.

**CITY OF ANNAPOLIS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2022**

Section III – Findings and Questioned Costs – Major Federal Programs

Our audit did not disclose any matters required to be reported in accordance with 2 CFR 200.516(a)

**CITY OF ANNAPOLIS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2022**



City of Annapolis
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MD Relay or 711

U.S. Department of the Treasury

The City of Annapolis respectfully submits the following summary schedule of prior audit findings for the year ended June 30, 2022.

Audit period: July 1, 2021 – June 30, 2022

The finding from the prior audit's schedule of findings and questioned costs are discussed below. The findings are numbered consistently with the numbers assigned in the prior year.

FINDINGS – FINANCIAL STATEMENT AUDIT

There were no financial statement findings in the prior year.

FINDINGS – FEDERAL AWARD PROGRAMS AUDITS

DEPARTMENT OF THE TREASURY

2021-001 Coronavirus State and Local Fiscal Recovery Funds (CSLFRF) – Allowable Activities

Condition: The City utilized CSLFRF to replace lost revenue within the Transit fund. The City applied CSLFRF funds to cover expenditures, then subsequently applied these expenditures to another funding source. The City corrected the error in fiscal year 2022.

Status: Resolved for the year ended June 30, 2022.