

MANAGEMENT LETTER
CITY OF LAUREL, MARYLAND
JUNE 30, 2005

October 14, 2005

Members of the City Council
City of Laurel, Maryland
8103 Sandy Spring Road
Laurel, Maryland 20707-2502

In planning and performing our audit of the basic financial statements of the City of Laurel, Maryland for the year ended June 30, 2005, we considered the City's internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control.

Our consideration of the internal control would not necessarily disclose all matters in the internal control that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. However, we noted the following matters involving the internal control and its operation that we do not consider to be material weaknesses as defined above, but believe need to be brought to management's attention.

Reconciliation of Bank Accounts

During our audit we noted that certain of the bank reconciliations were not updated to reflect adjustments made to the general ledger for corrections to the cash balances as identified in the reconciliation process. Consequently the reconciliations maintained did not agree to the general ledger.

We recommend that all bank reconciliations are updated for any adjustments made to the general ledger during the reconciliation process or after review of such reconciliation so that the reconciliation documentation agrees to the general ledger.

Capital Asset and Depreciation Recordkeeping

With the advent of GASB 34, the City needs to be diligent in recording and calculating depreciation expense for existing and newly acquired capital assets, including buildings, equipment, infrastructure, and improvements. The City uses a capital asset software program, FAS Asset Accounting, for asset control and depreciation recordkeeping. Such software will assist in keeping the depreciation accurate and up-to-date as the software calculates the depreciation automatically. While it appears that the City has greatly improved their tracking of capital assets and depreciation over the prior year, it was noted that not all assets are being tracked in the capital asset software. As such, there were errors found in certain schedules of capital assets that necessitated a prior period adjustment and an entry to correct certain amounts in the Fixed Asset Fund.

We recommend that the City should eliminate all processes outside of the capital asset software program.

Capital Asset Inventory Tagging System

During our audit, we noted that, while the City has purchased a capital asset inventory tagging system in the current year, inventory tags were not being used to keep track of all machinery, tools, and equipment capital assets. Without utilizing an inventory tagging system, capital assets are more susceptible to theft and/or misstatement due to the difficulties in reconciling the capital asset accounts.

We recommend that the City's inventory tags be affixed to all machinery, tools, and equipment. In addition, we recommend that another department in the City be responsible for administering the inventory tagging system other than the Budget and Personnel Services department. When capital assets are purchased or otherwise placed in service, the Budget and Personnel Services department should submit the necessary supporting documentation to the administering department, such as a purchase order and paid invoice, in order to obtain an inventory tag. Once the capital asset is logged into the inventory tag detail, the administering department should affix the inventory tag on the capital asset. Periodic reconciliations should be performed.

Roll-Forward of General Fund Fund Balance

During our audit, we noted that the General Fund fund balance accounts did not reconcile to the prior year audited financial statements.

We recommend that the City reconcile all fund balance accounts timely at the end of the fiscal year.

Collateralization of Deposits

During our current year audit, it was noted that the City maintains cash deposits with Citizen's National Bank that are uninsured and uncollateralized in the amount of \$244,026 at June 30, 2005. According to the City's investment policy and State statute, deposits must have, at all times, collateral with a market value that meets or exceeds the City's deposits with the financial institution that are not covered by deposit insurance.

We recommend that the City contact Citizen's National Bank to increase the collateral it holds to cover all cash deposits.

Escrow Accounts

The City maintains escrow accounts to keep track of funds received for various purposes. We noted during our audit that the revenue and related expenditure are not recorded in the General Fund in accordance with the current financial resources measurement focus and the modified accrual basis of accounting.

We recommend that the City record an entry to recognize escrow related expenditures as they are incurred as expenditures in the General Fund. Furthermore, upon expending such funds an entry should also be recorded to recognize the related escrow funds as revenue in the General Fund.

The preceding comments and recommendations are intended solely for the information and use of the Mayor, City Council President and the City Council and should not be used by anyone other than these specified parties.

Sincerely,



Reznick Group