

CITY OF FROSTBURG, MARYLAND

SINGLE AUDIT

JUNE 30, 2012

***HM* Huber, Michaels
& Company**

Certified Public Accountants

CITY OF FROSTBURG, MARYLAND

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**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**

Mayor and City Council
City of Frostburg, Maryland
Frostburg, Maryland

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the remaining fund information of the City of Frostburg, Maryland as of and for the year ended June 30, 2012, which collectively comprise the City of Frostburg, Maryland's basic financial statements and have issued our report thereon dated November 21, 2012. We conducted our audit in accordance with 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.

Internal Control Over Financial Reporting

Management of City of Frostburg, Maryland is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered City of Frostburg, Maryland's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified a certain deficiency in internal control over financial reporting

that we consider to be a material weakness.

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 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. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2012-1 to be a material weakness.

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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Frostburg, Maryland's financial statements are free of 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 an instance of noncompliance or other matter that is required to be reported under *Governmental Auditing Standards* and which is disclosed in the accompanying schedule of findings and questioned costs as item 2012-2.

City of Frostburg, Maryland's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the City of Frostburg, Maryland's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, City Council, others within the entity, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Huber, Mikhael & Company

Cumberland, Maryland
November 21, 2012

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133**

Mayor and City Council
City of Frostburg, Maryland
Frostburg, Maryland

Compliance

We have audited City of Frostburg, Maryland's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that have a direct and material effect on each of City of Frostburg, Maryland's major federal programs for the year ended June 30, 2012. The City of Frostburg, Maryland's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of City of Frostburg, Maryland's management. Our responsibility is to express an opinion on City of Frostburg, Maryland's compliance based on our audit.

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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about City of Frostburg, Maryland's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of City of Frostburg, Maryland's compliance with those requirements.

In our opinion, City of Frostburg, Maryland, complied, in all material respects, with the 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, 2012. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 2012-2.

Internal Control Over Compliance

Management of City of Frostburg, Maryland is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered City of Frostburg, Maryland's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of City of Frostburg, Maryland's 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 combination of significant 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.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the remaining fund information of City of Frostburg, Maryland, as of and for the year ended June 30, 2012, and have issued our report thereon dated November 21, 2012, which contained an unqualified opinion on those financial statements. Our audit was conducted for the purpose of forming our opinions on the financial statements that collectively comprise the City of Frostburg, Maryland's financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB A-133, and is not a required part of the 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 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 financial statements or to the 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 financial statements taken as a whole.

City of Frostburg, Maryland's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit City of Frostburg, Maryland's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, City Council, others within the entity, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Huber, Michael + Company

Cumberland, Maryland
November 21, 2012

CITY OF FROSTBURG, MARYLAND

SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2012

GRANT NAME	CFDA NUMBER	GRANT NUMBER	GRANT PERIOD	ORIGINAL GRANT	EXPENDITURES
DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT					
PASS-THROUGH MD DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT					
Community Development Block Grant/State's Program and Non-Entitlement Grants in Hawaii *	14.228	MD-09-ED-72	5/8/09-9/30/11	\$ 100,000	\$ 49,150
Community Development Block Grant/State's Program and Non-Entitlement Grants in Hawaii *	14.228	MD-11-CD-9	4/26/11-4/30/13	300,000	300,000
Community Development Block Grant/State's Program and Non-Entitlement Grants in Hawaii *	14.228	MD-12-CD-21	6/23/11-6/30/13	500,000	212,387
				<u>900,000</u>	<u>561,537</u>
ENVIRONMENTAL PROTECTION AGENCY					
Congressionally Mandated Projects	66.202	XP-963041-01-0	10/6/10-6/30/12	357,886	313,070
APPALACHIAN REGIONAL COMMISSION					
Appalachian Area Development	23.002	MD-16160-C1-2010	9/1/10-7/31/11	45,000	10,041
Appalachian Area Development	23.002	MD-16360-214-09	N/A	250,000	86,473
				<u>295,000</u>	<u>96,514</u>
APPALACHIAN REGIONAL COMMISSION					
Appalachian Development Highway System	23.003	MD-16386-2009-I-201b	N/A	500,000	38,482
DEPARTMENT OF ENERGY					
PASS-THROUGH MARYLAND CLEAN ENERGY CENTER					
State Energy Program	81.041	N/A	N/A	40,000	40,000
DEPARTMENT OF ENERGY					
PASS-THROUGH MARYLAND ENERGY ADMINISTRATION					
Energy Efficiency and Conservation Block Grant Program - ARRA	81.128	2010-15-431-FB	2/25/10-6/1/12	45,000	45,000
PASS-THROUGH GOVERNOR'S OFFICE OF CRIME CONTROL AND PREVENTION					
Enforcing Underage Drinking Laws Program	16.727	EUDL-2011-1006	7/1/11-6/30/12	27,500	26,530
PASS-THROUGH GOVERNOR'S OFFICE OF CRIME CONTROL AND PREVENTION					
Edward Byrne Memorial Justice Assistance Grant Program	16.738	CSAF-2011-1003	10/1/11-6/30/12	24,876	24,775
DEPARTMENT OF TRANSPORTATION					
PASS-THROUGH LOCAL MANAGEMENT BOARD OF ALLEGANY COUNTY, INC.					
Highway Planning and Construction - ARRA	20.205	N/A	11/1/10-12/31/11	3,500	1,740
UNITED STATES DEPARTMENT OF AGRICULTURE					
Water and Waste Disposal Systems for Rural Communities *	10.760	N/A	N/A	922,510	470,610
Totals				<u>\$ 3,116,272</u>	<u>\$ 1,618,258</u>

* Major Program

CITY OF FROSTBURG, MARYLAND

**NOTES TO SUPPLEMENTARY SCHEDULE OF EXPENDITURES
OF FEDERAL AWARDS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying schedule of expenditures of federal awards includes all federal grants which had financial activity during fiscal year ended June 30, 2012. This statement has been prepared in accordance with generally accepted accounting principles.

NOTE 2 - SCOPE OF AUDIT PURSUANT TO OMB CIRCULAR A-133

All federal awards programs operated by the City of Frostburg, Maryland are included in the scope of the OMB Circular A-133 audit.

NOTE 3 - FISCAL PERIOD AUDITED

Single audit testing procedures were performed for program transactions occurring during the fiscal year ended June 30, 2012.

NOTE 4 - FIXED ASSETS

Purchases of fixed assets from federal awards are recorded as a federal expenditure. This is not consistent with Generally Accepted Accounting Principles (GAAP).

NOTE 5 - REVENUE RECONCILIATION

Revenues recognized from federal sources per the schedule of expenditures of federal awards are included in four different funds in the City's financial statements. Federal grant revenues of \$53,045 are included in COPS grants on the statement of revenues, expenditures and changes in fund balances – governmental funds. Federal grant revenues of \$442,673 are included in grant income – other on the statement of revenues, expenditures and changes in fund balances – governmental funds, of which, \$300,000 is in the special revenue fund. Federal grant revenues of \$525,457 and \$126,473 are included in project reimbursements of the sewer fund and water surcharge fund, respectively, in the statement of revenues, expenses, and changes in net assets – proprietary funds. The expenditures for the USDA loan of \$470,610 represent eligible grant expenditures incurred during the year.

CITY OF FROSTBURG, MARYLAND

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2012**

I. SUMMARY OF AUDITORS' RESULTS

The auditors' report on the financial statements of City of Frostburg, Maryland was an unqualified opinion.

The audit of the financial statements disclosed a material weakness in internal control and is reported in the 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*. See finding 2012-1 in section II.

The audit of the financial statements disclosed an instance of noncompliance that is required to be reported in the 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*. See finding 2012-2 in section II.

The auditors' report on compliance with requirements applicable to each major program was an unqualified opinion.

The audit disclosed a finding or questioned cost which is required to be reported under section 510(a) of OMB Circular A-133. See finding 2012-2 in section III.

The audit of the financial statements disclosed no material weaknesses in internal control over compliance that would be required to be reported in the Independent Auditor's Report on Compliance with Requirements that could have a Direct and Material Effect on Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133.

Community Development Block Grant/State's Program and Non-Entitlement Grants in Hawaii, CFDA number 14.228, and Water and Waste Disposal Systems for Rural Communities, CFDA number 10.760, were tested as major programs.

The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.

The auditee did not qualify as a low-risk auditee.

CITY OF FROSTBURG, MARYLAND

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2012**

II. FINANCIAL STATEMENT FINDINGS

Internal Control Findings

Material Weakness

2012-1 Police Fines and Forfeitures Not Recognized in the Proper Period

Criteria: The system of internal controls should be designed to ensure that all financial activities of the City are appropriately and timely accounted for in the City's accounting system and ultimately, the financial statements.

Condition: The City has not properly designed its system of internal controls to ensure revenue and accounts receivable from fines and forfeitures are being adequately communicated to the Finance Department for financial reporting.

Context: In our testing of the City's public safety revenue, we noted a larger increase in fines and forfeitures income over previous years. Upon further inquiry, we determined police tickets written in previous years were not properly reported to the Finance Department in the year written.

Effect: The revenues generated from the Police fines and forfeitures were not recognized in the proper period. In addition, there is no way for the Finance Department to monitor the collection attempts being made by the Police Department.

Cause: The City does not have controls in place to ensure that all monetary Police citations are being reported to the Finance Department and to ensure that someone is attempting to collect outstanding monetary citations in a timely fashion.

Recommendation: We recommend the City establish procedures that would report all monetary Police citations written for a specified period be reported to the Finance Department for proper inclusion in the City's financial system. We also recommend the City designate an individual be responsible for making sure attempts at outstanding citations are being timely made and followed up on.

CITY OF FROSTBURG, MARYLAND

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2012**

II. FINANCIAL STATEMENT FINDINGS (continued)

Views of responsible official and planning corrective actions: The City agrees with the finding. By December 31, 2012, the City will establish a set of written procedures based upon the auditor's recommendation. The procedures will be mandated by the commissioners of Public Safety and Finance. The Commissioner of Public Safety in conjunction with the Chief of Police will designate a specific individual to ensure that reporting is done in compliance with procedures. Lack of compliance with the procedure may lead to disciplinary action against appropriate staff.

Compliance Finding

2012-2 Noncompliance with Davis Bacon Act

Criteria: In accordance with the OMB Circular A-133 Compliance Supplement, the City must ensure contractors on certain federally funded projects are paying their employees in accordance with the Davis Bacon Act by receiving weekly certified payrolls from the contractors indicating the compensation levels paid to the employees working on the project.

Condition: The City was not receiving the required weekly certified payrolls for one of its major programs.

Context: During our tests of compliance, we selected a sample of certified payrolls for each major program that required Davis Bacon Act wages be paid and several of the weekly payrolls were not received or signed until the auditors brought it to the City's attention. The City then went to the contractor and collected the required certified payrolls.

Effect: The City was not complying with the terms of the grant agreement for one of its capital projects and the costs could have been disallowed.

CITY OF FROSTBURG, MARYLAND

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2012**

II. FINANCIAL STATEMENT FINDINGS (continued)

Cause: The Grants Manager relied on the contractor to provide him with the required payrolls. Whenever the payrolls were received, they are put in the applicable project folder. No procedures were performed to ensure all the reports were received and signed by the contractor in a timely fashion.

Recommendation: We recommend the City adopt a policy that assigns an employee with the responsibility of making certain all certified payrolls are received timely during the periods contractor is working on a project that requires Davis Bacon wages.

Views of responsible official and planning corrective actions: The City agrees with the finding. The Commissioner of Finance shall assign an employee to be responsible for obtaining the certified payrolls with the time frame of federal law. Any contractor who does not supply certified payrolls or any other federal or state mandated reports shall not receive payments on invoices and may be restricted from receiving any city contracts for a period of three years.

CITY OF FROSTBURG, MARYLAND

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2012**

III. FINDINGS AND QUESTIONED COSTS – MAJOR PROGRAM AUDIT

Compliance Finding

2012-2 Non-compliance with Davis Bacon Act

Federal Program: CFDA #14.228 Community Development Block Grant/State's Program and Non-Entitlement Grants in Hawaii (Grant #MD-11-CD-9)

As discussed in finding 2012-2 of section II, the City was not receiving the weekly certified payrolls as required by OMB Circular A-133 Compliance Supplement. After we requested the certified payrolls for testing, the City had to go to the contractors involved on the project and obtain the missing ones. The City was able to obtain the certified payrolls so no questioned costs are being reported.

CITY OF FROSTBURG, MARYLAND

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
For the Year Ended June 30, 2012**

2011-1 Communication Breakdown between the Finance Department and Department of
Community Development

Finding: The City's Finance Department and Department of Community Development were not adequately communicating in order to ensure the activities of the Department of Community Development were being properly accounted for by the Finance Department. In one instance a loan was not recorded in the proper period and in another instance there were discrepancies in the allocation of payroll costs between what was capitalized by the Finance Department and what was requested for reimbursement by the Department of Community Development.

Current Status: The City has established a Community Legacy review committee consisting of the Directors of both departments and the City Administrator to review the transactions prior to disbursement and to establish repayment accounts prior to closing. The City also has established a spreadsheet that both departments use for payroll allocations to ensure they are allocating the payrolls costs the same. At year end or at the end of the grant period, the Director of Finance also reconciles the total project costs to the grant reimbursement forms.