

CITY OF FROSTBURG, MARYLAND

SINGLE AUDIT

JUNE 30, 2014

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

Certified Public Accountants

CITY OF FROSTBURG, MARYLAND

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**INDEPENDENT AUDITOR'S 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, 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 the City of Frostburg, Maryland as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City of Frostburg, Maryland's basic financial statements and have issued our report thereon dated December 1, 2014.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Frostburg, Maryland's internal control over financial reporting (internal control) to determine the 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 of Frostburg, Maryland's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Frostburg, Maryland's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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. However, as described in the accompanying schedule of findings and questioned costs, we identified a certain deficiency in internal control that we consider to be 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 2014-1 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 the 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 no instances of noncompliance or other matters that are required to be reported under *Governmental Auditing Standards*.

City of Frostburg, Maryland's Response to Findings

The City of Frostburg, Maryland's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The City of Frostburg, Maryland's response was not subject to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 results of that testing, and not to provide an opinion on the effectiveness of the entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Herber, Michael + Company

Cumberland, Maryland
December 1, 2014

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY OMB CIRCULAR A-133**

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

Report on Compliance for Each Major Federal Program

We have audited the City of Frostburg, Maryland's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City of Frostburg, Maryland's major federal programs for the year ended June 30, 2014. 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.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City of Frostburg, Maryland's major federal programs based on our audit of the types of compliance requirements referred to above. 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 the 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the City of Frostburg, Maryland's compliance.

Opinion on Each Major Federal Program

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, 2014.

Report on Internal Control over Compliance

Management of the City of Frostburg, Maryland is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City of Frostburg, Maryland's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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 the City of Frostburg, Maryland's internal control over compliance.

Our consideration of the internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified a certain deficiency in internal control over compliance that we consider to be a material weakness.

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 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. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2014-1 to be a material weakness.

A significant deficiency in internal control over compliance is a deficiency, or 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.

The City of Frostburg, Maryland's response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The City of Frostburg, Maryland's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

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 of Frostburg, Maryland, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City of Frostburg, Maryland's basic financial statements.

We issued our report thereon dated December 1, 2014, which contained unmodified opinions on those financial statements. Our audit was conducted 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 OMB A-133, 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 financial statements taken as a whole.

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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Huber, Michael + Company

Cumberland, Maryland
December 1, 2014

CITY OF FROSTBURG, MARYLAND

SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2014

GRANT NAME	CFDA NUMBER	GRANT NUMBER	GRANT PERIOD	ORIGINAL GRANT	EXPENDITURES	PASS THROUGH TO SUBRECIPIENTS
DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT						
PASS-THROUGH MD DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT	14.228	MD-13-CD-7	4/9/13-2/28/15	\$ 367,768	\$ 328,839	\$ -
Community Development Block Grant/State's Program and Non-Entitlement Grants in Hawaii *						
DEPARTMENT OF JUSTICE						
Supervised Visitation, Safe Havens for Children	16.527	2012-CW-AX-K026	10/1/12-9/30/15	350,000	21,410	21,410
DEPARTMENT OF JUSTICE						
PASS-THROUGH GOVERNOR'S OFFICE OF CRIME CONTROL AND PREVENTION	16.727	EUDL-011-1206	1/1/14-8/31/14	11,782	6,000	-
Enforcing Underage Drinking Laws Program						
DEPARTMENT OF JUSTICE						
PASS-THROUGH GOVERNOR'S OFFICE OF CRIME CONTROL AND PREVENTION	16.738	BJAG-2011-0011	10/1/13-6/30/14	34,145	34,100	-
Edward Byrne Memorial Justice Assistance Grant Program						
DEPARTMENT OF TRANSPORTATION						
PASS-THROUGH MARYLAND MOTOR VEHICLE ADMINISTRATION	20.600	13-076	1/1/13-12/31/13	2,200	1,470	-
State and Community Highway Safety	20.601	13-076	1/1/13-12/31/13	2,200	50	-
Alcohol Impaired Driving Countermeasures Incentive Grants I				4,400	1,520	-
APPALACHIAN REGIONAL COMMISSION						
Appalachian Regional Development	23.001	MD-17473	1/1/13-12/31/13	13,000	12,000	-
APPALACHIAN REGIONAL COMMISSION						
Appalachian Development Highway System	23.003	MD-16386-2009-I-201b	N/A	500,000	18,399	-
ENVIRONMENTAL PROTECTION AGENCY						
Capitalization Grants for Drinking Water State Revolving Funds - ARRA	66.468	DWGG12-0755-01L	N/A	167,250	167,250	-
Totals				\$ 1,448,345	\$ 589,518	\$ 21,410

* 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, 2014. 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, 2014.

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 \$41,620 are included in COPS grants on the statement of revenues, expenditures and changes in fund balances – governmental funds. Federal grant revenues of \$51,809 are included in grant income – other on the statement of revenues, expenditures and changes in fund balances – governmental funds, of which, \$12,000 is in the special revenue fund. Federal grant revenues of \$496,089 are included in project reimbursements of the water surcharge fund in the statement of revenues, expenses, and changes in net assets – proprietary funds.

CITY OF FROSTBURG, MARYLAND

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2014**

I. SUMMARY OF AUDITORS' RESULTS

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

The audit of the financial statements disclosed a material weakness in internal control and is reported in the Independent Auditor's 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 2014-1 in section II.

The audit of the financial statements disclosed no instances of noncompliance that are required to be reported in the Independent Auditor's 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 auditors' report on compliance with requirements applicable to each major program was an unmodified opinion.

The audit disclosed no findings or questioned costs which are required to be reported under section 510(a) of OMB Circular A-133.

The audit of the financial statements disclosed a material weakness in internal control over compliance that is required to be reported in the Independent Auditor's Report on Compliance for Each Major Program and on Internal Control over Compliance Required by OMB Circular A-133. See finding 2014-1 in section III.

Community Development Block Grant/State's Program and Non-Entitlement Grants in Hawaii, CFDA number 14.228, was tested as a major program.

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, 2014**

II. FINANCIAL STATEMENT FINDINGS

Internal Control Finding

Material Weakness

2014-1 Material Adjustments were Required to the Financial Statements

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 all revenues and expenses are being properly reported.

Context: In our testing of the City's revenue, we noted material revenue that was not properly accrued in the water surcharge fund. In our search for unrecorded liabilities, we noted a material expense that was not properly included in accounts payable in the sewer fund. In our testing of depreciation expense, we noted an error in the depreciation schedule for the sewer fund that materially misstated depreciation expense and accumulated depreciation.

Effect: The financial statements for the water surcharge fund and sewer fund would not have been presented fairly, in all material respects as of and for the year ended June 30, 2014.

Cause: The City does not have adequate safeguards in place for the year end closing process to ensure that all revenues and expenses are recorded in the proper period and depreciation expense and the related accumulated depreciation is properly recorded.

Recommendation: We recommend the City establish additional procedures during the year end closing process to ensure all material revenues and expenses are included in the proper periods. We also recommend the City adopt an additional review process to ensure the accuracy and completeness of its depreciation schedules.

CITY OF FROSTBURG, MARYLAND

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2014**

II. FINANCIAL STATEMENT FINDINGS (continued)

Views of responsible official and planning corrective actions: The City agrees with the finding. The City has instituted other layers of internal control in order to prevent this finding in the future.

To address the revenue accrual omission, a spreadsheet dedicated to tracking revenue requests submitted to funding agencies has been created. At the same time the request is made or funding is received, the spreadsheet will be updated with the appropriate information.

As invoices are received after the last payable run in June, the Administrative Services Representative will review all invoices received and flag those invoices dated June 30 or prior. This practice will continue through the completion of the audit. All paid invoices will be reviewed by the Director of Finance for inclusion as payables as applicable. A second person will also review invoices to search for unrecorded liabilities.

The City currently maintains depreciation schedules for all fixed assets using Excel spreadsheets. While the internal control system of segregating the preparation and review of the fixed asset schedules by two separate individuals is properly designed, the use of Excel for this purpose is still subject to human error and oversight. The City will research the alternative of other software to facilitate maintenance of fixed asset schedules that would reduce the likelihood of human error in the calculation of depreciation expense.

CITY OF FROSTBURG, MARYLAND

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2014**

III. FINDINGS AND QUESTIONED COSTS – MAJOR PROGRAM AUDIT

Internal Control Finding

Material Weakness

2014-1 Material Adjustments were Required to the Financial Statements

Federal Program: CFDA #14.228 Community Development Block Grant/State's Program and Non-Entitlement Grants in Hawaii

As discussed in finding 2014-1 of section II, the City required material adjusting journal entries in order for the financial statements to be fairly stated, in all material respects, as of and for the year ended June 30, 2014 in accordance accounting principles generally accepted in the United States of America.

CITY OF FROSTBURG, MARYLAND

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
For the Year Ended June 30, 2014**

Department of Housing and Urban Development

2012-2 Noncompliance with Davis Bacon Act

Condition: The City was not receiving the required weekly certified payrolls for one of its major programs as required by the Davis Bacon Act.

Current Status: The City adopted a policy assigning the responsibility of receiving certified payrolls to a specific employee. The policy was adopted during the June 30, 2013 audit and no similar findings were noted in 2013 audit or in the 2014 audit.