

WORCESTER COUNTY, MARYLAND

COMPLIANCE REPORT

JUNE 30, 2017

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Herbert J. Geary III
Corey N. Duncan
Roy J. Geiser
Chris A. Hall
Ronald W. Hickman
Charles M. Meenehan
Craig A. Walter
Mark A. Welsh



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

County Commissioners of
Worcester County, Maryland
Snow Hill, 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, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of Worcester County, Maryland, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise Worcester County, Maryland's basic financial statements, and have issued our report thereon dated December 6, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Worcester County, 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 Worcester County, Maryland's internal control. Accordingly, we do not express an opinion on the effectiveness of Worcester County, Maryland'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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Worcester County, Maryland'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 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 *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 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.



Salisbury, Maryland
December 6, 2017

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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY THE UNIFORM GUIDANCE**

County Commissioners of
Worcester County, Maryland
Snow Hill, Maryland

Report on Compliance for Each Major Federal Program

We have audited Worcester County, Maryland's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Worcester County, Maryland's major federal programs for the year ended June 30, 2017. Worcester County, 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 federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Worcester County, 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 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). Those standards and the Uniform Guidance 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 Worcester County, 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 Worcester County, Maryland's compliance.

Opinion on Each Major Federal Program

In our opinion, Worcester County, Maryland 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, 2017.

Report on Internal Control over Compliance

Management of Worcester County, 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 Worcester County, 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 the Uniform Guidance, 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 Worcester County, 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 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 first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weakness or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of Worcester County, Maryland as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise Worcester County, Maryland's basic financial statements. We issued our report thereon dated December 6, 2017, 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 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.

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.

A handwritten signature in cursive script that reads "JHM Group LLC".

Salisbury, Maryland
December 6, 2017

WORCESTER COUNTY, MARYLAND
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2017

	Catalog of Federal Domestic Assistance Number	Entity Identifying Number	Passed Through to Subrecipients	2017 Expenditures
<u>Department of Health & Human Services</u>				
Passed through Maryland Department of Human Resources'				
Child Support Enforcement Administration:				
Child Support Enforcement	93.563	CSEA/CRA-17-044	\$ -	\$ 13,979
Total Department of Health & Human Services programs			-	13,979
<u>Department of Justice</u>				
Passed through Governor's Office of Crime Control & Prevention:				
School Resource Officer Training (BJAG-2013-0041)	16.738	2013-MU-BX0006	-	2,067
Total Department of Justice programs			-	2,067
<u>Department of Housing and Urban Development</u>				
Passed through Maryland Department of Housing and Community Development:				
Emergency Solutions Grant (Samaritan Ministries, Inc.)	14.231	16ESG-23-2015	10,144	10,144
Passed through Maryland Department of Housing and Community Development:				
Community Development Block Grant (Housing Rehab)	14.218	MD-15-CD-23	-	124,802
Total Department of Housing and Urban Development programs			10,144	134,946
<u>Department of Homeland Security</u>				
Passed through Maryland Emergency Management Agency:				
Emergency Management Performance Grant	97.042	EMW-2016-EP-00008-S01	-	74,881
Passed through Maryland Emergency Management Agency:				
State Homeland Security Program (14-SR8861-02)	97.067	EMW-2014-SS-00007-S01	-	8,865
State Homeland Security Program (15-GA8861-03)	97.067	EMW-2015-SS-00077-S01	-	79,890
State Homeland Security Program (16-SR8861-01)	97.067	EMW-2016-SS-00008-S01	-	19,666
Total State Homeland Security programs			-	108,421
Total Department of Homeland Security programs			-	183,302
<u>Environmental Protection Agency</u>				
Passed through Maryland Department of the Environment:				
Bathing Beach Monitoring Grant	66.472	U00P6401092	-	3,261
Total Environmental Protection Agency programs			-	3,261
<u>Department of the Interior</u>				
Passed through Bureau of Land Management:				
Federal Payments in Lieu of Taxes (PILT)	15.226		-	19,458
Total Department of the Interior programs			-	19,458
<u>Department of Transportation</u>				
Passed through Maryland Department of Transportation:				
Maryland Highway Traffic Safety Grant (LE17-059)	20.616		-	627
Maryland Highway Traffic Safety Grant (LE17-059)	20.616		-	982
Maryland Highway Traffic Safety Grant (LE16-043)	20.608		-	734
Total Maryland Highway Traffic Safety Grant programs			-	2,343
Total Department of Transportation programs			-	2,343
<u>Institute of Museum and Library Services</u>				
Passed through Maryland State Department of Education, Division of Library Development and Services:				
Library Services and Technology Act (LS0016002116)	45.310	165763	-	10,000
Library Services and Technology Act (LS0016002116)	45.310	171432	-	4,893
Total Library Services and Technology Act programs			-	14,893
Total Institute of Museum and Library Services programs			-	14,893
<u>United States Department of Agriculture</u>				
Rural Utilities Service:				
Water and Waste Disposal Systems for Rural Communities	10.760		-	2,167,074
Total United States Department of Agriculture programs			-	2,167,074
Total expenditures of federal awards			\$ 10,144	\$ 2,541,323

WORCESTER COUNTY, MARYLAND
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2017

Note 1. Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal award activity of Worcester County, Maryland under programs of the federal government for the year ended June 30, 2017. The information in this Schedule is presented in accordance with the 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). Because the Schedule presents only a selected portion of the operations of Worcester County, Maryland, some amounts presented in the Schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

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 and/or OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Note 3. Indirect Cost Rate

Worcester County, Maryland has elected not to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

WORCESTER COUNTY, MARYLAND
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2017

A. SUMMARY OF AUDITORS' RESULTS

- 1) The auditors' report expresses an unmodified opinion on whether the financial statements of Worcester County, Maryland were prepared in accordance with GAAP.
- 2) No significant deficiencies related to the audit of the financial statements are reported in the 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*.
- 3) No instances of noncompliance material to the financial statements of Worcester County, Maryland, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
- 4) No significant deficiencies in internal control over major federal award programs are reported in the Independent Auditors' Report on Compliance for Each Major Program and on Internal Control over Compliance required by the Uniform Guidance.
- 5) The auditors' report on compliance for the major federal award programs for Worcester County, Maryland expresses an unmodified opinion on all major federal programs.
- 6) No findings required to be reported in accordance with 2 CFR section 200.516(a) are reported in Part C of this Schedule.
- 7) The program tested as a major program was:

Water and Waste Disposal Systems for Rural Communities Grants and Loans	10.760
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- 8) The threshold used for distinguishing between Type A and B programs was \$750,000.
- 9) An entity can be considered a low-risk auditee if it meets a specific set of standards, one of which is to have had a Single Audit performed in accordance with the Uniform Guidance in each of the previous two years. Worcester County, Maryland did not qualify as a low-risk auditee under the Uniform Guidance due to the fact that the County has had only one compliance audit in the previous two years.

B. FINDINGS - FINANCIAL STATEMENTS AUDIT

None

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS AUDIT

None