

CITY OF FROSTBURG, MARYLAND

SINGLE AUDIT

JUNE 30, 2024

CITY OF FROSTBURG, MARYLAND

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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***

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, 2024, 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 January 31, 2025.

Report on 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) 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 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.

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. *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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We identified a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2024-001 that we consider to be a significant deficiency.

Report on 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 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 an instance of noncompliance or other matter that is required to be reported under *Governmental Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as item 2024-001.

City of Frostburg, Maryland's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the City of Frostburg, Maryland's response to the findings described in the accompanying schedule of findings and questioned costs. The City of Frostburg, Maryland'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 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.



Cumberland, Maryland
January 31, 2025

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

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

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited the City of Frostburg, Maryland's 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 of Frostburg, Maryland's major federal programs for the year ended June 30, 2024. 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.

In our opinion, City of Frostburg, 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, 2024.

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 City of Frostburg, Maryland 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 City of Frostburg, Maryland'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 City of Frostburg, Maryland's federal programs.

Auditors' 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 City of Frostburg, Maryland'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 City of Frostburg, Maryland'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 City of Frostburg, Maryland'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 City of Frostburg, Maryland'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 City of Frostburg, Maryland'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 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 Auditors' 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, 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 of Frostburg, Maryland, as of and for the year ended June 30, 2024, 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 January 31, 2025, 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 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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Huber, Michaels + Company

Cumberland, Maryland
January 31, 2025

CITY OF FROSTBURG, MARYLAND

**SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2024**

PROGRAM NAME	FEDERAL ASSISTANCE LISTING NUMBER	PASS-THROUGH IDENTIFYING NUMBER	ORIGINAL GRANT	TOTAL FEDERAL EXPENDITURES	PASSED THROUGH TO SUBRECIPIENTS
UNITED STATES DEPARTMENT OF AGRICULTURE Community Facilities Loans and Grants	10.766		\$ 531,718	\$ 369,173	\$ -
DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT PASSED THROUGH MD DEPT OF HOUSING AND COMMUNITY DEVELOPMENT Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii *	14.228	MD-23-CD-3	750,000	750,000	-
DEPARTMENT OF INTERIOR PASSED THROUGH MD DEPT OF ENVIRONMENT Abandoned Mine Land Reclamation	15.252	U00P4600864	150,000	9,673	-
DEPARTMENT OF TRANSPORTATION PASSED THROUGH MD DEPT OF TRANSPORTATION State and Community Highway Safety	20.600	2023-238	994	144	
State and Community Highway Safety	20.600	2024-191	1,000	407	
State and Community Highway Safety	20.600	2024-194	1,000	746	
State and Community Highway Safety	20.600	2024-197	800	390	
Total Department of Transportation			<u>3,794</u>	<u>1,687</u>	<u>-</u>
DEPARTMENT OF THE TREASURY COVID-19 - Coronavirus State and Local Fiscal Recovery Funds *	21.027		8,379,632	1,647,828	-
APPALACHIAN REGIONAL COMMISSION PASSED THROUGH STATE HIGHWAY ADMINISTRATION Appalachian Development Highway System	23.003	MD-19820-201-20	1,500,000	58,219	-
DEPARTMENT OF HEALTH AND HUMAN SERVICES PASSED THROUGH MARYLAND DEPT OF HEALTH State Actions to Improve Oral Health Outcomes and Partner Actions to Improve Oral Health Outcomes	93.366	PHPA-2780	500	341	-
Totals			<u>\$ 11,315,644</u>	<u>\$ 2,836,921</u>	<u>\$ -</u>

* Major Program

CITY OF FROSTBURG, MARYLAND

NOTES TO SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes all federal award activity of City of Frostburg, Maryland under programs of the federal government for the fiscal year ended June 30, 2024. This statement has been prepared in accordance with generally accepted accounting principles. The information on this schedule is prepared 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 the Government, it is not intended to and does not present the financial position, changes in net position, or cash flows of the Government.

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 Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, wherein certain types of expenditures may or may not be allowable or may be limited as to reimbursement. The City has elected not to use the 10 percent de minimis indirect cost rate as allowed under Uniform Guidance.

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

NOTE 3 - SUBRECIPIENTS

The City did not pass-through any federal awards to subrecipients for the year ended June 30, 2024.

NOTE 4 - 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 \$1,985,623 are included in grant income – federal within the general fund column on the statement of revenues, expenditures and changes in fund balances – governmental funds. Federal grant revenues included in project reimbursements on the statement of revenues, expenditures, and changes in fund balances – proprietary funds are as follows: \$580,093 in the water fund, \$270,712 in the sewer fund, and \$493 in the garbage fund.

CITY OF FROSTBURG, MARYLAND
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2024

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 significant deficiency in internal control and is 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*. See finding 2024-001 in section II.

The audit of the financial statements disclosed an instance of noncompliance that is required to be 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*. See finding 2024-001 in section II.

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

The audit disclosed no findings or questioned cost which is required to be reported under the Uniform Guidance.

The audit of the financial statements disclosed no material weaknesses in internal control over compliance that is required to be reported in the Independent Auditors' Report on Compliance for Each Major Program and on Internal Control over Compliance Required by the Uniform Guidance.

Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii, ALN 14.228, and COVID 19 – Coronavirus State and Local Fiscal Recovery Funds, ALN 21.027, were tested as major programs.

The dollar threshold used to distinguish between Type A and Type B programs was \$750,000.

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, 2024**

I. FINANCIAL STATEMENT FINDINGS

Internal Control Finding

Significant Deficiency

2024-001 Inaccurate Reimbursement Request

Criteria: Management should have procedures in place to verify the accuracy of all reimbursement requests being submitted to all granting agencies.

Condition: During our testing of grant revenue for Program Open Space funding, we noted certain expenses included on the reimbursement request that should not have been and others that were not on the reimbursement request that should have been. The reimbursement request used was the same form that was used for another Program Open Space project reimbursement request. All amounts were not removed so the request mistakenly included the amount of salary and wage costs that were incurred on another Program Open Space project. The total expenses on the reimbursement request did not agree to the individual expenses listed on the request. The reimbursement request also did not include some of the other expenses that were eligible for reimbursement. The City was going to include these expenses on the final reimbursement request when the project was completed. The net effect of the errors was an understatement of \$247.

Cause: The City does not have a policy in place that requires the review of reimbursement requests from Program Open Space prior to their submission to the granting agency.

Effect: The City could submit reimbursement requests to state funding sources that are not accurate. This could result in either the City underutilizing grant funds or submitting unallowable costs for reimbursement. The submission of unallowable costs could result in the City having to return grant funding.

Recommendation: We recommend the City implement a policy that requires all project reimbursement requests, regardless of amount or funding source, be reviewed by either the Project Manager or someone within the Finance Department for accuracy prior to submitting the request.

Views of Responsible Official and Planned Corrective Action: The City agrees with the finding. Project reimbursement requests are routinely reviewed and prepared in collaboration with other City departments. To further enhance the assurance of accurate reimbursement requests, the City has formalized the requirement that all grant reimbursement requests must be reviewed for accuracy by either the Director of Finance or the Project Manager prior to submission to the grantor. The nature of the project and department will determine whether the Director of Finance or the Project Manager provides review of the reimbursement request. The City Administrator has communicated this requirement in writing to all City staff who have responsibility for grant management.

CITY OF FROSTBURG, MARYLAND

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2024**

II. FINANCIAL STATEMENT FINDINGS (continued)

Compliance Finding

2024-001 Inaccurate Reimbursement Request

As discussed in finding 2024-001 in the internal control section of section II, the City included ineligible payroll costs on the reimbursement request for state funding.

CITY OF FROSTBURG, MARYLAND
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
For the Year Ended June 30, 2024

There are no prior unresolved audit findings.