

**TOWN OF CHESAPEAKE BEACH,
MARYLAND**

**OMB UNIFORM GUIDANCE
SUPPLEMENTARY FINANCIAL REPORT**

Year Ended June 30, 2018

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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**

To the Mayor and Town Council
Town of Chesapeake Beach, 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, and each major fund, and the aggregate remaining fund information of the Town of Chesapeake Beach, Maryland (the Town), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements, and have issued our report thereon dated October 30, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Town'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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control.

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 have not been identified. However, as in the accompanying schedule of findings and questioned costs, we did identify certain deficiencies in internal control that we consider to be a material weakness and significant deficiency.

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. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2018-001 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. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2018-002 to be a significant deficiency.

Compliance and Other Matters

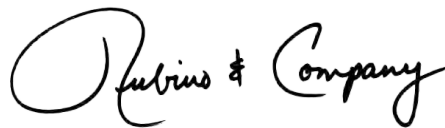
As part of obtaining reasonable assurance about whether the Town's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect 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*.

The Town's Response to Findings

The Town's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Town's response was not subjected 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.

A handwritten signature in cursive script that reads "Rubino & Company". The signature is written in black ink and is positioned to the right of the date and location information.

Bethesda, Maryland
October 30, 2018



INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE; REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY UNIFORM GUIDANCE

To the Mayor and Town Council
Town of Chesapeake Beach, Maryland

Report on Compliance for Each Major Federal Program

We have audited the Town of Chesapeake Beach, Maryland's (the Town) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Authority's major federal programs for the year ended June 30, 2018. The Authority's major federal programs are identified in the summary of auditor's 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 the Town'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 the Town'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 Town's compliance.

Opinion on Each Major Federal Program

In our opinion, the Town 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, 2018.

Report on Internal Control over Compliance

Management of the Town 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 Town'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 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 the Town'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 weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses.

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 Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by Uniform Guidance

We have audited the financial statements of the governmental activities, the business-type activities, and each major fund of the Town as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements. We issued our report thereon dated October 30, 2018, 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 Uniform Guidance 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. This 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 as a whole.

The image shows a handwritten signature in cursive script that reads "Rubino & Company". The signature is written in black ink and is positioned to the right of the typed text.

Bethesda, Maryland
October 30, 2018

TOWN OF CHESAPEAKE BEACH
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the year ended June 30, 2018

Federal Grantor/Pass-Through Grantor/ Grantor/Program Title	Federal CFDA Number	Pass-Through Entity Identifying	Grant Expenditures
<u>U.S. Environmental Protection Agency (EPA)</u>			
<u>Pass-through from Maryland Department of the Environment:</u>			
Clean Water State Revolving Funds	66.458	CS-240001-13	<u>\$2,464,449</u>
Total expenditures of federal awards			<u>\$2,464,449</u>

See Notes to the Schedule of Expenditures of Federal Awards

TOWN OF CHESAPEAKE BEACH
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
June 30, 2018

1. BASIS OF PRESENTATION

The schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of the Town of Chesapeake Beach, Maryland (the Town) under programs of the Federal Government for the year ended June 30, 2018. The information in this schedule is presented in accordance with the requirements of Uniform Guidance, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. Therefore, some amounts presented in the schedules may differ from amounts presented in, or used in the preparation of, the basic financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule has been prepared on the accrual basis of accounting.

3. RECONCILIATION OF EXPENDITURES OF FEDERAL AWARDS

A reconciliation of expenditures of federal awards reported in the basic financial statements of the Town for the year ended June 30, 2018, is as follows:

Costs incurred and reimbursed from loan proceeds from state revolving loan fund reported for financial statement purposes	\$3,589,426
Less: Costs incurred during fiscal years 2018 and 2017 which were not reimbursed by the EPA	<u>(628,503)</u>
	2,960,923
Portion of revolving loan funds reimbursed to the state by the EPA	<u>83.3%</u>
Total expenditures of federal awards	<u><u>\$2,464,449</u></u>

TOWN OF CHESAPEAKE BEACH
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2018

SECTION I – SUMMARY OF AUDITOR’S RESULTS

Financial Statements

Type of auditor’s report issued:	Unmodified
Internal control over financial reporting:	
Material Weakness(es) identified?	Yes
Significant deficiency(ies) identified that are not considered to be material weakness(es)?	Yes
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified that are not considered to be material weakness(es)?	No
Type of auditor’s report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Uniform Guidance?	No

Identification of Major Programs:

<u>Federal Grantor/Program Title</u>	<u>CFDA No.</u>		
Environmental Protection Agency (EPA):			
Clean Water State Revolving Funds	66.458	\$	<u>\$2,464,449</u>
Dollar threshold used to distinguish between Type A and Type B programs:		\$	<u>750,000</u>
Auditee qualified as low-risk auditee under Uniform Guidance, section 530?			Yes

TOWN OF CHESAPEAKE BEACH
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2018

SECTION II – FINANCIAL STATEMENT FINDINGS

Finding 2018-001: Adjusting Journal Entries (Material Weakness)

Criteria: Management is responsible for presentation of the financial statements in accordance with Generally Accepted Accounting Principles (GAAP). As such, the Town's internal controls and accounting reconciliations to produce the information supporting those financial statements should ensure accuracy and not require significant adjustments to conform to GAAP basis accounting.

Condition: Several audit adjustments were required to reconcile the books and records of the Town to the beginning balance net position reported in the prior year's financial statements as well as adjustments for accruals related to current year activity.

Context: During the current year audit, we noted that the net position reflected on the books and records of the Town did not agree to the ending net position as reported in the prior year's financial statements (\$4,600,000). As a result, adjustments were necessary.

It was recognized that several of these adjustments were the result of the Town effectively maintaining its books and records on the cash basis because of the nature of its operations and limitations of its accounting system. However, the books and records should be reconciled to agree to closed audit periods and accrual adjustments should be made at year end to conform to GAAP basis accounting requirements.

In addition, the Town converted to a new accounting system that more easily allows for recording of activity on an accrual basis of accounting.

Effect: The Town's ability to produce GAAP basis financial statements, particularly on an interim basis, is limited. This could have an impact on an outsider's understanding of the Town's activities and financial position.

Cause: This appears to be the result of the Town historically recording activity on the cash basis and not reconciling between the fund basis of accounting and GAAP basis used for financial reporting.

Recommendation: We recommend that the Town ensure that net position is reconciled to the audited financial statements for each year and assess the need for recording activity on an accrual basis during the year. If it is determined that this is not necessary, a process should be developed to adjust to the accrual basis periodically during the year or at year-end at a minimum.

TOWN OF CHESAPEAKE BEACH
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2016

SECTION II – FINANCIAL STATEMENT FINDINGS (continued)

Management's Response to Finding: It was recognized by the Town prior to the FY18 audit that our internal controls were not being followed. Therefore, the Town made a change in our financial leadership and brought in a new Treasurer. Our new Treasurer has an MBA and more than 20 plus years' experience as a Controller working in a multi-million dollar organization. Moving forward, the Town Treasurer will work with the auditor quarterly to ensure that the financials are adjusted on an accrual basis reconciling the net position throughout the fiscal year. Under the new leadership of an experienced Town Treasurer, the Town will implement all changes necessary to adhere to General Acceptable Accounting Principles in a manner that makes most sense for the municipality's operation.

Finding 2018-002: Internal Controls Over Cash Receipts and Credit Card Transactions (Significant Deficiency)

Criteria: Management is responsible for presentation of the financial statements in accordance with Generally Accepted Accounting Principles (GAAP). As such, the Town's internal controls and accounting reconciliations to produce the information supporting those financial statements should ensure proper reconciliation and account for all cash receipts and cash disbursements, and that those responsible for performing and recording such activity are properly monitored.

Condition: Certain activity related to cash receipts received and credit card transactions did not have sufficient documentation or were not reconciled properly to ensure a proper accounting for all funds received or disbursed. In addition, there was uncertainty as to who had access to these funds and the related records such that oversight was not adequate.

Context: During the current year audit, there were several instances noted in which the Town's cash on hand was not properly reconciled as required by the Town's internal control procedures and cash receipts were not properly processed to ensure that all cash was accounted for. In addition, there was a lack of documentation and evidence of proper approval for certain transactions prior to vendor payment or petty cash reimbursement.

Effect: The Town could not support payments made or ensure that all cash receipts were properly accounted for. As a result, records had to be requested of third parties to review these transactions.

Cause: This appears to be the result of a lack of following the Town's established internal controls and allowing roles and responsibilities of certain positions to expand beyond what was originally intended.

TOWN OF CHESAPEAKE BEACH
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2018

SECTION II – FINANCIAL STATEMENT FINDINGS (continued)

Recommendation: We recommend that the Town review their internal control policies and procedures in the areas of cash receipts, particularly Park receipts, access and use of credit cards and the procedures for reporting this activity, and the authorization process and documentation requirements for cash disbursements.

Management's Response to Finding:

The Town will reduce the petty cash funds from 5 to 1 as it has been determined that duplicative petty cash funds are not necessary to the Towns operation. The Town Treasurer will provide oversight of the petty cash fund and account for its balance by receipt and back up.

It is recognized that additional processes are needed to ensure that additional review takes place for all payables. At the time of the findings report, the Town had already recognized this weakness and implemented additional reviews of all expenditures as well as dual responsibilities for how payables are entered in the Towns accounting software. The Accounting Technician is now entering all payables into the Accounting software, all payables are then reviewed by the Town Administrator through a check register report, after the Town Administrators review, the Town Treasurer will review the check register for final approval. Once checks are drafted, the Town Treasurer will sign all checks and the Mayor will sign any check over \$1,000 reviewing the final check register for all checks.

Our new Town Treasurer has created a Purchase Request form, which authorizes purchases prior to the expenditure and requests additional back up information to include; the attendees, reason for the purchase and details of the event for back up purposes.

The Town is reviewing its use of credit cards and the policies for using them. The Town recently limited the use of several credit cards by removing 3 credit card accounts that were seen as unnecessary. The purchase request form requirements will also be required for credit card purchases and if the requirements are not met, a check will be drafted to the Town in the amount of the purchase.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None.

TOWN OF CHESAPEAKE BEACH
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
June 30, 2018

SECTION I – PRIOR YEAR FINANCIAL STATEMENT FINDINGS

Internal Control

Identifying Number: 2017-001 Financial Reporting in Accordance With Generally Accepted Accounting Principles (GAAP) – Accruals – Significant Deficiency

Audit Finding: There were several errors with recorded transactions noted during audit testing including both over and under accruals. The Town’s ability to produce timely accurate financial statements in accordance with GAAP was hampered. Several year-end receivables and accrued liabilities were either not recorded or recorded in duplicated.

Corrective Action Taken: Numerous entries had to be made in order to adjust the beginning net position to reflect the prior year financial information. **The finding is repeated in the current year as Finding 2018-001 and reported as a material weakness.**

SECTION II – PRIOR YEAR FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None.