

TOWN OF ELKTON, MARYLAND
REPORT ON SINGLE AUDIT
YEAR ENDED JUNE 30, 2020



WEALTH ADVISORY | OUTSOURCING
AUDIT, TAX, AND CONSULTING

CLAAconnect.com

**TOWN OF ELKTON, MARYLAND
TABLE OF CONTENTS
YEAR ENDED JUNE 30, 2020**

INDEPENDENT AUDITORS' REPORTS

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 <i>GOVERNMENT AUDITING STANDARDS</i>	1
INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM, REPORT ON INTERNAL CONTROL OVER COMPLIANCE, AND REPORT ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE	3
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS	6
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS	7
SCHEDULE OF FINDINGS AND QUESTIONED COSTS	8



**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**

Honorable Mayor and Commissioners
Town of Elkton, Maryland
Elkton, 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 Town of Elkton, Maryland (the Town) as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements and have issued our report thereon dated March 29, 2021.

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) 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 Town's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town'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 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. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items 2020-01 through 2020-03 that we consider to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town'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 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 responses to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Town's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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 Town'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 Town's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "CliftonLarsonAllen LLP". The signature is written in a cursive, flowing style.

CliftonLarsonAllen LLP

Baltimore, Maryland
March 29, 2021



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH
MAJOR FEDERAL PROGRAM, REPORT ON INTERNAL CONTROL OVER
COMPLIANCE, AND REPORT ON THE SCHEDULE OF EXPENDITURES OF
FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE**

Honorable Mayor and Commissioners
Town of Elkton, Maryland
Elkton, Maryland

Report on Compliance for Each Major Federal Program

We have audited the Town of Elkton, Maryland's (the Town)'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 the Town's major federal programs for the year ended June 30, 2020. The Town's major federal program is 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 terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for the Town's major federal program 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 the 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 its major federal program for the year ended June 30, 2020.

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 a 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. However, material weaknesses may exist that have not been identified.


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 result of that testing based on the requirements of the Uniform Guidance. 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, business-type activities, each major fund, and the aggregate remaining fund information of the Town as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements. We issued our report thereon dated March 29, 2021, 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.

Honorable Mayor and Commissioners
Town of Elkton, Maryland

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.

A handwritten signature in cursive script that reads "CliftonLarsonAllen LLP".

CliftonLarsonAllen LLP

Baltimore, Maryland
June 24, 2021

**TOWN OF ELKTON SINGLE AUDIT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2020**

Federal Grantor/Pass-Through Grantor/ Program or Cluster Title/Grant Name	CFDA Number	Pass-Through Entity Identifying Number	Passed Through to Subrecipients	Federal Expenditures
Department of Housing and Urban Development				
Administered Through State of Maryland Department of Housing and Community Development:				
CDBG - Neighborhood Community Center	14.228	MD-19-CD-28	\$ -	\$ 611,207
CDBG - Town Square Project	14.228	MD-18-CD-4	-	107,973
Total Community Development Block Grant			-	719,180
Total Department of Housing and Urban Development			-	719,180
Department of Justice				
Direct				
Bulletproof Vest Partnership	16.607	-	-	3,611
Administered Through Cecil County:				
Edward Byrne Memorial Justice Assistance Grant	16.738	2019-DJ-BX-0512	-	2,798
Total Department of Justice			-	6,409
Department of Treasury				
Administered Through Cecil County:				
Coronavirus Relief Fund	21.019	Unknown	-	17,677
Total Department of Treasury			-	17,677
Department of Transportation				
Administered Through Maryland State Highway Administration:				
Impaired Driving - Drive Sober	20.616	LE-19-095	-	881
Distracted Driving - Watch Out!	20.600	LE-19-096	-	1,067
Aggressive Driving - Be Nice and Drive Right	20.600	LE-19-097	-	1,022
Occupant Protection - Buckle Up	20.600	LE-19-098	-	738
Impaired Driving - Drive Sober	20.616	LE-20-052	-	2,702
Aggressive Driving - Drive Nice	20.600	LE-20-110	-	189
Distracted Driving - Pay Attention	20.600	LE-20-111	-	454
Total Highway Safety Cluster			-	7,053
Total Department of Transportation			-	7,053
Total Federal Awards			\$ -	\$ 750,319

See accompanying Notes to Schedule of Federal Awards.

TOWN OF ELKTON, MARYLAND
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2020

NOTE 1 SINGLE AUDIT REPORTING ENTITY

The accompanying Schedule of Expenditures of Federal Awards (SEFA) presents the expenditures of all federal award programs of the Town of Elkton, Maryland (the Town) for the year ended June 30, 2020.

NOTE 2 BASIS OF ACCOUNTING

The accompanying SEFA has been prepared using the modified accrual basis of accounting as fully described in the Summary of Significant Accounting Policies accompanying the Town's basic financial statements.

NOTE 3 RECONCILIATION TO BASIC FINANCIAL STATEMENTS

Amounts reported in the accompanying SEFA agree with amounts reported on the Town's basic financial statements and the related federal financial reports submitted by the Town.

NOTE 4 INDIRECT COST RATE

The Town has not elected to use the 10 percent de minimis indirect cost rate allowed under Uniform Guidance

**TOWN OF ELKTON, MARYLAND
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2020**

Section I – Summary of Independent Auditors' Results

Financial Statements

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? ☐ yes ☒ no
- Significant deficiency(ies) identified that are not considered to be material weaknesses? ☒ yes ☐ none reported
- Noncompliance material to financial statements noted? ☐ yes ☒ no

Federal Grant Awards

Internal control over major programs:

- Material weakness(es) identified? ☐ yes ☒ no
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? ☐ yes ☒ none reported

Type of auditors' report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? ☐ yes ☒ no

Identification of major programs:

CFDA Number(s)

14.228

Name of Federal Program or Cluster

Community Development Block Grant

Dollar threshold used to distinguish between type A and type B programs: \$750,000

Auditee qualified as low-risk auditee? ☐ yes ☒ no

TOWN OF ELKTON, MARYLAND
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
JUNE 30, 2020

Section II – Financial Statement Findings

Finding 2020-01: Preparation of Financial Statements

Condition

The Town engages CliftonLarsonAllen LLP (CLA) to assist in preparing its financial statements and accompanying disclosures. However, as independent auditors, CLA cannot be considered part of the Town's internal control system.

Criteria

The Town should have controls in place to ensure the financial statements are prepared in accordance with generally accepted accounting principles (GAAP) and standards issued by the Governmental Accounting Standards Board.

Cause

Currently, the Town's personnel do not have sufficient financial reporting and accounting knowledge on a GAAP basis to perform a review of the Town's financial statements and related disclosures to provide a high level of assurance that potential material omissions or other errors would be identified and corrected.

Effect

Potential for material financial statement misstatements and/or incomplete or omitted financial statement disclosures.

Recommendation

We recommend the Town implement a comprehensive review procedure to ensure that the financial statements, including disclosures, are complete and accurate. Such review procedures should be performed by an individual possessing a thorough understanding of applicable generally accepted accounting principles (GAAP) and knowledge of the Town's activities and operations.

Views of Responsible Officials

The Town's Finance Office will continue to closely monitor year end activities and continue to work closely with our independent auditors in order to assure the year end statements correctly reflect budgetary and GAAP basis of accounting with related disclosures.

Finding 2020-02: Adjusting Journal Entries

Condition

We discovered misstatements that required adjustment to the financial records during the audit.

Criteria

The Town should have controls in place to ensure all transactions are recorded correctly in the financial records in accordance with generally accepted accounting principles.

Cause

This is primarily due to a limited number of staff in the accounting department and a lack of knowledge of GAAP basis reporting of the financial statements.

TOWN OF ELKTON, MARYLAND
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
JUNE 30, 2020

Effect

Adjustments had to be made during the audit to record current year activity for various accounts, reconcile account balances to subsidiary ledgers, and correct amounts improperly recorded.

Recommendation

We recommend management develop policies and procedures for review of account balances to ensure all activity is recorded on a timely basis and year-end adjustments are made for financial statement purposes.

Views of Responsible Officials

The Town's Finance Office will continue to closely monitor account balances and correct coding of revenues and expenditures through both monthly bank reconciliations and monthly preparation of budget and actual revenue and expenditure reports, which are shared with the Major and Commissioners (the Board)

Finding 2020-03: Segregation of Duties

Condition

The Town does not have adequate segregation of duties over financial reporting, cash receipts, cash disbursements and payroll.

Criteria

COSO/Internal Control Framework identifies segregation of duties as a control activity where "duties are divided, or segregated, among different people to reduce the risk of error or inappropriate actions." Segregation of duties is also identified as a monitoring activity. "Appropriate organizational structure and supervisory activities provide oversight of control functions and identification of deficiencies. Also, duties of individuals are divided so that individual personnel serve as a check on each other. This is also a deterrent to employee fraud since it inhibits the ability of an individual to conceal his or her activities."

Cause

The Town has a limited number of accounting staff due to the small size of the municipality.

Effect

This condition increases the possibility that errors or irregularities may occur and not be detected on a timely basis.

Recommendation

We recommend management continue to be constantly aware of the potential for discrepancy in such an environment. With limited personnel to segregate duties, focus should concentrate on the most vulnerable areas. Accordingly, we believe this focus should be in the area of cash receipts and disbursements. The Commissioners should continue to closely monitor financial related duties, including the review of interim financial statements, at least quarterly.

Views of Responsible Officials

The Board are provided with a budget and actual revenue and expenditure report on a monthly basis along with check registers, outstanding voucher lists, cash receipts/disbursements, and bank account balances. While not a perfect substitute for an additional Finance Department position, in order to better provide an ideal segregation of duties, the Board is encouraged to question the reports and/or request a better understanding of them.

**TOWN OF ELKTON, MARYLAND
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
JUNE 30, 2020**

Section III – Findings and Questioned Costs for Federal Grant Awards

None