WORCESTER COUNTY, MARYLAND

REPORT ON SINGLE AUDIT

YEAR ENDED JUNE 30, 2025

CPAs | CONSULTANTS | WEALTH ADVISORS

CLAconnect.com

WORCESTER COUNTY, MARYLAND
TABLE OF CONTENTS
YEAR ENDED JUNE 30, 2025

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
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 (the County), as of and for the year ended June 30, 2025, and the related notes to the financial statements, which collectively comprise the Worcester County's basic financial statements, and have issued our report thereon dated June 26, 2026. Our report includes a reference to other auditors who audited the financial statements of Worcester County Board of Education as described in our report on the County's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the County'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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control. Accordingly, we do not express an opinion on the effectiveness of the County'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 responses, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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 deficiencies described in the accompanying schedule of findings and responses as items 2025-001, 2025-002, 2025-003, and 2025-004 to be material weaknesses.

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 deficiencies described in the accompanying schedule of findings and responses as items 2025-005, 2025-006, and 2025-007 to be significant deficiencies.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the County'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 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*.

Worcester County's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the County's response to the findings identified in our audit and described in the accompanying schedule of findings and questioned costs. The County'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 the response.

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.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Timonium, Maryland
June 26, 2026

CliftonLarsonAllen LLP
CLAconnect.com

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

County Commissioners
Worcester County, Maryland
Snow Hill, Maryland

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Worcester County, Maryland's (the County) 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 County's major federal programs for the year ended June 30, 2025. The County'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, the County 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, 2025.

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 (GAAS); 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 Auditors' Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the County 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 the County's compliance with the compliance requirements referred to above.

Other Matter – Federal Expenditures Not included in the Compliance Audit

The County's basic financial statements include the operations of Worcester County Board of Education, a discretely presented component unit. Federal awards expended by Worcester County Board of Education are not included in the County's schedule of expenditures of federal awards for the year ended June 30, 2025. Our compliance audit, described in the Opinion on Each Major Federal Program, does not include the operations of the Worcester County Board of Education because the entity engaged other auditors to perform an audit of compliance.

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 the County'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 the County'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 GAAS, *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 the County's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, *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 the County'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 the County'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 the County'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.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as item 2025-008. Our opinion on each major federal program is not modified with respect to this matter.

Government Auditing Standards requires the auditor to perform limited procedures on the County's response to the noncompliance findings identified in our compliance audit described in the accompanying schedule of findings and questioned costs. The County's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, as discussed below, we did identify certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

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. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2025-008, to be a significant deficiency.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

Government Auditing Standards requires the auditor to perform limited procedures on the County's response to the internal control over compliance findings identified in our audit described in the accompanying schedule of findings and questioned costs. The County's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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.

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

We have audited the financial statements of 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 (the County), as of and for the year ended June 30, 2025, and the related notes to the financial statements, which collectively comprise the County's basic financial statements. We have issued our report thereon, dated June 26, 2026, 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 basic 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.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Timonium, Maryland
August 18, 2026

WORCESTER COUNTY, MARYLAND
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2025

Federal Grantor/Pass-Through Grantor/ Program or Cluster Title	Federal Assistance Listing Number	Grant Number	Total Federal Expenditures	Passed Through to Subrecipients
Department of Health and Human Services				
Passed through State of Maryland Department of Human Resources'				
Child Support Enforcement Administration:				
Child Support Services	93.563	CSA/CRA-23-044	$ 4,747	$ -
Passed through Salisbury University:				
Elder Abuse Prevention Interventions Program	93.747	90EJIG0039-01-00	96,180	-
Passed through the Maryland Department of Health:				
State Opioid Response IV (SOR IV) Grant - SAMHSA	93.788	BH422SOR	10,080	-
Total Department of Health and Human Services			111,007	-
Department of Justice				
Direct Award				
Patrick Leahy Bulletproof Vest Partnership 082025	16.607	N/A	1,933	-
Patrick Leahy Bulletproof Vest Partnership 082026	16.607	N/A	7,555	-
Total Patrick Leahy Bulletproof Vest Partnership			9,488	-
Passed through Office of Community Oriented Policing Services:				
FY24 COPS Technology and Equipment Program Invitational Solicitation	16.710	15JCOPS-24-GG-02189-TECP	244,000	-
Total Department of Justice			253,488	-
Department of Housing and Urban Development				
Passed through Maryland Department of Housing and Community Development:				
Community Project Funding	14.251	B-23-CP-MD-0687	100,000	-
Community Development Block Grant (Housing Rehab)	14.228	MD-23-CD-25	38,235	-
Total Department of Housing and Urban Development			138,235	-

See accompanying Notes to Schedule of Expenditures of Federal Awards.

WORCESTER COUNTY, MARYLAND
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
YEAR ENDED JUNE 30, 2025

Federal Grantor/Pass-Through Grantor/ Program or Cluster Title	Federal Assistance Listing Number	Grant Number	Total Federal Expenditures	Passed Through to Subrecipients
Department of Homeland Security				
Passed through Maryland Emergency Management Agency:				
Cyber Security Grant	97.137	EMW-2022-CY-00028	$ 50,000	$ -
Emergency Management Performance Grant	97.042	EMP-2024-EP-05000	68,542	-
Passed through Maryland Emergency Management Agency:				
State Homeland Security Program (21-SR 8861-03)	97.067	EMW-2021-SS-00047	31,492	-
State Homeland Security Program (23-SR 8861-02)	97.067	EMW-2023-SS-00011	24,343	-
State Homeland Security Program (24-SR 8861-02)	97.067	EMW-2024-SS-05064	23,230	-
State Homeland Security Program (22-SR 8861-02)	97.067	EMW-2022-SS-00009	24,448	-
Total State Homeland Security Program			103,513	-
Total Department of Homeland Security			222,055	-
Environmental Protection Agency				
Passed through Maryland Department of the Environment:				
Bathing Beach Monitoring Grant	66.472	U00P3600619	3,261	-
Total Environmental Protection Agency			3,261	-
Department of the Interior				
Passed through the Bureau of Land Management:				
Federal Payments in Lieu of Taxes (PILT)	15.226	N/A	25,198	-
Total Department of the Interior			25,198	-
Department of Transportation				
Passed through Maryland Department of Transportation:				
Highway Safety Cluster:				
Maryland Highway Traffic Safety Grant-Impaired Driving	20.600	LE-2024-196	1,150	-
Maryland Highway Safety Grant - Speed Aggressive Driving	20.600	LE-2024-198	1,857	-
Total State Community and Highway Safety			3,007	-
Total Highway Safety Cluster			3,007	-
Total Department of Transportation			3,007	-

See accompanying Notes to Schedule of Expenditures of Federal Awards.

WORCESTER COUNTY, MARYLAND
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
YEAR ENDED JUNE 30, 2025

Federal Grantor/Pass-Through Grantor/ Program or Cluster Title	Federal Assistance Listing Number	Grant Number	Total Federal Expenditures	Passed Through to Subrecipients
Institute of Museum and Library Services				
Passed through Maryland State Department of Education,				
Division of Library Development and Services:				
Staff Development - MLA (Grant#00001650)	45.310	LS-256822-OLS-24	$ 12,900	$ -
Worcester County Heritage Project- Grant # 00001608	45.310	LS-256822-OLS-24	18,000	-
Total Library Services and Technology			30,900	-
Total Institute of Museum and Library Services			30,900	-
Department of the Treasury				
Direct Award				
COVID-19 ARPA (American Rescue Plan Act)	21.027	N/A	4,772,553	-
Passed through Maryland Department of Housing and Community Development:				
COVID-19 Maryland Connected Devices Program	21.027	N/A	2,538	-
Total Coronavirus State and Local Fiscal Recovery Funds			4,775,091	-
Direct Award				
Local Assistance and Tribal Consistency Fund Grant (LATCF)	21.032	N/A	26,906	-
Total Department of the Treasury			4,801,997	-
Department of Commerce				
Passed through Maryland Department of Commerce:				
Economic Development Cluster:				
Maryland's Coast Welcome Center Refresh	11.307	01-79-151901	99,585	-
Total Maryland's Coast Welcome Center Refresh Program			99,585	-
Total Economic Development Cluster			99,585	-
Total Department of Commerce			99,585	-
Total Expenditures of Federal Awards			$ 5,688,733	$ -

See accompanying Notes to Schedule of Expenditures of Federal Awards.

NOTE 1 BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of the Worcester County, Maryland (the "County") under programs of the federal government for the year ended June 30, 2025. The information in this Schedule is presented in accordance with the requirements of 2 CFR 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 County, it is not intended to and does not present the financial position, changes in net assets, or cash flows for the County.

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, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

NOTE 3 INDIRECT COST RATE

The County has elected not to use de minimis indirect cost rate allowed under the Uniform Guidance.

Section I – Summary of the Auditors' Results

Financial Statements

1. Type of auditors' report issued: Unmodified

2. Internal control over financial reporting:

   - Material weakness(es) identified? __X__ yes _____ no
   - Significant deficiency(ies) identified? __X__ yes _____ none reported

3. Noncompliance material to basic financial statements noted? _____ yes __X__ no

Federal Awards

1. Internal control over major federal programs:

   - Material weakness(es) identified? _____ yes __X__ no
   - Significant deficiency(ies) identified? __X__ yes _____ none reported

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

3. Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? __X__ yes _____ no

Identification of Major Federal Programs

Assistance Listing Number(s)	Name of Federal Program or Cluster
21.027	Coronavirus State and Local Fiscal Recovery Funds (CSLFRF)

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

Auditee qualified as low-risk auditee? __X__ yes _____ no

Section II – Financial Statement Findings

2025-001 – Financial Reporting Process

Criteria or specific requirement: Management is responsible for establishing and maintaining an effective system of internal control to provide reasonable assurance that financial information is complete, accurate, and prepared in accordance with the applicable financial reporting framework. Under the Committee of Sponsoring Organizations of the Treadway Commission's (COSO) Internal Control–Integrated Framework, management should design and implement control activities to mitigate risks to reliable financial reporting and should establish monitoring activities to evaluate whether controls are operating effectively. The COSO framework further provides that relevant financial information should be identified, processed, and communicated in a form and timeframe that enables personnel to carry out their financial reporting responsibilities.

Condition: The County's financial records, as presented for audit, did not contain all necessary adjustments to comply with generally accepted accounting principles (GAAP). Internal controls over financial reporting were not consistently performed to prevent or detect misstatements during the preparation of the underlying financial records that are used to prepare the Annual Comprehensive Financial Report (ACFR), resulting in significant audit adjustments.

Cause: The internal controls over financial reporting were not consistently performed to prevent or detect misstatements during the financial close and reporting process.

Effect: Significant adjusting journal entries were required to be posted to ensure the County's financial statements were in accordance with generally accepted accounting principles.

Repeat Finding: No.

Recommendation: We recommend that the County strengthen its internal controls over financial reporting to ensure the financial records are prepared in accordance with general accepted accounting principles.

Views of Responsible Officials and Planned Corrective Actions: Management concurs. The Treasurer's Office working with County Administration will implement procedures to strengthen internal controls over the County's financial reporting process. Procedures will include quarterly reviews of new GASB pronouncements and accounting updates, completion of a standardized GAAP disclosure checklist, supervisory review of material journal entries, supervisory review of financial statement disclosures, and reconciliation of financial statement schedules to the general ledger prior to issuance of the ACFR. Supporting documentation and evidence of review will be retained.

Section II – Financial Statement Findings (Continued)

2025-002 – Landfill Closure and Post-Closure Care Liability Reporting

Criteria or specific requirement: Management is responsible for establishing and maintaining an effective system of internal control to provide reasonable assurance that financial information is complete, accurate, and prepared in accordance with the applicable financial reporting framework. Under the Committee of Sponsoring Organizations of the Treadway Commission's (COSO) Internal Control–Integrated Framework, management should design and implement control activities to mitigate risks to reliable financial reporting and should establish monitoring activities to evaluate whether controls are operating effectively. The COSO framework further provides that relevant financial information should be identified, processed, and communicated in a form and timeframe that enables personnel to carry out their financial reporting responsibilities.

Additionally, GASB Statement No. 18, *Accounting for Municipal Solid Waste Landfill Closure and Post-Closure Care Costs*, requires governments to recognize a liability and related expense for closure and post-closure care costs based on landfill capacity used and to update estimates periodically to reflect current costs, regulatory requirements, and operating conditions.

Further, management is responsible for the preparation and fair presentation of the financial statements in accordance with generally accepted accounting principles (GAAP), including the proper estimation and reporting of long-term liabilities.

Condition: The County did not properly calculate, update, and record its landfill closure and post-closure care liability in accordance with GASB Statement No. 18. Specifically, the liability was not accurately determined or recorded in the appropriate reporting periods, resulting in an understatement of long-term obligations and related expenses in prior years. During the audit, a prior period adjustment (PPA) was required to correct the previously misstated balances and properly reflect the liability as of the beginning of the fiscal year.

Cause: The County's internal controls over financial reporting related to non-routine revenue streams were not adequately designed or implemented. Specifically, the County did not have effective procedures in place to identify updated opioid settlement information, evaluate its financial reporting impact, and ensure timely recording of receivables and related revenue, including consideration of availability.

Effect: As a result of this deficiency, receivables and related revenues were materially understated at fiscal year-end, requiring an audit adjustment to correct the balances. The failure to properly identify and record opioid settlement activity indicates that a material misstatement of the financial statements could occur and not be prevented or detected in a timely manner. An adjusting journal entry of $1,130,407 was recorded to properly state receivables and revenue as of fiscal year-end.

Repeat Finding: No.

Section II – Financial Statement Findings (Continued)

2025-002 – Landfill Closure and Post-Closure Care Liability Reporting (Continued)

Recommendation: We recommend Worcester County strengthen its internal controls over the identification and recording of settlement-related revenues and receivables. This should include implementing procedures to monitor updates to settlement agreements, establishing review controls to ensure timely recognition of receivables and revenue, and documenting the evaluation of availability for governmental fund reporting. These enhancements will support accurate and timely financial reporting in accordance with GAAP.

Views of Responsible Officials and Planned Corrective Actions: Management concurs. To ensure compliance with GASB Statement No. 18, the Treasurer's Office will calculate landfill closure and post-closure liabilities using updated engineering estimates, reconcile balances to the general ledger, and perform secondary supervisory review for accuracy and completeness. Supporting documentation will be retained.

2025-003 – Presentation of Public Drainage Associations (PDA)

Criteria or specific requirement: Management is responsible for establishing and maintaining an effective system of internal control to provide reasonable assurance that financial information is complete, accurate, and prepared in accordance with the applicable financial reporting framework. Under the Committee of Sponsoring Organizations of the Treadway Commission's (COSO) Internal Control–Integrated Framework, management should design and implement control activities to mitigate risks to reliable financial reporting and should establish monitoring activities to evaluate whether controls are operating effectively. The COSO framework further provides that relevant financial information should be identified, processed, and communicated in a form and timeframe that enables personnel to carry out their financial reporting responsibilities.

Generally accepted accounting principles (GAAP) require fiduciary activities to be reported in the appropriate fiduciary fund type based on the substance of the arrangement and the applicable reporting criteria. Fiduciary fund presentation should be supported by the underlying legal or contractual arrangement and should be evaluated by management as part of the financial statement close and review process. Management is responsible for the preparation and fair presentation of the financial statements in accordance with GAAP, including proper classification and presentation of fiduciary funds.

Condition: The Public Drainage Associations (PDA) fund had been improperly presented in the prior year as a private-purpose trust fund within the fiduciary fund financial statements. The County did not have an executed trust agreement or other arrangement supporting private-purpose trust fund presentation. As a result, a prior period adjustment was recorded in the current year to properly present the PDA fund as a pension trust fund within the fiduciary fund financial statements.

Cause: The County's internal controls over fiduciary fund classification and financial statement presentation were not adequately designed or operating effectively to ensure that the PDA fund was evaluated against the applicable GAAP reporting criteria. Specifically, the County did not identify that the absence of an executed trust agreement was inconsistent with the prior year private-purpose trust fund presentation before the financial statements were issued.

Section II – Financial Statement Findings (Continued)

2025-003 – Presentation of Public Drainage Associations (PDA) (Continued)

Effect: The prior year fiduciary fund financial statements did not properly present the PDA fund in accordance with GAAP. The improper presentation resulted in a prior period adjustment to reclassify the PDA fund from a private-purpose trust fund to a custodial fund. The need for a prior period adjustment indicates that a material misstatement of the financial statements occurred and was not prevented, or detected and corrected, by the County's internal controls over financial reporting in a timely manner.

Repeat Finding: No.

Recommendation: We recommend Worcester County strengthen its internal controls over fiduciary fund classification and financial statement presentation. This should include formal procedures to identify and evaluate the legal or contractual arrangements supporting each fiduciary activity, document the basis for the selected fiduciary fund type, and perform a secondary review of fiduciary fund classifications during the financial statement close process. These procedures should be completed before issuance of the financial statements to help ensure fiduciary activities are presented in accordance with GAAP.

Views of Responsible Officials and Planned Corrective Actions: Management concurs. The Treasurer's Office will establish formal procedures to annually evaluate all existing and newly established funds, including Public Drainage Associations, for proper classification under applicable GASB guidance. The evaluation will include documentation supporting the County's fiduciary relationship, supervisory review of fund classifications, reconciliation of supporting financial records, and retention of the analysis within the annual financial reporting workpapers.

2025-004 – Supplemental Pension Plan

Criteria or specific requirement: Management is responsible for establishing and maintaining an effective system of internal control to provide reasonable assurance that financial information is complete, accurate, and prepared in accordance with the applicable financial reporting framework. Under the Committee of Sponsoring Organizations of the Treadway Commission's (COSO) Internal Control–Integrated Framework, management should design and implement control activities to mitigate risks to reliable financial reporting and should establish monitoring activities to evaluate whether controls are operating effectively. The COSO framework further provides that relevant financial information should be identified, processed, and communicated in a form and timeframe that enables personnel to carry out their financial reporting responsibilities.

Generally accepted accounting principles (GAAP) applicable to state and local governments require fiduciary activities to be reported in the fiduciary fund financial statements when the government controls the assets of the activity and those assets are held for the benefit of individuals, organizations, or other governments outside the primary government. Fiduciary fund financial statements should present the assets, liabilities, additions, deductions, and fiduciary net position of fiduciary activities in accordance with the applicable financial reporting framework. In addition, when an error in previously issued financial statements is material, the prior-period financial statements should be corrected through a prior-period adjustment or restatement, as applicable.

Section II – Financial Statement Findings (Continued)

2025-004 – Supplemental Pension Plan (Continued)

Condition: Worcester County did not identify and report the Worcester County Supplemental Pension Plan in the fiduciary fund financial statements in the prior-year Annual Comprehensive Financial Report (ACFR). The plan was historically excluded from the County's ACFR based on management's assessment that the plan was immaterial. During the current-year audit, the plan's assets were evaluated and determined to be material to the current-year financial statements and the prior-year fiduciary fund financial statements.

The County also passed on an adjusting journal entry for the estimated net Supplemental Pension Plan liability. The actuarial valuation available for the Supplemental Pension Plan included some, but not all, of the information necessary to prepare the related footnote disclosures and required supplementary information. The liability and related deferred inflows and outflows were not considered material. The plan currently covers only eight County employees and, as individuals retire, is expected to be used only to fund future cost-of-living adjustment payments.

Cause: The County's internal controls over the identification, evaluation, and reporting of fiduciary activities were not adequately designed or operating effectively. Specifically, the County did not have sufficient procedures to periodically reassess all pension and other fiduciary activities for inclusion in the ACFR, evaluate the continued appropriateness of prior materiality conclusions, obtain complete valuation and actuarial information, and ensure that plan information was communicated to those responsible for financial reporting.

Effect: As a result of the omission, the prior-year ACFR did not include the Supplemental Pension Plan in the fiduciary fund financial statements and related disclosures. This resulted in a material misstatement of the prior-year fiduciary fund financial statements, including the omission of the plan's assets, liabilities, additions, deductions, and fiduciary net position. The correction required a prior-period adjustment to properly present the Supplemental Pension Plan in the County's fiduciary fund financial statements. In addition, because a complete actuarial valuation was not performed, the County passed on recording an estimated net Supplemental Pension Plan liability, and the available actuarial information did not provide all information necessary for the related footnote disclosures and required supplementary information. Although the liability and related deferred inflows and outflows were not material, the omission indicates that a material misstatement of the fiduciary fund financial statements and related disclosures could occur and not be prevented or detected in a timely manner.

Repeat Finding: No.

Recommendation: We recommend Worcester County strengthen its internal controls over the identification and reporting of fiduciary activities. This should include establishing formal procedures to maintain a complete inventory of pension plans, OPEB plans, custodial funds, and other potential fiduciary activities; periodically reassess whether each activity meets the criteria for reporting in the fiduciary fund financial statements; document materiality evaluations and conclusions; and ensure that information related to fiduciary activities is reviewed and incorporated into the ACFR preparation process. The County should also implement procedures to obtain complete actuarial valuation for the Supplemental Pension Plan, including information necessary for related footnote disclosures and required supplementary information, and implement a supervisory review control over the completeness of fiduciary fund reporting and related disclosures before issuance of the ACFR.

Section II – Financial Statement Findings (Continued)

2025-004 – Supplemental Pension Plan (Continued)

Views of Responsible Officials and Planned Corrective Actions: Management concurs. The Treasurer's Office will implement formal procedures to annually identify and evaluate all pension, OPEB, custodial, and other fiduciary activities to ensure complete and accurate financial reporting. Current actuarial reports will be obtained, reconciled to the County's financial records, and reviewed to ensure all required disclosures and required supplementary information are incorporated into the ACFR. Supporting documentation and evidence of supervisory review will be maintained.

2025-005 – GASB Statement No. 101, *Compensated Absences*

Criteria or specific requirement: Management is responsible for establishing and maintaining an effective system of internal control to provide reasonable assurance that financial information is complete, accurate, and prepared in accordance with the applicable financial reporting framework. Under the Committee of Sponsoring Organizations of the Treadway Commission's (COSO) Internal Control–Integrated Framework, management should design and implement control activities to mitigate risks to reliable financial reporting and should establish monitoring activities to evaluate whether controls are operating effectively. The COSO framework further provides that relevant financial information should be identified, processed, and communicated in a form and timeframe that enables personnel to carry out their financial reporting responsibilities.

Additionally, GASB Statement No. 101, *Compensated Absences*, requires governments to recognize liabilities for leave that has not been used and is more likely than not to be used for time off or otherwise paid or settled through cash or noncash means. The liability should include salary-related payments directly and incrementally associated with payments for leave, such as the employer’s share of FICA and Medicare, where applicable. The standard also requires governments to evaluate leave balances and usage across applicable funds and to implement accounting policies that reflect the requirements of the standard. Management is responsible for the preparation and fair presentation of the financial statements in accordance with generally accepted accounting principles (GAAP), including the proper recognition and measurement of compensated absences liabilities.

Condition: The County did not perform an appropriate more-likely-than-not (MLTN) evaluation over historical usage and payout data for the various leave types detailed in the County’s Employee Personnel Rules. As a result, sick leave was improperly excluded from the compensated absences liability, as the County limited its evaluation to leave types paid upon termination or retirement rather than considering all leave that accumulates and is more likely than not to be used for time off or otherwise paid or settled through noncash means in the future, as required by GASB 101.

Section II – Financial Statement Findings (Continued)

2025-005 – GASB Statement No. 101, *Compensated Absences* (Continued)

In addition, the County did not include the related FICA and Medicare costs in the fiscal year-end compensated absences liability. The County also did not properly account for the portion of sick leave balances that employees may convert into years of service credit through the Maryland State Retirement and Pension System (MSRS) upon retirement, which should have been excluded from the liability. Further, the County's evaluation and recording of compensated absences was limited to the general fund and improperly excluded the Worcester County Water/Wastewater Enterprise Fund and Solid Waste Fund from consideration. CLA also noted that the County's Employee Personnel Policy and internal Finance/Accounting policies and procedures had not been updated to reflect the changes required under GASB Statement No. 101.

Cause: The County's internal controls over the financial reporting of compensated absences were not adequately designed. Specifically, the County did not establish effective procedures to interpret and apply the requirements of GASB Statement No. 101, perform a complete MLTN evaluation over all applicable leave types, incorporate related FICA and Medicare costs, assess the effect of leave converted to retirement service credit, or ensure that all relevant funds were included in the liability calculation. In addition, relevant personnel and accounting policies were not updated timely to reflect the new standard.

Effect: As a result of these deficiencies, Worcester County's compensated absences liability and related expense were misstated at fiscal year-end. Specifically, the liability did not appropriately reflect all applicable leave types, related salary-driven benefit costs, the exclusion of balances expected to be converted to service credit, or liabilities attributable to all relevant funds. Audit adjustments of $756,023 in the governmental activities, $580,696 in the general fund, $284,160 in the water and wastewater fund, and $22,231 in the solid waste fund were required to properly state the compensated absences liability and related balances as of fiscal year-end.

Repeat Finding: No.

Recommendation: We recommend Worcester County strengthen its internal controls over the implementation of new accounting standards and the calculation of compensated absences liabilities. This should include establishing formal procedures to evaluate all leave types under the more-likely-than-not threshold, including related FICA and Medicare costs in the liability, excluding leave balances expected to be converted to retirement service credit where appropriate, and ensuring all applicable funds are included in the analysis. The County should also update its accounting policies and procedures to reflect the requirements of GASB Statement No. 101 and alignment with the Employee Personnel Policy. These enhancements will support accurate and complete financial reporting in accordance with GAAP.

Views of Responsible Officials and Planned Corrective Actions: Management concurs. The Treasurer's Office will implement procedures to annually evaluate compensated absence liabilities in accordance with GASB Statement No. 101, working closely with the Human Resources Office to ensure alignment with the County's Employee Personnel Policy. The review will include all applicable leave types, related payroll taxes, and required accounting adjustments across all funds. Calculations and disclosures will be reviewed and documented.

Section II – Financial Statement Findings (Continued)

2025-006 – Lease and Subscription-Based Information Technology Arrangement (SBITA) Contracts

Criteria or specific requirement: Management is responsible for establishing and maintaining an effective system of internal control to provide reasonable assurance that financial information is complete, accurate, and prepared in accordance with the applicable financial reporting framework. Under the Committee of Sponsoring Organizations of the Treadway Commission's (COSO) Internal Control–Integrated Framework, management should design and implement control activities to mitigate risks to reliable financial reporting and should establish monitoring activities to evaluate whether controls are operating effectively. The COSO framework further provides that relevant financial information should be identified, processed, and communicated in a form and timeframe that enables personnel to carry out their financial reporting responsibilities.

GASB Statement No. 87, *Leases*, requires a lessee to recognize a lease liability and an intangible right-to-use lease asset for leases other than short-term leases. GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*, requires governments to recognize a right-to-use subscription asset, which is an intangible asset, and a corresponding subscription liability for SBITAs. GASB Statement No. 96 also requires governments to evaluate whether a contract conveys control of the right to use another party's information technology software, alone or in combination with tangible capital assets, for a period of time in an exchange or exchange-like transaction. Management is responsible for identifying contracts that meet the definitions of leases or SBITAs, evaluating those contracts at the appropriate time, and recording the related assets, liabilities, amortization, payments, and disclosures in the proper reporting period in accordance with GAAP.

Condition: During our audit, we noted deficiencies in the County's controls over the identification, evaluation, and financial reporting of lease and subscription-based information technology arrangement (SBITA) contracts.

The County did not identify or properly evaluate several contracts under GASB 87 and 96 guidance at the time the contract commenced. As a result, the related right-to-use lease and subscription assets and corresponding liabilities were not recorded in the appropriate period.

The correcting activity included understatements totaling approximately $503,000 related to the general fund, $10,000 related to the water and wastewater fund, and $2,000 related to the solid waste fund. The correcting activity included overstatements totaling approximately $323,000 related to the General Fund.

Cause: The County's internal controls over the identification, evaluation, and ongoing monitoring of lease and SBITA contracts were not adequately designed or operating effectively to ensure that all applicable arrangements were identified, evaluated under the appropriate GASB guidance, and recorded in the proper reporting period. Specifically, management did not properly identify and evaluate several contracts upon commencement.

Section II – Financial Statement Findings (Continued)

2025-006 – Lease and Subscription-Based Information Technology Arrangement (SBITA) Contracts (Continued)

Effect: As a result of these deficiencies, the County's lease and SBITA balances were misstated during the year. Specifically, certain right-to-use lease assets, right-to-use subscription assets, lease liabilities, and subscription liabilities were not recorded in the appropriate period, while another contract was included in the SBITA rollforward even though the County was no longer moving forward with the related software implementation. Audit adjustments were required to properly state the lease and SBITA balances.

These deficiencies increase the risk that material misstatements related to leases and SBITAs could occur and not be prevented, or detected and corrected, in a timely manner. In addition, incomplete or inaccurate rollforwards may affect the accuracy of related capital asset, long-term liability, expense, amortization, and note disclosure information included in the County's financial statements.

Repeat Finding: No.

Recommendation: We recommend the County strengthen its internal controls over lease and SBITA accounting and financial reporting. These procedures should include a formal process to identify and review new, amended, renewed, cancelled, or terminated contracts throughout the year to determine whether they meet the definition of a lease under GASB Statement No. 87 or a SBITA under GASB Statement No. 96. The County should also establish procedures to ensure contracts are evaluated when they commence, when significant implementation decisions occur, and when facts and circumstances change, including when a software implementation is abandoned or no longer expected to proceed. These enhancements will help ensure lease and SBITA assets, liabilities, expenses, amortization, and related disclosures are complete, accurate, and recorded in the proper reporting period in accordance with GAAP.

Views of Responsible Officials and Planned Corrective Actions: Management concurs. The Treasurer's Office will implement procedures to identify, evaluate, and account for lease and SBITA contracts in accordance with GASB Statements No. 87 and No. 96. Any new and modified contracts will be included as a standing agenda item during quarterly cross-departmental financial meetings. These meetings will provide an opportunity to identify new or modified contracts. New and modified contracts identified at these meetings will be evaluated to determine whether they meet the definition of a lease under GASB Statement No. 87 or a SBITA under GASB Statement No. 96.Annual reconciliations will be performed to ensure all reportable agreements are accurately reflected in the County's financial statements. Supporting evaluations, calculations, and reviews will be maintained within the annual financial reporting workpapers.

Section II – Financial Statement Findings (Continued)

2025-007 – Opioid Settlement Revenue and Receivable Reporting

Criteria or specific requirement: Management is responsible for establishing and maintaining an effective system of internal control to provide reasonable assurance that financial information is complete, accurate, and prepared in accordance with the applicable financial reporting framework. Under the Committee of Sponsoring Organizations of the Treadway Commission's (COSO) Internal Control–Integrated Framework, management should design and implement control activities to mitigate risks to reliable financial reporting and should establish monitoring activities to evaluate whether controls are operating effectively. The COSO framework further provides that relevant financial information should be identified, processed, and communicated in a form and timeframe that enables personnel to carry out their financial reporting responsibilities.

Additionally, under generally accepted accounting principles (GAAP), revenues and related receivables must be recognized in the period in which they are measurable and available (for governmental funds) or earned (for government-wide reporting). This includes proper recognition of unavailable revenue in accordance with the County's period of availability. Management is responsible for ensuring that all relevant financial information, including settlement agreements and payment schedules, is identified and recorded accurately and timely in the financial statements.

Condition: The County did not properly identify, calculate, and record opioid settlement-related receivables and associated revenues in the appropriate reporting period. Specifically, updated settlement information, including amounts due to the County under state-administered opioid agreements, was not identified or recorded timely. As a result, receivables and related revenue, including unavailable revenue where applicable, were understated. During the audit, an audit adjustment was required to correctly recognize the settlement-related receivable and associated revenue as of fiscal year-end.

Cause: The County's internal controls over financial reporting related to non-routine revenue streams were not adequately designed or implemented. Specifically, the County did not have effective procedures in place to identify updated opioid settlement information, evaluate its financial reporting impact, and ensure timely recording of receivables and related revenue, including consideration of availability.

Effect: As a result of this deficiency, receivables and related revenues were materially understated at fiscal year-end, requiring an audit adjustment to correct the balances. The failure to properly identify and record opioid settlement activity indicates that a material misstatement of the financial statements could occur and not be prevented or detected in a timely manner. An adjusting journal entry of $1,130,407 was recorded to properly state receivables and revenue as of fiscal year-end

Repeat Finding: No.

Recommendation: We recommend Worcester County strengthen its internal controls over the identification and recording of settlement-related revenues and receivables. This should include implementing procedures to monitor updates to settlement agreements, establishing review controls to ensure timely recognition of receivables and revenue, and documenting the evaluation of availability for governmental fund reporting. These enhancements will support accurate and timely financial reporting in accordance with GAAP.

Section II – Financial Statement Findings (Continued)

2025-007 – Opioid Settlement Revenue and Receivable Reporting (Continued)

Views of Responsible Officials and Planned Corrective Actions: Management concurs. The County will strengthen its internal controls over the identification, monitoring, and recording of settlement-related revenues and receivables to ensure compliance with GAAP. Beginning immediately, any new settlement-related revenue streams will be included as a standing agenda item during quarterly cross-departmental financial meetings. These meetings will provide an opportunity to identify new funding sources, discuss expected payments, and review any updates to existing settlement agreements.

The Treasurer’s Office, County Administration, and County Attorney will enhance communication procedures to ensure updated settlement information is shared promptly. The County Attorney, acting as liaison with the State, will provide timely updates on settlement agreements, anticipated distributions, and revisions affecting financial reporting.

Upon receipt of settlement payments, staff will properly identify the type of payment and determine whether it represents current revenue or a receivable. Management will perform a review to ensure settlement-related receivables and revenues are recognized timely and in accordance with GAAP. Supporting documentation will be maintained for all evaluations of settlement-related Receivables. These procedures will strengthen internal controls, improve the accuracy and timeliness of financial reporting, and help ensure compliance with applicable accounting standards.

.

Section III – Findings and Questioned Costs – Major Federal Programs

2025 – 008

Federal Agency: US Deparment of the Treasury

Federal Program Name: Coronavirus State and Local Fiscal Recovery Funds (CSLFRF)

Assistance Listing Number: 21.027

Federal Award Identification Number and Year: COVID-19 ARPA (American Rescue Plan Act)

Pass-Through Agency: N/A

Pass-Through Number(s): N/A

Compliance Requirement: Procurement – Suspension and Debarment

Award Period: March 3, 2021 - December 31, 2024, liquidated by December 31, 2026

Type of Finding: Significant Deficiency in Internal Control over Compliance, Other Matters

Criteria or specific requirement: Uniform Guidance (2 CFR §200.214 and §200.318) prohibits non-Federal entities from awarding contracts supported by Federal awards to parties that are suspended or debarred. In addition, 2 CFR §200.303 requires non-Federal entities to establish and maintain effective internal control over Federal awards, including documented policies and procedures to ensure consistent compliance with Federal requirements. Verification of vendor eligibility is typically performed through review of the System for Award Management (SAM.gov) or equivalent documentation prior to contract execution.

Condition: During our audit, we noted a deficiency related to suspension and debarment verification and documentation. Specifically, for the procurement transactions tested, Worcester County, Maryland did not document verification that the vendor was not suspended or debarred prior to contract execution. In addition, the County does not have a formally documented suspension and debarment policy. While management indicated that suspension and debarment checks may be performed in practice, the absence of written policies and procedures resulted in inconsistent application and documentation of this required compliance procedure.

Questioned costs: N/A

Context: Uniform Guidance requires non-federal entities to ensure that vendors and contractors receiving federal funds are not suspended or debarred from participating in federally funded programs. Effective compliance with this requirement is supported by documented policies and procedures that require verification (e.g., review of the System for Award Management (SAM.gov)) prior to entering into contracts.

Cause: The County had not formally documented policies and procedures related to suspension and debarment verification and relied on informal practices and staff knowledge. As a result, suspension and debarment checks were not consistently documented or retained prior to contract execution.

Section III – Findings and Questioned Costs – Major Federal Programs (Continued)

2025 – 008 (Continued)

Effect: Failure to consistently document suspension and debarment verification increases the risk that the County may enter into contracts with vendors that are ineligible to participate in federally funded programs. While no instances of contracting with suspended or debarred vendors were identified and no questioned costs were noted, these conditions represent noncompliance with Federal procurement documentation requirements and reduce the County's ability to demonstrate consistent adherence to Uniform Guidance.

Repeat Finding: No.

Recommendation: We recommend that the County develop and formally document a suspension and debarment policy that requires verification and documentation of vendor eligibility (e.g., SAM.gov review) for all contracts supported by Federal awards prior to execution of the contract. Management should also consider implementing standardized checklists or review controls to promote consistent compliance.

Views of Responsible Officials and Planned Corrective Actions: Management concurs. Worcester County plans to update the County purchasing, financial and grant policies to ensure debarment and suspension compliance by implementing procedures aligned with the U.S. Office of Management and Budget Uniform Guidance (primarily 2 CFR Part 200) and the governmentwide debarment rules in 2 CFR Part 180, as adopted by the awarding agency.

The corrective action includes implementing a written procurement policy which states that the county will not contract with or issue subawards to parties that are suspended or debarred when federal funds are involved. The Grant/Budget Office will maintain open communication with Procurement regarding federally funded grant projects that will be advertised for bid. After bids are received and before the evaluation committee reviews or recommends an award, the Grant/Budget Office will search the System for Award Management (SAM.gov) exclusion database for each vendor that submitted a bid. A PDF or screenshot of the SAM search for each vendor will be retained in a grant and procurement file.

All other federal grants under procurement threshold will need county departments to reach out to the Grant/Budget office before choosing vendors. Departments will need to list their potential vendors for the federal grant and email the Grant/Budget office for debarment verification before moving forward with expending federal grant funding. A PDF or screenshot of the SAM search for each vendor will be sent to the department and a copy kept by Grants/Budget office as well.

WORCESTER COUNTY, MARYLAND
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2025

The County respectfully submits the following summary schedule of prior audit findings for the year ended June 30, 2025.

Audit period: July 1, 2024 – June 30, 2025

The finding from the prior audit's schedule of findings and questioned costs are discussed below. The finding is numbered consistently with the number assigned in the prior year.

FINDINGS—FINANCIAL STATEMENT AUDIT

No findings were noted in the prior year.

FINDINGS—FEDERAL AWARD PROGRAMS AUDITS

No findings were noted in the prior year.