

**THE BOARD OF EDUCATION OF
SOMERSET COUNTY, MARYLAND**

**OMB CIRCULAR A-133
SUPPLEMENTARY FINANCIAL REPORT**

JUNE 30, 2013

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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

The Board of Education of Somerset County, Maryland
Westover, Maryland

We have audited, in accordance with 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 Board of Education of Somerset County, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise The Board of Education of Somerset County's basic financial statements, and have issued our report thereon dated October 22, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered The Board of Education of Somerset County's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of The Board of Education of Somerset County's internal control. Accordingly, we do not express an opinion on the effectiveness of The Board of Education of Somerset 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 below 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 as follows to be material weaknesses:

Finding #1

Bank reconciliations were not prepared throughout the year. Consequently, most of the monthly bank reconciliations were prepared after year end and adjustments were needed to record various transactions that were not posted during the year. Failure to prepare timely bank reconciliations allowed multiple errors to occur and not be identified on a timely basis.

There were delays in monthly accounting procedures as a result of the implementation of the new accounting software as of July 1, 2012. The new system had a new accounting structure and personnel were not initially aware of how to reconcile under the new structure.

Internal controls should be in place that provide for bank reconciliations to be prepared each month and reviewed by an authorized person. Proper training is needed on how to use the bank reconciliation process in the new accounting software. Proper bank reconciliations ensure all transactions are recorded timely and accurately in the accounting records.

The Board agrees with the finding and the recommended procedures have been implemented.

Finding #2

Various payroll and other liability accounts were not analyzed or reconciled throughout the year. Failure to analyze and adjust certain accounts allowed multiple errors to occur and not be identified on a timely basis. Consequently various account balances were incorrect throughout the year and required adjustments at year end.

Internal controls should be in place that provide that all asset and liability accounts are analyzed each month to ensure all transactions are recorded timely and accurately.

The Board agrees with the finding and the recommended procedures have been implemented.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether The Board of Education of Somerset County'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 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*.

Response to Findings

The Board of Education of Somerset County's response to the findings identified in our audit is described previously. The Board of Education of Somerset County'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 red ink, appearing to read "AM Group LLC".

Salisbury, Maryland

October 22, 2013



INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY
OMB CIRCULAR A-133

The Board of Education of Somerset County, Maryland
Westover, Maryland

Report on Compliance for Each Major Federal Program

We have audited The Board of Education of Somerset County's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Board's major federal programs for the year ended June 30, 2013. The Board of Education of Somerset County'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 the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of The Board of Education of Somerset County'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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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 Board of Education of Somerset County'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 Board of Education of Somerset County's compliance.

Opinion on Each Major Federal Program

In our opinion, the Board of Education of Somerset County, 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, 2013.

Report on Internal Control Over Compliance

Management of The Board of Education of Somerset County is responsible for establishing and maintaining effective internal control over compliance with the requirements referred to above. In planning and performing our audit of compliance, we considered The Board of Education of Somerset County's internal control over compliance with the types of requirements that could have a direct and material effect on a major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 Board of Education of Somerset County'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 or 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.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of The Board of Education of Somerset County as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise The Board of Education of Somerset County's basic financial statements. We issued our report thereon dated October 22, 2013, 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 Circular A-133, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects in relation to the basic financial statements as a whole.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in red ink, appearing to read "LHM Group LLC".

Salisbury, Maryland
October 22, 2013

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

THE BOARD OF EDUCATION OF SOMERSET COUNTY, MARYLAND

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2013

Funding Source	Grant Number	Federal Catalogue Number	Expenditures
INDIRECT GRANTS			
U.S. DEPARTMENT OF EDUCATION			
Pass-Through Programs From Maryland Department of Labor, Licensing and Regulations:			
(ABE/ESL) FY2012 Carryover	P00P340017-10	84.002	532
ASE FY2012 Carryover	P00P340017-9	84.002	7,352
Adult Education and Family Literacy Act			
Adult Basic Education (ABE/ESL)	P00P340017-4	84.002	18,132
Adult Secondary Education (ASE)	P00P340017-5	84.002	6,199
Local Institutionalized	P00P340017-6	84.002	4,229
English Literacy/Civics (EL/C)	P00P340017-8	84.002	2,902
National External Diploma Program (NEDP)	P00P340017-7	84.002	8,078
Sub-Total			<u>47,424</u>
Pass-Through Programs From Maryland State Department Of Education:			
Title I Carryover	124542-1	84.010	29,411
Title I	134404-1	84.010	1,301,418
Sub-Total			<u>1,330,829</u>
Migrant/Summer 2011 Extended	124190-2	84.011	27,187
Migrant Title I ESEA Summer 2012	134164-1	84.011	127,222
Sub-Total			<u>154,409</u>
Extended IFSP Option Carryover	125317-1	84.027	4,289
Infant and Toddler/Idea Part B	134362-2	84.027	1,633
Infant and Toddler/Idea Part B Extended IFSP Options	134362-5	84.027	4,352
Special Education:			
Advisory Council Carryover	124262-5	84.027	1,875
College and Career Readiness	134276-7	84.027	6,059
Local Priority Flexibility	134276-8	84.027	43,443
Partners For Success Carryover	124262-4	84.027	5,343
Partners for Success	134276-5	84.027	11,259
Parently Placed Private School Students Carryover	124262-2	84.027	575
Parently Placed Private School Students Part B	134276-2	84.027	2,579
Part B Passthrough	134276-1	84.027	650,540
Program Development Carryover	124262-7	84.027	2,523
SE Advisory Committee	134276-6	84.027	2,392
ALT-MSA Fern Carryover	124605-1	84.027	2,409
Sub-Total			<u>739,271</u>

See accompanying Notes to Schedule of Expenditures of Federal Awards

THE BOARD OF EDUCATION OF SOMERSET COUNTY, MARYLAND

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2013

(continued)

Funding Source	Grant Number	Federal Catalogue Number	Expenditures
INDIRECT GRANTS - continued			
U.S. DEPARTMENT OF EDUCATION - continued			
Pass-Through Programs From Maryland State Department Of Education:			
Career And Technology Education	134778-1	84.048	50,592
Career And Technology Education Interactive Media	134954-1	84.048	14,741
Sub-Total			<u>65,333</u>
Maryland Seamless Transition Collaborative - Spec Ed.	125079-1	84.126	20,376
Maryland Seamless Transition - VR Basic Support	134799-1	84.126	31,459
Sub-Total			<u>51,835</u>
Migrant MEP Consortium, Inc. Summer 2011 Extended	124190-1	84.144	34,175
Migrant MEP Consortium, Inc. Summer 2012	134164-2	84.144	63,340
Sub-Total			<u>97,515</u>
Child With Disabilities Pre-School Passthrough	134276-3	84.173	22,366
Infant And Toddler/Part B 619 FSN Carryover	124241-3	84.173	33
Infant And Toddler/Part B 619 FSN	135256-2	84.173	1,215
Maryland Model For School Readiness Idea Part B	134535-3	84.173	4,538
Sub-Total			<u>28,152</u>
Infant And Toddler/Idea Part C Carryover	124241-1	84.181	495
Infant And Toddler/Idea Part C	134362-1	84.181	5,103
Infant And Toddler/Idea Part C	135256-1	84.181	2,599
Sub-Total			<u>8,197</u>
McKinney-Vento Educating Homeless Child & Youth Carryov	125197-1	84.196	1,162
McKinney-Vento Educating Homeless Child & Youth	134719-1	84.196	9,339
Sub-Total			<u>10,501</u>
MD Seamless Transition	134799-3	84.235	20,195
Advanced Placement Carryover	125571-1	84.330	517

See accompanying Notes to Schedule of Expenditures of Federal Awards

THE BOARD OF EDUCATION OF SOMERSET COUNTY, MARYLAND

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2013

(continued)

Funding Source	Grant Number	Federal Catalogue Number	Expenditures
INDIRECT GRANTS - continued			
U.S. DEPARTMENT OF EDUCATION - continued			
Pass-Through Programs From Maryland State Department Of Education:			
English Language Acquisition LEP Portion Carryover	115173-1	84.365	9,777
English Language Acquisition Carryover	124299-1	84.365	10,329
English Language Acquisition	134224-1	84.365	346
Sub-Total			20,452
Life Environmental Science Animated	Worcester Co	84.366B	5,177
Title IIA Train And Recruit High Quality Teachers	134601-2	84.367	227,682
Title IIA Train And Recruit High Quality Teachers Recession Restoration	134601-1	84.367	1,998
Sub-Total			229,680
Race to the Top - ARRA:			
Mentor Program Carryover	115756-15	84.395	9,794
Mentor Program	115756-15	84.395	74,316
Transition to Core Carryover	115756-3	84.395	29,770
Human Resource System Carryover	115756-10	84.395	1,887
Data Design Carryover	115756-11	84.395	15,285
Data Design Specialist	115756-11	84.395	47,756
Educator Effectiveness Academy	135316-1	84.395	11,917
Teacher Induction Academy	135136-2	84.395	750
Instr. Technology Facilitator Carryover	115756-19	84.395	13,715
Instr. Technology Facilitator	115756-19	84.395	163,135
PBIS Carryover	115756-21	84.395	1,092
PBIS Incentives	115756-21	84.395	5,000
Parent Involvement Carryover	115756-22	84.395	2,359
Parent Involvement	115756-22	84.395	561
Incentives for Teachers to Obtain ESOL Certification	134818-1	84.395	10,000
Educator Effectiveness Academy Carryover	125628-1	84.395	18,805
Teachers/Principals Evaluations Carryover	125249-1	84.395	6,955
Infrastructure Upgrade Carryover	125715-1	84.395	223,293
Writing Professional Development Carryover	115756-4	84.395	8,829
Educator Instructor Academy Carryover	115756-2	84.395	576
Educator Instructor Academy	115756-2	84.395	243

See accompanying Notes to Schedule of Expenditures of Federal Awards

THE BOARD OF EDUCATION OF SOMERSET COUNTY, MARYLAND

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2013

(continued)

Funding Source	Grant Number	Federal Catalogue Number	Expenditures
INDIRECT GRANTS - continued			
U.S. DEPARTMENT OF EDUCATION - continued			
Race to the Top - ARRA - continued:			
STEM Teacher Specialists	115756-6	84.395	3,222
Technology Infrastructure Upgrade	115756-9	84.395	1,633
Sub-Total			<u>650,893</u>
Education for Jobs - ARRA	125610-1	84.410	810
Education Jobs Fund - ARRA	134323-1	84.410	765
Sub-Total			<u>1,575</u>
TOTAL U.S. DEPARTMENT OF EDUCATION			<u>3,461,955</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Indirect Grants Passed Through The Somerset County Health Department:			
Foster Care Work Experience	SCDSS	93.558	8,581
Pass-Through Programs From Maryland State Department of Education:			
Local Early Childhood Advisory Council - ARRA	135097-1	93.708	2,523
TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			<u>11,104</u>
U.S. DEPARTMENT OF AGRICULTURE			
Pass-Through Programs From Maryland State Department of Education:			
National School Breakfast		10.553	430,344
National School Lunch - Meals		10.555	759,475
Food Donation		10.555	65,904
Fresh Fruit and Vegetable Program		10.582	371
TOTAL DEPARTMENT OF AGRICULTURE			<u>1,256,094</u>
U.S. DEPARTMENT OF LABOR			
Indirect Grants Passed Through The Tri-County Council of the Lower Shore:			
Workforce Investment Act - In-School Youth		17.259	45,027
Workforce Investment Act - Out of School Youth		17.259	27,980
Workforce Investment Act - Youth Connections		17.259	2,950
Sub-Total			<u>75,957</u>
TOTAL DEPARTMENT OF LABOR			<u>75,957</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 4,805,110</u>

See accompanying Notes to Schedule of Expenditures of Federal Awards

THE BOARD OF EDUCATION OF SOMERSET COUNTY, MARYLAND

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2013

Note 1. Scope of Audit Pursuant to OMB Circular A-133

All Federal assistance programs operated by the Board of Education of Somerset County, Maryland are included in the scope of the *OMB Circular A-133* audit. The single audit was conducted in accordance with the provisions of the Office of Management and Budget's *Audits of States, Local Governments, and Nonprofit Organizations* except as they have been revised by the Maryland State Department of Education to clarify Federal requirements at the State level and to incorporate State requirements.

The Maryland State Department of Education has been designated as the oversight audit agency for the *OMB Circular A-133* audit.

Note 2. Fiscal Period Audited

Single audit testing procedures were performed for program transactions occurring during the fiscal year ended June 30, 2013. Single audit testing has previously been performed on transactions occurring during the fiscal year ended June 30, 2012.

Note 3. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the Federal grant activity of the Board of Education of Somerset County, Maryland and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Note 4. Reconciliation of Federal Awards

Restricted Federal awards/expenditures per statement of revenue, expenditures and changes in fund balances – governmental funds	\$ 4,245,203
Restricted Federal awards/expenditures per statement of revenues, expenses and changes in fund net assets – proprietary fund	1,190,191
USDA donated commodities per statement of revenues, expenses and changes in fund net assets – proprietary fund	65,904
Federal awards/expenditures included in other revenue per statement of revenue, expenditures and changes in fund balances – governmental funds	5,177
Medicaid revenue/expense included in federal awards but not included on Schedule of expenditures of federal awards	<u>(701,365)</u>
	\$ <u>4,805,110</u>

THE BOARD OF EDUCATION OF SOMERSET COUNTY, MARYLAND

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2013

A. Summary of Auditors' Results

1. The auditor's report expresses an unmodified opinion on the financial statements of The Board of Education of Somerset County, Maryland.
2. Material weaknesses relating to the audit of the financial statements are reported in the Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards* were disclosed during the audit.
3. No instances of noncompliance material to the financial statements of The Board of Education of Somerset County, Maryland were disclosed during the audit.
4. No significant deficiencies relating to the audit of the major federal award programs are reported in the Independent Auditors' Report on Compliance for Each Major Program and on Internal Control over Compliance Required by OMB Circular A-133.
5. The auditor's report on compliance for the major federal award programs for The Board of Education of Somerset County, Maryland expresses an unmodified opinion.
6. There are no current findings relative to the major federal award programs for the Board of Education of Somerset County, Maryland.
7. The programs tested as major programs include:

<u>GRANT DESCRIPTION</u>	<u>CFDA #</u>	<u>EXPENDITURES</u>
Race to the Top – ARRA	84.395	650,893
Title 1	84.010	<u>1,330,829</u>
TOTAL		<u>\$ 1,981,722</u>

8. The threshold for distinguishing Type A programs was \$300,000.
9. The Board of Education of Somerset County, Maryland was determined to be a low-risk auditee for the year ended June 30, 2013.

B. Findings Related to the Financial Statements

Finding #1

Bank reconciliations were not prepared throughout the year. Consequently, most of the monthly bank reconciliations were prepared after year end and adjustments were needed to record various transactions that were not posted during the year. Failure to prepare timely bank reconciliations allowed multiple errors to occur and not be identified on a timely basis.

There were delays in monthly accounting procedures as a result of the implementation of the new accounting software as of July 1, 2012. The new system had a new accounting structure and personnel were not initially aware of how to reconcile under the new structure.

Internal controls should be in place that provide for bank reconciliations to be prepared each month and reviewed by an authorized person. Proper training is needed on how to use the bank reconciliation process in the new accounting software. Proper bank reconciliations ensure all transactions are recorded timely and accurately in the accounting records.

The Board agrees with the finding and the recommended procedures have been implemented.

Finding #2

Various payroll and other liability accounts were not analyzed or reconciled throughout the year. Failure to analyze and adjust certain accounts allowed multiple errors to occur and not be identified on a timely basis. Consequently various account balances were incorrect throughout the year and required adjustments at year end.

Internal controls should be in place that provide that all asset and liability accounts are analyzed each month to ensure all transactions are recorded timely and accurately.

The Board agrees with the finding and the recommended procedures have been implemented.

C. Findings and Questioned Costs – Major Federal Award Programs Audit

None