

TOWN OF MANCHESTER, MARYLAND
REPORT ON SINGLE AUDIT
YEAR ENDED JUNE 30, 2023



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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**

Honorable Mayor and Members
of the Town Council
Town of Manchester, Maryland

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, and each major fund of the Town of Manchester, Maryland (the Town), as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements, and have issued our report thereon dated October 26, 2023.

Report on 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.

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 management response, we identified a 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.

Honorable Mayor and Members
of the Town Council
Town of Manchester, Maryland

We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2023-001 to be a material weakness.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and questioned costs at item 2023-002 to be a significant deficiency.

Report on Compliance and Other Matters

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

Town of Manchester, Maryland's Response to Findings

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

Baltimore, Maryland
October 26, 2023



**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 Members
of the Town Council
Town of Manchester, Maryland

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited the Town of Manchester, Maryland's (the Town) 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 Town's major federal programs for the year ended June 30, 2023. The Town'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 Town 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, 2023.

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 Town 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 Town's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to the Town's federal programs.

Honorable Mayor and Members
of the Town Council
Town of Manchester, Maryland

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 Town'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 Town'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 Town'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 Town'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 Town'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 2023-003. 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 Town's response to the noncompliance finding identified in our compliance audit described in the accompanying schedule of findings and questioned costs. The Town'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.

Honorable Mayor and Members
of the Town Council
Town of Manchester, Maryland

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 2023-003 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 Town's response to the internal control over compliance findings identified in our audit described in the accompanying schedule of findings and questioned costs. The Town'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.

Honorable Mayor and Members
of the Town Council
Town of Manchester, Maryland

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 and each major fund, and the aggregate remaining fund information of the Town as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements. We have issued our report thereon dated October 26, 2023, which contained an unmodified opinion on those financial statements. Our audit was performed for the purpose of forming an opinion on the financial statements as a whole. 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 financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. 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 financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.



CliftonLarsonAllen LLP

Baltimore, Maryland
March 7, 2024

TOWN OF MANCHESTER, MARYLAND
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2023

Federal Grantor/Pass-Through Grantor/ Program or Cluster Title/Grant Name	Assistance Listing Number	Pass-Through Entity Identifying Number	Federal Expenditures	Passed Through to Subrecipients
Department of Treasury				
COVID-19: Coronavirus State and Local Fiscal Recovery Funds	21.027	-	\$ 799,012	-
Total Department of Treasury			<u>799,012</u>	
Total Federal Awards			<u>\$ 799,012</u>	

See accompanying Notes to Schedule of Expenditures of Federal Awards.

TOWN OF MANCHESTER, MARYLAND
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2023

NOTE 1 BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (SEFA) presents the expenditures of all federal award programs of the Town of Manchester, Maryland (the Town) for the year ended June 30, 2023. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principals and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in, the preparation of the basic financial statements.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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. Such expenditures are recognized following the cost principles contained in the Uniform Guidance for all awards. Under these principles, certain types of expenditures are not allowable or are limited as to reimbursement.

NOTE 3 INDIRECT COST RATE

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

**TOWN OF MANCHESTER, MARYLAND
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2023**

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:

<u>Assistance Listing Number(s)</u>	<u>Name of Federal Program or Cluster</u>
21.027	COVID-19: Coronavirus State and Local Fiscal Recovery Funds

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

Auditee qualified as low-risk auditee? yes no

TOWN OF MANCHESTER, MARYLAND
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
JUNE 30, 2023

Section II – Financial Statement Findings

2023-001 – Preparation of Financial Statements

Type of Finding: Material Weakness in Internal Control over Financial Reporting

Condition:

The Town engages CliftonLarsonAllen LLP (CLA) to assist in preparing its annual external financial statements and accompanying disclosures in accordance with GAAP and GASB (Governmental Accounting Standards Board) standards.

Criteria or specific requirement:

COSO/Internal Control Framework defines control activities as “policies and procedures that help ensure management’s directives are carried out.” This would include the preparation of the financial statements in a timely manner in accordance with all applicable GAAP and GASB standards.

Cause:

As part of its internal control over the preparation of its financial statements, including disclosures, the Town has implemented comprehensive review procedures 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. Currently, the Town’s personnel do not have the staffing capacity to perform a review of the Town’s financial statements and related disclosures.

Effect:

In the current fiscal year, there were material adjustments that were made in order to correct the Town’s financial statements and record revenue on a GAAP basis.

Repeat finding:

Yes, finding 2022-001.

Recommendation:

We recommend management continue to evaluate their internal staff capacity to determine if an internal control policy over the annual financial reporting is beneficial.

View of responsible officials and planned corrected actions:

Management concurs with the finding. Internal controls remain a challenge due to the Town’s current staffing levels. Management of the Town remains focused from a financial management standpoint on budget to actual accounting which is monitored on a monthly basis by the Town Council. Management will continue to consider the cost benefit of hiring additional staff.

**TOWN OF MANCHESTER, MARYLAND
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
JUNE 30, 2023**

Section II – Financial Statement Findings (Continued)

2023-002 – Segregation of Duties

Type of Finding: Significant Deficiency in Internal Control over Financial Reporting

Condition:

The limited number of employees makes it difficult to achieve internal control through the segregation of employee duties.

Criteria or specific requirement:

COSO/Internal Control Framework required adequate internal controls over segregation of duties to ensure that transactions are properly recorded to reduce the risk that errors will be undetected.

Cause:

This is a result of the limited number of personnel employed within the Town's Finance Department.

Effect:

An increased risk that discrepancies and errors may occur and not be detected.

Repeat finding:

Yes, finding 2022-002.

Recommendation:

The Town Council and management should be constantly aware of the potential for discrepancies and errors 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 disbursements including payroll. Even though we did not encounter discrepancies as a result of this issue, management should continue to closely monitor financial-related duties, including the review of interim financial statements.

View of responsible officials and planned corrected actions:

Management concurs with the finding. Management is aware a segregation of duties issue exists due to the current size of town staffing. Management has instituted compensating controls, such as review of the check register on a monthly basis by members of the Town Council. Management will continue to look for additional compensating controls that may be added.

**TOWN OF MANCHESTER, MARYLAND
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
JUNE 30, 2023**

Section III – Findings and Questioned Costs for Federal Grant Programs

2023-003

Federal Agency: Department of Treasury

Federal Program Name: Coronavirus State and Local Fiscal Recovery Funds

Assistance Listing Number: 21.027

Federal Award Identification Number and Year: 1505-0271 - 2021

Award Period: March 3, 2021 – December 31, 2024

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

Criteria or specific requirement:

Compliance: 2 CFR 200.214 Suspension and Debarment restricts awards, subawards, and contracts with certain parties that are debarred, suspended, or otherwise excluded from or ineligible for participation in Federal assistance programs or activities.

2 CFR 180.300 states that an entity may determine suspension and debarment status by:

- (a) Checking SAM (System for Award Management) Exclusions; of
- (b) Collecting a certification from that person; or
- (c) Adding a clause of condition to the covered transaction with that person.

Controls: Per 2 CFR section 200.303(a), a non-Federal entity must: Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should comply with guidance in “Standards for Internal Control in the Federal Government” issued by the Comptroller General of the United States or the “Internal Control Integrated Framework,” issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Condition:

The Town did not determine the suspension and debarment status of vendors with expenditures exceeding \$25,000 on a timely basis, as required by federal regulations.

Questioned Cost: None

Context:

Two of the Two vendors we selected for testing had the suspension and debarment status verified, however it was not performed timely.

Cause:

The Town’s procedures and internal controls over suspension and debarment are not sufficient to ensure that all vendors’ suspension and debarment status is verified timely.

Effect:

Failure to verify the suspension and debarment status of vendors may result in the Town issuing payments to vendors what are suspended and debarred and not authorized to provide services under the program.

Repeat Finding: No

TOWN OF MANCHESTER, MARYLAND
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
JUNE 30, 2023

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

Recommendation:

We recommend management ensure policies and procedures include the three options for determining suspension and debarment status listed in 2 CFR 180.300 and that controls are sufficient to ensure that the suspension and debarment status is verified for all vendors prior to issuance of the contract.

View of responsible officials and planned corrected actions:

Management concurs with this finding. Management has implemented a policy going forward to ensure all vendors entered into a contract will sign a suspension and debarment agreement.

**TOWN OF MANCHESTER
CORRECTIVE ACTION PLAN
YEAR ENDED JUNE 30, 2023**

The Town of Manchester, Maryland respectfully submits the following corrective action plan for the year ended June 30, 2023.

Audit period: July 1, 2022 – June 30, 2023

The findings from the schedule of findings and questioned costs are discussed below. The findings are numbered consistently with the numbers assigned in the schedule.

FINDINGS—FINANCIAL STATEMENT AUDIT

MATERIAL WEAKNESS

2023-001 Preparation of Financial Statements

Recommendation: We recommend management continue to evaluate their internal staff capacity to determine if an internal control policy over the annual financial reporting is beneficial.

Explanation of disagreement with audit finding: There is no disagreement with the audit finding.

Action planned/taken in response to finding: The Town will work to get Council member move involved in the review of the financial statements.

Name(s) of the contact person(s) responsible for corrective action: Kelly Baldwin, Director of Finance

Planned completion date for corrective action plan: June 30, 2024

SIGNIFICANT DEFICIENCY

2023-002 Segregation of Duties

Recommendation: The Town Council and management should be constantly aware of the potential for discrepancies and errors 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 disbursements including payroll. Even though we did not encounter discrepancies as a result of this issue, management should continue to closely monitor financial-related duties, including the review of interim financial statements.

Explanation of disagreement with audit finding: There is no disagreement with the audit finding.

Action taken in response to finding: The Town will start having a Council member or the Mayor review financial information monthly.

Name(s) of the contact person(s) responsible for corrective action: Kelly Baldwin, Director of Finance

Planned completion date for corrective action plan: June 30, 2024

**TOWN OF MANCHESTER
CORRECTIVE ACTION PLAN
YEAR ENDED JUNE 30, 2023**

FINDINGS—FEDERAL AWARD PROGRAMS AUDITS

DEPARTMENT OF TREASURY

2023-003 Coronavirus State and Local Fiscal Recovery Funds – Assistance Listing No. 21.027

Recommendation: We recommend management ensure policies and procedures include the three options for determining suspension and debarment status listed in 2 CFR 180.300 and that controls are sufficient to ensure that the suspension and debarment status is verified for all vendors prior to issuance of the contract.

Explanation of disagreement with audit finding: There is no disagreement with the audit finding.

Action taken in response to finding: The Town will ensure all new vendors will sign a suspension and debarment agreement prior to any payments being made.

Name(s) of the contact person(s) responsible for corrective action: Kelly Baldwin, Director of Finance

Planned completion date for corrective action plan: March 31, 2024

If the Cognizant or Oversight Agency has questions regarding this plan, please call Kelly Baldwin, Director of Finance at 410-239-3200.