THE BOARD OF EDUCATION OF WORCESTER COUNTY

AUDIT COMMUNICATIONS

June 30, 2022

THE BOARD OF EDUCATION OF WORCESTER COUNTY

TABLE OF CONTENTS

	Pages
I. Communications with Those Charged with Governance	1 – 4
II. On the Horizon	5 – 6
III. Comments and Recommendations	7 – 9

I. COMMUNICATIONS WITH THOSE CHARGED WITH GOVERNANCE



September 30, 2022

To the Board of Directors
The Board of Education of Worcester County

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 Worcester County for the year ended June 30, 2022. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards* and the Uniform Guidance, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated June 8, 2022. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Matters

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by The Board of Education of Worcester County are described in Note 1 to the financial statements. As described in Note 10, the Board adopted new accounting guidance from the Government Accounting Standards Board (GASB) Statement No. 87, Leases during fiscal year 2022. We noted no transactions entered into by The Board of Education of Worcester County during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

Management's estimate of depreciation expense is based upon the estimated useful life of the assets. We evaluated the key factors and assumptions used to develop depreciation expense in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of the net OPEB liability is based on an actuarial study performed by a third party. We evaluated the key factors and assumptions used to develop the net OPEB liability and annual OPEB expense in determining that it is reasonable in relationship to the financial statements taken as a whole.

Management's estimate of the net pension liability is based upon an actuarial study performed by a third party. We evaluated the key factors and assumptions used to develop the pension liability and pension expense in determining that it is reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements were:

The disclosure of pension plans in Note 4 to the financial statements describes the Board's pension plans, pension liabilities, pension expense, deferred outflows of resources, and deferred inflows of resources related to pensions as well as the significant assumptions used in the actuarial valuation.

The disclosure of post-employment health care benefits in Note 7 to the financial statements describes the Board's defined benefit healthcare plan, net OPEB liability, OPEB expense, deferred outflows of resources, and deferred inflows of resources related to other post-employment benefits as well as the significant assumptions used in the actuarial valuation.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated September 30, 2022.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to The Board of Education of Worcester County's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as The Board of Education of Worcester County's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

We applied certain limited procedures to the Required Supplementary Information, as listed in the table of contents, which is required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the supplementary information, as listed in the table of contents, which accompany the financial statements but are not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Restriction on Use

This information is intended solely for the information and use of the Board of Directors and management of The Board of Education of Worcester County and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

UHY LLP

Salisbury, MD

II. ON THE HORIZON

IMPLEMENTATION OF NEW ACCOUNTING PRINCIPLES

Governmental Accounting Standards Board Statement No. 96, Subscription-Based Information Technology Arrangements

In May 2020, GASB issued Statement No. 96, Subscription-Based Information Technology Arrangements. The requirements for this statement are effective for reporting periods beginning after June 15, 2022. As the use of cloud-based data management, storage and computing have grown, more organization are using subscription-based and time-bound information technology contracts. These contracts have traits similar to traditional leases. The objective of GASB Statement No. 96 is to improve financial reporting for subscription-based information technology arrangements (SBITA) by requiring recognition of certain assets and liabilities for subscription-based information technology arrangements. It defines a SBITA, establishes that a SBITA results in a right-to-use subscription asset – an intangible asset – and a corresponding liability, provides for capitalization criteria for related outlays other than subscription payments, and requires additional note disclosures thereby enhancing the relevancy and consistency of information about governmental entity subscription-based information technology arrangements.

A SBITA is defined as a contract that conveys control of the right to use another party's information technology software, alone or in combination with tangible capital assets (the underlying information technology assets) for a period of time in an exchange or exchange-like transaction.

The related SBITA liability will be reduced as payments are made and the SBITA asset will be amortized over the subscription term. The notes to the financial statements will need to include among other things a description of the arrangements, the amount of the SBITA assets recognized, and a schedule of future payments.

At the beginning of the period of implementation, subscription-based information technology arrangements should be recognized and measured using the facts and circumstances that exist at that time. Short-term arrangements with contracts of 12 months or less, including options to extend, are excluded.





September 30, 2022

The Board of Education of Worcester County Newark, Maryland

In planning and performing our audit of the financial statements of then governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Board of Education of Worcester County for the year ended June 30, 2022, in accordance with auditing standards generally accepted in the United States of America, we considered the Board'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 Board's internal control. Accordingly, we do not express an opinion on the effectiveness of the Board's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect, and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses. Given these limitations during out audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

This communication is intended solely for the information and use of management, others within The Board of Education of Worcester County, and is not intended to be, and should not be, used by anyone other than these specified parties.

We wish to thank the employees of the Board of Education of Worcester County for the assistance and cooperation provided us during our engagement.

Sincerely,

Salisbury, Maryland

CURRENT YEAR COMMENTS

Review of School Activity Fund

The Board has designated accounting personnel to monitor financial activity at each individual school. Due to limited segregation of duties at the schools, internal controls can be supplemented by having an independent person review bank statements and fund reports each month. We continue to encourage the Board to monitor and review the financial activity at the schools as frequently as possible.

Cash Receipts

We noted for a few schools, the Funds Collection Logs were not being consistently signed, approved and/or dated. According to the Board's school accounting manual, Funds Collection Log must be completed by all staff collecting funds and should be reviewed and approved.

In some instances, cash receipts are being held and being deposited later in a lump deposit. Timely deposits need to be made in these instances in order to ensure that minimal amounts of funds are left undeposited.

Other Areas

We have also shared some other minor recommendations for the schools involving bookkeeping matters. The Board's management will discuss these with the individual bookkeepers in the near future.