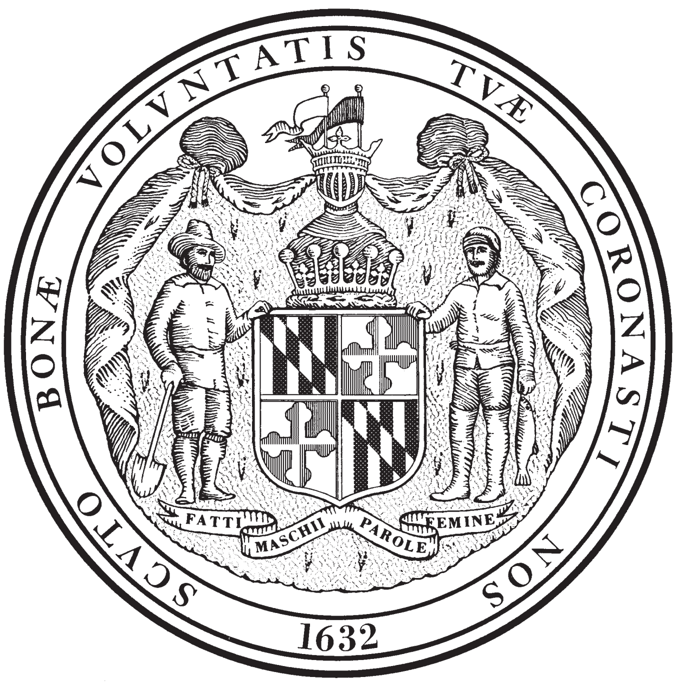
Joint Committee on the Management of Public Funds

2006 Interim Report



Annapolis, Maryland
January 2007

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January 15, 2007

The Honorable Thomas V. Mike Miller, Jr., Co-Chairman
President of the Senate

The Honorable Michael E. Busch, Co-Chairman
Speaker of the House

Honorable Members of the General Assembly

Ladies and Gentlemen:

The Joint Committee on the Management of Public Funds, in accordance with § 2-806 of the State Government Article, is pleased to submit this report on activities of the committee during the 2006 interim.

During the 2006 interim, the committee met two times. The committee met with both the Treasurer's Office and the Office of the Comptroller on October 24 to receive updates on office priorities. When meeting with the Treasurer, the committee received an update on banking reconciliation, the State Insurance Trust Fund, the implementation of variable rate financing, and the capital and energy lease programs. When meeting with the Comptroller, the committee received an update on implementation of the federal fund offset program, compliance with the Delaware holding companies decision, and the auctioning of abandoned property on the *eBay* Internet auction site. For its second meeting on December 12, the committee received a briefing from the Office of Legislative Audits about the audit reports of local governments. Following the presentation, the committee conducted a work session to consider the recommendations that should be made for the 2006 interim.

The committee recommendations are summarized in the executive summary. Detailed information on each agenda item is provided in succeeding sections.

The committee wishes to express its appreciation for the assistance and testimony it received from the Office of the State Treasurer, the Office of the Comptroller, and the Department of Legislative Services. The committee is also appreciative of the staff assistance it has received from the chairmen's respective offices and the Department of Legislative Services.

Respectfully Submitted,

Senator Gloria G. Lawlah Presiding Chairman	Delegate Henry B. Heller Co-Chairman

GGL:HBH/KDM/mcp

Maryland General Assembly
Joint Committee on Management of Public Funds

2006 Membership Roster

Senator Gloria G. Lawlah, Presiding Chairman
Delegate Henry B. Heller, Co-Chairman

Senators

Jennie M. Forehand

Larry E. Haines

Nathaniel J. McFadden

Delegates

Susan L. Aumann

John L. Bohanan, Jr.

Salima S. Marriott

Committee Staff

Karen D. Morgan

2006 Interim Schedule

October 24

Priorities of the Treasurer's and Comptroller's Office

December 12

Office of Legislative Audits
Report on Local Government Finances

Work Session

Contents

Executive Summary

Priorities of the State Treasurer

The committee met with the staff of the Treasurer's Office on October 24 to discuss the progress made with regard to a number of initiatives the Treasurer has undertaken. The Treasurer's Office reported that management and oversight of financial procedures has been improved.

Banking Reconciliation: The office reported that reconciliation of banking records has been accomplished for fiscal 2006 and that reconciliations for fiscal 2007 are taking place as scheduled. While four new positions have been authorized to assist with banking reconciliation, only two of the positions have been filled. The office reported that the process for reconciliation has been entirely restructured, resulting in a daily accurate reconciliation process. The office also reported that the restructuring of the reconciliation process revealed that several important functions had never been incorporated into job performance expectations. These functions included reconciliation of community bank accounts, reconciliation of bank files, and ongoing analysis to ensure data integrity. These duties have now been incorporated into job positions.

State Insurance Trust Fund: With regard to the State Insurance Trust Fund (SITF), the office reported that premiums remained underfunded for fiscal 2006, when compared with actuarial recommendations. The actuary recommended a balance of $29.3 million in the SITF, but the fiscal 2006 ending cash balance was $18.5 million. The Treasurer's Office reported, however, that the unfunded liability balance has steadily decreased over the years and that trend is expected to continue. The Treasurer's Office also reported that it has implemented several initiatives to mitigate insurance losses among State agencies with a special emphasis on property loss prevention.

Variable Rate Financing: The office reported that it is also examining the impact of substituting variable rate debt for a portion of the fixed rate bonds usually sold by the State. One analysis found that it could be possible for the State to realize savings of over $1 million annually on the debt service payments for a $100 million par amount bond issue. The office intends to develop a variable rate debt program and prepare a specific analysis prior to each bond sale to determine if the issuance of variable rate debt is advantageous under the prevailing market conditions.

Capital/Energy Leases: The Treasurer's Office also reported that it was able to acquire savings for the State through a rebidding of capital leases, and that fiscal 2006 interest income on the State investment portfolio was $267 million, exceeding projections by $77 million.

Conclusions and Recommendations

The committee is pleased with the progress that has been made on banking reconciliation. The implementation of a daily reconciliation process and incorporation of key functions into the duties of banking division employees will

help ensure that reconciliation provides an accurate accounting of State funds. The committee is concerned, however, that the office has not been able to hire personnel for two of the positions deemed critical to the viability of the reconciliation process. It is recommended that the Treasurer's Office continue to report to the committee about reconciliation and the efforts to fill the two remaining vacant positions for this process.

Although the Treasurer's Office reports that the gap between the actuarial recommended balance in the SITF and the actual cash balance has been decreasing in recent years, the committee continues to believe that maintaining an adequate surplus in the SITF is very important. The committee supports full funding of the SITF in accordance with actuarial recommendations. The committee recommends that the Treasurer work with the new Administration to ensure that the premiums paid by State agencies fully fund the SITF.

The committee commends the Treasurer for the progress in developing a program to issue variable rate bonds. The committee urges the Treasurer to develop a program to make bonds available at the retail level as soon as possible. Although the sale of retail bonds may not yield significant income for the State, the committee believes that enabling Marylanders to invest in their State will bring significant intangible benefits, in addition to additional revenue.

Priorities of the Office of the Comptroller

The committee met with the staff of the Comptroller's Office on October 24 to discuss priorities. The Comptroller's staff discussed initiatives to increase tax payment enforcement, increase electronic filing, and reduce the issuance of paper remittances. The office also provided updated information on implementation of the federal fund offset program, established by Chapter 577of 2006 (HB 448), compliance with the Delaware holding companies' decision, and abandoned property sales.

Implementation of the Federal Fund Offset Program: The Comptroller's Office informed the committee that the estimated costs to implement the federal fund offset program have increased significantly because the federal government now requires states to use the same offset program that is in use at the federal level. The use of a separate State program would have had far fewer implementation requirements. The fiscal note for the enabling legislation estimated about $81,000 in general fund expenditures for implementation. Due to the changes required by the federal government, the office estimates that the total implementation cost will increase to about $800,000. Once the program is implemented, the office intends to include federal vendor offsets from the Central Collection Unit and the Department of Labor, Licensing, and Regulation, as well as federal offset payments managed by the Comptroller. Although implementation costs have increased significantly, the office still expects revenues to far exceed program costs.

Delaware Holding Companies Compliance: The office reported that $198.7 million has been collected in initial settlements with holding companies, due to compliance with the Delaware holding companies' decision (*Comptroller of the Treasury v. SYL, Inc., and Comptroller of the Treasury v. Crown Cork & Seal Company (Delaware), Inc., 375 Md. 78 (2003))*. Additional audits are currently being scheduled. Including settlements and completed audits, the State has collected $235.5 million in additional tax revenue that otherwise would not have come to the State. Additional revenues may accrue to the State, although they will be significantly smaller than past revenues since the issue has largely disappeared.

eBay Auctions of Abandoned Property: The office also reported that the auctioning of abandoned property on the popular web site *eBay* has been successful. About $31,000 in additional revenues has been attained. Comparatively, in-person auctions are not receiving as much of a return on investment. For valuable items, a minimum reserve is set. The bids for property auctioned on *eBay* have exceeded the minimum reserves.

Conclusions and Recommendations

The committee commends the Comptroller's Office on the initiatives to improve tax payment enforcement, further automate the tax payment process, and reduce paper remittances. The committee is encouraged by the progress made by the office in implementing the federal fund offset program, although the apparent large increase in implementation costs is a concern. The committee is hopeful that the revenues attained from federal vendor offsets will far exceed the nearly $1 million in expenditures that will be required. It is recommended that the Comptroller's Office continue to provide updates to the committee about the implementation of this program, the revenues received, and whether the revenues attained will actually meet or exceed projections.

Report on Local Government Audits

The Office of Legislative Audits (OLA) presented information on the desk reviews of local government audits for fiscal 2005 at the meeting of December 12. Local governments have substantially complied with accounting standards, especially during the last several years. However, many local governments are still adapting their financial statement presentations to the new standards adopted by the Governmental Accounting Standards Board. The new standards became effective for all local governments as of fiscal 2004. Out of 204 local government reports, 89 contained areas of noncompliance with audit guidelines. Problem areas included the failure to file an audit report, inappropriate and inadequate disclosures, uninsured/uncollateralized cash deposits, unreserved general fund balances, and the issuance of an adverse opinion (City of Mount Rainier in Prince George's County).

Conclusions and Recommendations

The committee commends OLA for its thorough review of local government audit reports. The committee is concerned; however, that OLA is not always notifying legislators about unfavorable financial trends affecting local governments within their jurisdictions. The committee recommends that OLA always make these notifications to legislators after its review of local government audit reports. The committee commends OLA for its review of local government audit reports. The committee continues to be concerned about the areas of noncompliance, especially the

issuance of an adverse opinion. The committee will continue to monitor this issue in conjunction with the Legislative Auditor and the Joint Audit Committee.

Chapter 1. Priorities of the Treasurer and Priorities of the Comptroller

Priorities of the Office of the State Treasurer

Bernadette Benik
Acting Chief Deputy Treasurer

Generally: At the committee's October 24 meeting, Ms. Benik said that the Treasurer's Office has strengthened management oversight and financial procedures, established a rigorous bank reconciliation process, and increased investment returns by almost $80 million over prior projections. Insurance costs have been saved and loss prevention enhanced. The office has increased its role as a partner to and resource for State agencies. Ms. Benik also said the Treasurer's Office is reaching out to local governments to implement commercial paper investments. So far, no local governments have submitted policy changes regarding increasing commercial paper investments.

Banking Reconciliation: Ms. Benik said that all transactions for every day in fiscal 2006 have been reconciled and reconciliations for fiscal 2007 are proceeding on schedule. State cash receipts and disbursements total over $100 billion annually, with several hundred million transactions completed by over 100 agencies. Reconciliation occurs on a daily basis and reconciliations are being completed within a five-day timeframe. Detailed transaction verifications allow the Treasurer's Office to identify bank processing deficiencies, which allows for more effective monitoring of State finds.

Four positions were authorized by the General Assembly for fiscal 2007. So far two positions have been hired. Senator Lawlah asked which two positions have not been filled. Ms. Benik responded that one agency bank and collateral position is open, as well as one of the positions responsible for matching account transactions. She added that many checks and balances have been implemented including a specific match process. Community bank transactions are also being reconciled. They were not reconciled in previous years, but this type of reconciliation is essential.

Ms. Benik also reported that several important functions within the Banking Division had been simply overlooked and not incorporated in job descriptions in the past. Some of the functions include reconciliation of community bank accounts and bank files; analysis of bank files; reconciliation and clearing of unmatched deposits; and coordinating with State agencies to address deposit, Automated Clearing House, and adjustment issues.

State Insurance Trust Fund: Actuarial recommendations call for a $29.3 million balance for the State Insurance Trust Fund (SITF). To date, the balance is about $18.5 million. The Treasurer's Office has asked agencies to provide the premiums that would bring the fund into balance. However, the Governor's Office has provided only the minimum premium. Aggressive loss prevention efforts have helped reduce the fund deficit. The fund deficit for fiscal 2008 is expected to come down to about $7 million. Ms. Benik said that it was important to note that the unfunded liability balance has steadily decreased in the past few years and this trend is expected to continue over the next several years. Ms. Benik also said that the Treasurer's Office will continue to submit premium requests which would fully fund the SITF to the Department of Budget and Management as well as provide the minimum premium amount, which is required by the Department of Budget and Management.

The State owns almost 3,000 buildings. The value of the buildings and their contents exceeds $17 billion. In the seven-year period from fiscal 2000 to 2006, the SITF paid out almost $23 million in property claims alone. General liability losses for the same period exceeded $7 million. The Treasurer's Office has initiated a focused loss prevention program to stem insurance losses. Agency loss prevention plans include additional driver training, fire and life safety self-audit equipment checks, and improved accident investigation techniques. Claims results improved in fiscal 2006, in part, due to these efforts.

Ms. Benik also informed the committee that the State self-insures up to $2.5 million and then purchases a $500 million liability policy. The State's insurance carriers wanted to increase State premiums by 40 percent. The Treasurer's Office negotiated an increase of only about 15 percent due to the State's loss prevention record. Senator Haines asked how many carriers are needed to provide the State's liability policy. Ms. Benik responded that about 15 carriers are needed. Sometimes it is difficult to bring together that many carriers to finance one policy.

Debt Management: Ms. Benik stated that when the Treasurer's Office looks at debt management or a new type of issuance, the AAA bond rating influences the approach. Two factors are market rate conditions and the amount of outstanding variable rate debt at a given point in time. Many municipalities use variable rate financing. The office hopes to recommend the issuance of variable rate bonds as early as spring 2007, or no later than the July bond offering in 2007. A variable rate bond issue would be for a certain portion of the usual fixed rate debt issuance.

One analysis indicated that debt service savings over the life of variable rate bonds would amount to $11.3 million or $9.6 million on a Present Value basis (with a 4 percent discount rate), if the market conditions prevailing in 2006 continued into the future. However, similar savings cannot be guaranteed in future years. Therefore, Ms. Benik said the State would prepare a specific analysis prior to each bond sale to determine if the issuance of variable rate bonds would be appropriate. In the past 10 years, the average yield on 10-year AAA rated general obligation bonds has been 4.19 percent. The Bond Market Association variable rate has been 2.66 percent. If this relationship holds, the Treasurer's Office projects debt service savings of about $1.28 million annually on a $100 million par amount bond issue. The Treasurer's Office is currently developing a timeline and identifying the tasks that would be required to implement a variable rate debt program.

Senator Haines said that very good decisions have been made to date, which have yielded savings. But what happens in the future, as there is some measure of risk with variable rate bonds? Ms. Benik said that the cap on maximum investment in variable rate bonds was good, since that limits risk to the State portfolio. As rates change and the economy changes, the level of State participation will also change.

Delegate Heller asked about retail sales of bonds. Ms. Benik responded that the focus right now is on launching variable rate bonds, then the office will explore launching retail bonds.

Capital and Energy Leases: Ms. Benik reported that the Debt Management Division has identified significant future savings from a new contract for capital leases and amendment of the existing energy lease contract. The capital lease agreement was rebid in June 2006. Significantly more information was provided to prospective bidders in the Request for Proposal than in previous years. The winning bid of $70 million for the capital equipment lease is expected to save the State about $900,000 in interest for the projected three- and five-year leases. The Debt Management Division also initiated a renegotiation of the existing State energy lease. The lease was amended to provide interest savings of about $2.3 million. The Treasurer's Office is also initiating the revitalization of the Energy Lease Program, which has not been used by State agencies since 2005. The use of this program could achieve savings through the implementation of energy performance contracts.

Conclusions and Recommendations

The committee is pleased with the progress that has been made on banking reconciliation. The implementation of a daily reconciliation process and incorporation of key functions into the duties of banking division employees will help ensure that reconciliation provides an accurate accounting of State funds. The committee is concerned, however, that the office has not been able to hire personnel for two of the positions deemed critical to the viability of the reconciliation process. It is recommended that the Treasurer's Office continue to report to the committee about reconciliation and the efforts to fill the two remaining vacant positions for this process.

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Priorities of the State Comptroller

Linda Tanton
Acting Chief Deputy Comptroller

Legislative Initiatives: At the committee's October 24 meeting, Ms. Tanton began her presentation by stating that electronic filing was authorized in 2006 through passage of Senate Bill 93. The new law allows filing until April 30, if the filing is done electronically. Maryland is lagging behind other states in the number of taxpayers filing electronically. Rather than mandating electronic filing, it was hoped that this incentive would increase the number of people filing electronically. Senator Lawlah asked how many states have an electronic filing mandate. Ms. Tanton said 11 states have electronic filing laws, but they focus on tax preparers. If preparers file a certain number of prepared returns (for example, 100 or 200), the statements must be filed electronically by the preparer. Senator Haines observed that a majority of taxpayers use preparers and the preparers are really emphasizing the convenience of electronic filing. Electronic filing is also easier for the preparers.

The emergency bill that was passed in 2006 (Senate Bill 812) to create a Class 6 limited wine wholesaler's license and a nonresident winery permit, appears to be working well. To date, 26 licenses have been issued.

Ms. Tanton reported that the Comptroller's Office is trying to reduce the issuance of paper remittances. Due to the passage of House Bill 388 of 2006, employers, including government units, are prohibited from printing an employee's Social Security number on a paycheck, a paycheck attachment, direct deposit notice, or notice of credit to a debit or credit account. There is a program that allows State employees to receive remittances electronically by Monday afternoon of the pay period, instead of on Wednesday. State employees sign up for the program. The Social Security Number is no longer printed on the remittances. By next year, the Social Security Number will be eliminated from pay checks issued to employees without direct debit.

To increase tax payment enforcement, the passage of Senate Bill 95 in the 2005 session limits a taxpayer to claim withholding based on one exemption only if the payer failed to file a State tax return. First notices have been issued. Payers who respond by filing the required tax returns will not be subject to further action. For those who do not file the required statement, the payer's checks will be reduced to reflect withholdings based on one exemption only.

John Kenny, Director of Compliance, discussed implementation of the federal fund offset program which was created by Senate Bill 640 of the 2006 session. The bill initially had a low fiscal impact. The U.S. Treasury then decided to require participating states to use the same offset program that the federal government uses, instead of a state offset program. The state offset program would have far fewer implementation requirements, since it is already being used for other types of offsets. The Comptroller's Office is trying to decide whether to use R*STARS for federal offsets or find a way to piggyback on the existing offset system. Piggybacking would be significantly less expensive. Mr. Kenny stated that the Comptroller's Office still anticipates that potential revenues will exceed whatever costs are incurred for implementation. Maryland has reciprocal offset programs with other states (Connecticut, Delaware, New Jersey, and New York). Senator Haines asked what the potential implementation cost could be. Ms. Tanton said that the initial estimate for implementation of Phase II is about $1 million. She said it is hoped that the estimate can be reduced to about half, so that the total implementation cost would be about $800,000. Once the offset program is implemented, it will include the Central Collection Unit and the Department of Labor, Licensing, and Regulation vendor payments, as well as those vendor payments managed by the Comptroller.

Delaware Holding Company Compliance: Jim Loftus, Director of Compliance, stated that about $198.7 million has been collected in initial settlements with holding companies as a result of the Delaware Holding Companies court decision (*Comptroller of the Treasury v. SYL, Inc., and Comptroller of the Treasury v. Crown Cork & Seal Company (Delaware), Inc., 375 Md. 78 (2003)).* Additional audits were taken of other holding companies and about $36.8 million has been received from these companies. The office intends to schedule 25 additional audits. Then another 45 companies could be scheduled in the future. Including the settlement period and completed audits, the office has collected $235.5 million in tax revenues. Additional revenues could be in the pipeline. Senator Lawlah asked where revenues are deposited. Ms. Tanton responded that funds mostly go into the general fund. Some revenues are allocated to special funds. Future revenues would likely be significantly less, since the issue has largely disappeared with the use of the "addback" provision.

Abandoned Property/eBay Sales: Beginning June 30, 2006, the Comptroller's Office began to auction off unclaimed abandoned property on the popular *eBay* Internet site. So far, $31,000 has been attained. Traditional auctions are not receiving as much return on investment. Once the item is sold, if the owner claims the property, then the owner will be paid with proceeds from the sale. Some abandoned property has been held since 1966. The owner's name and notification of abandoned property will continue to be published in general circulation newspapers. Ms. Tanton said that the office is careful how the items are promoted since the reputation of the Comptroller is at stake. Mr. Loftus said that for valuable items, the State retains an appraiser and a minimum reserve is set. The Comptroller's Office has been able to exceed the minimum reserve for those items.

The committee commends the Comptroller's Office on the initiatives to improve tax payment enforcement, further automate the tax payment process, and reduce paper remittances. The committee is encouraged by the progress made by the office in implementing the federal fund offset program, although the apparent large increase in implementation costs is a concern. The committee is hopeful that the revenues attained from federal vendor offsets will far exceed the nearly $1 million in expenditures that will be required. It is recommended that the Comptroller's Office continue to provide updates to the committee about the implementation of this program, the revenues received, and whether the revenues attained will actually meet or exceed projections.

Chapter 2. Report on Local Government Audits and Committee Work Session

Report of Local Government Audits

Robert Garman, Assistant Director, Quality Assurance
Office of Legislative Audits

At the committee's December 12 meeting, Mr. Garman stated that the review of the local government audit reports for the fiscal year ending June 30, 2005, disclosed that local governments have generally complied with generally accepted accounting principles and auditing standards. Additionally, the review disclosed that local governments generally appeared to be in good financial condition at that time. When areas of noncompliance or potential financial problems were noted, the Office of Legislative Audits (OLA) sent letters describing the conditions to the governments and, when appropriate, to their auditors in an effort to ensure the conditions do not recur.

Mr. Garman stated that beginning in fiscal 2002, local government financial statement presentation requirements changed substantially. New standards adopted by the Governmental Accounting Standards Board revised the financial reporting requirements for state and local governments. The new standards were effective in three phases based on a government's total annual revenues. Fiscal 2004 was the first year in which all local governments were required to apply the new standards, and many local governments are still adapting their financial statement presentations to conform to the new standards.

Mr. Garman said that while most local governments have substantially complied with standards over the past several years, for the fiscal year ending June 30, 2005, 89 out of the 204 local government reports contained areas of noncompliance with the audit guidelines. During the fiscal 2005 review, OLA noted a fairly significant decrease in the number of local governments with areas of noncompliance with the audit guidelines. This decrease was attributable to the local governments becoming more familiar with the new accounting standards that all local governments were recently required to implement and to the local governments addressing areas of noncompliance that were previously communicated to them.

In addition, the review disclosed areas of noncompliance with State law for 22 local governments (for example, local governments with unsecured cash deposits) and potential financial problems for 5 local governments. Some local governments had more than one area of noncompliance with the guidelines or State law and/or potential financial problem. The most significant and frequent problems disclosed by the review were as follows:

1. Local governments failed to file an audit report as required. Two local governments had not filed an audit report for fiscal 2005, and four local governments (Burkittsville, Charlestown,

Eagle Harbor, and Morningside) had not filed an audit report for either fiscal 2004 or 2005. A number of these local governments filed the required audit reports after the review.

2. Auditor's reports were not presented in accordance with generally accepted auditing standards.

3. Reports did not present all required financial statements or the presentation was inappropriate.

4. Reports lacked adequate disclosures in the financial statements and/or accompanying notes.

5. Local governments had uninsured/uncollateralized cash deposits. Twenty-one local governments had unsecured cash deposits. In all cases, the amount of cash not secured was small in relation to the local governments' total assets and, in some cases, the local government had taken corrective action.

6. Local governments had unreserved general fund deficit balances. Three local governments (Cumberland, Easton, and North Beach) had deficit fund balances at June 30, 2005. One local government (Morningside) had an unreserved general fund deficit as of June 30, 2003, and OLA was unable to determine the status of the deficit as of June 30, 2004 or June 30, 2005, since the government had not filed its fiscal 2004 or 2005 reports by the end of the review.

7. One local government (Fairmount Heights) had unfavorable financial trends/ratios on June 30, 2005.

8. One report (Mount Rainier) contained an adverse opinion. An adverse opinion states that the financial statements do not present fairly the financial position, changes in financial position or, where applicable, cash flows in conformity with generally accepted accounting principles. This audit report contained an adverse opinion on the city's governmental activities opinion unit since the city's capital assets and related depreciation for assets purchased prior to July 1, 2003, were not reported.

9. One report (Sykesville) did not express an adverse opinion on the financial statements of the aggregate discretely presented component units opinion as appropriate when the report omits the financial data of the component units.

A letter describing the areas of noncompliance with the audit guidelines noted during the review was sent to each local government and its independent auditor. The letters requested that the matters be examined to avoid a recurrence in subsequent audits.

For areas of noncompliance with State laws and potential financial problems (for example, deficit fund balances), OLA requests that the applicable local governments provide written descriptions of the actions to be taken to eliminate the conditions, when appropriate. OLA then reviews and evaluates the responses to these requests. Additionally, as requested by the committee, when letters were sent to local governments regarding noncompliance with State laws and potential financial problems, copies of the letters were also sent to the appropriate members of the Maryland General Assembly.

When quality control reviews of the work of the local governments' independent auditors are performed, the results of these reviews are communicated to the auditors. Furthermore, an arrangement has been established with the State Board of Public Accountancy to refer substandard audits to the board for appropriate disciplinary action as provided for in Article 19, Section 40 of the Annotated Code of Maryland.

Senator Lawlah asked Mr. Garman to comment further on the adverse opinion for Mount Rainier. Mt. Rainier did not have records of some of their capital assets so the auditor issued an adverse opinion. Mr. Garman responded that Mount Rainier created records of the assets, so the problem has been addressed.

Delegate Heller asked about Chevy Chase noncompliance items. Mr. Garman replied that the problems cited did not warrant a letter. Chevy Chase will address the noncompliance issues raised. Senator Forehand asked if the legislators representing the towns in Montgomery County with noncompliance issues were notified about the potential audit problems. Mr. Garman replied that notification did not occur in all instances. Senator Forehand said that notification to legislators is required by the committee and should be provided in the future to legislators.

Conclusions and Recommendations

The committee commends OLA for its thorough review of local government audit reports. The committee is concerned; however, that OLA is not always notifying legislators about unfavorable financial trends affecting local governments within their jurisdictions. The committee recommends that OLA always make these notifications to legislators after its review of local government audit reports. The committee commends OLA for its review of local government audit reports. The committee continues to be concerned about the areas of noncompliance, especially the issuance of an adverse opinion. The committee will continue to monitor this issue in conjunction with the Legislative Auditor and the Joint Audit Committee.

Work Session

At the work session following the presentation from OLA on December 12, the committee reviewed proposed recommendations to be included in its report for the 2006 interim. The committee made changes and then approved the proposed recommendations for submission to the Legislative Policy Committee and inclusion in the committee's report for the 2006 interim.

Appendix 1 – State Treasurer's Report

Appendix 2 – Report on Local Government Audits