

**Joint Committee on the Management of Public Funds
2023 Interim Report**

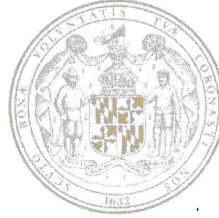
State Government Article, Section 2-806(b)

Joint Committee on the Management of Public Funds

December 14, 2023

SENATOR ARTHUR ELLIS
SENATE CHAIR

SENATOR PAMELA G. BEIDLE
SENATOR PAUL D. CORDERMAN
SENATOR MARY-DULANY JAMES



DELEGATE COURTNEY WATSON
HOUSE CHAIR

DELEGATE EMILY SHETTY
DELEGATE JOSHUA STONKO

MARYLAND GENERAL ASSEMBLY
JOINT COMMITTEE ON THE MANAGEMENT OF PUBLIC FUNDS

December 14, 2023

The Honorable Bill Ferguson, Co-Chair
The Honorable Adrienne A. Jones, Co-Chair
Members of the Legislative Policy Committee

Dear President Ferguson, Speaker Jones, and Members:

The Joint Committee on the Management of Public Funds is pleased to present this report on its activities undertaken during the 2023 interim in the conduct of its charge to oversee the general management of State public funds. The joint committee met twice and was briefed on several relevant topics, including the State's economic development programs, the activities of the Comptroller's and Treasurer's offices, and audits of local governments.

Last year, the joint committee recommended local governments that are delinquent in timely filing their audit reports as required by State law report to the joint committee regarding their noncompliance. During the 2023 interim, the joint committee heard from the delinquent local jurisdictions and recommends local governments continue to report to the joint committee if they are delinquent in timely filing their audit reports. The joint committee also recommends that the Treasurer report to the joint committee next interim on the Maryland 529 Program.

The joint committee greatly appreciates the assistance of the many individuals who participated in the activities of the joint committee during the 2023 interim.

Sincerely,

Handwritten signature of Arthur Ellis in blue ink.

Arthur Ellis
Senate Chair

Handwritten signature of Courtney Watson in blue ink.

Courtney Watson
House Chair

AE:CW/HM:NK/bal

Enclosure

cc: Sally Robb
Jeremy Baker
Victoria L. Gruber
Ryan Bishop

Joint Committee on the Management of Public Funds 2023 Interim Report

The Joint Committee on the Management of Public Funds held two meetings during the 2023 interim.

October 4 Meeting

Comptroller's Office – Update on Activities

Comptroller Brooke Lierman provided an update on the activities of the Comptroller's Office. The Comptroller explained how the agency is hiring additional employees, reclassifying positions, and investing in IT infrastructure to improve and modernize the agency. During the most recent tax season through October 1, the State collected \$17.3 billion in gross income tax revenue and processed more than 3.14 million tax returns. More than 2.3 million families received tax refunds, on average within 2.5 business days. The Comptroller's Office also discussed its role in the State's legalized cannabis marketplace. Lastly, the Comptroller discussed the priority of fortifying the agency's Compliance Division to help close the tax gap.

Office of Legislative Audits – Review of Local Government Audit Reports

The Office of Legislative Audits (OLA) presented information on the reviews of local government audits for fiscal 2022. OLA found that the local governments generally complied with generally accepted accounting principles and auditing standards and generally appeared to be in good financial condition. However, OLA's report summarized the most significant and frequent problem areas found during its annual review of local government audits. The Upper Potomac River Commission – Waste Treatment Plant Fund was identified as having a potential financial problem with the auditor reporting uncertainty regarding the fund's ability to continue as a going concern. The City of Seat Pleasant has not filed an audit report for fiscal 2020 through 2022, and six other local governments failed to submit audit reports for fiscal 2021 and 2022.

Failing to timely submit local government audit reports has been an ongoing issue for a number of years. Last year, the joint committee requested local governments that are delinquent in filing audit reports to report to the joint committee on their failure to timely submit audit reports. Thus, the joint committee heard from Dorchester County, the Town of Deer Park, the Town of Forest Heights, the City of Seat Pleasant, the Town of Middletown, the City of Hyattsville, and the Town of Sudlersville on their failures to timely submit audit reports. The joint committee recommends local governments continue to report to the joint committee if they are delinquent in timely filing their audit reports.

Dorchester County failed to submit timely audit reports for several reasons, including inadequate training on new financial software, the departure of key personnel, and a ransomware attack in 2020. Dorchester County hired a second audit firm to assist and expedite the completion

of the fiscal 2022 and 2023 audits and the Government Finance Officers Association will be reviewing the county's financial department to ensure best practices are in place.

The Town of Deer Park experienced delays in submitting audit reports due to the COVID-19 pandemic, computer system updates, town hall renovations that resulted in lost records which have since been recovered, and auditor staffing issues. The town is currently working on its 2021 and 2022 audit reports.

The delay in the Town of Forest Heights submitting its audit reports was due to the turnover of key personnel and the transition from paper reporting and filing to electronic filing. The town has hired a new accounting firm to complete the outstanding audits. Likewise, the City of Seat Pleasant was delinquent in submitting its audit reports due to staff attrition and retirement, transitioning from a paper system to an electronic system, and transitioning to new financial systems. The city hired a chief financial officer, along with other finance personnel, and is taking steps to complete its audits.

The Town of Middletown was delinquent in filing fiscal 2021 and 2022 audit reports due to the former town staff not responding to financial records requests from the auditor and delays stemming from the COVID-19 pandemic. The town hired new staff, including a new financial officer, and is rectifying the issues; therefore, the town does not anticipate delinquent filings in the future.

The City of Hyattsville attributes its delay in filing timely audit reports on its small staff and ongoing backlog, and the city has replaced its auditing firm. The Town of Sudlersville faced delays due to embezzlement; however, the town has a new billing system and no longer accepts cash, which should prevent any future embezzlement.

November 1 Meeting

State Treasurer's Office – Update on Activities

State Treasurer Dereck Davis provided an update on the activities of the Treasurer's Office. Treasurer Davis reported on the progress of transferring the Maryland 529 Program to the Treasurer's Office, which included setting up methods of communication with account holders, establishing a retroactive earnings rate on historical balances, and defining procedures for beneficiaries to file claims for retroactive earnings. During the first quarter of fiscal 2024, the Treasurer's Office refunded \$15.7 million to account holders, and distributed \$32.3 million to higher education institutions. The joint committee recommends the Treasurer report to the joint committee next interim on the progress of the Maryland 529 Program.

In addition, the Treasurer's Office updated the joint committee on the State investment policy regulations, which was a topic of legislation sponsored by the joint committee during the 2023 session (Chapters 115 and 116). As required by the Acts, the Treasurer's Office notified relevant local government officials about the forthcoming investment requirements. The new

investment policy was in the final stages of legal review as of the November 1 hearing, and has since been posted on the Treasurer's website, along with the emergency regulations.

Update on State Economic Development Programs

Representatives of the Maryland Department of Commerce, Meridian Management Group (MMG), the Maryland Technology Development Corporation (TEDCO), and the Maryland Agricultural and Resource-Based Industry Development Corporation (MARBIDCO) addressed the joint committee regarding their economic development and small business financing programs across the State.

Maryland Department of Commerce

The Secretary of Commerce, Kevin Anderson, presented Commerce's business development programs, highlighting two new programs, the Cannabis Business Assistance Fund, and the Child Care Capital Support Revolving Loan Fund to support businesses in the cannabis and child care industries, respectively. The Cannabis Business Assistance Fund also provides grants to historically Black colleges and universities for cannabis-related programs, and business development organizations. In response to a question from the joint committee regarding the balance of grants versus loans provided by the Cannabis Business Assistance Fund, Commerce indicated that 20 grants to businesses have been awarded, totaling \$39 million, compared to 2 loans to businesses that total \$1.5 million. The Child Care Capital Support Revolving Loan Fund provides no-interest loans to child care providers. The program is in its second year and Commerce is focused on working with child care providers to ensure applicants understand program requirements.

Commerce also updated the joint committee on three other programs: the Maryland Small Business Development Financing Authority (MSBDF), managed by MMG; the Small, Minority, and Women-Owned Businesses Account, funded through video lottery terminal revenues; and the Maryland Economic Development Assistance Authority and Fund, which provides below-market, fixed-rate financing for businesses in priority funding areas in the State.

Meridian Management Group

The executive director of MMG, Stanley Tucker, presented information about two of MMG's programs, MSBDF and the Maryland Casino Business Investment Fund (MCBIF), both of which promote entrepreneurs in Maryland, particularly women- and minority-owned businesses. MMG is aiming to increase investment by commercial banks to increase capital to support businesses and improve marketing efforts.

Maryland Technology Development Corporation

The executive director of TEDCO, Troy LeMaile-Stovall, provided an overview of TEDCO's investment programs, which invest only in Maryland, and work as venture capital programs to support businesses in the early stage of establishment. TEDCO reported that across three funds in fiscal 2023, 74% of approved companies were run by underrepresented groups, and

nearly 60% of funds were awarded to businesses owned by people of color or women. TEDCO also provided an update on several new programs established by legislation in 2023 to promote and support different types of entrepreneurs in Maryland.

Maryland Agricultural and Resource-Based Industry Development Corporation

Stephen McHenry, the executive director of MARBIDCO, briefed the joint committee on MARBIDCO's mission and on Maryland agriculture. Additionally, he shared recent research from Salisbury University looking at the economic impact of resource-based industries in Maryland. In 2006, the General Assembly passed the Agriculture Stewardship Act, which provided MARBIDCO with annual funding for core programming and required the agency to be self-sustaining by fiscal 2025. The agency is on track to meet this requirement.