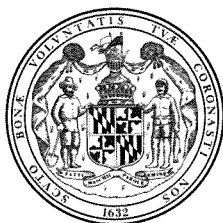

Review of Local Government Audit Reports

Fiscal Year Ending June 30, 2013



OFFICE OF LEGISLATIVE AUDITS
DEPARTMENT OF LEGISLATIVE SERVICES
MARYLAND GENERAL ASSEMBLY

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- This report and any related follow-up correspondence are available to the public through the Office of Legislative Audits at 301 West Preston Street, Room 1202, Baltimore, Maryland 21201. The Office may be contacted by telephone at 410-946-5900, 301-970-5900, or 1-877-486-9964.
 - Electronic copies of our audit reports can be viewed or downloaded from our website at <http://www.ola.state.md.us>.
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 - The Department of Legislative Services – Office of the Executive Director, 90 State Circle, Annapolis, Maryland 21401 can also assist you in obtaining copies of our reports and related correspondence. The Department may be contacted by telephone at 410-946-5400 or 301-970-5400.
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DEPARTMENT OF LEGISLATIVE SERVICES
OFFICE OF LEGISLATIVE AUDITS
MARYLAND GENERAL ASSEMBLY

Karl S. Aro
Executive Director

September 11, 2014

Thomas J. Barnickel III, CPA
Legislative Auditor

Senator James C. Rosapepe, Co-Chair, Joint Audit Committee
Delegate Guy J. Guzzone, Co-Chair, Joint Audit Committee
Members of Joint Audit Committee
Annapolis, Maryland

The Honorable Peter V. R. Franchot
Comptroller of Maryland

Mr. Karl S. Aro, Executive Director
Department of Legislative Services

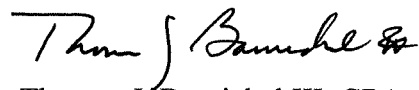
Ladies and Gentlemen:

In accordance with the Local Government Article, Section 16-307 of the Annotated Code of Maryland, we have performed desk reviews of the audit reports filed by each county, incorporated city or town, and taxing district in Maryland for the fiscal year ended June 30, 2013. The desk reviews consisted of assessments of compliance with accounting and auditing standards, evaluations of compliance with certain State laws, and analyses of selected financial data to identify potential financial problems.

Most of the local governments and their independent auditors substantially complied with accounting and auditing standards for the fiscal year ended June 30, 2013. Nevertheless, we identified instances of noncompliance with certain requirements of our audit guidelines, generally accepted accounting principles, and/or generally accepted auditing standards. Letters were sent to 55 local governments and to their independent auditors to notify them of the deficiencies disclosed by our reviews so that corrective actions could be taken to help ensure future compliance.

The financial statements disclosed 13 local governments with cash deposits that were not adequately collateralized, or otherwise insured, which is an area of noncompliance with State law. In addition, our desk reviews identified one local government with potential financial problems, as indicated by a deficit fund balance. Where appropriate, letters were sent to these local governments, and to their legislative representatives, to communicate their noncompliance or potential financial problems, and to request that the local governments advise us of the corrective actions that will be taken.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Thomas J. Barnickel III", with a stylized flourish at the end.

Thomas J. Barnickel III, CPA
Legislative Auditor

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Introduction and Scope

The Local Government Article, Section 16-306 of the Annotated Code of Maryland requires each county, incorporated city or town, and taxing district in Maryland to file annual (or once every four years under specified conditions) audit reports. There were 187 local government audit reports due for fiscal year 2013 (25 counties, 148 cities and towns, and 14 taxing districts). The reports are to include financial statements, with accompanying notes, and auditors' reports that express opinions as to whether the financial statements are fairly presented. The financial statements are required to be prepared in accordance with generally accepted accounting principles and audited in accordance with generally accepted auditing standards. We have prepared and distributed audit guidelines to provide additional information regarding the accounting, reporting, and auditing requirements.

The Local Government Article, Section 16-307 of the Code requires the Office of Legislative Audits to perform a desk review of each local government's annual audit report for compliance with generally accepted accounting principles and auditing standards. Section 16-308 of the Article specifies the reporting and review requirements applicable to special taxing districts created by the counties. The applicable county is responsible for reviewing each special taxing district's compliance with the applicable provisions of the law and for submitting the districts' reports to the Office of Legislative Audits. The Office is required to review the results of the counties' reviews and the districts' reports for compliance with the law.

We conducted a desk review of each of the fiscal year 2013 reports that had been received from the counties, incorporated cities and towns, and taxing districts, as well as three fiscal year 2012 reports (Baltimore City, Town of Sharptown, and City of Fruitland) and one fiscal year 2011 report (City of Hyattsville). The desk reviews were performed to accomplish the following tasks:

- Identify areas of noncompliance with our audit guidelines and accounting and auditing standards.
- Identify any instances of noncompliance with certain provisions of State law (for example, collateral for bank deposits).
- Identify local governments with potential financial problems relating to deficit fund balances or unfavorable trends and ratios, based on analyses of financial data over the most recent five-year period (July 1, 2008 through June 30, 2013).

We also reviewed each of the fiscal year 2013 special taxing district reports received and the related results of the counties' reviews of these reports. The purpose of our review was to ensure that the counties had reviewed the reports submitted for compliance with the provisions of the law and to identify instances in which required reports were not submitted.

Results of Desk Reviews

Audit Reports

Certain audit reports were not filed or were not filed on time.

Two local governments had not filed audit reports for fiscal years 2012 and 2013, and four other local governments had not filed audit reports for fiscal year 2013. Furthermore, 19 local governments submitted audit reports after the required filing date. The failure of a local government to file an audit report, or a delay in filing, results in the lack of timely accountability to its citizens. The submission of audit reports after the required filing date was also noted for 8 of these 19 local governments during our preceding year's review. The Local Government Article, Section 16-306 of the Annotated Code of Maryland generally requires audit reports to be filed on or before October 31 after the close of the fiscal year or on or before December 31 after the close of the fiscal year for those local governments with a population of more than 400,000.

Audit reports for the fiscal years ended June 30, 2012 and June 30, 2013 had not been received, as of July 31, 2014, for the City of Hyattsville and the Town of Deer Park. The failure of these local governments to submit audit reports has been reported to the Executive Director of the Department of Legislative Services. If these reports are not filed, the State Comptroller, acting upon the advice of the Executive Director, is authorized by law to discontinue the payment of all funds, grants, or State aid to which the local governments are entitled.

Additionally, audit reports for the fiscal year ended June 30, 2013 had not been received, as of July 31, 2014, for the following four local governments:

1. City of Glenarden
2. Town of Marydel
3. Town of Morningside
4. Town of Pittsville

We will review these fiscal year 2013 audit reports and take any follow-up action necessary when the reports are received. The results of these reviews will be included in the report on our review of fiscal year 2014 local government audit reports.

The towns of Brookview, Church Creek, Eldorado, Galestown, Goldsboro, Henderson, Hillsboro, Mardela Springs and Queen Anne's requested and were granted a waiver from filing an audit report for fiscal year 2013 because the local governments met the conditions for filing an audit report every fourth year as

provided for under the Local Government Article, Section 16-305 of the Code. These entities will next be required to file an audit report for fiscal year 2016. The towns of Barclay, Burkittsville, Eagle Harbor, and Port Tobacco and the Ellerslie and Mount Savage special taxing areas had previously requested and were granted waivers from filing audit reports. These entities will next be required to file audit reports for either fiscal year 2014 or fiscal year 2015.

The auditor's report for one local government contained an adverse opinion on one opinion unit and a qualified opinion on another opinion unit, and one other local government report contained a qualified opinion on one opinion unit.

The audit report for one local government contained an adverse opinion on one opinion unit and a qualified opinion on another opinion unit and one other local government report contained a qualified opinion on one opinion unit. The following is a summary of these opinions.

The auditor's report for the Town of Sykesville contained an adverse opinion (a statement that the financial statements are not presented fairly in conformity with generally accepted accounting principles) on the discretely presented component unit opinion unit because of the omission of financial data for the Town's component unit. Specifically, financial data related to a development corporation that is a component unit of the Town had not been audited and was not included in the Town's financial statement.

The Town's audit report also contained a qualified opinion (a statement that, except for the effects of the matter to which the qualification relates, the financial statements are presented fairly in conformity with generally accepted accounting principles) on the governmental activities opinion unit because the Town had not measured the effect of Governmental Accounting Standards Board Statement No. 49 entitled "*Accounting and Financial Reporting for Pollution Remediation Obligations*." According to the report, certain buildings of the development corporation contained asbestos and, although deemed improbable, the Town could become liable for the cost of abatement.

As a result, the Town's financial statements were not presented in accordance with generally accepted accounting principles as required by State law. The Town's audit reports for each fiscal year since 2009 also contained an adverse opinion and a qualified opinion due to these situations.

The audit report for Somerset County contained a qualified opinion on the Crisfield dispensary (part of the Liquor Control Board) component unit because the auditor was unable to obtain sufficient evidence about the completeness, existence, or classification of financial statement assertions for expenditures.

Thus, the County's financial statements were not presented in accordance with generally accepted accounting principles as required by State law.

Although required by our audit guidelines, the auditor for Somerset County did not submit a separate letter to the Office of Legislative Audits explaining the reason for the qualified opinion, and the County's plan to rectify the problem to enable the auditor to express unqualified opinions in the future. The auditor for the Town of Sykesville submitted a letter explaining the qualified opinion as required.

Auditors' reports for 24 local governmental units were not presented in accordance with certain generally accepted auditing standards.

Auditors' reports for 24 local governmental units were not presented in accordance with generally accepted auditing standards. The auditor's report for one of these local governmental units included a deficiency that was also cited during our preceding year's review. The following is a summary of these deficiencies:

Area of Noncompliance	Number of Audit Reports
Auditor did not express an opinion(s) on all opinion units or on all financial statements.	11
Auditor's report did not include all basic elements (for example, auditor did not include appropriate reference to the work of another auditor).	10
Auditor's report did not report on all required information (for example, supplemental information accompanying the basic financial statements).	3

The Local Government Article, Section 16-306 of the Annotated Code of Maryland requires that audits be performed in accordance with generally accepted auditing standards. These standards require, in part, that the auditor express an opinion(s) as to whether the basic financial statements present fairly, in all material respects, the respective financial position, the respective changes in financial position, and cash flows, where applicable, of the local government in conformity with accounting principles generally accepted in the United States of America.

Financial Statements

Financial statements submitted by 25 local governments did not meet certain requirements of generally accepted accounting principles.

Financial statements submitted by 25 local governments did not meet certain requirements of generally accepted accounting principles. The financial statements of four of these local governments included two such deficiencies and the financial statements of one of these local governments included four such deficiencies. Furthermore, the financial statement of one of these 25 local governments included a deficiency that was also cited during our preceding year's review. The following is a summary of the deficiencies and the corresponding number of instances:

Deficiency	Number of Instances
Items reported as assets, deferred outflows of resources, liabilities, and deferred inflows of resources were not properly displayed.	15
Misclassification or improper presentation (for example, presentation of net assets was improper).	10
Governmental fund balances were not properly classified.	4
All required financial statements were not presented or presentation of statement(s) was inappropriate.	3

Financial statements and accompanying notes for seven local governments did not include certain disclosures required by generally accepted accounting principles.

Certain required information was not included in the financial statements, or in the accompanying notes, for seven audit reports. Adequate disclosure is necessary to facilitate the understanding of, and to provide for fair presentation of, the financial information. The following is a summary of these areas of insufficient disclosure and the corresponding number of instances:

Area of Insufficient Disclosure	Number of Instances
Long-term debt	6
Reconciliation of the budgetary basis of accounting to the modified accrual basis	1

Noncompliance with State Law

Financial statements of 13 local governments contained disclosures that cash deposits were not adequately collateralized, or otherwise insured, as required by State law.

Financial statements of 13 local governments contained disclosures that cash deposits were not adequately collateralized, or otherwise insured, as required by State law (Exhibit A). The Local Government Article, Section 17-101 of the Annotated Code of Maryland requires that deposits with financial institutions by local governmental units be fully collateralized. Full collateralization minimizes the risk of loss of deposits in the event the financial institution defaults. In addition, this law requires that collateral be of the types specified in the State Finance and Procurement Article, Section 6-202 of the Code.

Potential Financial Problems

For the fiscal year ended June 30, 2013, the following potential financial problem was noted based on the information presented in the local governments' audited financial statements and accompanying notes.

An unrestricted general fund deficit balance was noted for one local government as of June 30, 2013.

An unrestricted general fund deficit balance was noted for one local government as of June 30, 2013 (Exhibit B). The general fund is used to account for most of the current operating expenditures of a local governmental unit. A general fund deficit balance represents the costs of current or past services that will need to be financed in future periods. Consequently, a general fund deficit may indicate a potential financial problem.

Special Taxing Districts

The preceding contents of this report are applicable to local governments filing audit reports in accordance with the provisions of the Local Government Article, Section 16-306 of the Code. Section 16-308 of this Article requires that certain types of special taxing districts file annual audit or financial reports with the county in which the districts are located not later than 90 days after the close of the fiscal year, in accordance with the rules and regulations established by the applicable county. The applicable county is responsible for reviewing each

district's compliance with the applicable provisions of the law and for submitting copies of these reports to the Office of Legislative Audits.

The required reports have not been filed for three special taxing districts as of August 6, 2014.

As of August 6, 2014, we had not received the required reports for the fiscal year ended June 30, 2013 for three special taxing districts which are located in Anne Arundel County. Anne Arundel County advised us that they were in the process of pursuing compliance with applicable filing requirements for these districts and that appropriate follow-up action would be taken (for example, withholding funds).

Exhibit A
**Schedule of Audit Reports Containing Disclosures That Cash
Deposits Were Not Fully Collateralized or Otherwise Insured**

Entity	Uninsured/ Uncollateralized Amount	Similar Disclosures Included in Audit Reports for Each Year Since Fiscal Year
<u>At June 30, 2013</u>		
Counties		
Anne Arundel County	\$2,673,136	2000
Dorchester County	554,692	2012
Garrett County	1,558,144	
Cities and Towns		
City of Annapolis	1,432,195	
Town of Barton	4,440	
Town of Capitol Heights	1,212,007	
Town of Grantsville	116,295	
Town of Lonaconing	201,615	
Town of Rising Sun	441,273	
Town of Thurmont	6,913	2009
Town of Upper Marlboro	271,964	
Special Taxing Areas		
Drummond Citizens' Committee	223,089	
Maryland-National Capital Park And Planning Commission	1,240,437	

Exhibit B
Schedule of General Fund Deficits
Fiscal Year Ended June 30, 2013

Entity	Unrestricted Fund Balance (Deficit) at July 1, 2012	Revenues and Other Increases	Expenditures and Other Decreases	Unrestricted Fund Balance (Deficit) at June 30, 2013
Cities and Towns				
Town of Cecilton	\$ 13,123	\$ 401,912	\$ 442,722	\$ (27,687)

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