
Review of Local Government Audit Reports

Fiscal Year Ending June 30, 2014



OFFICE OF LEGISLATIVE AUDITS
DEPARTMENT OF LEGISLATIVE SERVICES
MARYLAND GENERAL ASSEMBLY

For further information concerning this report contact:

**Department of Legislative Services
Office of Legislative Audits**

301 West Preston Street, Room 1202
Baltimore, Maryland 21201

Phone: 410-946-5900 · 301-970-5900

Toll Free in Maryland: 1-877-486-9964

Maryland Relay: 711

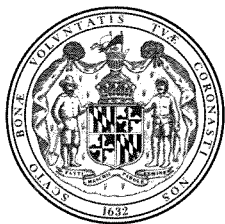
TTY: 410-946-5401 · 301-970-5401

E-mail: OLAWebmaster@ola.state.md.us

Website: www.ola.state.md.us

The Office of Legislative Audits operates a Fraud Hotline to report fraud, waste, or abuse involving State of Maryland government resources. Reports of fraud, waste, or abuse may be communicated anonymously by a toll-free call to 1-877-FRAUD-11, by mail to the Fraud Hotline, c/o Office of Legislative Audits, or through the Office's website.

The Department of Legislative Services does not discriminate on the basis of age, ancestry, color, creed, marital status, national origin, race, religion, gender, gender identity, sexual orientation, or disability in the admission or access to its programs, services, or activities. The Department's Information Officer has been designated to coordinate compliance with the nondiscrimination requirements contained in Section 35.107 of the Department of Justice Regulations. Requests for assistance should be directed to the Information Officer at 410-946-5400 or 410-970-5400.



DEPARTMENT OF LEGISLATIVE SERVICES
OFFICE OF LEGISLATIVE AUDITS
MARYLAND GENERAL ASSEMBLY

Warren G. Deschenaux
Executive Director

September 15, 2015

Thomas J. Barnickel III, CPA
Legislative Auditor

Senator Guy J. Guzzone, Co-Chair, Joint Audit Committee
Delegate Craig J. Zucker, Co-Chair, Joint Audit Committee
Members of Joint Audit Committee
Annapolis, Maryland

The Honorable Peter V. R. Franchot
Comptroller of Maryland

Mr. Warren G. Deschenaux, 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, 2014. The desk reviews consisted of assessments of compliance with certain 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 financial statements filed by the local governments for the fiscal year ended June 30, 2014, along with the related independent auditors' reports, complied with the accounting and auditing standards that we assessed. 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 57 local governments and, as applicable, 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.

A number of audit reports were not filed timely within the requirements of State law. Additionally, as of the date of this report, four local governments had not filed audit reports for either the fiscal years ended June 30, 2014 or June 30, 2013. If a local government does not comply with the audit report filing requirements, State law provides that the Comptroller, on notice from the Executive Director of the Department of Legislative Services, may order the discontinuance of all moneys, grants, or State aid to which the local governments are entitled. The financial statements disclosed 14 local governments with cash deposits that were not adequately collateralized, or otherwise insured, which is also an area of noncompliance with State law.

In addition, our desk reviews identified three local governments with potential financial problems, as indicated by a deficit fund balance or unfavorable financial trends.

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, reading "Thomas J. Barnickel III". The signature is written in a cursive style with a large, stylized "T" and "B".

Thomas J. Barnickel III, CPA
Legislative Auditor

Table of Contents

Introduction and Scope	4
Results of Desk Reviews	
Audit Reports	
Audit Reports Were Not Filed or Were Not Filed on Time	6
Auditors' Reports Contained Qualified and Adverse Opinions	7
Auditors' Reports Were Not Presented in Accordance with Generally Accepted Auditing Standards	8
Financial Statements	
Financial Statements Did Not Meet Certain Requirements of Generally Accepted Accounting Principles	9
Financial Statements and Accompanying Notes Did Not Include Certain Required Disclosures	10
Noncompliance with State Law	
Cash Deposits Were Not Adequately Collateralized or Insured	10
Potential Financial Problems	
One Local Government Had an Unrestricted General Fund Deficit	10
Two Local Governments Had Significant Unfavorable Trends and Ratios	11
Special Taxing Districts	
Certain Required Reports Were Not Filed	11
Exhibit A – Schedule of Audit Reports Containing Disclosures That Cash Deposits Were Not Fully Collateralized or Otherwise Insured	12
Exhibit B – Schedule of General Fund Deficits	13
Exhibit C – Schedule of Unfavorable General Fund Trends and Ratios	14

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 191 local government audit reports due for fiscal year 2014 (24 counties, 153 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 2014 reports that had been received from the counties, incorporated cities and towns, and taxing districts, as well as one fiscal year 2013 report (Town of Pittsville) and two fiscal year 2012 reports (Town of Deer Park and City of Hyattsville). The desk reviews were performed to accomplish the following tasks:

- Identify areas of noncompliance with our audit guidelines and certain accounting and auditing standards pertaining to the presentation of the financial statements and auditors' reports.
- Identify any instances of noncompliance with certain provisions of State law (for example, collateral for bank deposits, timely filing of audit reports).
- 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, 2009 through June 30, 2014).

We also reviewed each of the fiscal year 2014 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.

As of July 31, 2015, five local governments had not filed audit reports for fiscal years 2013 and 2014, and one other local government had not filed its audit report for fiscal year 2014. Furthermore, 18 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 5 of these 18 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, 2013 and June 30, 2014 had not been received, as of July 31, 2015, for the following five governments:

1. Town of Deer Park
2. City of Glenarden
3. City of Hyattsville
4. Town of Marydel
5. Town of Morningside

Subsequently, the City of Glenarden submitted its audit report for the fiscal year ended June 30, 2013. The failure of the four other 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, an audit report for the fiscal year ended June 30, 2014 had not been received, as of July 31, 2015, for the City of Baltimore.

We will review all fiscal year 2013 and fiscal year 2014 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 2015 local government audit reports.

The towns of Brookview, Church Creek, Eagle Harbor, Eldorado, Galestown, Goldsboro, Henderson, Hillsboro, Mardela Springs, Queen Anne and Templeville, and the Ellerslie and Mount Savage special taxing areas had previously requested and were granted waivers from filing audit reports. These 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 and, depending on the waiver period, will be required to file its next audit report for either fiscal year 2015, fiscal year 2016, or fiscal year 2017.

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 two other local government reports contained qualified opinions on certain opinion units.

The audit report for one local government contained an adverse opinion on one opinion unit and a qualified opinion on another opinion unit and two other local government reports contained qualified opinions on certain opinion units. 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 reports for the Town of Pittsville for fiscal years 2014 and 2013 contained qualified opinions on all of the Town's opinion units (governmental activities, business-type activities, each major fund, and the aggregate remaining fund information) because, during the years ended June 30, 2014 and June 30, 2013, the accounting records had been altered to cover up unauthorized disbursements from the Town. A third party was engaged to reconstruct the books and records and it was discovered that the Town did not have records to support the classification of revenue and numerous expenditures did not have authorization. The Town's systems also did not provide certain outstanding balances as of June 30, 2014 and June 30, 2013. Consequently, the auditor was unable to determine what adjustments were necessary.

The fiscal year 2012 audit report for the Town of Deer Park contained a qualified opinion on the Town's governmental activities, each major fund, and the aggregate remaining fund information opinion units because the personal property tax revenue had not been audited due to the fact that the Town could not provide proper documentation on billing and revenues received.

Although required by our audit guidelines, the auditors for the Towns of Pittsville and Deer Park did not submit separate letters to the Office of Legislative Audits explaining the reasons for the qualified opinions, and the Towns' plans to rectify the problems to enable the auditors 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 11 local governmental units were not presented in accordance with certain generally accepted auditing standards.

Auditors' reports for 11 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 deficiencies that were also cited during our preceding year's review. The following is a summary of these deficiencies:

Area of Noncompliance	Number of Audit Reports
Auditor's report did not include all basic elements (for example, auditor did not include appropriate reference to the work of another auditor).	7
Auditor did not express an opinion(s) on all opinion units or on all financial statements.	4

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 31 local governments did not meet certain requirements of generally accepted accounting principles.

Financial statements submitted by 31 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 two of these local governments included three such deficiencies. Furthermore, the financial statements of 2 of these 31 local governments included one or more deficiencies that were 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
All required financial statements were not presented or presentation of statement(s) was inappropriate.	11
Misclassification or improper presentation (for example, presentation of net position was improper).	10
Governmental fund balances were not properly classified.	9
Items reported as assets, deferred outflows of resources, liabilities, and deferred inflows of resources were not properly displayed.	9

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

The financial statements and accompanying notes for one local government did not include certain disclosures regarding its long-term debt as required by generally accepted accounting principles. Adequate disclosure is necessary to facilitate the understanding of, and to provide for fair presentation of, the financial information.

Noncompliance with State Law

Financial statements of 14 local governments contained disclosures that cash deposits were not adequately collateralized, or otherwise insured, as required by State law.

Financial statements of 14 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, 2014, the following potential financial problems were 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, 2014.

An unrestricted general fund deficit balance was noted for one local government as of June 30, 2014 (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.

Significant unfavorable trends and ratios were noted for two local governments as of June 30, 2014.

Significant unfavorable trends and ratios were noted for two local governments as of June 30, 2014 (Exhibit C). The unfavorable trends and ratios occurred because, over the five-year period reviewed, the local governments had general fund expenditures that exceeded general fund revenues, significant decreases in general fund balances, and significant decreases in the ratio of general fund balances to general fund expenditures.

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 two special taxing districts as of July 31, 2015.

As of July 31, 2015, we had not received the required reports for the fiscal year ended June 30, 2014 for two 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, 2014</u>		
Counties		
Anne Arundel County	\$574,683	2000
Harford County	23,251	
Somerset County	1,844,911	
Wicomico County	550,454	
Cities and Towns		
Town of Brookville	10,877	
Town of Capitol Heights	88,264	2013
Village of Chevy Chase, Section 3	30,000	
Town of Easton	5,037,145	
Town of Grantsville	155,330	2013
Town of Hurlock	*	
Town of Lonaconing	320,845	2013
Town of New Market	362,486	
Special Taxing Areas		
Upper Potomac River Commission	18,367	
<u>Other Than at June 30, 2014</u>		
Cities and Towns		
Town of Glen Echo	*	

* This entity did not disclose the dollar amount of the uninsured/uncollateralized cash deposits in the financial statements

Exhibit B
Schedule of General Fund Deficits
Fiscal Year Ended June 30, 2014

Entity	Unrestricted Fund Balance (Deficit) at July 1, 2013	Revenues and Other Increases	Expenditures and Other Decreases	Unrestricted Fund Balance (Deficit) at June 30, 2014
Cities and Towns				
City of Crisfield	\$ 262,870	\$ 4,311,557	\$ 4,713,218	\$ (138,791)

Exhibit C
Schedule of Unfavorable General Fund Trends and Ratios
Fiscal Year Ended June 30, 2014

<u>Entity</u>	<u>Unfavorable Trend or Ratio</u>
Town of Henderson	<p>Expenditures exceeded revenues for the fiscal years ending June 30, 2011 through 2014.</p> <p>Fund balance decreased from \$30,714 as of June 30, 2010 to \$1,522 as of June 30, 2014.</p> <p>Fund balance as a percentage of annual expenditures decreased from 63% as of June 30, 2010 to 4% as of June 30, 2014.</p>
Pocomoke City	<p>Expenditures and other fund uses exceeded revenues and other fund sources for the fiscal years ending June 30, 2010, 2012, and 2014.</p> <p>Fund balance decreased from \$556,278 as of June 30, 2013 to \$173,597 as of June 30, 2014.</p> <p>Fund balance as a percentage of annual expenditures and other financing uses decreased from 9% as of June 30, 2013 to 3% as of June 30, 2014.</p>

AUDIT TEAM

Robert A. Garman, CPA
Assistant Director

Catherine M. Easter
Senior Auditor

Daniel P. Nuccio, CPA
Nathan H. Suffin, CPA
Staff Auditors