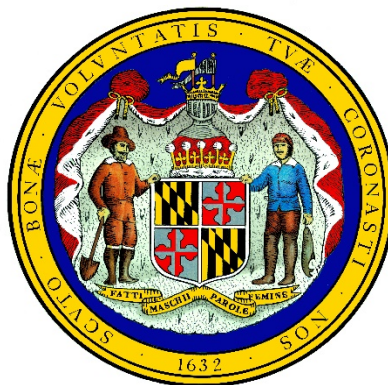

Review of Local Government Audit Reports

Fiscal Year Ending June 30, 2023



OFFICE OF LEGISLATIVE AUDITS
DEPARTMENT OF LEGISLATIVE SERVICES
MARYLAND GENERAL ASSEMBLY

Joint Audit and Evaluation Committee

Senator Clarence K. Lam, M.D. (Senate Chair)	Delegate Jared Solomon (House Chair)
Senator Joanne C. Benson	Delegate Steven J. Arentz
Senator Paul D. Corderman	Delegate Andrea Fletcher Harrison
Senator Katie Fry Hester	Delegate Steven C. Johnson
Senator Shelly L. Hettleman	Delegate Mary A. Lehman
Senator Cheryl C. Kagan	Delegate David Moon
Senator Cory V. McCray	Delegate Julie Palakovich Carr
Senator Justin D. Ready	Delegate Stephanie M. Smith
Senator Bryan W. Simonaire	Delegate M. Courtney Watson
Senator Craig J. Zucker	One Vacancy

To Obtain Further Information

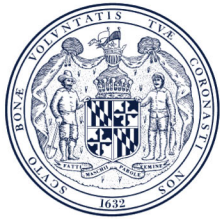
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Victoria L. Gruber
Executive Director

DEPARTMENT OF LEGISLATIVE SERVICES
OFFICE OF LEGISLATIVE AUDITS
MARYLAND GENERAL ASSEMBLY

Brian S. Tanen, CPA, CFE
Legislative Auditor

August 26, 2024

Senator Clarence K. Lam, M.D., Senate Chair, Joint Audit and Evaluation Committee
Delegate Jared Solomon, House Chair, Joint Audit and Evaluation Committee
Members of Joint Audit and Evaluation Committee
Annapolis, Maryland

The Honorable Brooke E. Lierman
Comptroller of Maryland

Ms. Victoria L. Gruber, 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 for the fiscal year ended June 30, 2023 filed by each county, incorporated city or town, and taxing district in Maryland (referred to as local governments). We also reviewed overdue audit reports for prior fiscal years that were received over the past year. 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, 2023, 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. We sent letters to 45 local governments (some of whom had several different instances of non-compliance) 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.

In addition, 40 local governments had not filed audit reports in accordance with the requirements of State law. For example, as of April 30, 2024, 26 local governments had not submitted audit reports for the fiscal year ended June 30, 2023, which had a statutory filing deadline of October 31, 2023 or December 31, 2023 (based on a jurisdiction's population size). Additionally, 8 of those 26 local governments had not filed audit reports for fiscal years ending June 30, 2022; and 2 of those 8 also had not filed its audit report for the fiscal year ended June 30, 2021. As noted later in this report, certain of these local governments submitted reports after this deadline and will be reviewed in conjunction with our review of the fiscal year 2024 financial statements.

If a local government does not comply with the audit report filing requirements, State law provides that the Comptroller of Maryland, 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. Previously, in a separate letter, we notified the Executive Director of the Department of Legislative Services of the local governments with more than one fiscal year's audit report outstanding.

Financial statements submitted by 13 local governments contained disclosures that cash deposits were not adequately collateralized, or otherwise insured, as required by State law. Additionally, for one local government, the auditor's report included an explanatory paragraph describing an uncertainty about its ability to continue as a going concern. As appropriate, we sent letters to these local governments, and to their legislative representatives, to communicate their noncompliance and to request that the local governments advise us of the corrective actions that will be taken.

Respectfully submitted,

Brian S. Tanen

Brian S. Tanen, CPA, CFE
Legislative Auditor

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Introduction and Scope, Objectives, and Methodology

The Local Government Article, Section 16-306 of the Annotated Code of Maryland requires each county, incorporated city or town, and special taxing area in Maryland (referred to in this report as local governments) to file audit reports annually or once every four years under specified conditions. There are 23 counties, Baltimore City, 156 incorporated cities and towns, and 14 special taxing areas in Maryland that fall under the scope of our review. In March 2024 we advised all local governments of the relevant submission deadlines. Audit guidelines to provide additional information regarding the accounting, reporting, and auditing requirements were distributed in July 2023.

Based on current reports, past due reports, and waivers previously granted by this Office, there were 206 local government audit reports due for our fiscal year 2023 review.¹ 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.

The Local Government Article, Section 16-307 of the Code requires the Office of Legislative Audits (OLA) to perform a desk review of each local government's annual audit report for compliance with generally accepted accounting principles and auditing standards. As part of the desk review process, we also addressed other attributes as described below. Section 16-308 of the Article specifies the reporting and review requirements applicable to special taxing districts created by the counties (in general, the difference between a special taxing district and a special taxing area relates to the party responsible for monitoring). The applicable county is responsible for monitoring each special taxing district's compliance with the applicable provisions of the law and for submitting the districts' reports to OLA. Generally, OLA also reviews the counties' monitoring of the districts' reports.

Our current desk review included all reports for fiscal year 2023 received as of April 30, 2024, as well as any reports received as of that date for prior years, such as any delinquent reports received. Any reports due but received after that date have been classified as not received for purposes of this year's review, and will be included in our next review, which will be for the fiscal year ending June 30, 2024.

¹ As noted in the "Results of Desk Review" section of this report, not all reports due this year were submitted.

In addition to the fiscal year 2023 reports that were received from the counties, incorporated cities and towns, and special taxing areas as of the aforementioned date, we also received and reviewed the following reports that were received over the last year.

- One fiscal year 2020 report (City of Seat Pleasant)
- Five fiscal year 2021 reports (Dorchester County, Town of Deer Park, Town of Forest Heights, City of Hyattsville, and Town of Middletown)
- Eleven fiscal year 2022 reports (Town of Berwyn Heights, Town of Burkittsville, Town of Capitol Heights, Town of Charlestown, Town of Deer Park, Town of East New Market, Town of Greensboro, Town of Indian Head, Town of Middletown, Village of Port Tobacco, and Town of Princess Anne)

The desk reviews consisted of reviewing each audit report in order 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, 2018 through June 30, 2023).

We also reviewed each of the fiscal year 2023 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 received all required reports from the districts and reviewed the reports submitted for compliance with the provisions of the law and to identify instances in which required reports were not submitted.

At the conclusion of our review, we sent letters to applicable local governments and their independent auditors to notify them of the deficiencies disclosed during the review, so that corrective actions can be taken to help ensure future compliance. Additionally, as appropriate, we sent letters to local governments, and to their legislative representatives, to communicate certain noncompliance with State law or potential financial problems. For these issues, we asked the local governments to advise us of corrective actions that will be taken.

Results of Desk Reviews

Audit Reports

Finding 1

Forty local governments had not filed the required audit reports and/or had filed after the required filing date.

Forty local governments had not filed the required audit reports and/or had filed after the required filing date. As of April 30, 2024, 26 local governments had not filed the current year's audit report as required by the Local Government Article of the Annotated Code of Maryland including eight that remained delinquent in filing the required report for one or more prior years (see Figure 1 on next page).

Furthermore, 24 local governments submitted 27 audit reports after the filing date required by law. The submission of audit reports after the filing date in the law was also noted for 11 of these 24 local governments during one or more of our preceding reviews (see Figure 1 on next page).

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 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. As previously noted, we gave local governments until April 30, 2024 before classifying a report due as not submitted.

Figure 1
Local Government Audit Reports – Not Filed and Filed Late

Local Government	Fiscal Years Not Filed	Fiscal Years Filed Late
Allegany County	2023	
Baltimore County	2023*	
Calvert County	2023*	
Dorchester County	2022, 2023	2021
Baltimore City	2023*	
Town of Barclay	2022, 2023	
Town of Berlin	2023*	
Town of Berwyn Heights		2022, 2023
Town of Brentwood		2023
Town of Burkittsville		2022
Town of Capitol Heights	2023	2022
Town of Charlestown		2022
Town of Chesapeake Beach		2023
Town of Deer Park	2023	2021, 2022
Town of Eagle Harbor	2023	
Town of East New Market		2022
Town of Elkton	2023*	
Town of Federalsburg	2023	
Town of Forest Heights	2022, 2023	2021
Town of Greensboro	2023	2022
City of Hyattsville	2022, 2023	2021
Town of Indian Head	2023	2022
Town of Lonaconing	2022, 2023	
Town of Mardela Springs	2023	
Town of Middletown	2023*	2021, 2022
Town of North Brentwood		2023
Town of North East		2023
Town of Port Deposit	2023*	
Town of Port Tobacco		2022
Town of Princess Anne	2023*	2022**
Town of Queenstown		2023
Town of Rock Hall	2022*, 2023	
City of Salisbury		2023
City of Seat Pleasant	2021*, 2022, 2023	2020
Town of Snow Hill		2023
Town of Somerset	2023*	
Town of Sudlersville	2021*, 2022, 2023	

Figure 1
Local Government Audit Reports – Not Filed and Filed Late (continued)

Local Government	Fiscal Years Not Filed	Fiscal Years Filed Late
Town of Westernport	2023*	
Upper Potomac River Commission		2023
Washington Suburban Sanitary Commission		2023
* The audit report for this fiscal year was subsequently submitted after the April 30, 2024 cut off and therefore is not included in our current review. As such, it will be included with our review of fiscal year 2024 audit reports. ** As noted in Finding 2, the auditor was unable to express an opinion on the Town's financial statements for fiscal years 2022 and 2021. While the submission of the audit report satisfies the technical requirement of the law, we believe the Town could be treated as a non-filer for these years because the financial statements may not be able to be relied upon.		

Source: Local Government Audit Reports

The towns of Barnesville, Barton, Brookview, Burkittsville, Church Creek, Eldorado, Galestown, Goldsboro, Henderson, Highland Beach, Hillsboro, Marydel, Queen Anne, Templeville, and the Village of Port Tobacco previously requested and were granted waivers from filing audit reports. Local governments granted waivers are required to meet 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 2024, 2025, or 2026.

Budget language adopted during previous sessions of the Maryland General Assembly resulted in the withholding of transportation aid from certain local governments pending receipt of their delinquent audit reports. Furthermore, the failure to file a required report with the Department of Legislative Services for three successive years provides the Department's Executive Director with reasonable cause to suppose that the municipality is no longer actively operating under its charter, which could cause the municipality to have its charter repealed. To that end, we have reported the failure of the City of Seat Pleasant and the Town of Sudlersville to file the required reports for the fiscal years ending June 30, 2021, 2022, and 2023 to the Executive Director.

Finding 2

The auditor's report for one local government contained a disclaimer of opinion on the financial statements.

The auditor's fiscal year 2022 report for the Town of Princess Anne contained a disclaimer of opinion on the financial statements. A disclaimer of opinion is issued because the auditor was unable to obtain sufficient appropriate audit evidence in order to express an opinion on the financial statements. While the submission of the audit report satisfies the technical requirement of the law, the inability to express an opinion diminishes the value of the audit because the financial statements may not be able to be relied upon. This area of noncompliance was previously noted for the Town's fiscal year 2021 financial statements. Furthermore, as noted in Finding 1, as of April 30, 2024, the Town had not submitted a report for fiscal year 2023.

Although required by our audit guidelines, the auditor for the Town of Princess Anne did not submit a separate letter to the Office of Legislative Audits (OLA) explaining the reason why an unqualified opinion could not be expressed and the Town management's plan to rectify the problem to enable the auditor to express an unqualified opinion in the future.

Finding 3

Auditors' reports for three local governments were not presented in accordance with certain generally accepted auditing standards.

Auditors' reports for three local governments were not presented in accordance with certain generally accepted auditing standards as required. Specifically, in one report the auditors did not express an opinion on all opinion units or financial statements as required, and in two other reports the auditors did not include all the basic elements of an audit report in accordance with auditing standards. For one of these local governments, the same deficiency was cited during our preceding year's review.

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

Finding 4

The financial statements submitted by 17 local governments did not meet certain requirements of generally accepted accounting principles.

Financial statements submitted by 17 local governments included a total of 18 instances in which certain requirements of generally accepted accounting principles were not met. Furthermore, the deficiencies noted in the financial statements for 2 of the local governments were also noted during our preceding year's review. A summary of the deficiencies and the corresponding number of instances is shown in Figure 2.

Figure 2
Financial Statement Deficiencies

Deficiency	Number of Instances
Presentation of financial statement(s) was inappropriate (for example, certain amounts reported on more than one financial statement did not agree).	2
Misclassification or improper presentation (for example, financial statement was not mathematically accurate).	15
Governmental fund balances were not properly classified.	1

Source: Local Government Financial Statements

Finding 5

Financial statements, accompanying notes, and required supplementary information in four audit reports related to three local governments did not include certain disclosures required by generally accepted accounting principles.

Certain required information was not included in the financial statements, or disclosed in the accompanying notes, or the required supplementary information, for four audit reports from three local governments. Adequate disclosure is necessary to facilitate the understanding of and to provide for fair presentation of the financial information. The financial statements of three of these local governments included a deficiency that was also cited during our review of the preceding year's financial statements. A summary of the areas of insufficient disclosure and the corresponding number of instances is shown in Figure 3.

Figure 3
Financial Statements with Insufficient Disclosures

Area of Insufficient Disclosure	Number of Instances
Basis of accounting and measurement focus	1
Information related to pensions	3

Source: Local Government Financial Statements

Uncollateralized Funds

Finding 6

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

Financial statements submitted by 13 local governments contained disclosures that cash deposits were not adequately collateralized, or otherwise insured, as required by State law (see Figure 4 on next page).

Figure 4
Local Governments with Uncollateralized/Uninsured Cash
Deposit Amounts

Local Government	Uncollateralized/ Uninsured Cash Deposit Amount	Similar Disclosure Included in Audit Reports for Each Year Since
<u>At June 30, 2023</u>		
Counties		
Frederick County	\$1,342,902 ¹	n/a
St. Mary's County	4,679,651	2022
Cities and Towns		
Town of Brookeville	3,971	2022
Town of Chesapeake Beach	819,537	n/a
Town of Kensington	94,645	n/a
Village of Martin's Additions	2,132	2022
Town of Mountain Lake Park	9,301	n/a
Village of North Chevy Chase	485,247	n/a
Special Taxing Areas		
Village of Drummond	158,346	2020
Oakmont Special Taxing Area	670,000	n/a
<u>At June 30, 2022</u>		
Cities and Towns		
Village of Port Tobacco	55,639	n/a
<u>At June 30, 2021</u>		
Counties		
Dorchester County	84,080	2020
<u>At June 30, 2020</u>		
Cities and Towns		
City of Seat Pleasant	282,952	2019
¹ – Of this amount, \$1,232,734 is related to a component unit of this local government. n/a – not applicable, as not included in prior year report.		

Source: Local Government Financial Statements

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

Finding 7

One local government audit report disclosed potential financial problems resulting in uncertainty regarding its ability to continue as a going concern.

The audit report for the Upper Potomac River Commission – Waste Treatment Plant, Trunk Sewer and Municipal Connecting System Fund (Fund), disclosed potential financial problems resulting in uncertainty regarding its ability to continue as a going concern. Specifically, the auditor’s report referenced the Fund’s notes to the financial statements which stated the Fund received 100 percent of operating revenues from a corporation which closed its paper mill on June 30, 2019, which until that time operated on the Potomac River. The notes also state that in August 2023, the Fund amended its agreement with the corporation allowing for \$2,500,000 of continuing treatment services for the period of January 1, 2023 to December 31, 2025.

The notes stated that the Fund management is in the process of addressing how it will fulfill the Fund’s obligations, given its economic dependence on the corporation. This Fund had an unrestricted net position deficit of \$1,251,528, which was partially offset by net investment in capital assets of \$856,825 leaving the Fund with a net position deficit of \$394,703 as of June 30, 2023. A similar condition has been noted in regard to the Commission’s financial statements in each fiscal year since 2019.

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 (created by a county) file annual audited or unaudited 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. For fiscal year 2023, there were 92 special taxing districts, of which 79 had activity to report. The required reports had been filed timely with the applicable county for these 79 special taxing districts.

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