
Review of Local Government Audit Reports

Fiscal Year Ending June 30, 2017



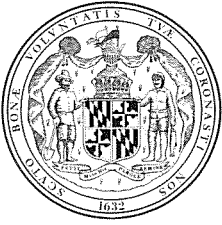
OFFICE OF LEGISLATIVE AUDITS
DEPARTMENT OF LEGISLATIVE SERVICES
MARYLAND GENERAL ASSEMBLY

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

Victoria L. Gruber
Executive Director

Thomas J. Barnickel III, CPA
Legislative Auditor

September 11, 2018

Senator Craig J. Zucker, Co-Chair, Joint Audit Committee
Delegate C. William Frick, Co-Chair, Joint Audit Committee
Members of Joint Audit Committee
Annapolis, Maryland

The Honorable Peter V. R. Franchot
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 filed by each county, incorporated city or town, and taxing district in Maryland for the fiscal year ended June 30, 2017. 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, 2017, 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 49 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 in accordance with the requirements of State law. As of July 26, 2018, eight local governments had not

submitted audit reports for the fiscal year ended June 30, 2017; three of these also had not filed audit reports for certain prior years.

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. Provisions were included in Chapter 570, 2018 Laws of Maryland (the State's Budget Bill) to withhold certain transportation aid for two of the aforementioned local governments until the governments have submitted their delinquent audit reports. We notified the Executive Director of the Department of Legislative Services of those local governments with more than one audit report outstanding.

The financial statements disclosed 12 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 two local governments with potential financial problems, as indicated by a deficit fund balance or unfavorable financial trends.

As 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 "TJ Barnickel III", is written over a horizontal line.

Thomas J. Barnickel III, CPA
Legislative Auditor

Table of Contents

Introduction and Scope	5
Results of Desk Reviews	7
Audit Reports	
Finding 1 – A number of local governments had not filed the required audit reports or had filed after the required filing date.	7
Finding 2 – Auditor’s report for one local government contained an adverse opinion on one opinion unit and a qualified opinion on another opinion unit.	8
Finding 3 – Auditors’ reports for five local governmental units were not presented in accordance with certain generally accepted auditing standards.	9
Financial Statements	
Finding 4 – Financial statements submitted by 27 local governments did not meet certain requirements of generally accepted accounting principles.	10
Finding 5 – Financial statements, accompanying notes, and required supplementary information did not include certain disclosures required by generally accepted accounting principles for three local governments.	10
Noncompliance with State Law	
Finding 6 – Financial statements of 12 local governments contained disclosures that cash deposits were not adequately collateralized, or otherwise insured, as required by State law.	11
Potential Financial Problems	
Finding 7 – An unrestricted general fund deficit balance was noted for one local government as of June 30, 2017.	11
Finding 8 – Significant unfavorable trends and ratios were noted for one local government as of June 30, 2017.	12

Special Taxing Districts	
Finding 9 – The required report had not been filed for one special taxing districts as of July 26, 2018.	12
Exhibit A – Schedule of Audit Reports Containing Disclosures That Cash Deposits Were Not Fully Collateralized or Otherwise Insured	13
Exhibit B – Schedule of General Fund Deficits	14
Exhibit C – Schedule of Unfavorable General Fund Trends and Ratios	15

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 taxing district in Maryland to file annual (or once every four years under specified conditions) audit reports. There were 192 local government audit reports due for our fiscal year 2017 review (24 counties, 153 cities and towns, and 15 taxing areas which are created under State law). 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. 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. 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 2017 reports that had been received from the counties, incorporated cities and towns, and taxing areas, as well as one fiscal year 2014 report (Town of Deer Park); three fiscal year 2015 reports (City of Hyattsville, Bel Air Special Taxing Area, and Mount Savage Special Taxing Area); and three fiscal year 2016 reports (City of Glenarden, City of Mount Rainier, and Bel Air Special Taxing Area) that were received over the last year. The desk reviews consisted of reading 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, 2012 through June 30, 2017).

We also reviewed each of the fiscal year 2017 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.

At the conclusion of our review, letters were sent 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, letters were also sent to local governments, and to their legislative representatives, to communicate noncompliance with State law or potential financial problems. For these issues, the local governments were asked to advise us of corrective actions that will be taken.

Results of Desk Reviews

Audit Reports

Finding 1

A number of local governments had not filed the required audit reports or had filed after the required filing date.

As of July 26, 2018, eight local governments were delinquent in filing audit reports as required by the Local Government Article of the Annotated Code of Maryland.

Local Government	Fiscal Years Outstanding
Town of Deer Park	2015, 2016, 2017
City of Hyattsville	2016, 2017
Town of Lonaconing	2017
Town of Marydel	2013, 2014, 2015, 2016, 2017
City of Mount Rainier	2017
City of Seat Pleasant	2017
Bel Air Special Taxing Area	2017
Washington Suburban Transit Commission	2017

Furthermore, 17 local governments submitted audit reports after the required filing date. The submission of audit reports after the required filing date was also noted for 8 of these 17 local governments during at least our preceding year's review. 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.

Budget language adopted during the 2018 Session of the Maryland General Assembly (Chapter 570, 2018 Laws of Maryland) has resulted in the withholding of certain transportation aid from two local governments (Towns of Deer Park and Marydel) pending receipt of their delinquent audit reports. Furthermore, failure to file a required report with the Department of Legislative Services for three successive years provides the Executive Director with reasonable cause to suppose that the municipality is no longer actively operating under its charter, which could cause these towns to have their charter repealed. The failure of these two local governments to submit audit reports has been reported to the Executive

Director. The failure of the City of Hyattsville to file the required reports for the fiscal years ending June 30, 2016 and 2017 has also been reported to the Executive Director.

Subsequent to July 26, 2018, the Town of Marydel submitted its audit reports for the fiscal years ending June 30, 2013, 2014, 2015 and 2016, although its fiscal year 2017 report is still outstanding. Regarding the financial statements submitted, the auditor was not able to express an opinion (that is, the auditor issued a disclaimer of opinion for all four years) because the auditor had not been able to obtain sufficient appropriate evidence to provide a basis for an audit opinion. Specifically, the auditor noted that a significant portion of the Town's financial records were missing or incomplete. An audit report containing a disclaimer of opinion does not satisfy the audit requirements of the Local Government Article as stated in the audit guidelines issued annually by our Office.

We will review all delinquent 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 2018 local government audit reports.

The towns of Barclay, Barton, Brookview, Church Creek, Eagle Harbor, Eldorado, Galestown, Goldsboro, Henderson, Highland Beach, Hillsboro, Mardela Springs, Port Tobacco, Queen Anne, 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 2018, 2019, or 2020.

Finding 2

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

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 auditor for the Town of Sykesville submitted a letter providing explanations regarding the opinions that were not unqualified as required, but the resolution of the applicable conditions is uncertain.

Finding 3

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

Auditors' reports for five local governmental units were not presented in accordance with certain generally accepted auditing standards. The following is a summary of these deficiencies:

Area of Noncompliance	Number of Audit Reports
Auditor did not express an opinion on all opinion units or financial statements.	3
Auditor's report did not include all basic elements (for example, auditor did not include an emphasis-of-matter paragraph related to adjustments to correct a material misstatement).	2

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

Financial statements submitted by 27 local governments did not meet certain requirements of generally accepted accounting principles.

Financial statements submitted by 27 local governments did not meet certain requirements of generally accepted accounting principles. The financial statements of three of these local governments included two such deficiencies. Furthermore, the financial statements of 2 of these 27 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
All required financial statements were not presented or presentation of statement(s) was inappropriate.	13
Misclassification or improper presentation (for example, presentation of net position was improper).	10
Items reported as assets, deferred outflows of resources, liabilities, or deferred inflows of resources were not properly displayed.	5
Governmental fund balances were not properly classified.	2

Finding 5

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

Certain required information was not included in the financial statements, or disclosed in the accompanying notes or the required supplementary information, for three audit reports. Specifically, the local governments did not include certain disclosures regarding long-term debt, cash deposits, or pensions. Adequate

disclosure is necessary to facilitate the understanding of, and to provide for fair presentation of, the financial information.

Noncompliance with State Law

Finding 6

Financial statements of 12 local governments contained disclosures that cash deposits were not adequately collateralized, or otherwise insured, as required by State law.

Financial statements of 12 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, 2017, the following potential financial problems were noted based on the information presented in the local governments' audited financial statements and accompanying notes.

Finding 7

An unrestricted general fund deficit balance was noted for one local government as of June 30, 2017.

An unrestricted general fund deficit balance was noted for one local government as of June 30, 2017 (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.

Finding 8

Significant unfavorable trends and ratios were noted for one local government as of June 30, 2017.

Significant unfavorable trends and ratios were noted for one local government as of June 30, 2017 (Exhibit C). The unfavorable trends and ratios occurred because, over the five-year period reviewed, the local government 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.

Finding 9

The required report had not been filed for one special taxing district as of July 26, 2018.

As of July 26, 2018, we had not received the required report for the fiscal year ended June 30, 2017 for one special taxing district, which is located in Anne Arundel County. Anne Arundel County advised us that they were in the process of pursuing compliance with applicable filing requirement for this district 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, 2017</u>		
Counties		
Allegany County	\$1,882,328	2016
Anne Arundel County	474,000	2000
Howard County	659,751	2016
St. Mary's County	101,424	
Wicomico County	571,337	2014
Cities and Towns		
City of Annapolis	1,369,592	
Town of Boonsboro	50,529	
Town of Brentwood	677,929	2016
Town of Elkton	1,956,043	
Town of Garrett Park	610,470	
Special Taxing Areas		
Upper Potomac River Commission	138,723	
Oakmont Special Taxing Area	92,281	2016

Exhibit B
Schedule of General Fund Deficits
Fiscal Year Ended June 30, 2017

Entity	Unrestricted Fund Balance (Deficit) at July 1, 2016	Revenues and Other Increases	Expenditures and Other Decreases	Unrestricted Fund Balance (Deficit) at June 30, 2017
Cities and Towns				
Town of Charlestown	\$ 362,412	\$ 1,086,712	\$ 1,654,419	\$ (205,295)

Exhibit C
Schedule of Unfavorable General Fund Trends and Ratios
Fiscal Year Ended June 30, 2017

<u>Entity</u>	<u>Unfavorable Trend or Ratio</u>
City of Pocomoke City	<p>Expenditures and other financing uses exceeded revenues and other financing sources for the fiscal years ending June 30, 2014, 2016, and 2017.</p> <p>Fund balance decreased from \$556,278 as of June 30, 2013 to \$76,586 as of June 30, 2017.</p> <p>Fund balance as a percentage of annual expenditures and other financing uses decreased from 9.5% as of June 30, 2013 to 1.5% as of June 30, 2017.</p>

AUDIT TEAM

Bekana Edossa, CPA, CFE
Audit Manager

Catherine M. Easter
Senior Auditor

Lindsay M. Fertig, CPA
Zain Khalid
Staff Auditors