
Review of Local Government Audit Reports

Fiscal Year Ending June 30, 2020



OFFICE OF LEGISLATIVE AUDITS
DEPARTMENT OF LEGISLATIVE SERVICES
MARYLAND GENERAL ASSEMBLY

Joint Audit and Evaluation Committee

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Victoria L. Gruber
Executive Director

DEPARTMENT OF LEGISLATIVE SERVICES
OFFICE OF LEGISLATIVE AUDITS
MARYLAND GENERAL ASSEMBLY

Gregory A. Hook, CPA
Legislative Auditor

August 16, 2021

Senator Clarence K. Lam, M.D., Senate Chair, Joint Audit and Evaluation Committee
Delegate Carol L Krimm, House Chair, Joint Audit and Evaluation Committee
Members of Joint Audit and Evaluation 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 for the fiscal year ended June 30, 2020 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, 2020, 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 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 16, 2021, 9 local governments had not submitted audit reports for the fiscal year ended June 30, 2020; one of these local governments also had not filed audit reports for the fiscal years ended June 30, 2019 and 2018.

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. We notified the Executive Director of the Department of Legislative Services of the local government with more than one audit report outstanding.

The fiscal year 2020 financial statements disclosed 15 local governments with cash deposits that were not adequately collateralized, or otherwise insured, which is an area of noncompliance with 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,

A handwritten signature in black ink that reads "Gregory A. Hook". The signature is written in a cursive, flowing style.

Gregory A. Hook, CPA
Legislative Auditor

Table of Contents

Introduction and Scope, Objectives, and Methodology	4
Results of Desk Reviews	6
Audit Reports	
Finding 1 – A number of local governments had not filed the required audit reports or had filed after the required date.	6
Finding 2 – Auditors’ reports for eight local governmental units were not presented in accordance with certain generally accepted auditing standards.	7
Financial Statements	
Finding 3 – Twenty-one financial statements submitted by 20 local governments did not meet certain requirements of generally accepted accounting principles.	8
Finding 4 – Financial statements, accompanying notes, and required supplementary information did not include certain disclosures required by generally accepted accounting principles for four audit reports.	8
Noncompliance with State Law	
Finding 5 – Sixteen financial statements submitted by of 15 local governments contained disclosures that cash deposits were not adequately collateralized, or otherwise insured, as required by State law.	9
Potential Financial Problems	
Finding 6 – One local government disclosed potential financial problems resulting in uncertainty regarding its ability to continue as a going concern.	9
Special Taxing Districts	
Finding 7 – The required reports had not been filed for five special taxing districts as of July 16, 2021.	10
Exhibit A – Schedule of Audit Reports Containing Disclosures That Cash Deposits Were Not Fully Collateralized or Otherwise Insured	11

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 (referred to in this report as local governments) to file audit reports annually or once every four years under specified conditions. There were 194 local government audit reports due for inclusion in our fiscal year 2020 review (24 counties, 155 cities and towns, and 15 taxing areas that 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. Finally, we annually prepare and distribute 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 2020 reports that had been received from the counties, incorporated cities and towns, and taxing districts. We also reviewed one fiscal year 2017 report (Town of Deer Park) and seven fiscal year 2019 reports (Town of Chesapeake City, City of Hyattsville, City of Mount Rainier, City of Seat Pleasant, Bel Air Special Taxing Area, Mount Savage Special Taxing Area, and Upper Potomac River Commission) that were received over the last year. 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, 2015 through June 30, 2020).

We also reviewed each of the fiscal year 2020 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, 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

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

As of July 16, 2021, 9 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 Capitol Heights	2020
Town of Chesapeake City	2020
Town of Deer Park	2018, 2019, 2020
Town of East New Market	2020
City of Hyattsville	2020
Town of Middletown	2020
City of Mount Rainier	2020
City of Seat Pleasant	2020
Town of Sudlersville	2020

Furthermore, 27 local government audit reports were submitted after the required filing date. The submission of audit reports after the required filing date was also noted for 11 of these 27 local government reports 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 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. We have reported the failure of the Town of Deer Park to file the required reports

for the fiscal years ending June 30, 2018, 2019, and 2020 to the Executive Director.

We will review all audit reports outstanding as of July 16, 2021 and take any follow-up action necessary when the delinquent reports are received. The results of these reviews will be included in the report on our review of fiscal year 2021 local government audit reports.

The towns of Barclay, Burkittsville, Eagle Harbor, Highland Beach, Marydel, Port Tobacco, Rosemont, Templeville, and special taxing areas Ellerslie and Mount Savage previously requested waivers from filing audit reports, which we granted, as permitted by State law. 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 2021, 2022, or 2023.

Finding 2

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

Auditors' reports for eight local governmental units were not presented in accordance with certain generally accepted auditing standards. The auditors' reports for four 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 did not express an opinion on all opinion units or financial statements.	6
Auditor's report did not include all basic elements (for example, auditor did not include appropriate reference to the work of another auditor).	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 3

Twenty-one financial statements submitted by 20 local governments did not meet certain requirements of generally accepted accounting principles.

Twenty-one financial statements submitted by 20 local governments did not meet certain requirements of generally accepted accounting principles. Two of these 21 financial statements 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
Presentation of financial statement(s) was inappropriate (for example, certain amounts reported on more than one financial statement did not agree).	12
Misclassification or improper presentation (for example, financial statement was not mathematically accurate).	7
Items reported as assets, deferred outflows of resources, liabilities, or deferred inflows of resources were not properly displayed.	1
Governmental fund balances were not properly classified.	1

Finding 4

Financial statements, accompanying notes, and required supplementary information did not include certain disclosures required by generally accepted accounting principles for four audit reports.

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. Adequate disclosure is necessary to facilitate the understanding of and to provide for fair presentation of the financial information. The financial statements of one of these local governments included a deficiency

that was also cited during our preceding year's review. The following is a summary of the areas of insufficient disclosure and the corresponding number of instances:

Area of Insufficient Disclosure	Number of Instances
Information related to other postemployment benefits	2
Cash and cash equivalents	2

Noncompliance with State Law

Finding 5

Sixteen financial statements submitted by 15 local governments contained disclosures that cash deposits were not adequately collateralized, or otherwise insured, as required by State law.

Sixteen financial statements submitted by 15 local governments contained disclosures that cash deposits were not adequately collateralized, or otherwise insured, as required by State law (see 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

Finding 6

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

One local government, 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. The auditor's report for this Fund included an emphasis paragraph describing an uncertainty about the Fund's ability to continue as a going concern. Specifically, the auditor's report referenced the Fund's notes to the financial statements which stated that substantial doubt exists about its

ability to continue as a going concern. Additionally, 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 a private corporation. This Fund had an unrestricted net position deficit of \$982,511, which was offset by net investment in capital assets of \$1,597,116 leaving the Fund with a positive net position of \$614,605 as of June 30, 2020.

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 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 7

The required reports had not been filed for five special taxing districts as of July 16, 2021.

As of July 16, 2021, we had not received the required reports for the fiscal year ended June 30, 2020 for five 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 the applicable filing requirement 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 Fiscal Year Since
<u>At June 30, 2020</u>		
Counties		
Dorchester County	\$40,218	n/a
Howard County	4,433,696	2016
Prince George's County	266,125	n/a
Wicomico County	105,751	2014
Cities and Towns		
Town of Brentwood	1,205,305	2016
Town of Garrett Park	129,781	2019
Town of Hebron	4,902	n/a
Town of Landover Hills	341,722	n/a
Town of Lonaconing	336,743	2017
Village of Martin's Additions	7,536	2019
Town of Morningside	25,864	2018
Town of Preston	242,000	n/a
Special Taxing Areas		
Village of Drummond	34,603	n/a
Upper Potomac River Commission	206,608	2019
<u>At June 30, 2019</u>		
Cities and Towns		
City of Seat Pleasant	156,515	n/a
Special Taxing Areas		
Upper Potomac River Commission	177,388	n/a

n/a – not applicable, as not included in prior fiscal year report

AUDIT TEAM

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