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## **Review of Local Government Audit Reports**

Fiscal Year Ending June 30, 2019

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**OFFICE OF LEGISLATIVE AUDITS**  
DEPARTMENT OF LEGISLATIVE SERVICES  
MARYLAND GENERAL ASSEMBLY

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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 27, 2020

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, 2019 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, 2019, 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 48 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 30, 2020, eight local governments had not submitted audit reports for the fiscal year ended June 30, 2019; one of these also had not filed audit reports for the fiscal years ended June 30, 2018 and 2017.

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 2019 financial statements disclosed 10 local governments with cash deposits that were not adequately collateralized, or otherwise insured, which is an area of noncompliance with State law. As appropriate, letters were sent 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

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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 taxing district in Maryland (referred to in this report as local governments) to file annual (or once every four years under specified conditions) audit reports. There were 189 local government audit reports due for our fiscal year 2019 review (25 counties, 148 cities and towns, and 16 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 2019 reports that had been received from the counties, incorporated cities and towns, and taxing districts. We also reviewed one fiscal year 2016 report (Town of Deer Park); two fiscal year 2017 reports (Town of Lonaconing and City of Mount Rainier); and seven fiscal year 2018 reports (Allegany County, City of Hyattsville, Town of Lonaconing, City of Mount Rainier, City of Seat Pleasant, Bel Air 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, 2014 through June 30, 2019).

We also reviewed each of the fiscal year 2019 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 certain noncompliance with State law. 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 30, 2020, 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 Chesapeake City          | 2019                     |
| Town of Deer Park                | 2017, 2018, 2019         |
| City of Hyattsville              | 2019                     |
| City of Mount Rainier            | 2019                     |
| City of Seat Pleasant            | 2019                     |
| Bel Air Special Taxing Area      | 2019                     |
| Mount Savage Special Taxing Area | 2019                     |
| Upper Potomac River Commission   | 2019                     |

Furthermore, 23 local governments submitted audit reports after the required filing date. The submission of audit reports after the required filing date was also noted for 10 of these 23 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 previous sessions of the Maryland General Assemble has 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 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. The failure of the Town of Deer Park to file the required reports for the fiscal years ending June 30, 2017, 2018, and 2019 has been reported to the Executive Director.

Subsequent to July 30, 2020, the Bel Air Special Taxing Area submitted its audit report for fiscal year 2019. 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 2020 local government audit reports.

The towns of Barclay, Barton, Brookview, Burkittsville, Church Creek, Eldorado, Galestown, Goldsboro, Henderson, Highland Beach, Hillsboro, Mardela Springs, Marydel, Port Tobacco, Queen Anne, Rosemont, and Templeville 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 2020, 2021, or 2022.

#### **Finding 2**

**The auditor's report for one local government contained a qualified opinion on two opinion units.**

The auditor's report for the Town of Hancock contained a qualified opinion on the Business-type activities and Enterprise Funds opinion units because the auditor was unable to obtain sufficient appropriate audit evidence regarding the accounts receivable balance as of June 30, 2019 and charges for services for the fiscal year ended June 30, 2019 for each of the major Enterprise Funds.

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

#### **Finding 3**

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

Auditors' reports for nine 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'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 in the previously issued financial statements). | 5                       |
| Auditor did not express an opinion on all opinion units or 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

**Finding 4**  
**Financial statements submitted by 19 local governments did not meet certain requirements of generally accepted accounting principles.**

Financial statements submitted by 19 local governments did not meet certain requirements of generally accepted accounting principles. The financial statements of 5 of these 19 local governments included more than one such deficiency. The financial statements of 1 of these 19 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:

| <b>Deficiency</b>  | <b>Number of Instances</b> |
|--|----------------------------|
| All required financial statements were not presented or presentation of statement(s) was inappropriate.                              | 9                          |
| Misclassification or improper presentation (for example, presentation of net position was improper).                                 | 9                          |
| Governmental fund balances were not properly classified.   | 5                          |
| Items reported as assets, deferred outflows of resources, liabilities, or deferred inflows of resources were not properly displayed. | 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. The financial statements of one of these local governments included a deficiency that was also cited during our preceding year's review. Adequate disclosure is necessary to facilitate the understanding of and to provide for fair presentation of the financial information. The following is a summary of the areas of insufficient disclosure and the corresponding number of instances:

| <b>Area of Insufficient Disclosure</b>               | <b>Number of Instances</b> |
|--|----------------------------|
| Information related to other postemployment benefits | 2                          |
| Revenue recognition policies                         | 1                          |

## Noncompliance with State Law

### **Finding 6**

**Financial statements of 10 local governments contained disclosures that cash deposits were not adequately collateralized, or otherwise insured, as required by State law.**

Twelve financial statements for 10 local governments (primarily from fiscal year 2019, but also from fiscal years 2018 and 2017) 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

### **Finding 7**

**For audit reports received, no local governments were identified with potential financial problems relating to unrestricted general fund deficit balances or unfavorable trends and ratios.**

For those local governments that submitted audit reports, we did not identify any potential financial problems relating to unrestricted general fund deficit balances or unfavorable trends and ratios, based on our analyses of financial data over the most recent five-year period (July 1, 2014 through June 30, 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 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 8**

**The required reports had not been filed for four special taxing districts as of July 30, 2020.**

As of July 30, 2020, we had not received the required reports for the fiscal year ended June 30, 2019 for four 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**

| <b>Entity</b>                  | <b>Uninsured/<br/>Uncollateralized<br/>Amount</b> | <b>Similar Disclosures<br/>Included in Audit<br/>Reports for Each Fiscal<br/>Year Since</b> |
|--------------------------------|---|---|
| <b><u>At June 30, 2019</u></b> |   |   |
| <b>Counties</b>                |   |   |
| Howard County                  | \$304,532   | 2016  |
| Wicomico County                | 472,732   | 2014  |
| <b>Cities and Towns</b>        |   |   |
| City of Annapolis              | 341,508   | 2017  |
| Town of Brentwood              | 500,001   | 2016  |
| Town of Capitol Heights        | 363,664   |   |
| Town of Garrett Park           | 320,774   |   |
| Town of Hancock                | 408,315   |   |
| Town of Lonaconing             | 236,263   | 2017  |
| Village of Martin's Additions  | 6,243   |   |
| Town of Morningside            | 91,736  | 2018  |
| <b><u>At June 30, 2018</u></b> |   |   |
| <b>Cities and Towns</b>        |   |   |
| Town of Lonaconing             | 47,245  | 2017  |
| <b><u>At June 30, 2017</u></b> |   |   |
| <b>Cities and Towns</b>        |   |   |
| Town of Lonaconing             | 91,058  |   |

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