

**PRESENTATION TO**  
**THE JOINT COMMITTEE ON THE MANAGEMENT OF PUBLIC FUNDS**  
**Monitoring of Local Government Audits**

Office of Legislative Audits  
Bekana Edossa, Audit Manager  
W. Thomas Sides, Senior Auditor  
October 4, 2023

## **INTRODUCTION**

Ladies and Gentlemen:

Thank you for the opportunity to present the results of our review of the audit reports submitted by each local government for the year ended June 30, 2022, which are summarized in our report entitled *Review of Local Government Audit Reports* dated August 18, 2023. For the 198 audit reports due, we found that the local governments have generally complied with generally accepted accounting principles and auditing standards. Additionally, local governments generally appeared to be in good financial condition at that time. When areas of noncompliance or potential financial problems were noted, we sent letters describing the conditions to the governments and, when appropriate, to their auditors in an effort to ensure the conditions do not recur. Our presentation will address the following areas:

1. Overview of the local government auditing process
2. Problems disclosed by our review of local government audits
3. Follow-up action taken on problems
4. Concluding comments

## **OVERVIEW**

Generally, each county, incorporated city or town, and taxing district located in Maryland is required by law to have an annual audit. Based on the provisions of Title 16 of the Local Government Article of the Annotated Code of Maryland, each local government is required to have its financial statements audited by an independent certified public accountant in accordance with generally accepted auditing standards. This law also requires that the financial statements be presented in accordance with generally accepted accounting principles and that the results of the audits be submitted to the Office of Legislative Audits.

Most local governments must file their reports on or before October 31 for the preceding fiscal year ended June 30; however, local governments whose populations exceed 400,000, and certain other counties, must file on or before December 31 of each year. In addition, extensions may be granted to local governments for valid reasons. By law, certain small governments may request a waiver of the annual filing requirement and instead only have an audit once every four years. Fourteen local governments requested, and were granted, waivers of the annual filing requirement for 2022.

As provided for under the law, we have issued audit guidelines that address the basic requirements that must be met by the local governments and their independent auditors. While the independent auditors determine the specific procedures necessary in each audit, the guidelines are intended to help ensure that a minimum acceptable level of quality is maintained for audits and financial reports of local governments.

The Office of Legislative Audits performs a desk review of each audit report to identify areas of noncompliance by using a quality control checklist for government audits published by the American Institute of Certified Public Accountants. For example, we generally determine

whether the auditor's report was presented in accordance with generally accepted auditing standards, whether the local government's financial statements were presented in accordance with generally accepted accounting principles, and whether financial statement disclosures were adequate.

Our desk review also includes a review to identify noncompliance with certain State laws, such as Local Government Article, Section 17-101 of the Annotated Code of Maryland which requires all deposits held in banks by local governments be insured or otherwise collateralized. Additionally, our desk review includes a basic financial analysis of each local government. This analysis includes a review of various financial trends and ratios (for example, ratio of general fund balance to annual expenditures) to provide some insight regarding potential financial problems at the local government level.

Upon completion of each year's review, we prepare a report summarizing the areas of noncompliance with the audit guidelines (for example, departures from generally accepted accounting principles) or with State law (for example, uncollateralized cash deposits). In addition, when applicable, our report discloses potential financial problems at the local government level such as deficit general fund balances and unfavorable financial trends and ratios. This summary report is submitted to the Comptroller of Maryland and the Executive Director of the Department of Legislative Services, as required by law, as well as other interested parties.

Finally, State law requires applicable counties to file reports with our Office on their reviews of financial reports and audits of special taxing districts created by the counties. Our annual summary reports also include the results of our reviews of such financial information on county-created special taxing districts.

## **PROBLEMS DISCLOSED**

As reflected on Exhibit A, page 1, most local governments have substantially complied with standards over the past several years. However, for the fiscal year ended June 30, 2022, our review disclosed that 37 out of the 198 local government reports due (or 19 percent) contained areas of noncompliance with the audit guidelines. These areas of noncompliance were not of such an extent so as to cast doubt on the reliability of the underlying financial statements. The percentage of local government reports with areas of noncompliance slightly increased from approximately 16 percent in 2021.

In addition, our review disclosed areas of noncompliance with State law for 10 local governments that had unsecured cash deposits. Additionally, our review disclosed one local government with a potential financial problem during fiscal year 2022. See Exhibit A, page 2 for a summary of these areas and problems over the past several years. Some local governments had more than one area of noncompliance with the guidelines.

The more significant and frequent problems disclosed by our review were as follows:

### **Timeliness:**

1. Local governments did not timely file an audit report as required or failed to do so.

As of July 17, 2023, nineteen local governments were delinquent in filing audit one or more audit reports as required by the Local Government Article of the Annotated Code of Maryland.

Local Government	Fiscal Years Outstanding
Dorchester County	2021, 2022
Town of Barclay	2022
Town of Berywn Heights	2022
Town of Burkittsville	2022
Town of Capitol Heights	2022
Town of Charlestown	2022
Town of Deer Park	2021, 2022
Town of East New Market	2022
Town of Forest Heights	2021, 2022
Town of Greensboro	2022
City of Hyattsville	2021, 2022
Town of Indian Head	2022
Town of Lonaconing	2022
Town of Middletown	2021, 2022
Village of Port Tobacco	2022
Town of Princess Anne	2022
Town of Rock Hall	2022
City of Seat Pleasant	2020, 2021, 2022
Town of Sudlersville	2021, 2022

Auditor's Work:

2. The auditors' reports for seven local governments were not presented in accordance with generally accepted auditing standards.

Qualified/ Adverse/ Disclaimer of Opinion:

3. The auditor's report for one local government contained a qualified opinion for two opinion units. The auditor's report for a different local government contained a disclaimer of opinion over the local government as a whole.

Local Government Financial Presentation:

4. Financial statements submitted by thirteen local governments included inappropriate financial statement presentation.
5. Financial statements for three local governments lacked adequate disclosures in the statements and/or accompanying notes.

Compliance:

6. We noted that ten local governments had unsecured cash deposits in eleven reports we reviewed. In most cases, the amount of cash not secured was small in relation to the local governments' total assets.

### Potential Financial Issues:

7. One local government with a potential financial problem was identified. Specifically, the auditor's report for the Upper Potomac River Commission — Waste Treatment Plant Fund included an emphasis paragraph describing an uncertainty regarding the Fund's ability to continue as a going concern. The notes to the Fund's financial statements stated that the Fund's management is in the process of addressing how it will fulfill the Fund's obligations, given its economic dependence on a private corporation.

### **FOLLOW-UP ACTIONS**

A letter describing the areas of noncompliance with the audit guidelines noted during our review was sent to each local government and its independent auditor. The letters requested that the matters be examined to avoid a recurrence in subsequent audits.

The local government that failed to file audit reports for fiscal years 2020, 2021, and 2022 was reported to the Executive Director of the Department of Legislative Services. If these reports are not filed, the Comptroller of Maryland, 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.

For areas of noncompliance with State law pertaining to unsecured cash deposits, our Office requested the applicable local governments to provide written descriptions of the actions to be taken to eliminate the conditions, when appropriate. We reviewed and evaluated the responses to these requests, received to date, and found the indicated actions sufficient. Additionally, as requested by the Committee, when letters were sent to local governments regarding noncompliance with State laws, copies of the letters were also sent to the appropriate members of the Maryland General Assembly.

### **CONCLUSION**

In summary, the Office of Legislative Audits functions in an oversight capacity by issuing audit guidelines, reviewing local government audit reports for compliance with standards and regulations, and notifying the local governments and their auditors of any deficiencies noted. We believe that these efforts have helped improve the quality of audits and have promoted fiscal accountability among local governments in Maryland.

To further improve the quality of local government audits, we participate in various efforts to make technical information available to local governments, and respond to technical inquiries from local governments and their auditors.

We will be happy to answer any questions you may have on this presentation.

JOINT COMMITTEE ON THE MANAGEMENT OF PUBLIC FUNDS  
SUMMARY REVIEW  
LOCAL GOVERNMENT AUDIT REPORTS

REPORTS DUE	FY 2018				FY 2019				FY 2020				FY 2021				FY 2022			
	CO 24	CT 157	TD 14	TOT 195	CO 25	CT 148	TD 16	TOT 189	CO 24	CT 155	TD 15	TOT 194	CO 24	CT 150	TD 12	TOT 186	CO 25	CT 161	TD 12	TOT 198
Entities with Areas of Noncompliance:	6	31	3	40	8	36	4	48	5	31	9	45	1	26	3	30	4	31	2	37
<u>Areas of Noncompliance with Audit Guidelines</u>																				
1. Audit reports not filed @	1	9	2	12	-	7	3	10	-	9	-	9	1	12	-	13	1	18	-	19
2. Audit reports not filed on time @	2	16	3	21	3	20	3	26	-	19	8	27	1	20	1	22	0	19	1	20
3. Auditor issued a qualified opinion / disclaimer / adverse opinion or improperly issued an unqualified opinion	-	1	-	1	-	1	-	1	-	-	-	0	-	1	-	1	-	2	-	2
4. Auditor's report not presented in accordance with generally accepted auditing standards @																				
a. Auditor's report did not contain one or more of the basic elements required by auditing standards	1	3	-	4	2	3	-	5	1	1	-	2	-	-	-	0	-	-	-	0
b. Auditor's opinion did not cover all opinion units or financial statements	-	2	-	2	-	4	-	4	-	4	2	6	-	2	1	3	-	6	1	7
c. Auditor did not report on all required information.	-	-	-	0	-	-	-	0	-	-	-	0	-	-	-	0	-	-	-	0
5. Financial statements not presented in accordance with generally accepted accounting principles @																				
a. Required statements not presented or presentation inappropriate	4	6	1	11	6	14	-	20	4	10	5	19	-	4	1	5	-	13	-	13
b. Inadequate disclosure in the financial statements (e.g., basis of accounting, cash deposits with financial institutions and investments)	1	9	2	12	-	2	1	3	-	1	3	4	-	1	2	3	-	2	1	3
c. Governmental fund balances were not properly classified	-	3	-	3	-	5	-	5	-	1	-	1	-	1	-	1	-	2	-	2
6. Auditor did not submit letter stating reasons for expressing other than an unqualified opinion	-	-	-	0	-	1	-	1	-	-	-	0	-	1	-	1	-	1	-	1
	9	49	8	66	11	57	7	75	5	45	18	68	2	42	5	49	1	63	3	67

CO - Counties  
CT - Cities and Towns  
TD - Taxing Districts  
TOT - Total Units

@ - Local governments may be counted more than once as certain local governments had more than one deficiency in these areas.

JOINT COMMITTEE ON THE MANAGEMENT OF PUBLIC FUNDS  
SUMMARY REVIEW  
LOCAL GOVERNMENT AUDIT REPORTS

REPORTS DUE	FY 2018				FY 2019				FY 2020				FY 2021				FY 2022			
	<u>CO</u>	<u>CT</u>	<u>TD</u>	<u>TOT</u>	<u>CO</u>	<u>CT</u>	<u>TD</u>	<u>TOT</u>	<u>CO</u>	<u>CT</u>	<u>TD</u>	<u>TOT</u>	<u>CO</u>	<u>CT</u>	<u>TD</u>	<u>TOT</u>	<u>CO</u>	<u>CT</u>	<u>TD</u>	<u>TOT</u>
	24	157	14	<b>195</b>	25	148	16	<b>189</b>	24	155	15	<b>194</b>	24	150	12	<b>186</b>	25	161	12	<b>198</b>
<u>Areas of Noncompliance with State Law*</u>																				
1. Uninsured/uncollateralized cash deposits	6	11	2	<b>19</b>	2	10	-	<b>12</b>	4	9	3	<b>16</b>	1	8	2	<b>11</b>	2	8	1	<b>11</b>
2. Inappropriate investments	-	1	-	<b>1</b>	-	-	-	<b>0</b>	-	-	-	<b>0</b>	-	-	-	<b>0</b>	-	-	-	<b>0</b>
TOTAL AREAS OF NONCOMPLIANCE	6	12	2	<b>20</b>	2	10	0	<b>12</b>	4	9	3	<b>16</b>	1	8	2	<b>11</b>	2	8	1	<b>11</b>
<u>Potential Financial Problems *</u>																				
1. General fund deficits	-	-	-	<b>0</b>	-	-	-	<b>0</b>	-	-	-	<b>0</b>	-	-	-	<b>0</b>	-	-	-	<b>0</b>
2. Unfavorable general fund trends and ratios	-	1	-	<b>1</b>	-	-	-	<b>0</b>	-	-	-	<b>0</b>	-	-	-	<b>0</b>	-	-	-	<b>0</b>
3. Other - going concern	-	-	-	<b>0</b>	-	-	-	<b>0</b>	-	-	1	<b>1</b>	-	-	1	<b>1</b>	-	-	1	<b>1</b>
TOTAL POTENTIAL FINANCIAL PROBLEMS	0	1	0	<b>1</b>	0	0	0	<b>0</b>	0	0	1	<b>1</b>	0	0	1	<b>1</b>	0	0	1	<b>1</b>

CO - Counties  
CT - Cities and Towns  
TD - Taxing Districts  
TOT - Total Units

\* Some local governments had more than one area of noncompliance with State law or potential financial problem (that is, certain local governments may be included in both categories).