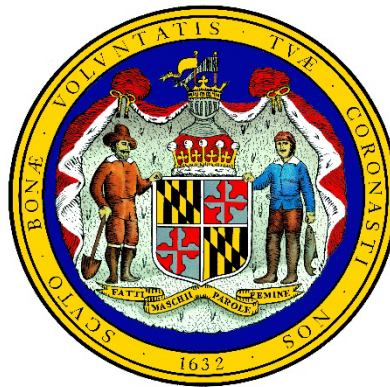

Review of Local Government Audit Reports

Fiscal Year Ending June 30, 2024



OFFICE OF LEGISLATIVE AUDITS
DEPARTMENT OF LEGISLATIVE SERVICES
MARYLAND GENERAL ASSEMBLY

Joint Audit and Evaluation Committee

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DEPARTMENT OF LEGISLATIVE SERVICES
OFFICE OF LEGISLATIVE AUDITS
MARYLAND GENERAL ASSEMBLY

Victoria L. Gruber
Executive Director

Brian S. Tanen, CPA, CFE
Legislative Auditor

July 17, 2025

Senator Shelly L. Hettleman, 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, 2024 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.

Our review disclosed that 61 local governments had one or more instances of noncompliance with certain requirements of our audit guidelines, generally accepted accounting principles, and/or generally accepted auditing standards. In addition, 26 local governments had not submitted audit reports for the fiscal year ended June 30, 2024 by the statutory filing deadline (including 9 that also had not filed audit reports for one or more prior years) and 13 submitted their 2024 audit reports after the filing date required by law. Finally, the financial statements for 10 local governments contained disclosures that cash deposits were not adequately collateralized, or otherwise insured, as required by State law.

State law provides that if a local government does not comply with the audit report filing requirements, 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. In addition, State law effective July 1, 2024 provides that local governments or special taxing districts that fail to file an audit report for 2 calendar years after the report is due, will have 20 percent of certain State aid discontinued for the current fiscal year and in future years until the required report is submitted as required.

Respectfully submitted,

Brian S. Tanen

Brian S. Tanen, CPA, CFE
Legislative Auditor

Table of Contents

Introduction and Scope, Objectives, and Methodology	4
Results of Desk Reviews	6
Audit Reports	
Finding 1 – Thirty-nine local governments had not filed the required audit reports and/or had filed after the required due date.	6
Finding 2 – The auditor’s report for the Town of Princess Anne contained a disclaimer of opinion on the financial statements for three prior fiscal years for which no explanation has been provided as required by our audit guidelines.	8
Finding 3 – The auditor’s report for the Town of Forest Heights did not express an opinion on the financial statements in accordance with generally accepted auditing standards.	9
Financial Statements	
Finding 4 – The financial statements submitted by four local governments did not meet certain requirements of generally accepted accounting principles.	9
Finding 5 – Audit reports submitted by seven local governments did not include certain disclosures required by generally accepted accounting principles.	10
Uncollateralized Funds	
Finding 6 – Financial statements submitted by 10 local governments contained disclosures that cash deposits were not adequately collateralized, or otherwise insured, as required by State law.	10

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. Audit guidelines to provide additional information regarding the accounting, reporting, and auditing requirements were distributed in July 2024.

Based on current reports, past due reports, and waivers previously granted by this Office, there were 223 local government audit reports due for our fiscal year 2024 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. Our current desk review included all reports for fiscal year 2024 received as of April 30, 2025, as well as any reports received as of that date for prior years. 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, 2025. We also reviewed certain attributes applicable to special taxing districts created by the counties.

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 2024 reports that were received from the counties, incorporated cities and towns, and special taxing areas as of the aforementioned date, we also reviewed the following reports for prior years that were received over the last year.

- Seventeen fiscal year 2023 reports (Allegany County, Baltimore County, Calvert County, City of Baltimore, Town of Berlin, Town of Capitol Heights, Town of Deer Park, Town of Elkton, Town of Federalsburg, City of Hyattsville, Town of Indian Head, Town of Middletown, Town of Port Deposit, Town of Princess Anne, City of Seat Pleasant, Town of Somerset, Town of Westernport)
- Six fiscal year 2022 reports (Dorchester County, Town of Forest Heights, City of Hyattsville, Town of Rock Hall, City of Seat Pleasant, Town of Sudlersville)
- Two fiscal year 2021 reports (City of Seat Pleasant, Town of Sudlersville)

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, 2019 through June 30, 2024).

Our review disclosed that 61 local governments had one or more instances of either noncompliance with certain requirements of our audit guidelines, generally accepted accounting principles, generally accepted auditing standards, or State law. We communicated our results to the applicable local governments.

Results of Desk Reviews

Audit Reports

Finding 1

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

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

- 26 local governments had not filed their 2024 audit reports as required as of April 30, 2025 including 9 that remained delinquent in filing the required report for one or more prior years (see Figure 1).
- 13 local governments (Bel Air Special Taxing Area, Bowling Green and Roberts Place Special Taxing Area, Town of Cecilton, Cresaptown Civic Improvement Association, Town of East New Market, Town of Easton, McCoole Special Taxing Area, Town of Millington, Mount Savage Special Taxing Area, City of Pocomoke City, Potomac Park Citizens Committee, Inc., Town of Rising Sun, Town of Thurmont) submitted their 2024 audit reports after the filing date required by law.

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, 2025 before classifying a report due as not submitted.

Figure 1
Local Government Audit Reports – Fiscal Years Not Filed

Local Government	Fiscal Years Not Filed
Dorchester County	2023, 2024
City of Baltimore	2024*
Town of Barclay	2022*, 2023, 2024
Town of Barton	2024
Town of Capitol Heights	2024
Town of Charlestown	2024
Town of Deer Park	2024
City of District Heights	2024
Town of Eagle Harbor	2023, 2024
Town of Fairmount Heights	2024
Town of Federalsburg	2024
Town of Forest Heights	2023*, 2024
City of Glenarden	2024*
Town of Goldsboro	2024*
Town of Greensboro	2023, 2024
Town of Hillsboro	2024
City of Hyattsville	2024
Town of Indian Head	2024
City of Laurel	2024*
Town of Lonaconing	2022, 2023, 2024
Town of Mardela Springs	2023*, 2024
Town of Rock Hall	2023, 2024
City of Seat Pleasant	2024
Town of Sudlersville	2023, 2024
Town of Vienna	2024*
Town of Westernport	2024
* The audit report for this fiscal year was subsequently submitted after the April 30, 2025 cut off and therefore is not included in our current review. As such, it will be included with our review of fiscal year 2025 audit reports.	

Source: Local Government Audit Reports

The towns of Brookeville, Burkittsville, Highland Beach, Marydel, Templeville, the Village of Port Tobacco, and the Ellerslie Special Taxing Area 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 2025, 2026, or 2027.

State law further provides that should any local government fail to file an audit report within the time prescribed, payment of all money, grants, or State aid that the local government is entitled to receive under State law may be discontinued. In addition, State law effective July 1, 2024 provides that local governments or special taxing districts that fail to file an audit report for 2 calendar years after the report is due, will have 20 percent of certain State aid discontinued for the current fiscal year and in future years until the required report is submitted as required.

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 Towns of Barclay and Lonaconing to file the required reports for the fiscal years ending June 30, 2022, 2023, and 2024 to the Executive Director.

Finding 2

The auditor's report for the Town of Princess Anne contained a disclaimer of opinion on the financial statements for three prior fiscal years for which no explanation has been provided as required by our audit guidelines.

The auditor's report for the Town of Princess Anne contained a disclaimer of opinion on the financial statements for three prior fiscal years for which no explanation has been provided as required by our audit guidelines. 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.

During our prior review we noted that the Town had not submitted its fiscal year 2023 report and the reports for fiscal years 2021 and 2022 contained a disclaimer of opinion on the financial statements. The Town subsequently submitted the reports for fiscal years 2023 and 2024. Our review of the 2023 report disclosed it also contained a disclaimer of opinion, while the 2024 report had an unqualified opinion (that is, the financial statements represent fairly, in all material respects, the financial condition of the Town).

Although required by our audit guidelines, the auditor for the Town did not submit a separate letter to OLA explaining the reason why an unqualified opinion could not be expressed for fiscal years 2021 through 2023 and the Town

management's plan to rectify the problem to enable the auditor to express an unqualified opinion in the future.

Finding 3

The auditor's report for the Town of Forest Heights did not express an opinion on the financial statements in accordance with generally accepted auditing standards.

The auditor's report for the Town of Forest Heights did not express an opinion on the financial statements in accordance with generally accepted auditing standards. While the submission of the audit report satisfies the technical requirement of the law, the lack of an opinion diminishes the value of the audit because the financial statements may not be able to be relied upon. This is significant because as noted in Finding 1, the Town has not provided audit reports for 2023 and 2024.

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 four local governments did not meet certain requirements of generally accepted accounting principles.

Financial statements submitted by four local governments included a total of four instances in which certain requirements of generally accepted accounting principles were not met. Specifically, the financial statements for Dorchester County, the City of Seat Pleasant, the Town of Brentwood, and the Town of Cottage City included information that was inappropriate and/or misclassified. For example, certain beginning balances reported on the Dorchester County financial statements did not agree with the ending balances reported on the County's prior year financial statements.

Finding 5

Audit reports submitted by seven local governments did not include certain disclosures required by generally accepted accounting principles.

Audit reports submitted by seven local governments did not include certain disclosures required by generally accepted accounting principles. Specifically, our review of the financial statements for the Towns of Edmonston, Emmitsburg,² Landover Hills, and Middletown, as well as the Cities of Gaithersburg, Mount Rainier and Taneytown disclosed they did not include required disclosures related to Pensions or Other Postemployment Benefits. Adequate disclosure is necessary to facilitate the understanding of and to provide for fair presentation of the financial information.

Uncollateralized Funds**Finding 6**

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

Financial statements submitted by 10 local governments contained disclosures that cash deposits were not adequately collateralized, or otherwise insured (see Figure 2). 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.

² The Town of Emmitsburg had the same issue noted in its two most recent prior audit reports.

Figure 2
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, 2024</u>		
Counties		
Allegany County	\$33,281,976 ¹	2023 ²
Garrett County	224,700	n/a
Cities and Towns		
Town of Chesapeake Beach	2,321	2023
Town of East New Market	74,705	n/a
Village of Martin's Additions	20,630	2022
Town of Morningside	1,363,557	n/a
Special Taxing Areas		
Oakmont Special Taxing District	470,038	2023
<u>At June 30, 2023</u>		
Counties		
Allegany County	40,721,402 ¹	n/a
Cities and Towns		
Town of Deer Park	235,183	n/a
<u>At June 30, 2022</u>		
Counties		
Dorchester County	113,062 ¹	2020
<u>At June 30, 2021</u>		
Cities and Towns		
City of Seat Pleasant	207,992 ¹	2019
¹ - The entire uncollateralized amount is from a component unit of the local government. ² - Allegany County was a non-filer for our fiscal year 2023 review and the fiscal year 2023 report was reviewed during this year's review. n/a – not applicable, as not included in prior year report.		

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