PRESENTATION TO

THE JOINT COMMITTEE ON THE MANAGEMENT OF PUBLIC FUNDS

Monitoring of Local Government Audits

Office of Legislative Audits
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October 21, 2026

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, 2025, as well as outstanding reports from previous years that were reviewed. Our review of these reports is summarized in our report entitled *Review of Local Government Audit Reports* dated September 17, 2026. For the 221 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 local 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 local governments may request a waiver of the annual filing requirement and instead only have an audit once every four years. Ten local governments requested, and were granted, waivers of the annual filing requirement for fiscal year 2025. As of April 30, 2026, there were two local governments that were exempt from the audit requirement due to reporting annual revenues less than $100,000.

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. 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, liabilities to assets ratio) 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.

PROBLEMS DISCLOSED

As reflected on Exhibit A, page 1, most local governments have substantially complied with standards over the past several years. For the fiscal year ended June 30, 2025, 221 reports were due from local governments. This included 37 outstanding reports from previous years.

Our review disclosed that 48 local governments had reports that contained areas of noncompliance with certain 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 number of local governments with reports that contained areas of noncompliance decreased from 56 in 2024.

In addition, our review disclosed areas of noncompliance with State law for 11 local governments that had unsecured cash deposits and 2 local governments that had deposits in financial institutions that were not authorized by State law. 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 and/or State law.

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

1. Timeliness:

Local governments did not timely file an audit report as required or failed to do so. As of April 30, 2026, 22 local governments had not filed their 2025 audit reports as required by the Local Government Article of the Annotated Code of Maryland. In addition, 13 of these local governments remained delinquent in filing the required report for one or more prior years. Furthermore, 16 local governments submitted their 2025 audit reports after the filing date required by law.

Local Government	Fiscal Years Not Filed
Dorchester County	2024, 2025
Worcester County	2025*
Town of Barclay	2024*, 2025
Town of Barton	2024*, 2025
Town of Capitol Heights	2024*, 2025
Town of Charlestown	2025
City of District Heights	2025
Town of Eagle Harbor	2023, 2024, 2025
Town of Fairmount Heights	2024, 2025
Town of Federalsburg	2024, 2025
Town of Goldsboro	2025
Town of Greensboro	2024, 2025
Town of Hillsboro	2025
City of Hyattsville	2024, 2025
Town of Indian Head	2024, 2025
City of Laurel	2025*
Town of Lonaconing	2022, 2023, 2024, 2025
City of Pocomoke	2025*
Town of Rock Hall	2025
City of Seat Pleasant	2025*
Town of Sudlersville	2024*, 2025
Town of Westernport	2024, 2025

* The audit report for this fiscal year was submitted after the April 30, 2026 cut off and will be included with our review of fiscal year 2026 audit reports.

2. Auditor's Work:

The auditor's report for 6 local governments did not contain a statement that the auditor is required to be independent of the local government and had met all other ethical responsibilities.

3. Local Government Financial Presentation:

The financial statements submitted by 4 local governments did not meet certain requirements of generally accepted accounting principles. In addition, audit reports submitted by 7 local governments did not include certain disclosures required by generally accepted accounting principles.

4. Compliance:

Financial statements submitted by 11 local governments contained disclosures that cash deposits were not adequately collateralized, or otherwise insured, as required by State law. In addition, the deposits for two local governments were in financial institutions not authorized by State law.

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. Additionally, when letters were sent to local governments regarding noncompliance with State laws and not filing the required reports for multiple years, copies of the letters were also sent to the appropriate members of the Maryland General Assembly.

One local government failed to file audit reports for fiscal years 2023, 2024, and 2025 and one local government failed to file audit reports for fiscal years 2022, 2023, 2024, and 2025. This 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.

State law 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. As of September 17, 2026, there are 9 local governments that may lose this funding if the fiscal year 2024 reports are not filed by October 31, 2026.

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

		FY 2021				FY 2022				FY 2023				FY 2024				FY 2025			
		CO	CT	TD	TOT	CO	CT	TD	TOT	CO	CT	TD	TOT	CO	CT	TD	TOT	CO	CT	TD	TOT
	REPORTS DUE	24	150	12	**186**	25	161	12	**198**	26	166	14	**206**	30	180	13	**223**	27	181	13	**221**
	Entities with Areas of Noncompliance:	1	26	3	**30**	4	31	2	**37**	6	36	3	**45**	5	45	6	**56***	5	37	6	**48**
	Areas of Noncompliance with Audit Guidelines																				
1.	Audit reports not filed @	1	12	-	**13**	1	18	-	**19**	5	21	-	**26**	2	24	-	**26**	2	20	-	**22**
2.	Audit reports not filed on time @	1	20	1	**22**	-	19	1	**20**	1	21	2	**24**	-	7	6	**13**	-	14	2	**16**
3.	Auditor issued a qualified opinion / disclaimer / adverse opinion or improperly issued an unqualified opinion	-	1	-	**1**	-	2	-	**2**	-	1	-	**1**	-	**1**	-	**1**	-	-	-	-
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	-	-	-	**0**	-	-	-	**0**	-	2	-	**2**	-	1	-	**1**	-	-	-	-
	b. Auditor's opinion did not cover all opinion units or financial statements	-	2	1	**3**	-	6	1	**7**	-	1	-	**1**	-	-	-	**0**	-	-	-	-
	c. Auditor did not report on all required information.	-	-	-	**0**	-	-	-	**0**	-	-	-	**0**	-	-	-	**0**	-	-	6	**6**
5.	Financial statements not presented in accordance with generally accepted accounting principles @																				
	a. Required statements not presented or presentation inappropriate	-	4	1	**5**	-	13	-	**13**	5	11	1	**17**	1	3	-	**4**	1	3	-	**4**
	b. Inadequate disclosure in the financial statements (e.g., basis of accounting, cash deposits with financial institutions and investments)	-	1	2	**3**	-	2	1	**3**	-	3	-	**3**	-	7	-	**7**	3	4	-	**7**
	c. Governmental fund balances were not properly classified	-	1	-	**1**	-	2	-	**2**	-	1	-	**1**	-	-	-	**0**	-	-	-	**0**
6.	Auditor did not submit letter stating reasons for expressing other than an unqualified opinion	-	1	-	**1**	-	1	-	**1**	-	1	-	**1**	-	1	-	**1**	-	-	-	**0**
	TOTAL	2	42	5	**49**	1	63	3	**67**	11	62	3	**76**	**3**	**44**	**6**	**53***	**6**	**41**	**8**	**55**

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.
* The difference between the 53 and 56 entities with areas of noncompliance is due to only including entities in our report that filed late for fiscal year 2024.

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

		FY 2021				FY 2022				FY 2023				FY 2024				FY 2025			
		CO	CT	TD	**TOT**	CO	CT	TD	**TOT**	CO	CT	TD	**TOT**	CO	CT	TD	**TOT**	CO	CT	TD	**TOT**
	REPORTS DUE	24	150	12	**186**	25	161	12	**198**	26	166	14	**206**	30	180	13	**223**	27	181	13	**221**
	Areas of Noncompliance with State Law**																				
1.	Uninsured/uncollateralized cash deposits	1	8	2	**11**	2	8	1	**11**	3	8	2	**13**	3	6	1	**10**	3	7	1	**11**
2.	Deposits in financial institutions not authorized by State law	-	-	-	**0**	-	-	-	**0**	-	-	-	**0**	-	-	-	**0**	-	2	-	**2**
3.	Investments not authorized by State law	-	-	-	**0**	-	-	-	**0**	-	-	-	**0**	-	-	-	**0**	-	-	-	**0**
	TOTAL AREAS OF NONCOMPLIANCE	1	8	2	**11**	2	8	1	**11**	3	8	2	**13**	3	6	1	**10**	3	9	1	**13**
	Potential Financial Problems **																				
1.	General fund deficits	-	-	-	**0**	-	-	-	**0**	-	-	-	**0**	-	-	-	**0**	-	-	-	**0**
2	Unfavorable general fund trends and ratios	-	-	-	**0**	-	-	-	**0**	-	-	-	**0**	-	-	-	**0**	-	-	-	**0**
3.	Other - going concern	-	-	1	**1**	-	-	1	**1**	-	-	1	**1**	-	-	-	**0**	-	-	-	**0**
	TOTAL POTENTIAL FINANCIAL PROBLEMS	0	0	1	**1**	0	0	1	**1**	0	0	1	**1**	0	0	0	**0**	0	0	0	**0**

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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).