

_HB0165 Testimony-- Audits B&T Committee (1).pdf

Uploaded by: Delegate Jazz Lewis

Position: FAV

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MAJORITY WHIP

Appropriations Committee



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THE MARYLAND HOUSE OF DELEGATES
ANNAPOLIS, MARYLAND 21401

HB0165 - Local Government – Annual Audit Reporting Requirements – Alterations

Thank you, Chair Guzzone, and members of the Budget and Taxation Committee.

I am here today to present my legislation, House Bill 165, the House Crossfile of SB747. This bill addresses a critical oversight issue – the timely submission of mandatory audits by our counties and municipalities. This alteration to audit reporting enforcement ensures that citizens are protected and jurisdictions are fully transparent with their financial records.

If a local government fails to submit its audit within a year past the deadline, the Department of Legislative Services is required to inform the Comptroller. In response, the Comptroller will withhold 20% of state funds allocated for policing, highway user revenues, and disparity grants from the non-compliant municipality. This measure aims to encourage jurisdictions that are falling behind in submitting their audits to submit them on time and fulfill their obligations.

As legislators, we make tough decisions to balance the state budget. We make ourselves accountable to the federal government for any and all federal funding that Maryland receives, and we have to make ourselves answerable to the people of Maryland every year for spending their money by presenting a balanced and transparent budget. This process can be challenging, and we may not be able to pass many well-intentioned bills this session due to the responsibility to balance the budget. That's also called governing. If we do nothing else, we pass a budget that allocates money to state and local governments to provide services to the people of Maryland. It's essential for Marylanders to know that their tax money is being utilized effectively and efficiently, and we achieve this through audits that keep our county and municipal leaders accountable.

I want to be clear. This legislation is not directed at any one municipality or county, nor is it partisan. I introduced this bill based on a principle. The truth is that our current methods of enforcement are inadequate, and we have noticed a concerning pattern of some municipalities and counties delaying or not submitting their audits on time. While most of them take corrective action immediately to rectify the delay, some fail to comply year after year. This not only obstructs our legislative oversight but also keeps our constituents in the dark about fiscal matters that have a direct impact on their lives and communities.

House Bill 165 addresses this gap in compliance by setting clear, tangible consequences for continued non-adherence. It's a step towards ensuring that all jurisdictions within our state uphold their duty of financial transparency and accountability.

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Currently, there are minimum differences between the cross-filed bills. The bills vary primarily in that the House bill mandates that the consequences for a late audit take effect once the audit is three years late, while the Senate version begins when those audits are two years late. The House version also removes Disparity Grants from the bill, which the Senate version retains.

Thank you for your time, and I urge a favorable report on HB165.

MML-HB 165 - SWA.pdf

Uploaded by: Justin Fiore

Position: FWA



Maryland Municipal League
The Association of Maryland's Cities and Towns

TESTIMONY

March 26, 2024

Committee: Senate Budget & Taxation

Bill: _____ HB 165 – Local Government – Annual Audit Reporting Requirements –
Alterations

Position: Support with amendments

Reason for Position:

The Maryland Municipal League supports House Bill 165 with amendments.

While the bill is in a better posture as amended – increasing accountability yet allowing enough time for local governments to resolve most natural issues – we are still concerned about the rare cases that may take several years to resolve at no fault of the jurisdiction.

Specifically, the only remaining legitimate concern surrounds cases in which an employee has committed a financial crime like fraud or embezzlement. Those can take years to recover from at no fault of the remaining elected officials and city or town residents. The structure outlined in HB 165 as amended is still ill-equipped to deal with these situations if they drag on.

The uncomfortable reality is that crimes like fraud and embezzlement happen in (and to) local governments. Nothing in the law prevents such crimes. But, without a release valve or some level of discretion, HB 165 could further harm jurisdictions and their residents in this situation.

This is why the League continues to advocate for discretion in these situations. There are already two bodies with the oversight authority to recommend and implement penalties on a case-by-case basis – the Department of Legislative Services via the Comptroller and the Maryland General Assembly via budget language (which was done as recently as 2016, FY 2017.)

[The October 4th, 2024, meeting of the Joint Committee on the Management of Public Funds \(JCMPF\)](#) exemplifies the how the General Assembly can hear from jurisdictions, gather context, and be prepared to make case-by-case recommendations. One jurisdiction specifically discussed how

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they struggled to find any firm to take on their audit after dealing with a case of embezzlement they reported to the police. The Town of Marydel had a similar situation years ago. Marydel ultimately ended up 4 audits behind before resolving the issue but has been on time ever since.

MML continues to propose and support a belt-and-suspenders approach to keeping a layer of mandatory penalties with certain amendments – most importantly, an off ramp.

Currently, outside of the JCMPF hearing, there is no formal process that requires a status update and plan for compliance for jurisdictions who do not file on time. We believe having those commitments in writing would be a show of good faith. This would potentially further aid the JCMPF in their oversight role and still allow for discretionary penalties from the Executive Director of DLS. If they fail to meet those basic requirements, we would understand more immediate penalties.

For these reasons the League respectfully requests that this committee provide House Bill 165 with a favorable report with amendments.

FOR MORE INFORMATION CONTACT:

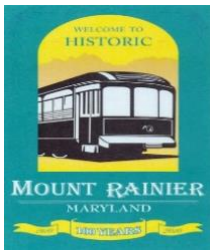
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House Bill 165 Support with included admedments 3:

Uploaded by: Mayor Celina Benitez

Position: FWA



Office of The Mayor Celina Benitez

1 Municipal Place, Mount Rainier, Maryland 20712 Telephone: (301) 985-6585 MountRainierMD.org

Monday, March 25, 2024

Dear Honorable Members of the Budget and Taxation Committee,

I am writing to you to express the City of Mount Rainier support for House Bill 165. This bill, with its proposed amendments, represents a significant opportunity to ensure that municipalities like ours are able to maintain and enhance public safety without the risk of losing essential police aid funding due to audit reporting timelines.

The City of Mount Rainier, like many small municipalities, operates with limited financial and human resources. The ability to comply with stringent audit reporting requirements annually can be challenging, particularly in times of unforeseen circumstances or resource constraints. HB 165, in its original form, aimed to address the need for timely and transparent financial reporting by local governments. However, the potential for municipalities to lose police aid funding due to non-compliance with these requirements posed a significant concern for communities already struggling to meet the demands of public safety and community services.

The amendments proposed to HB 165 are crucial for municipalities such as Mount Rainier. By not allowing police aid funding to be taken away for failing to meet the audit reporting deadline, the bill acknowledges the critical importance of uninterrupted support for local law enforcement and public safety initiatives. Furthermore, the provisions extending the application date and changing the reporting timeframe from 1 to 3 years offer municipalities a more realistic and manageable timeline to fulfill audit reporting obligations without jeopardizing essential funding.

These changes reflect a thoughtful consideration of the operational realities faced by local governments, especially smaller towns and cities with limited administrative capacities. They allow municipalities to catch up and ensure compliance with audit reporting requirements without the fear of losing funding that is crucial for maintaining public safety and community well-being.

We urge the committee to consider the positive impact that these amendments will have on municipalities across Maryland. By supporting HB 165 with the proposed changes, you will be affirming your commitment to the safety and security of our communities, ensuring that municipalities are not penalized for striving to meet audit reporting standards. Please feel free to contact me at 301-985-6585 if you have any questions.

Sincerely,

Celina Benitez

Mayor Celina Benitez, City of Mount Rainier

HB0165-BT_MACo_OPP.pdf

Uploaded by: Kevin Kinnally

Position: UNF



House Bill 165

Local Government – Annual Audit Reporting Requirements – Alterations

MACo Position: **OPPOSE**

To: Budget and Taxation Committee

Date: March 26, 2024

From: Kevin Kinnally

The Maryland Association of Counties (MACo) **OPPOSES** HB 165, as it represents an unwarranted overreaction to a decidedly narrow policy concern.

One municipal government’s potentially concerning tax rate actions in recent years may justify some State action or oversight. Still, HB 165 represents a broad and sweeping new process that potentially jeopardizes county and municipal revenues in the hundreds of millions of dollars annually. The potential for concerning effects on local bond ratings by creating such uncertainty is hard to overstate.

Local Government Article, Section 16-306 of the Annotated Code of Maryland requires each county, incorporated city or town, and taxing district in Maryland (local governments) to file audit reports annually or once every four years under specified conditions. Nearly all local governments routinely submit timely, accurate reports. In rare cases, extenuating circumstances may inhibit a local government from meeting the reporting deadline. HB 165 requires that 20 percent of specified state aid be withheld from a jurisdiction if their local audit is over a year late.

Local governments must provide input and transparency into fiscal decision-making. The audit process is one of many measures to offer this assurance to their residents and taxpayers. Under current law, the Comptroller, on notice from the executive director of the Department of Legislative Services, may order the discontinuance of any or all money, grants, or state aid from a local government out of compliance with state audit requirements. However, the enforcement measure proposed in this bill effectively removes the Comptroller’s ability to consider extenuating circumstances before taking drastic actions that would harm shared constituents.

Through voters and public participation, local accountability remains the most important and effective means to promote compliance and transparency in local fiscal decisions. There is no widespread pattern of worrisome behavior of this nature that might suggest the need for HB 165 and its dramatic potential to withhold enormous amounts of State support.

Accordingly, MACo urges an **UNFAVORABLE** report for HB 165.