



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

## TESTIMONY

February 6, 2024

**Committee:** House Environment and Transportation

**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, which creates a new mandatory trigger for the reduction of state aid to local governments that are more than one year late on their annual audit.

The League, and its individual members, agree that municipalities should be doing everything in their power to comply with audit requirements as good stewards of our taxpayer dollars. However, we do have concerns that this bill would negatively impact those trying to resolve problems that may naturally arise.

[The October 4<sup>th</sup>, 2024, meeting of the Joint Committee on the Management of Public Funds \(JCMPF\)](#) provided a great deal of testimony to this effect. Chairs Senator Ellis and Delegate Watson heard from each jurisdiction that was more than one year late on their audits, and the stories match what we have anecdotally heard before: these perfect storms happen every so often, and they can take more than one year to resolve. Common threads from their stories included at least two or more of the following – loss of staff, loss of auditor, change in accounting systems, or recovery from fraud/embezzlement.

One jurisdiction discussed how they struggled to find any firm to take on their audit after dealing with a case of embezzlement they reported to the police. Another described how their auditor suddenly left the business of local government audits all together in the midst of staff turnover (including difficulty filling the position) while also recently switching from paper records to a new accounting system. Those testifying also shared status updates and expected future completion deadlines. Many of them bolstered staff to catch up and highlighted newly established practices to ensure future compliance as well.

This is consistent with what we've seen over the years. A jurisdiction gets behind from a perfect storm, the problems cause a few years of backed up audits, and then they catch up and regain consistency of filing. The Town of Marydel and City of Mount Rainer are great examples of



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jurisdictions in the past decade that ran into a perfect storm, dealt with a several-year backup, and submitted their audits on time ever since.

Further, we also tend to see spikes in late filings in the years following large-scale economic turmoil. Namely, the Great Recession and Covid – both of which had substantial adverse impacts on staffing. Based on the status reports provided to the Joint Committee, we appear to be coming out of one of those phases and jurisdictions are catching up.

Between the Joint Committee on the Management of Public Funds and the existing authority of the Executive Director of DLS/Comptroller, the current structure for oversight and penalties already functions well to ensure those submitting late audits are on a path back to compliance.

MML would support a belt-and-suspenders approach to keeping a layer of mandatory penalties with certain amendments – most importantly, an off ramp. We believe it would be unfair to penalize those working in good faith to recover from a perfect financial storm. Ultimately, the penalties will fall on the residents with potentially slower police response times and worse roads.

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.

That said, the League also requests police aid be removed from consideration in HB 165. The transportation cuts are a significant enough penalty, and they impact all 160 of our members. Police aid cuts would only impact about half, but a delay in police response times when someone is having their worst day is an outcome we should all look to avoid.

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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