



HARFORD COUNTY, MARYLAND

Office of the County Auditor

AUDIT OF PROPERTY MANAGEMENT CONTROLS

Report Number:
2024-A-07

Report Date:
3/1/2024

Council Members and County Executive Cassilly:

In accordance with Section 213 of the Harford County Charter, we have performed an audit of Property Management controls for the period of 5/1/2021 through 9/30/2023. This audit was conducted as part of the County Auditor's risk-based Annual Audit Plan approved by the County Council for FY2024.

The objective of this audit was to determine if processes are adequate to ensure that the County's rental and lease contracts are properly monitored for compliance with contract terms. The scope of the audit was limited to real property owned, rented, or leased by or to the Harford County government; including properties owned or leased by Harford County on behalf of a component unit. However, the scope did not include properties owned by the County's component units themselves, nor did it include right of ways, utility easements, roadways and bridges, or agricultural preservation easements. Rental payments on behalf of Housing Agency clients were also not within the scope of this audit. The results of the audit, our findings and recommendations for improvement are detailed in this report.

We would like to thank the members of management for their cooperation during the audit; they have been provided an opportunity to respond to this report. The response provided follows the Conclusions.

Sincerely,

Chrystal Brooks
County Auditor

CONCLUSIONS

Our opinion, based on the evidence obtained, is controls are adequate to ensure that the acquisition and disposal of properties complies with the County Code and real property assets are accurately recorded in the County's financial records and controls are adequate to ensure lease payments are made timely and accurately. However, controls can be improved to ensure the County's rental payments are received timely. This assessment is based on the strengths and weaknesses identified for the operational objectives below.

Business Process Objective	Assessment ⁱ
Properties are captured in financial records	Effective
Payments for leased properties are made timely and accurately	Effective
Rental receivables are received timely and completely	Generally Effective

MANAGEMENT RESPONSE

Management has changed the control regarding rental payments. Effective June 30, 2023, Treasury now invoices tenants utilizing Workday. Late payment invoices are automatically generating through Workday at 30 and 90 days past due.

BACKGROUND, OBJECTIVES, SCOPE, AND METHODOLOGY

The function of property management is shared by Property Management, within the Department of Procurement, and Facilities and Operations, within the Department of Public Works. The acquisition or disposal of properties is the responsibility of Property Management while Facilities and Operations manages properties rented to and leased from the County. Currently, the County rents approximately 30 properties from other entities and leases out approximately 40 properties to other entities. The County paid \$980,000 and \$918,000 for lease payments in FY2022 and FY2023 and Rental revenues were \$392,000 and \$643,000, respectively, in those years.

The audit approach focused on testing the key controls that address management's objectives. Our audit procedures included interviewing personnel, observation and testing as described in the table below.

Process / Control Objective	Scope of Review
Properties Captured in Financial Records	
The County maintains a complete inventory of all real estate it owns or leases	<ul style="list-style-type: none"> • Confirm a sample of properties recorded in the County's name were included in the County's real estate inventory. • Confirm properties are recorded in the County's financial records
The County acquires and disposes of properties in compliance with laws and procedures	<ul style="list-style-type: none"> • For disposed properties, confirm notice of Surplus Property is properly advertised prior to approval by the County Council <p>For purchased properties, confirm that:</p> <ul style="list-style-type: none"> • Property purchases over \$100,000 are appraised and the price does not exceed the highest appraisal • Purchase prices did not exceed the highest appraisal; and, • Board of Estimates and County Council approvals were obtained, as necessary

Process / Control Objective	Scope of Review
Lease Payments	
Lease contracts with landlords are maintained	<ul style="list-style-type: none"> Confirm a fully executed, current lease exists between the County and landlord
Lease payments from Harford County are compared to Facilities and Operations' internal tracking information to ensure compliance with active lease terms	<ul style="list-style-type: none"> For properties leased to Harford County, confirm a sample of payments made by the County agreed to an existing lease Confirm monitoring procedures were adequate by agreeing payments to Facilities and Operations' internal tracking information
Rental Receivables	
Lease contracts with tenants are maintained	<ul style="list-style-type: none"> Confirm a fully executed, current lease exists between the County and tenant
Lease payments to Harford County are compared to Facilities and Operations' internal tracking information to ensure compliance with active lease terms	<ul style="list-style-type: none"> Confirm payments received were received timely and reconciled to lease terms, including any additional rental costs Confirm monitoring procedures were adequate by agreeing payments to Facilities and Operations' internal tracking information, including that of accuracy and timeliness

Areas for improvement are described in the Issues and Corrective Actions section of this report. We have reviewed the issues reported in a prior audit and considered their impact on the audit program.

In a prior audit, 2021-A-18, we noted, "Lease receivable payments are not complete and timely". In the current audit, we tested 22 contracts with lessees covering 143 lease payments receivable and found a number of instances of late or incorrect payments. We continue to recommend that management take steps to follow up when payments are not received timely. *This issue will remain open.*

Harford County management is responsible for establishing and maintaining effective internal controls. Internal control is a process designed to provide reasonable assurance that objectives pertaining to the reliability of financial records, effectiveness and efficiency

of operations including safeguarding of assets and compliance with applicable laws, rules and regulations are achieved. Because of inherent limitations in internal control, errors or fraud may nevertheless occur and not be detected.

We conducted this performance audit in accordance with Generally Accepted Government Auditing Standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Report Distribution:	Audit Team:
Ms. Karen Myers, Director of Procurement	Chrystal Brooks
Mr. Robert Sandlass, Treasurer	CPA, CIA, CGAP, CISA, CGFM, CRMA
Mr. Joseph Siemek, Director of Public Works	County Auditor
Ms. Erin Schafer, Chief, Facilities and Operations	Brad DeLauder
	CPA, CIA
	Senior Auditor

ⁱ Definitions

Effective: The design and effectiveness of the internal control environment address key risks. The business unit complies with external laws and regulations, and internal policies, procedures, and guidelines. Business processes are managed effectively resulting in achievement of expected outcomes.

Generally Effective: The design and/or effectiveness of the internal control environment generally address key risks; however, the number and severity of findings relative to the size and scope of the business unit being audited indicate that some minor areas of weakness in the control environment need to be addressed. Isolated instances of non-compliance with external laws and regulations, and internal policies, procedures and guidelines may exist. Business processes may not be managed effectively in all areas resulting in reduced achievement of expected outcomes.

Not Effective: The design and/or effectiveness of the internal control environment does not address key risks. Non-compliance or historical patterns of non-compliance with key regulatory requirements and internal policies, procedures and guidelines exist which expose the audited entity to financial, reputational, and operational risks. Business processes are not managed effectively and expected outcomes are not achieved.