



December 31, 2018

Report Highlights

Why We Did This Audit

An audit of all agencies that receive or disburse County funds is required by §213(b) of the Harford County Charter.

What We Found

Financial statement audits have been completed for the county's affiliated agencies.

Generally, agencies fully used their county appropriations.

Fire companies do not consistently complete their financial reporting timely.

HARFORD COUNTY, MARYLAND

Office of the County Auditor

REPORT ON FINANCIAL AUDITS OF AFFILIATED AGENCIES

Council Members and County Executive Glassman:

In accordance with Section 213(b) of the Harford County Charter, an audit of the County's financial statements as of June 30, 2018 has been completed and an unmodified opinion was reported to the County Council and County Executive on October 30, 2018. Financial Statement audits of the County's affiliated agencies (not included in the Comprehensive Annual Financial Report) have been performed by various independent public accounting firms. I submit this report to you, in accordance with the reporting extension approved by the County Council on October 16, 2018.

Each year a number of audits and agreed upon procedures are performed by the County's external auditor, CliftonLarsonAllen, LLP. The projects below have been completed with unmodified audit opinions.

- 9-1-1 Trust Fund Receipts and Expenditures
- Compliance with Federal Register Financial Assurance Criteria for Municipal Solid Waste Landfills (Agreed Upon Procedures)

A required audit of the Local Management Board's Revenues and Expenditures is in progress but has not yet been completed.

Several agencies received an appropriation from the County in fiscal year 2018 but are not component units of the County for financial reporting purposes. They include:

- Harford County Health Department
- Humane Society of Harford County
- ARC Northern Chesapeake Region
- 12 Volunteer Fire Companies (VFC)
- Volunteer Fire and EMS Association
- Volunteer Fire and EMS Foundation

Appropriations to these agencies were a small percentage of the FY2018 budget. They are all not-for-profit or government organizations that supplement their Harford County appropriations with funding from other sources. While it does not receive a County appropriation, the Liquor Control Board provides an annual commission to the County.

I have reviewed the financial and independent auditor reports provided for each organization. I did not identify any information that indicated a misuse of County funds. Additionally, each entity's costs exceeded their County appropriation except one. See Comment 2 below.

In accordance with County Charter § 213(b), I present the following explanatory comments related to the audits of the County's affiliated agencies:

Comment 1

In prior years, we have noted that the financial statements for the County's Volunteer Fire Companies are not always completed by the 120-day deadline specified in their agreements with the County. In the current year, 8 auditor's opinions were dated after the deadline and 8 reports were received by the County Auditor more than two weeks after their due date.

Comment 2

While each fire company's total expenses were greater than their County appropriations, the companies have included Depreciation in their total functional expenses. The appropriations are intended to cover operational expenses; however, depreciation is an accounting mechanism related to capital assets rather than an actual expenditure. It is not clear that the County's management has determined that depreciation is an acceptable use of the County appropriation. When depreciation is eliminated from each company's functional expenses, Norrisville had not fully spent its appropriation, leaving approximately \$97,000 unspent.

Management has been provided an opportunity to respond to this report; the response provided by Norrisville VFC is attached to this report. The response asserts that when combining all of the County funding sources, the appropriation is only underspent by \$9,910. The Memorandum of Understanding between the County and the fire companies specifies that the County will provide "operational funding as defined in the County Budget...". Debt Service may be considered a current operational expense; however, Operational and Capital appropriations are authorized by law and are not interchangeable. Further, Operational appropriations may not be saved to be used in future years.

A response from the County Administration is below. I am available to respond to any questions you have regarding this summary.

Sincerely,



Chrystal Brooks
CPA, CGFM, CIA, CISA, CGAP, CRMA
County Auditor

cc: Mr. Robert Sandlass, Treasurer
Ms. Mylia Dixon, Council Administrator

MANAGEMENT RESPONSE

Management will review/clarify the Memorandum of Understanding between the County and the Volunteer Fire Companies. It is not the County Administration's intent to have the Volunteer Fire Companies return any "so called" unspent allocation. The allocation to each fire company is a funding mechanism created many years ago (1988) by the Volunteer Fire and EMS Association.

memo

Norrisville Volunteer Fire Company, Inc.

To: Eddie Hopkins and Crystal Brooks, CPA

From: Holly Testerman – President
Kris Miller – Treasurer

CC: Russell Eyre and Gene Worthington – Harford County Volunteer Fire and EMS Association, Inc.

Date: December 28, 2018

Re: Norrisville Volunteer Fire Company, Inc. - Spending of Appropriations

We have reviewed the attached letter from Crystal Brooks. We disagree with Ms. Brooks position that we have not spent the appropriation from Harford County government for the year ended June 30, 2018. We have spent the entire appropriation except for \$9,910 for the year ended June 30, 2018. We have included an analysis of the last five years showing the entire appropriation being spent. Norrisville Volunteer Fire Company, Inc. has significantly spent over the government appropriation for operating expenses, equipment and property, and debt payments in prior years, except for June 30, 2018. In accordance with U.S. Generally Accepted Accounting Principles (GAAP), we have to capitalize all property and equipment on the Statement of Financial Position. As a consequence to capitalizing equipment the Organization is allowed to take a portion of the cost of equipment, as depreciation over the useful life of the asset in accordance with U.S. GAAP that have a measurable future economic value. These capitalized amounts are not included in the Statement of Functional Expenses because of generally accepted accounting principles but included in the Statement of Financial Position. Your analysis does not include the items that we have purchased for equipment and building improvements that were capitalized and included in the Statement of Financial Position as property and equipment in accordance with GAAP. Furthermore the cash required to pay for these items are shown in the Statement of Cash Flow in the audited financial statement. In accordance with accounting standards, we have to complete the audited financial statements in accordance with Generally Accepted Accounting Principles and capitalize these expenditures.

It has been our understanding that the appropriation can be used for both operating expenses, the purchases of equipment and building/improvements and debt payments to operate Norrisville Volunteer Fire Company, Inc. As shown in previous years, the appropriation received from Harford County is significantly less than the expenditures incurred by Norrisville Volunteer Fire Company, Inc. to operate as a fire company. Consequently we have used savings and borrowed money to operate as a fire company in Harford County to meet the needs of the community.

We disagree with Ms. Brooks that we did not use \$97,056 of the appropriation. We did not use \$9,910 of the appropriation as evidenced on the attached analysis. The money is carried forward as savings so that we can purchase equipment. Equipment/apparatus range from \$250,000 to \$2,000,000 per piece of equipment/apparatus. As a small fire company in Harford County, the appropriation does not cover large equipment purchases. As a consequence, Norrisville Volunteer Fire Company, Inc. needs to save money to purchase equipment and operate as a fire company. We also save money for any unexpected repairs to equipment that we have not budgeted.

We would respectfully request that you review the attached information and adjust your calculation. Our mission is to service the Norrisville community and surrounding areas. If we do not have adequate funding for operating expenses and equipment, the community of Norrisville and surrounding areas will suffer because we will not be able to service the community.

Norrisville Volunteer Fire Company, Inc.
5 Year Appropriation Analysis

	<u>FYE 6/30/18</u>	<u>FYE 6/30/17</u>	<u>FYE 6/30/16</u>	<u>FYE 6/30/15</u>	<u>FYE 6/30/14</u>	<u>Total</u>
Sources of Revenue From Government:						
Appropriations Received	\$ 588,375	\$ 463,439	\$ 480,442	\$ 1,214,418	\$ 452,051	\$ 3,198,725
Funds for Capital Improvements	(178,004)	(52,950)	(75,660)	(815,747)	(59,253)	(1,181,614)
Senator Amoss Funds	(52,067)	(52,185)	(46,478)	(40,367)	(34,494)	(225,591)
Appropriations Received for Operations	<u>358,304</u>	<u>358,304</u>	<u>358,304</u>	<u>358,304</u>	<u>358,304</u>	<u>1,791,520</u>
Uses of Government Appropriations:						
Total Functional Expenses	570,885	597,459	580,478	496,734	451,632	2,697,188
Less: Depreciation	(296,962)	(284,492)	(264,201)	(244,065)	(209,881)	(1,299,601)
Less: Fundraising Expense	(12,675)	(10,939)	(10,827)	(6,619)	(12,249)	(53,309)
Add: Debt payments	56,524	69,346	82,712	53,538	51,389	313,509
	<u>317,772</u>	<u>371,374</u>	<u>388,162</u>	<u>299,588</u>	<u>280,891</u>	<u>1,657,787</u>
Add: Purchases of Capital Assets	260,693	221,691	411,158	1,470,956	313,309	2,677,807
Less: Appropriations Received for Capital Assets	(178,004)	(52,950)	(75,660)	(815,747)	(59,253)	(1,181,614)
Less: Senator Amoss Funds Received for Purchase of Equipment	(52,067)	(52,185)	(46,478)	(40,367)	(34,494)	(225,591)
	<u>30,622</u>	<u>116,556</u>	<u>289,020</u>	<u>614,842</u>	<u>219,562</u>	<u>1,270,602</u>
Total Uses of Government Appropriations	<u>348,394</u>	<u>487,930</u>	<u>677,182</u>	<u>914,430</u>	<u>500,453</u>	<u>2,928,389</u>
Total Spending Under (Over) Appropriations Received	<u>\$ 9,910</u>	<u>\$ (129,626)</u>	<u>\$ (318,878)</u>	<u>\$ (556,126)</u>	<u>\$ (142,149)</u>	<u>\$ (1,136,869)</u>