



HARFORD COUNTY, MARYLAND

Office of the County Auditor

AUDIT OF ECONOMIC DEVELOPMENT PROGRAMS

Report Highlights

Report Number: 2021-A-08

Date Issued: 01/19/2021

Why We Did This Audit

This audit was conducted as part of the County Auditor's risk-based Annual Audit Plan approved by the County Council for FY2021.

What We Found

Controls are adequate to ensure grant funds and tax credits are awarded and monitored effectively.

Management should enforce loan and grant requirements regarding timely repayments and audited financial statements.

Audit Team:

Chrystal Brooks
CPA, CIA, CGAP, CISA, CGFM, CRMA
County Auditor
Sarah Self
CIA, CGAP
Staff Auditor

Council Members and County Executive Glassman:

In accordance with Section 213 of the Harford County Charter, we have performed an audit of Economic Development Programs. The results of that audit, our findings and recommendations for improvement are detailed in the attached report. We would like to thank the members of management for their cooperation during the audit.

The audit found controls in place are generally satisfactory to ensure Economic Development programs are properly approved, disbursed and monitored. However, processes could be improved to ensure loan repayments are made as agreed.

We also noted that some Tourism grant recipients have not provided sufficient support documentation or audited financial statements per program requirements. This issue was noted in two prior audits and remains open.

The audit team is available to respond to any questions you have regarding the attached report.

Sincerely,

Chrystal Brooks
County Auditor

cc: Mr. Leonard Parrish, Director of Comm. & Economic Development



HARFORD COUNTY, MARYLAND

Office of the County Auditor

REVIEW RESULTS

We have audited Economic Development Programs for the period of 07/01/2018 through 08/31/2020. Our conclusion, based on the evidence obtained, is that controls are generally satisfactory to ensure grant and loan recipients are properly approved and monitored to ensure County funds are used as intended. We noted that some processes should be improved to confirm timely repayment of loans and that grantees provide satisfactory support documentation per program guidelines. The audit approach focused on testing the key controls that address management’s objectives for the process. Conclusions drawn are below.

Risk	Expected Control	Conclusion
Funds are not used for intended purpose	<ul style="list-style-type: none"> Reimbursement requests are supported by proof of funds spent on program approved uses. Grantees provide verifiable support documents or audited financial statements to confirm use of funds as agreed. 	<p style="color: green;">Satisfactory</p> <p style="color: orange;">Needs Improvement</p>
Grants are awarded improperly	<ul style="list-style-type: none"> Applications receive multiple levels of review to ensure funds are awarded in a fair and impartial manner. Applications are reviewed to ensure they are complete and include all required support documents per program requirements. 	<p style="color: green;">Satisfactory</p> <p style="color: green;">Satisfactory</p>
Grantees receive funds they are not eligible for	<ul style="list-style-type: none"> Disbursement of grant funds is tracked and monitored to ensure recipients receive only those funds they are entitled to. 	<p style="color: green;">Satisfactory</p>
Loans are not repaid per terms of approval	<ul style="list-style-type: none"> Loan repayments are tracked and monitored to ensure they are received as agreed upon in loan commitment letters. 	<p style="color: orange;">Needs Improvement</p>

Areas for improvement are described in the Findings and Corrective Actions section of this report. Management has been provided an opportunity to respond to this report; the response provided follows the Findings and Corrective Actions.

We have reviewed the issues reported in a prior audit. Previously, in Audit Report # 2017-A-06, we noted [grants] "did not have receipts or reports supporting how funds were used; ... had not provided audited year-end financial statements; ... [and] did not demonstrate that funds were fully spent." In the current audit, we tested a sample of 7 Tourism grants and found 2 of the grantees did not document all grant funds were spent or return any unspent

portions to the County, per the program requirements. These two grantees received a total of \$78,093 in grant funds from the County and did not provide documentation for a total of \$40,140 in grant funds spent. *This finding remains open.*

FINDINGS AND CORRECTIVE ACTIONS

Finding Number: 2020-A-08.01 Timeliness of Loan Payments

Loan payments were not received on a timely basis.

Analysis: The Office of Economic and Community Development (OECD) manages the Economic Development Opportunity Fund (EDOF) loan program which provides funding to local businesses. The funding is provided in the form of traditional fixed asset loans, with loan amounts up to \$200,000, a risk based interest rate, and fixed monthly loan payments for the life of the loan. Businesses must submit loan applications to OECD for review and the related advisory board recommends which applications should be approved. Following approval by the County Executive, a loan commitment letter is issued detailing the loan terms.

We reviewed all 13 of the currently open Economic Development Opportunity Fund loans to confirm the lendee met the terms of their loan commitment letters. We found 6 of the businesses were consistently paying their loans as agreed. However, we noted that the other 7 businesses were not making their payments in a timely manner. These businesses were skipping some of their monthly payments and making bi-monthly or quarterly payments instead. While the loans were ultimately being repaid over the course of each year, the businesses were not meeting the terms of the loan as agreed.

Recommendation: We recommend the Office of Economic Development work with each loan recipient to ensure loan payments are made on a monthly basis or adjust the loan terms to reflect the expected repayment schedules.

Management Response: Management believes that the Office of Community and Economic Development (OCED) is already working diligently with each loan recipient to ensure that loans are repaid. In situations where the loan recipient is having troubles with repayment, OCED tailors a repayment schedule and adjustment to loan terms that specifically coincides with the recipient's ability to pay in a timely, appropriate manner. OCED ensures that adjustments to terms and repayment are documented should legal actions need to be taken upon a total loss of repayment.

BACKGROUND, OBJECTIVES, SCOPE AND METHODOLOGY

Harford County's Office of Economic Development offers various funding programs, in the form of grants and loans, intended to help businesses in the community. All of these programs have specific application requirements that undergo management review prior to release of funds. In addition, some grants also include financial and reporting requirements after the funds have been awarded. The following programs were reviewed as part of this audit: Economic Development Opportunity Loans, Enterprise Zone Tax Credits, Tourism Grants, Workforce Technical Training Grants, and CARES Act COVID-19 Business Relief Grants.

The objective of this audit was to review Harford County's Economic Development programs to determine if the terms and conditions required by the authorizing pieces of legislation and related agreements have been met and that appropriate controls are in place to monitor ongoing program activity. The scope of this review was limited to the grants and loans awarded or administered by Harford County's Office of Economic and Community Development.

The audit focused on activity during the period of 07/01/2018 through 08/31/2020. Our audit procedures included interviewing personnel, observation and testing. Specifically, we recalculated a sample of Enterprise Zone tax credits to confirm the amount being credited was correct and agreed with the authorizing legislation. For the Economic Development Opportunity Fund loans, we reviewed the issued commitment letters and compared them to the loan repayment histories to confirm agreement. For grants issued through the CARES Act Covid-19 Business Relief and Workforce Technical Training programs, we reviewed a sample of applications and supporting documents to ensure funds were awarded and disbursed per program requirements. We also reviewed a sample of Tourism Grants to confirm the grant recipients provided satisfactory financial receipts or audited financial statements as required.

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.

The audit was performed in accordance with Generally Accepted Government Auditing Standards (GAGAS). Those standards require that we plan and perform the audit to obtain sufficient 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.