



# HARFORD COUNTY, MARYLAND

## Office of the County Auditor

December 30, 2014

### Report Highlights

#### **What We Found**

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

Generally, agencies fully used their county appropriations.

Fire companies do not consistently complete their financial reporting timely.

The Harford County Health Department is continuing efforts to improve reporting of its use of County Funds.

#### **What We Recommend**

Management should identify ways to enforce timely financial reporting for affiliated agencies

### **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, 2014 has been completed and an unmodified opinion was reported to the County Council and County Executive on October 31, 2014. 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 22, 2014.

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

- Volunteer Firefighter Length of Service Award Program
- Sheriff's Office Pension System
- Local Management Board Revenues and Expenditures
- 9-1-1 Trust Fund Receipts and Expenditures
- Compliance with Federal Register Financial Assurance Criteria for Municipal Solid Waste Landfills (Agreed Upon Procedures)

A number of agencies received an appropriation from the County in fiscal year 2014, 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
- Maryland School for the Blind
- 12 Volunteer Fire Companies (VFC)
- Volunteer Fire and EMS Association
- Volunteer Fire and EMS Foundation

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Appropriations to these agencies were approximately 2.4% of the FY2014 budget. They are all not-for-profit or government organizations that supplement their Harford County appropriations with funding from other sources. I have reviewed the financial and independent auditor reports provided for each organization. Except for the matters in the explanatory comments below, each organization received an unmodified audit opinion and I did not identify any information that indicated a misuse of County funds. Additionally, each entity's costs exceeded their County appropriation.

While it does not receive a County appropriation, the Liquor Control Board provides an annual commission to the County. I have reviewed the Liquor Control Board's FY2014 financial statements. They were audited by an independent accounting firm and received an unmodified opinion.

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

#### Comment 1

The Harford County Health Department has undergone an agreed upon procedures engagement to confirm its proper use of County appropriations. The resulting report indicated that all County appropriations were spent, but also indicated some transactions that were unsupported or were not recorded correctly. Additionally, the Health Department was not able to compare the transactions to the State's general ledger system. We reported, in a prior audit report (2014-A-09), that management was not able to confirm its use of County Funds and made recommendations to improve internal controls and systems. The prior audit findings and recommendations will remain open. The Health Officer has provided a response; that response follows this letter.

#### Comment 2

As independent organizations, each volunteer fire company chooses, within the standards, how to report its financial results. As a consequence, the reports do not facilitate straightforward comparisons between the companies. In particular, we noted that there may be expenses reported in a manner that makes it difficult to determine if all expenditures met the County's expected use. In prior years, we noted this comment as a matter for Legislative and Executive consideration and reported it informally to management. For FY2014, we have included this matter in the Findings and Recommendations section of this report for formal management response and follow-up.

Comment 3

Some VFC financial reports were not completed timely, in accordance with their agreement with Harford County. This finding has been summarized for the County's Administration along with a recommendation for improvement later in this report.

Comment 4

Abingdon Volunteer Fire Company received a qualified audit opinion related to its exclusion of a significant donated asset for financial reporting purposes. The result is that Abingdon's assets are understated. This condition remains from the prior year. It does not impact the Company's use of County funds.

Management has been provided an opportunity to respond to this report; the responses provided follow the report. I am available to respond to any questions you have regarding this summary.

Sincerely,



Chrystal Brooks  
County Auditor

cc: Mr. Robert Sandlass, Treasurer  
Mr. Edward Hopkins, Director, Emergency Services  
Ms. Susan Kelly, Health Officer  
Ms. Mylia Dixon, Council Administrator

## **MANAGEMENT RESPONSE**

*From the Harford County Health Officer:* The Harford County Health Department (HCHD) is continuing its efforts to standardize protocols for quarterly reconciliations and projections to achieve tighter internal controls. The transactions that are in our PatTrac/FMIS (state system) have the required back-up documentation; however, some of HCHD's payments are made directly through the Department of Health and Mental Hygiene (DHMH), which are not run through our HCHD budget office. Therefore, HCHD does not have the back-up documentation for those transactions. We are working with DHMH to establish a system to track and report those expenditures back to HCHD. In addition, HCHD is researching a more professional organizational check and fiscal tracking software for internal use, such as Quickbooks, to replace Quicken. .

## FINDINGS AND RECOMMENDATIONS

### Finding Number: 2014-F-01.01 VFC Financial Reporting Standards

#### **Volunteer Fire Companies do not report comparable financial information.**

**Analysis:** We noted that the VFCs varied significantly in their levels of assets, debt ratios, non-County funding and allowance for doubtful (ambulance billing) accounts. Additionally, because they are independent organizations with various auditors, the financial reporting and disclosures are not consistent across the Companies. This does not facilitate straightforward comparisons between the companies. It is important to note that there is no indication that the financial reports are misleading or that County funds have been misused.

While each company's total expenses were greater than their County appropriations, the appropriations are restricted to "operational funding as defined in the County Budget" per the companies' agreement with Harford County. The companies have included Depreciation in their operational expenses; however, depreciation is an accounting mechanism related to capital assets rather than an actual operating expenditure. County agencies would not be able to allocate depreciation. It is not clear if the County's management has determined that depreciation is an acceptable use of the County appropriation. This is relevant because depreciation has been a significant line item on each company's financial report. As an example, when depreciation is eliminated from Norrisville VFC's functional expenses, the County appropriation has not been fully spent for FY2014. In FY2013, three companies would have had unspent appropriations.

This is further complicated by how results are presented for each company. For example, some companies have reported expenses in Building and Equipment funds, while others do not. In a number of cases, the purpose for each fund reported has not been defined in the disclosures. The Department of Emergency Services may want to consider more stringent and standard requirements for the VFCs' financial statement disclosures.

**Recommendation:** We recommend County officials work with fire companies to clarify allowable expenses and to determine standards for consistent financial reporting.

**Management Response:** We agree with the recommendations and plan to work with the emergency response providers to identify and implement best practices.

**Expected Completion Date:** 06/30/2015

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**Finding Number: 2014-F-01.02 Timelines of VFC Financial Reporting****Financial Statements from some affiliated agencies were not submitted timely.**

**Analysis:** The Harford County Volunteer Fire and EMS Association, along with each volunteer fire company, has entered into a Memorandum of Agreement (MOA) with Harford County regarding annual government appropriations. The agreement requires the companies to provide audited financial reports within 120 days of the close of each fiscal year. Submission of these reports allows the County to confirm that appropriations to the companies were fully expended for approved uses.

A number of the VFC financial statements have been submitted to the County after their due dates. For FY2012, four reports were issued by the companies' independent auditors after the due date; 5 were issued on or after the due date for FY2013. For FY2014, we noted that six (6) reports were issued by the companies' auditors on or after the October 28 due date. In each of these years, the County Auditor has requested an extension of the deadline to report on these audits to the County Council.

The current MOA requires payments to the companies quarterly by August 1, November 1, February 1, and May 1. This payment schedule should provide an incentive to the companies to complete their financial reporting in a timely fashion; however, the November 1, 2014 distributions were issued on October 13, 2014, prior to submission of the financial reports.

**Recommendation:** We recommend the administration consider modifying the VFC agreement to allow the second quarter payments to be withheld until financial reports have been provided.

**Management Response:** We agree with the auditor's findings and will work with the fire companies to address this matter.

**Expected Completion Date:** 06/30/2015