



HARFORD COUNTY, MARYLAND

Office of the County Auditor

AUDIT OF CAPITAL PROJECTS FOR AFFILIATED AGENCIES

Report Highlights

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 FY2015.

What We Found

Harford County does not ensure reimbursement requests by affiliated agencies are supported and reasonable.

What We Recommend

Management should verify reimbursement requests are reasonable for the capital project and supported by a contractor invoice.

Report Number: 2015-A-02

Date Issued: 06/29/2015

Council Members and County Executive Glassman:

In accordance with Section 213 of the Harford County Charter, we have performed an audit of the capital project reimbursements for affiliated agencies (Harford County Public Schools, Harford Community College and Harford County Public Libraries). 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 and the affiliated agencies for their cooperation during the audit.

Overall, the audit found the affiliated agencies retained sufficient documentation to support the reasonableness of their capital project expenses; however, the County is reimbursing Harford County Public Schools and Harford Community College for capital project expenditures without verifying the expenditures are supported and reasonable.

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

Sincerely,

Chrystal Brooks
County Auditor

cc: Mr. Robert Sandlass, Treasurer, HCG
Mr. Joe Licata, Chief of Administration, HCPS
Mr. Jim Jewell, Asst. Superintendent for Business Services, HCPS
Mr. Rick Johnson, Vice President of Finance and Operations, HCC
Ms. Mary Hastler, CEO, HCPL



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REVIEW RESULTS

We have audited capital project reimbursements for affiliated agencies for the period of 7/1/2013 through 3/31/2015. Harford County Government reimburses Harford County Public Schools, Harford County Public Libraries and Harford Community College for actual capital project expenditures incurred on a periodic basis. Even though affiliated agencies were able to provide us with contract invoices for the capital project expenditure reimbursements, the Treasury Department does not verify this information to ensure expenditures were supported and within the guidelines for the capital project, as approved in the County's Capital budget.

In our opinion, based on the evidence obtained, affiliated agencies have adequate controls to ensure expenditures are approved prior to seeking reimbursement from Harford County. However, Harford County should ensure expenditure requests are reasonable and supported prior to reimbursement. 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
Affiliated Agencies are reimbursed for expenditures that did not occur or are not related to the project purpose as documented during the budget process.	Treasury observes the approved contract invoices prior to reimbursing the affiliated agency for the expenditure incurred.	Needs Improvement
Reimbursements for projects of affiliated agencies exceed the approved budget.	System controls are in place to prevent a project from being overspent.	Satisfactory
Goods / services were not verified for receipt prior to payment.	Project Managers approve the contract invoice for reasonableness and document the receipt of the good/service in the financial system.	Satisfactory

Areas for improvement are described in the Findings and Recommendations section of this report.

FINDINGS AND RECOMMENDATIONS

Finding Number: 2015-A-02.01 Support for Capital Expenditures Reimbursements

Invoices from affiliated agencies are not verified against supporting documentation prior to payment to those agencies.

Analysis: Harford County Government reimburses affiliated agencies (Harford County Public Schools, Harford County Public Libraries and Harford Community College) for actual capital project expenses incurred. HCPS and HCC pay the vendors directly and seek reimbursement periodically from Harford County. HCPS and HCC have project managers who approve the invoices for payment and ensure expenditures are proper. The request for reimbursement is a summary of payments made to each vendor for each project for a period of time and invoices are available upon request. However, Harford County does not routinely verify the expenditures being reimbursed by observing the invoices for the amount requested. As a result, reimbursement could be made for unrelated project expenses.

Recommendation: We recommend, at least on a test basis, management request and review additional support, including invoices, for expenditures noted on the capital project reimbursement request for affiliated agencies.

Management Response: The affiliated agencies are independent. Their authority is derived from the State of Maryland. While the County government is a significant funding source for these agencies, it does not have control over their expenditures. The majority of County funds allocated to these agencies are for operating expenses, and these funds are disbursed by schedule and are in effect forward funding. It is the responsibility of the agencies to manage these funds in accordance with all relevant laws and policies. Capital expenditures have traditionally been reimbursed by the County for reasons of cash flow management; however, the County does not have any more oversight authority for capital projects than it does for operating expenditures.

It should also be noted that this audit found no instances of misuse or mistakes under the current system. This is a testament to the controls already in place by the affiliated agencies and the existing level of oversight provided by the State. Putting aside the question of whether the County has oversight authority over these capital projects, it is uncertain the benefit of another layer of review would exceed the cost of instituting that procedure.

Expected Completion Date: N/A

Auditor's Note: Management has accepted the risk of not implementing the recommendation. Given past performance in this area, we do not believe further follow-up action is required.

BACKGROUND INFORMATION

PROGRAM DESCRIPTION AND KEY STATISTICS

Harford County Government reimburses affiliated agencies for actual capital project expenditures incurred. According to the Charter, capital projects include any improvement of a facility, purchase of a new project/property and equipment purchases when first constructed. Capital projects are approved each year during the budget process. Once the expenditure has occurred, management from the affiliated agency approves the contractor invoices related to the project and applies the expense to the specific capital project. Project managers inspect work prior to approving any construction or inspection related contract invoice. On a periodic basis, request reimbursement for these expenditures from the County. The affiliated agencies include a summary of vendor payments per project for the period. Harford County Public Libraries also attach approved contract invoices. Due to the large number of contract invoices for each reimbursement for HCPS and HCC, the reimbursement request sent to the County only includes a summary of vendor payments per project. HCPL's reimbursement request includes copies of approved contract invoices. Contract invoices for Harford County Public Schools and Harford Community College are available to the County upon request, but has not been done on a consistent basis. Treasury reviews each project that is being reimbursed to ensure within budget. According to the County records, the following capital project expenditures were reimbursed during fiscal year 2014 and 2015 (through March 2015):

	<u>2014</u>	<u>2015</u>
Harford County Public Schools	\$ 8,717,608	\$ 10,832,088
Harford County Public Library	6,219,808	1,023,192
Harford Community College	400,815	937,624
	<u>\$ 15,338,231</u>	<u>\$ 12,792,903</u>

REVIEW OBJECTIVE, SCOPE AND METHODOLOGY

The objective of this audit is to determine if affiliated agency requests for capital project reimbursements are supported. The audit focused on activity during the period of 7/1/2013 through 3/31/2015. Our audit procedures included interviewing personnel, observation and testing. Specifically, we spoke with employees from the County's Treasury Department and the affiliated agencies to gain an understanding of the processes to request capital project reimbursement.

We requested contract invoices for a sample of transactions to ensure each reimbursement request was for an appropriate expenditure for the project, support was sufficient, the amount was in accordance with the contract and within the budget , and proper approval was obtained prior to payment being issued by the affiliated agency. The sample of reimbursement requests selected for testing included at least 50% of spending for each affiliated agency and at least 40 different projects.

Additionally, we selected projects that were completed during our audit period to verify they were within their approved budgets and final expenditures were reasonable according to the project description.

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.

Audit Team:

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County Auditor

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Managing Auditor