



HARFORD COUNTY, MARYLAND

Office of the County Auditor

AUDIT OF PROPERTY MANAGEMENT CONTROLS

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 FY2018.

What We Found

We noted controls can be improved to ensure timely, accurate payment of leases and to ensure properties are captured in financial records.

Report Number: 2018-A-03

Date Issued: 11/01/2017

Council Members and County Executive Glassman:

In accordance with Section 213 of the Harford County Charter, we have performed an audit of Harford County's Property Management Controls. 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 the County's real estate inventory and Fixed Assets module do not contain all County-owned property. The audit also found instances in which payments for space leased to and from the County were not effectively monitored.

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

Sincerely,

Chrystal Brooks
County Auditor

cc: Ms. Erin Schafer, Chief, Facilities and Operations
Mr. Billy Boniface, Director of Administration
Ms. Karen Holt, Director Economic Development
Mr. Robert Sandlass, Treasurer



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REVIEW RESULTS

We have audited Harford County's Property Management Controls for the period of 7/1/2015 through 6/30/2017 to ensure the County's rental and lease contracts are properly monitored for compliance with contract terms, and to assess the completeness of properties recorded in the County's financial records and to confirm that the sale and acquisition of property was compliant with the County Code.

Our opinion, based on the evidence obtained, is Property Management controls can be improved to ensure payments are reviewed and real property has been captured in the County's inventory systems. 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
Records of County owned or leased properties are incomplete and/or inaccurate	<ul style="list-style-type: none"> • The County maintains a complete inventory of all real estate it owns or leases • All County owned property has been reviewed and captured in its financial records • Revenue and Payment processes identify when asset-related transactions need to be recorded in financial systems 	Needs Improvement Needs Improvement Satisfactory
Acquisition and disposal of properties is not in compliance with laws and procedures	<ul style="list-style-type: none"> • Property purchases over \$100,000 are appraised and the price does not exceed the highest appraisal • The Board of Estimates approves all purchases, sales or leases of real property • Notice of Surplus Property is properly advertised prior to approval by the County Council • Properties are sold at public auction unless otherwise approved by the Council and Board of Estimates 	Satisfactory Satisfactory Satisfactory Satisfactory
Lease payments to or from Harford County are not complete and timely	<ul style="list-style-type: none"> • A fully executed, current lease exists between the landlord and tenant • Payments are reconciled to contract terms and monitored for timeliness 	Needs Improvement Needs Improvement

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 responses provided follows each of the findings and the Status of Prior Audit Findings section.

FINDINGS AND CORRECTIVE ACTIONS

Finding Number: 2018-A-03.01 Completeness of the Real Property Listing

Some County-owned properties are not included in the County's financial records.

Analysis: The Fixed Assets (FA) module is set-up to identify purchases under different indexes for review and determination as to whether the purchase should be capitalized. In accordance with Harford County's accounting policies, there is no minimum dollar capitalization threshold for Land. If the FA module does not contain all of the real estate assets owned by the County its financial records and reports may reflect the incorrect valuation for its real property.

We sampled County-owned properties to confirm their inclusion in the FA Module. Of those sampled, 5 properties were not included in the FA Module. Treasury has developed procedures to record the land and building separately but acknowledges some properties have not been broken out and some land assets have not been recorded. Treasury is currently working on getting those land assets recorded in the FA Module. We have confirmed that the FA Module has been updated to include the exceptions noted.

Recommendation: Management should confirm that all properties in the records of Property Management are also captured in the Fixed Assets system with similar identifying information.

Management Response: Management has no response.

Finding Number: 2018-A-03.02 Payments to Landlords

Payments for Common Area Maintenance and Taxes may be incorrect.

Analysis: Harford County pays its landlords based on the terms of the lease contracts that have been approved. Those payments typically include rent expense and an estimate of the

County's share of Common Area Maintenance (CAM) costs, Utilities and Property Taxes. Periodically during the year, landlords provide itemized reconciliations to ensure that CAM and taxes are not over or underpaid. In our review of payments to landlords for a sample of leases, we noted:

- For two properties, the County's pro-rata share of Common Area Maintenance (CAM) and taxes were not reconciled during the year, so it is not clear if CAM charges were under or overpaid; and
- For one property, a CAM reconciliation invoice showed an overpayment of \$1,967 due to the county but an adjustment has not been made to apply the credit to subsequent rent payments.

Without routine review and confirmation of expected charges, the County may over- or underpay for the spaces it leases.

Recommendation: We recommend management confirm that CAM charges and property taxes are reconciled and recalculated each year.

Management Response: Management disagrees with Auditor's opinion. Property Management routinely reviews and confirms charges.

STATUS OF PRIOR AUDIT FINDINGS

We have reviewed the issues reported in a prior audit. Current conclusions for the findings included in Audit Report 2014-A-09 are noted below.

Previously we noted, "The County's Real Estate Inventory listing has not been kept current due to the County's planned implementation of a Facilities Master Plan. Without a comprehensive Real Estate Inventory Listing, the County may not be able to effectively manage its real estate assets." The Facilities Master Plan was completed in January 2015. However, in the current audit, we noted 51 County-owned properties, per the State's tax records, are not included in the County's Real Estate Inventory List. *This issue remains open.*

Previously we noted, "The Fixed Assets module is set-up to identify purchases under different indexes for review and determination as to whether the purchase should be capitalized, but donated property is not identified by this process." This finding was closed in 2015 based upon the implementation of a new procedure. However, in the current audit, we found the Fixed Assets module does not contain all of the real estate assets owned by the County. *This issue has been re-opened as Finding 2018-A-03.01.*

Previously we noted, "Payments for property and spaces leased to Harford County are not being made in accordance with the lease agreements." This finding was closed in 2015 based upon the confirmation of newly implemented monitoring controls. However, in the current audit, we found that while that while Facilities and Operations maintains a database of the properties leased by Harford County and the terms of the lease agreements, lease payments in the County's accounting system do not always reconcile to operating leases. *This issue has been re-opened as Finding 2018-A-03.02.*

Previously we noted, "Lease payments from tenants are not monitored to ensure they are correct and timely." In the current audit, we found that while that while Property Management maintains a database of properties leased out by Harford County and the terms of those agreements, receipts in the County's accounting system do not always reconcile to operating leases and some payments were not received timely. *This issue remains open.*

Specifically, we found the following:

- Two of the 15 leases reviewed were subleases and had late payments, but the contractually allowed penalties were not charged;
- One sublease was underpaid when compared to the lease agreement, totaling approximately \$1,600; and,
- One property did not have a current, fully executed, lease agreement.

MANAGEMENT RESPONSE

Management continues to update/review our processes to ensure a current/complete list of County-owned property. Property Management and Treasury will continue to coordinate efforts to make sure both lists include all real estate assets owned by the County.

A new lease agreement is being updated/revised for the one property whose lease was not fully executed.

BACKGROUND INFORMATION

PROGRAM DESCRIPTION AND KEY STATISTICS

Property Management is a function of Facilities and Operations, under the Department of Administration, and is responsible for the acquisition, sale and lease of real property for Harford County. Per the County's website,

"Acquisitions range from commercial office buildings to park land and sites for bridges, utility lines and roads. Functions include title examination, contract and deed preparation, appraisal, negotiation and property settlement. They also provide

relocation planning for the many county departments and agencies and manage 400 plus properties the county leases for their use or county owned properties we lease to others.”

In addition to buying and selling real estate, Facilities and Operations, manages rented properties and absorbs rental and utility expenses for some departments. There are 35 properties that the County leases from other entities and 28 revenue-generating properties leased to other entities or individuals. Twenty properties leased from the County charge \$0 or \$1 rent annually. Several leases are managed by other County departments, specifically, Economic Development, Parks & Recreation, and Public Works.

REVIEW OBJECTIVE, SCOPE AND METHODOLOGY

The objectives of this audit were to determine if processes are adequate to ensure that the County's leases are properly monitored for compliance with contract terms; assess the completeness of properties recorded in the County's financial records; and confirm that the sale and acquisition of properties was compliant with the County Code. The scope of the review was limited to real property owned, or leased by or to 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. Further, rental payments on behalf of Housing Agency clients were not within the scope of this audit. Criteria for the audit included the Harford County Charter and Code and County Policies and Procedures.

The audit focused on activity during the period of July 1, 2015 through June 30, 2017. Several issues were identified in a prior audit, some of which remained open at the outset of this audit. In consideration of the prior audit findings and our audit objectives, our audit procedures included interviewing personnel, observation and testing. Specifically, we met with members of management to confirm our understanding of the processes and procedures regarding management of property. Using state tax data, we assessed whether all property recorded in the County's name was included in the County's real estate inventory and whether each property on the County's inventory list was titled to the County. For a sample of properties, we confirmed they were included in the County's Fixed Assets system and were not used for unauthorized purposes.

For properties bought or sold during the audit period, we reviewed records to determine if the County laws and property management guidelines were followed. Specifically, we determined, for properties purchased, that appraisals were obtained, purchase prices did not exceed the highest appraisal, and Board of Estimates and County Council approvals were

obtained. For properties sold, we confirmed that surplus declaration and disposition procedures followed the County Code requirements.

For leased properties, we confirmed a current lease exists, payments made and received reconciled to lease terms, including any additional rental costs, and, and if payments were not made timely, follow-up action was taken. We sought to confirm that monitoring procedures were adequate by agreeing payments to Facilities and Operations' internal tracking information. Additionally, we confirmed a sample of payments made by the County agreed to an existing lease.

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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