



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 FY2021.

What We Found

We noted that controls can be improved to ensure all lease payments are received timely and in full.

Report Number: 2021-A-18

Date Issued: 06/28/2021

Council Members and County Executive Glassman:

In accordance with Section 213 of the Harford County Charter, we have performed an audit of 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 that controls are generally adequate to ensure that the County's rental and lease contracts are properly monitored, acquisition and disposal of properties complies with the County Code and real property assets are properly recorded. However, controls can be improved to ensure timely follow-up for late receipts.

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

Sincerely,

A handwritten signature in cursive script that reads "Chrystal Brooks, CPA".

Chrystal Brooks
County Auditor

cc: Mr. Benjamin Lloyd, Director of Administration
Ms. Erin Schafer, Chief, Facilities and Operations

Audit Team:

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

Sarah Self, CIA, CGSP
Senior Auditor



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REVIEW RESULTS

We have audited Property Management Controls for the period of 07/01/2019 through 04/30/2021. Our opinion, based on the evidence obtained, is controls are adequate to ensure that the County's rental and lease contracts are properly monitored, acquisition and disposal of properties complies with the County Code and real property assets are accurately recorded in the County's financial records. However, controls can be improved to ensure timely follow-up for late receipts. 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 leasesAll County owned property has been reviewed and captured in its financial recordsRevenue and Payment processes identify when asset-related transactions need to be recorded in financial systems	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 tenantPayments are reconciled to contract terms and monitored for timeliness	Satisfactory Needs Improvement
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 appraisalThe Board of Estimates approves all purchases, sales or leases of real propertyNotice of Surplus Property is properly advertised prior to approval by the County CouncilProperties are sold at public auction unless otherwise approved by the Council and Board of Estimates	Satisfactory Satisfactory Satisfactory Satisfactory

Areas for improvement are described in the Findings and Corrective Actions section of this report. We have reviewed the issues reported in prior audits and considered their impact on this audit; each of the issues identified were closed before we began this project.

FINDINGS AND CORRECTIVE ACTIONS

Finding Number: 2021-A-18.01 Lease Receivable Payments

Lease receivable payments are not complete and timely.

Analysis: Harford County leases 52 properties to other entities, 24 of which are leased at no charge. For each leased property, there should exist a current lease with the payment terms specified. Generally, the leases require monthly payments by the 1st of each month, with penalties for payments not made timely. Facilities and Operations maintains internal tracking information to confirm the receipt of payments each month for all leased properties.

We reviewed the past twelve months payment history for 9 leases, as well as 34 individual payment transactions. Our review involved confirming the existence of a current lease for each property, verifying payments received reconciled to lease terms, including any additional rental costs, and that appropriate follow up actions were taken if payments were not made timely. We also confirmed monitoring procedures were adequate by agreeing payments to Facilities and Operations' internal tracking information.

During our review, we noted 4 leases with at least one late payment during the past 12 months; 2 of those leases had incomplete or missing payments. The missing payment was provided after the end of the audit period and the other lessee paid the rent in full over the course of 12 months, although not on a monthly basis. Management has advised that some leniency was granted during the pandemic; however, we were not able to confirm that any follow-up actions were taken.

Recommendation: We recommend Facilities and Operations document any actions taken when payments are received late.

Management Response: Management provided leniency to tenants due to the COVID pandemic, follow-up actions were not planned until after the State of Emergency expired (which is July 1, 2021). All payments were received from tenants and documented.

BACKGROUND, OBJECTIVES, SCOPE AND METHODOLOGY

Property Management is a function of Facilities and Operations and is responsible for the acquisition, sale, and lease of real property for Harford County. In addition to buying and selling real estate, Facilities and Operations manages properties rented by and leased from the County. Currently, the County rents 34 properties from other entities and leases out 52 properties to other entities. Of those 52 properties, 24 are leased for no charge.

The objective of this audit was to determine if processes are adequate to ensure that the County's rental and lease contracts 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 this review was limited to real property owned, rented or leased by or to the 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. Furthermore, rental payments on behalf of Housing Agency clients were not within the scope of this audit.

The audit focused on activity during the period of 07/01/2019 through 04/30/2021. 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 a sample of properties recorded in the County's name were included in the County's real estate inventory. 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, for purchased properties, we confirmed that appraisals were obtained, purchase prices did not exceed the highest appraisal and Board of Estimates and County Council approvals were obtained, as necessary.

For properties leased from Harford County, we confirmed a current lease exists, payments received reconciled to lease terms, including any additional rental costs, and that follow-up actions were taken if payments were not made timely. We confirmed monitoring procedures were adequate by agreeing payments to Facilities and Operations' internal tracking information. Additionally, for properties leased to Harford County, 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.