



HARFORD COUNTY, MARYLAND

Office of the County Auditor

AUDIT OF CAPITAL PROJECTS FOR AFFILIATED AGENCIES

Report Number:
2022-A-14

Report Date:
03/31/2022

Council Members and County Executive Glassman:

In accordance with Section 213 of the Harford County Charter, we have performed an audit of Capital Projects for Affiliated Agencies for the period of 07/01/2019 through 12/31/2021. This audit was conducted as part of the County Auditor's risk-based Annual Audit Plan approved by the County Council for FY2022.

The objective of this audit was to determine if affiliated agency requests for capital project reimbursements were supported. The scope of this review was limited to reviewing the invoices and supporting documentation for capital project reimbursements for affiliated agencies. The results of the audit are detailed in this report.

We would like to thank the members of management for their cooperation during the audit. Although none was required, they have been provided an opportunity to respond to this report; no response was provided.

Sincerely,

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

Chrystal Brooks
County Auditor

CONCLUSIONS

Our conclusion, based on the evidence obtained, is that controls for Harford County and its affiliated agencies are adequate to ensure that capital project costs are proper, approved and accounted for. This assessment is based on the strengths and weaknesses identified for the operational objectives below.

| Business Process Objective | Assessment ⁱ |
|---|-------------------------|
| Ensure capital project expenses are appropriately supported to justify payment. | Effective |
| Ensure capital project payments do not exceed approved budget amounts. | Effective |

BACKGROUND, OBJECTIVES, SCOPE AND METHODOLOGY

Harford County reimburses its affiliated agencies for capital project expenditures incurred. Capital projects include any improvement of a facility, purchase of a new project or property and equipment purchases when first constructed. Capital projects are approved each year during the budget process.

For most capital projects, County employees supervise the projects and approve invoices for payment. However, capital projects for Harford Community College (HCC), Harford County Public Schools (HCPS), and the volunteer fire companies (VFC) are managed by those agencies. Harford County Public Library (HCPL) does not manage its own capital projects but does pay some capital costs. For these affiliated agencies, their normal accounts payable processes ensure that products and services received are satisfactory and approved prior to paying vendor invoices. Throughout the year, each affiliate prepares request reimbursements summarizing the expenses they have incurred and paid for each capital project.

The County Treasurer's office reviews each reimbursement request to ensure that all of the project costs are within the approved budget. Since these costs are entered in the County's accounting system, automated controls ensure that overpayments are not allowed. Total reimbursements to the affiliated agencies during the audit period were approximately \$105.0 million. HCPS accounted for the majority of the reimbursement payments, with 96% of the total funds. Two capital projects were responsible for 72% of the reimbursement requests: Havre de Grace High School Replacement (\$60.4 million) and Joppatowne High School Systemic Project (\$14.9 million). In our testing, the sampled reimbursements were 31 of the 80 reimbursement requests, representing 44% of the total reimbursements and included all of the agencies reimbursed.

The audit approach focused on testing the key controls that address management's objectives. We met with personnel from the affiliated agencies to gather an understanding of the capital project expense tracking, payment and reimbursement processes. Our audit procedures are described in the table below.

| Process / Control Objective | Scope of Review |
|---|---|
| Approving Expenditures | |
| Affiliated agencies review invoices for capital project expenditures and certify receipt of goods and services prior to payment. | Review supporting documentation for a sample of reimbursement requests to confirm: <ul style="list-style-type: none">• The amount requested is supported by vendor invoices• Invoices were for allowable costs• Invoice totals were correct |
| Tracking Spending | |
| County Treasury ensures reimbursement of capital project expenses to affiliated agencies does not exceed approved budget amounts. | <ul style="list-style-type: none">• Compare total project spending to approved budget amounts in the County's accounting system. |

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.

| Report Distribution: | <i>(Responsible Management and Impacted Parties)</i> | Audit Team: |
|--|--|----------------------------------|
| Mr. Robert Sandlass, County Treasurer | | Chrystal Brooks |
| Ms. Deborah Judd, Asst. Superintendent for Business Services, HCPS | | CPA, CIA, CGAP, CISA, CGFM, CRMA |
| Mr. Trevor Jackson, VP for Finance and Administration, HCC | | <i>County Auditor</i> |
| Ms. Mary Hastler, Chief Executive Officer, HCPL | | Sarah Self, CIA, CGAP |
| Mr. Edward Hopkins, Director, Emergency Services | | <i>Senior Auditor</i> |

ⁱ Definitions

Effective: The design and effectiveness of the internal control environment address key risks. The business unit complies with external laws and regulations, and internal policies, procedures and guidelines. Business processes are managed effectively resulting in achievement of expected outcomes.

Generally Effective: The design and/or effectiveness of the internal control environment generally address key risks; however, the number and severity of findings relative to the size and scope of the business unit being audited indicate that some minor areas of weakness in the control environment need to be addressed. Isolated instances of non-compliance with external laws and regulations, and internal policies, procedures and guidelines may exist. Business processes may not be managed effectively in all areas resulting in reduced achievement of expected outcomes.

Not Effective: The design and/or effectiveness of the internal control environment does not address key risks. Non-compliance or historical patterns of non-compliance with key regulatory requirements and internal policies, procedures and guidelines exist which expose the audited entity to financial, reputational, and operational risks. Business processes are not managed effectively and expected outcomes are not achieved.