



HARFORD COUNTY, MARYLAND

Office of the County Auditor

AUDIT OF FINANCIAL AND ETHICS DISCLOSURES AND RELATED PROCESSES

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

Controls are not adequate to ensure compliance with the Ethics Code.

Report Number: 2018-A-12

Date Issued: 08/10/2018

Council Members and County Executive Glassman:

In accordance with Section 213 of the Harford County Charter, we have performed an audit of the Financial Disclosure Statement filing and review process. 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 controls could be improved to ensure compliance with the Harford County Ethics Code. Specifically, Ethics Board Members did not document their review of all Financial Disclosure Statements and some financial disclosure and lobbyist filings were not complete or timely.

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

Sincerely,

Chrystal Brooks, CPA

Chrystal Brooks
County Auditor

cc: Mr. Billy Boniface, Director of Administration
Ms. Melissa Lambert, County Attorney



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REVIEW RESULTS

We have audited Harford County’s Financial and Ethics Disclosures and related processes for the period of 5/1/2015 through 4/30/2018. The Harford County Public Ethics Law requires certain elected and appointed officers and employees of the County and its boards and commissions to disclose any financial interests in entities doing business with, or regulated by, the County. The Board of Ethics reviews these disclosures, advisory opinion requests and complaints for potentially conflicted relationships.

Our conclusion, based on the evidence obtained, is oversight and enforcement could be improved to ensure all financial disclosure statements and lobbying forms are completed and approved in accordance with the Ethics Code. 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
Problematic relationships are not disclosed	<ul style="list-style-type: none"> • Employees receive relevant training to identify conflicts • Vendor lists in the disclosure system are complete • Human Resources reports on ethics training activity annually 	Not Evaluated Satisfactory Needs Improvement
Required disclosure filings are not submitted or are incomplete	<ul style="list-style-type: none"> • Required filers are included in the Financial Disclosure Filing System • Management confirms that filings are complete prior to Board of Ethics review • Disclosure forms address the Ethics Code requirements • Upon separation, required filers are identified by Human Resources and the Law Department • Fees may be assessed for noncompliance 	Satisfactory Satisfactory Satisfactory Not Evaluated Not Implemented
Lobbyists are not registered or fail to disclose their lobbying activities	<ul style="list-style-type: none"> • Registration forms are reviewed for completeness • Department of Law inquires of registrants who do not report any lobbying activities • Lobbyists are subject to fines and/or termination for Ethics Code violations 	Needs Improvement Needs Improvement Not Implemented
Ethics Board members lack appropriate objectivity	<ul style="list-style-type: none"> • Ethics Board approvals and opinions require the approval of a majority of the members 	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 follow each of the Findings and Corrective Actions.

FINDINGS AND CORRECTIVE ACTIONS

Finding Number: 2018-A-12.01 Ethics Board Approval of Disclosures

Documentation provided did not demonstrate that a majority of the Ethics Board reviewed and approved financial disclosure statements for calendar year 2015.

Analysis: Harford County Code states “There is a Harford County Ethics Board that consists of 5 members” [§23-3A]. “The Board shall review the financial disclosure statements submitted under [the Ethics Code] for compliance with the provisions of [the Ethics Code] and shall notify an individual submitting the statement of any omissions or deficiencies” [§23-6H(1)]. “The Board shall keep accurate and complete records of its business, and the Law Department shall serve as the custodian of the records” [§23-4A]. Per the Harford Board of Ethics Board Rules of Procedure, “An affirmative vote of at least three (3) members shall be necessary for any action by the Board”.

A majority of Ethics Board members are required to confirm their approval of the annual financial disclosure submissions via email or in the disclosure system. Based on the documentation provided, we found only two of the four members approved the financial disclosure statements submitted for calendar year 2015.

Recommendation: We recommend that the Law Department establish processes and procedures to ensure all Board members approve disclosure filings and documentation of those approvals is maintained.

Management Response: Management has already established a new process to verify approval by board members, which was reviewed and approved by the Auditors for calendar year 2016. This procedure will continue moving forward.

Finding Number: 2018-A-12.02 Timeliness of Financial Disclosures and Lobbyist Filings

Some financial disclosure forms and lobbyist filings were not completed in conformity with Ethics Code requirements.

Analysis: The County Code §23-6 requires local elected officials, candidates to be a local elected official or appointed employees, members of County Boards, and certain employees to file a financial disclosure statement annually. The statement details any business or property interests in, indebtedness to, employment with or gifts received from the County or its vendors.

In our test of disclosure filings, we found four of twenty-two (22) sampled Board members did not submit a disclosure form and one additional Board member submitted an incomplete disclosure.

County Code §23-7A requires a person with intent to influence a County official or employee in performance of their official duties (i.e., a lobbyist) to file a lobbying registration statement with the Ethics Board and report details of any lobbying activities at the conclusion of the designated lobbying period.

In our test of lobbyist registrations and activity reports, for 10 sampled lobbyists, we noted:

- Three registrants did not complete an activity report or confirmation of no lobbying activity. One of these registrants did file a lobbying activities report; however, the report was filed 39 days prior to the conclusion of the lobbying period, leaving those 39 days unattested;
- One registrant did not complete the registration in its entirety, leaving blank the section identifying activities on which the registrant expects to act; and
- Three registrants did not file a timely (within 30 days) activity report.

Recommendation: We recommend the Law Department more consistently follow its procedures for review of the board members disclosures and lobbyist registration and activity filings.

Management Response: Management will consistently follow its procedures for review.

Finding Number: 2018-A-12.03 Employee Ethics Training Report

Human Resources had not prepared an annual report detailing Ethics training provided to employees as required by the County Code.

Analysis: County Code § 23-10 requires that "By July 1 of each year, the Director of Human Resources shall submit to the County Council and County Executive a report detailing the training provided to each individual subject to the provisions of this chapter." Ethics training

is provided to new employees during the orientation process and management began offering an online ethics training course in October 2017. However, prior to this audit, no report detailing the training efforts had been compiled and distributed to the Council or Executive. Management acknowledged a report had not been sent. Subsequently, Human Resources distributed a report to the County Executive and the County Council detailing ethics training provided to employees in fiscal year 2018.

Recommendation: Human Resources should continue to provide, annually, a report detailing ethics training provided to employees, as required by the County Code.

Management Response: Management will continue to provide an annual report detailing ethics training provided to employees.

STATUS OF PRIOR AUDIT FINDINGS

We have reviewed the issues reported in a prior audit. Current conclusions for the findings included in Audit Report 2015-A-03 are noted below.

In the prior audit, we noted that "Board of Ethics members did not always document their review of the financial disclosure forms to ensure compliance with the Harford County Ethics Code." Management responded that a majority of the Board members' approval constituted an approval by the group. This finding was closed in 2015 as a result. However, in the current audit, management did not provide documentation confirming review and approval of financial disclosure statements for calendar year 2015 by a majority of the Ethics Board. *This issue has been re-opened as Finding 2018-A-12.01*

In the prior audit we noted, "The Board of Ethics does not have written procedures for reviewing complaints and requests for opinions." We previously noted that procedures have been developed and are available for public review. *This issue remains closed.*

In the prior audit, we noted "Vendor and Filer lists are not verified for completeness in the Disclosure system." Specifically, "there is not a subsequent review to ensure the lists are complete as only one individual in the Law Department manually reviews, filters and updates the vendor and employee listing in the Financial Disclosure Filing database." In the current audit, we noted the vendor and employee lists were substantially complete. *This issue has been closed.*

BACKGROUND INFORMATION

PROGRAM DESCRIPTION

Harford County Code requires employees and board members to follow the County's Ethics Code (Chapter 23 of the County Code). Those requirements include the establishment of an Ethics Board, which is charged with administering the Public Ethics Law. They require that certain County employees, elected and appointed officers of the County, and appointed Board and Commission members disclose any financial interests they have in entities doing business with, or regulated by, the County. The Department of Law serves as the custodian of the financial disclosures statements and the Ethics Board reviews all disclosure statements for potential conflicts of interest and compliance with the Ethics Code. The Ethics Board is also charged with reviewing any written complaint or request for an advisory opinion; they issue formal opinions for both.

A person found in violation of the Ethics Code may be subject to salary suspension, termination, or other disciplinary action. To enforce the Ethics Code, the Board has the authority to charge a late fee for failure to file a financial disclosure form, lobbying registration statement or activity report properly or timely. Financial disclosure forms and Ethics Board opinions are available to the public upon request.

REVIEW OBJECTIVE, SCOPE AND METHODOLOGY

The objective of this audit was to confirm that ethics filings are appropriately completed and reviewed and to determine if any disclosures have been made that impact current or proposed County relationships. The scope of this review was limited to the processes for ensuring that the County Ethics Code is followed and all required filings have been received and reviewed. The scope did not include procedures to determine the accuracy or completeness of the details provided in Financial Disclosures. In planning and conducting our review, we focused on activity during the review period of 05/01/2015 through 04/30/2018.

Our procedures included interviewing personnel, observation and testing. Specifically, we:

- Met with personnel from the Department of Law to gain an understanding of the Financial Disclosure Filing Database and filing process.
- Reviewed a list of users with user and administrative access to the Financial Disclosure Filing Database to confirm access was properly restricted.
- Sought to determine if the listing of vendors in the financial disclosure filing system was complete by comparing it to a list of vendors paid over \$5,000 during calendar years 2015, 2016, and 2017.

- Sought to confirm the lists of filers for calendar years 2015, 2016, and 2017 were complete by comparing them to a list of employees in grade MG1 or above and appointed/elected officials.
- For each required filer, attempted to confirm that a disclosure statement was submitted and approval was documented in the disclosure system.
- Reviewed opinion requests and complaints submitted to the Ethics Board to determine that Board Procedures were followed and responses were provided timely.
- Reviewed a sample of lobbying registrants to determine that the registration form and annual activity disclosure report was completed according to the County Code.
- Sought to confirm that Human Resources submitted a timely, annual ethics training report to the Council and County Executive.
- Reviewed completed financial disclosure forms for a sample of appointed Board members, to ensure they were completed timely and approved by the Board of Ethics.
- Attempted to confirm filings for separated officials; however, there were no relevant separations during the period.

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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