



HARFORD COUNTY, MARYLAND

Office of the County Auditor

AUDIT OF INCOME TAX REVENUE

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 FY2019.

What We Found

We noted that controls are adequate to ensure that the correct revenue is received and recorded.

Report Number: 2019-A-10

Date Issued: 12/06/2018

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 Income Tax Revenue. 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 income tax collected and distributed by the Maryland Comptroller, and distributed to Harford County were correctly and consistently calculated in accordance with State law. Harford County has processes in place to ensure that the revenue received is correctly recorded.

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

Sincerely,

Chrystal Brooks
County Auditor

cc: Mr. Robbie Sandlass, Treasurer
Ms. Pharita (Jan) Akbhavasut, Maryland Revenue Administration
Division

Audit Team:

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

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REVIEW RESULTS

We have audited Harford County’s Income Tax Revenue for the period of 1/1/2016 through 10/31/2018. Our conclusion, based on the evidence obtained, is income tax revenue received was correctly calculated. 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
Local Tax Distributions are calculated incorrectly.	• Local tax estimates are based on actual results from the most recently completed tax year	Satisfactory
	• RAD distributes gross receipts based upon known allocation formulas, reserve rates and administration costs	Satisfactory
	• Total distributions can be tied to Gross receipts for each period	Satisfactory
Revenue is categorized incorrectly or is not completely recorded.	• RAD advises the County of forthcoming ACH distributions	Satisfactory
	• Treasury tracks the expected distribution amounts	Satisfactory
	• Journal entries reflect the expected distribution amount and are coded to the Income Tax account	Satisfactory

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, however, none was required.

BACKGROUND, OBJECTIVES, SCOPE AND METHODOLOGY

In Maryland, income tax revenue is administered by the State of Maryland’s Comptroller’s Office, in accordance with State Law. Within the Comptroller’s Office, the Revenue Administration Division (RAD) processes income tax withholding payments and tax returns and, throughout the year, sends distributions to the Counties and municipalities. The current Harford County income tax rate, 3.06%, was approved by the County Council via resolution 06-03. The municipal share represents 17% of the taxes related to residents of Aberdeen, Havre de Grace and Bel Air.

RAD maintains an “unallocated” and “reserve” fund to accumulate collections for which tax returns have not yet been filed and to pay anticipated refunds; RAD also retains a small administrative fee (approximately 0.3%). When distributions are made, the County receives a report of the revenue being provided by RAD and the amount received (via wire transfer) is

recorded in the County's financial system when received. Income taxes, summarized below, are the County's second largest revenue source.

	<u>Fiscal Year</u>	<i>In Millions</i>
Actual	2016	\$ 207.5
Actual	2017	211.3
Actual	2018	233.8
Budget	2019	226.7

The objective of this audit was to confirm that the County's Income Tax revenue, administered by the State of Maryland, is substantially correct. The scope of this review was limited to reviewing the State's calculations for distribution of the County's income tax revenue to confirm that revenue received was reasonably correct. We did not review the County's process for recognizing revenue since that is part of the Accounts Payable audit. Additionally, we did not review the process for confirming that individual tax returns are correct.

The audit focused on activity during the period of 1/1/2016 through 10/31/2018. Our audit procedures included interviewing personnel, observation and testing. Specifically, we confirmed our understanding of the distribution process with Maryland's Revenue Administration Division (RAD). We recalculated various allocation rates used in the process using publicly available information. For each expected distribution, we reviewed RAD's calculations and confirmed that the County had received and properly recorded the revenue.

Within the audit period, we limited our testing to payments received for Tax Years 2016, 2017 and 2018. If a payment included tax year 2015 revenue, we also tested those supporting calculations. The adequacy of individual taxpayer return processing was not within the scope of this audit. However, we confirmed that audits of RAD, performed by Maryland's Office of Legislative Audits, did not include any results that would impact our audit conclusions.

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.