



# HARFORD COUNTY, MARYLAND

## Office of the County Auditor

### AUDIT OF AGRICULTURAL PRESERVATION PROGRAM MONITORING 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 FY2019.

#### What We Found

We noted that controls are adequate to ensure that installment payments are correct.

Purchase prices may be calculated incorrectly.

**Report Number:** 2019-A-11

**Date Issued:** 03/19/2019

Reissued: 08/07/2019

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 Agricultural Preservation Program. 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 when development rights were purchased, deeds had been recorded in the State's property records. We noted that down payments, installments payments and final balloon payments agreed to approved purchase agreements. However, the purchase prices for easements are tabulated manually and there were some calculation errors. We also noted that documentation of the Agricultural Preservation Advisory Board's recommendations was not available.

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. Bradley Killian, Planning and Zoning Director  
Mr. Robbie Sandlass, Treasurer



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### REVIEW RESULTS

We have audited Harford County’s Agricultural Preservation (AP) program for the period of 1/1/2016 through 12/31/2018. Our conclusion, based on the evidence obtained, is that although installment payments are made timely and accurately, the initial purchase price for easements may be calculated incorrectly. The audit approach focused on testing the key controls that address management’s objectives for the process. Conclusions drawn are below.

| <b>Risk</b>                                     | <b>Expected Control</b>   | <b>Conclusion</b>   |
|---|---|---|
| Easements purchased were not the highest ranked | <ul style="list-style-type: none"> <li>• The codified Easement Priority Ranking system is followed</li> <li>• The AP Advisory Board reviews, ranks and recommends applications for purchase awards</li> </ul>   | <p style="color: green;">Satisfactory</p> <p style="color: orange;">Needs Improvement</p>   |
| Amounts paid to property owners are incorrect   | <ul style="list-style-type: none"> <li>• The codified Valuation Worksheet is used to determine purchase prices</li> <li>• Treasury uses a payment schedule to ensure timely and accurate installment payments</li> <li>• Balloon payments are calculated correctly and are paid using Treasury strip investments</li> </ul> | <p style="color: orange;">Needs Improvement</p> <p style="color: green;">Satisfactory</p> <p style="color: green;">Satisfactory</p> |
| Existing easements are not properly recorded    | <ul style="list-style-type: none"> <li>• After settlement, deeds are filed with the Court</li> <li>• Treasury records liabilities for financial reporting purposes</li> </ul>   | <p style="color: green;">Satisfactory</p> <p style="color: green;">Satisfactory</p>   |
| Preserved land is developed                     | <ul style="list-style-type: none"> <li>• Building Permits receive AP review prior to issuance</li> <li>• Planning and Zoning reviews preserved land, as needed, to confirm continued approved use</li> </ul>  | <p style="color: green;">Satisfactory</p> <p style="color: green;">Satisfactory</p>   |

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 the Findings and Corrective Actions.

## FINDINGS AND CORRECTIVE ACTIONS

### Finding Number: 2019-A-11.01 Easement Valuations

#### Some easement purchase prices were calculated incorrectly.

**Analysis:** When agricultural easements are purchased, their value is determined based upon a formula in County Code Sect 60-11 J and K. For the purchases approved during the audit period we recalculated the purchase price. For 5 of them, the purchase price was incorrect. We noted these issues were all related to calculations errors using the Valuation Worksheet in Code Sect. 60-11. K. There were 6 additional valuation errors that did not affect the purchase price because of the per acre or per development right caps. We found that these mistakes were made because the calculations were done manually and without a secondary review.

We also noted that one of 8 purchases offered an incentive payment was not located within the priority incentive area approved by the County Council. That purchase has not yet been settled.

Three of the 5 improperly priced purchases have already been settled, resulting in two ~~underpayments-overpayments~~ (\$6,450 and \$18,223) and an ~~overpayment-underpayment~~ (\$5,455). [Corrected 08/2019]

**Recommendation:** We recommend the databases related to the program be enhanced to automate the valuation and pricing of proposed easement purchases. The enhancements could also automate the property ranking calculations and maintain that information for future reference.

**Management Response:** The Department of Planning & Zoning continues to modernize its processes. The transactional operations related to the County's Agricultural Land Preservation Program have been automated, to include: linking land/soil data associated with a parcel to other related preservation databases; automating land evaluation and site assessment calculations; and automating the codified valuation worksheet. Databases will be monitored by the Agricultural Preservation Coordinator and the database manager to ensure continuity and accuracy. Automation will ensure scoring and ranking proceed more efficiently and accurately.

**Finding Number: 2019-A-11.02 Documentation of Board Recommendations**

**There is no documentation to confirm that the Agricultural Preservation Advisory Board approved easement purchases.**

**Analysis:** In accordance with Sect. 60-11. E. of the County Code, "The Agricultural Land Preservation Advisory Board [APAB] shall have the following responsibilities to the County Agricultural Land Preservation and Purchase of Development Rights Program:

1. To advise the County with respect to the establishment of agricultural preservation districts and the purchases of easements by the County.
2. To assist the County in reviewing the status of agricultural preservation districts and easements.
3. To advise the County concerning priorities for agricultural preservation and to assist the County in developing criteria for evaluating agricultural land applying to the Program...."

For the easement purchases during our review period, we sought to confirm that the APAB had provided its advice regarding those purchases and the related pricing strategies. For the 2018 approvals, the February 2018 meeting minutes confirm that the board reviewed and recommended the purchases. Specifically, "Board reviewed the ranking and pricing data sheet presented with all 57 applicants, all new applicants were reviewed for ranking by the board and all current ranked properties were reviewed as well. .... Zach Rose moved for approval of the ranking as presented and Jeff Holloway seconded. Motion passed."

However, for purchases approved in 2016, the APAB meeting minutes and materials were unavailable. Accordingly, we were unable to confirm that the APAB met its advisory responsibilities related to those easement purchases. Although the meeting materials were unavailable, we were able to recalculate the rankings for the easements that were purchased.

**Recommendation:** We recommend management maintain meeting minutes in accordance with the State's Open Meetings Act and maintain supporting materials for reference related to easement purchases.

**Management Response:** The Department of Planning & Zoning is responsible for staffing meetings of the Agricultural Land Preservation Advisory Board. This includes providing the meeting agenda, facilitating discussion of agenda items, and keeping a record of meeting notes and minutes. This generally occurs to our satisfaction. However, to ensure compliance with the Open Meetings Act and provide appropriate transparency and a record of Board decision, the department will add "management of the board proceedings" to the

goals/expectations of staff responsible for attending the meetings; record and transcribe meetings; and/or provide extra staffing to the Agricultural Land Preservation Advisory Board to ensure board proceedings are accurately recorded.

## **BACKGROUND, OBJECTIVES, SCOPE AND METHODOLOGY**

Harford County's Agricultural Preservation Program is designed to limit residential development in the County's agricultural districts. Property owners apply for the program and County management reviews factors such as property size, location, and soil quality to rank the applicants. The Agricultural Preservation Advisory Board reviews all of that information in order to recommend which properties should receive purchase offers. Installment purchase agreements require County Council approval; during our audit period, the County Council authorized agreements for 4 properties in 2016 and 22 properties in 2018. Those approvals totaled approximately 3,200 acres with almost 250 development rights and costing \$17.3 million.

The program's purchases are funded by  $\frac{1}{2}$  of the County's transfer tax, which totaled \$8.8 million for fiscal year 2018. The County purchases development right easements, providing a down payment, annual installments and a balloon payment after 10 years. To meet the balloon payment the County purchases U.S. Treasury notes with maturity dates that coincide with the final payment due date.

The objective of this audit was to determine if controls are in place to ensure that both the County and property owners have met the obligations of their agricultural preservation purchase agreements. The scope of this review covered any property for which there is an easement under the County's Agricultural Preservation Program.

The audit focused on activity during the period of 1/1/2016 through 12/31/2018. Our audit procedures included interviewing personnel, observation and testing. Specifically, we considered whether the systems used by management to track purchases and payments were reasonably designed. We reviewed the purchases approved during the audit period to confirm that the rankings and valuations were calculated correctly and that all required steps were followed. For a sample of payments during the audit period, we confirmed that the payment agreed to an approved purchase and was for the correct amount. For a sample of existing easements, we reviewed photos to confirm that new unallowed structures have not been built. Finally, we searched property records to confirm that easements were included in the County's AP and financial records.

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:**

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

*County Auditor*

Sarah Self, CIA

*Staff Auditor*