

COUNTY COUNCIL OF WICOMICO COUNTY, MARYLAND

2018 Legislative Session

Legislative Day No. 24

Resolution No. 129-2018

Introduced by: The President of the Council

**A RESOLUTION ACCEPTING THE AUDIT REPORT ON
THE RECREATION & PARKS ESCROW ACCOUNTS**

WHEREAS, under Section 305, titled "County Internal Auditor" of the Charter of Wicomico County, Maryland, the Internal Auditor is charged with the duty to report on internal accounting controls, administrative and operating practices and procedures, and other pertinent financial and compliance matters within Wicomico County; and

WHEREAS, the Internal Auditor has submitted an Audit Report on the Recreation & Parks Escrow Accounts. The objectives of the audit were as follows: (1) Gain an understanding of the current situation regarding prior fund accounts related to Recreation and Parks; (2) Trace and vouch funds associated with the eliminated funds; (3) Determine the current state of escrow accounts, if any, and evaluate controls; and (4) Make recommendations, if appropriate.

NOW, THEREFORE, BE IT RESOLVED, by the County Council of Wicomico County, Maryland that the Audit Report on the Recreation & Parks Escrow Accounts, attached as Exhibit A, is accepted.

Done at Salisbury, Maryland, this 30th day of October, 2018.

ATTEST:



Laura Hurley,
Council Administrator

COUNTY COUNCIL OF
WICOMICO COUNTY, MARYLAND



John T. Cannon,
Council President

CERTIFICATION

This Resolution was Adopted , Adopted with Amendments ____, Failed ____, Withdrawn ____ by the County Council on October 30, 2018.

Certified by 
Laura Hurley, Council Administrator



Wicomico County, Maryland
OFFICE OF THE INTERNAL AUDITOR

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October 3, 2018

Internal Auditor's Report

The County Council of Wicomico County, Maryland:

Pursuant to Section 305(D) of the Wicomico County Code and Council Resolution No. 106-2017, the Office of the Internal Auditor (IA) has conducted an audit of the Escrow Funds related to the Recreation and Parks Department. A report is submitted herewith. The purpose of the audit was to gain an understanding of the accounting methodology employed to track and spend Recreation and Parks' escrow funds accumulated by various programs and facilities.

We conducted the audit with due professional care, and we planned and performed the audit to obtain reasonable assurance about the management and expenditure of escrow funds in accordance with any applicable codes or policies.

We extend our appreciation to Management and Staff of Wicomico County across numerous departments for their timely assistance, cooperation, and input concerning this audit.

Respectfully submitted,

J. Stephen Roser, CPA

J. Stephen Roser, CPA
Internal Auditor

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Audit Report

Background

The purpose of the audit was to gain an understanding of the accounting methodology employed to track and spend Recreation and Parks' escrow funds accumulated by various programs and facilities. The escrow funds accrued from fees that were paid toward Recreation and Parks programs and facilities with the understanding that a portion of the proceeds would be spent to maintain or improve the respective areas. Prior to April 2016, there were eleven fund accounts in Munis, each used to administer specific programs and facilities managed by Recreation and Parks. In April 2016, the Finance Department consolidated the balance of the eleven funds into an escrow account (Fund 72). Additionally, management transferred the operating activity into fund 60. In April 2018, the entire balance of Fund 72 was transferred to Recreation and Parks' main fund (fund 60). Today, new revenue generated by most of the programs and facilities is managed in Fund 60 with no escrowing procedures. Only the War Memorial and West Metro Core will continue to escrow funds. The Recreation and Parks accounting staff manages the balance that existed in Fund 72 internally.

Objectives

The objectives of the audit were to:

1. Gain an understanding of the current situation regarding prior fund accounts related to Rec & Parks
2. Trace and vouch funds associated with the eliminated funds
3. Determine the current state of escrow accounts (if any) and evaluate controls
4. Make recommendations (if appropriate)

Scope and Methodology

Objectives and methodology were adjusted as information was gathered. The audit period examined on a test basis was FY 2015 to FY 2017. The Scope was open ended. Observations, interviews, and inquiries with appropriate personnel were conducted. IA performed inspections of selected documentation related to fund account activity for fund 60, and funds 70 to 81 including journal entries along with current fiduciary accounts (if any) under County control.

General Highlights and Statistics

Programs and Facilities with Escrow Funds

Several programs and facilities have escrow fund balances accounted for by the Accounting Department at Recreation and Parks. Those programs and facilities are:

- Cedar Hill
- Nanticoke
- Equestrian Center
- Pavilions
- Pemberton Historical Park
- War Memorial
- West Metro Core

The balance of the escrow accounts as of June 30, 2017 was approximately \$902,000. \$271,650 was budgeted for expenditure in fiscal year 2018 and \$202,000 is budgeted for expenditure in fiscal year 2019. We had not received a final tally of expenditures for the year ending June 30, 2018 as of this report. Due to the amount of funds in escrow, the Auditors wanted to provide assurance that the funds are properly tracked and spent as required by any codification.

Accounting for Escrow Funds

From April 2016 until April 2018, Fund 72 was a holding account for the escrow funds that had been earned prior, while Recreation and Parks' main fund (Fund 60) was used to distribute the funds as well as receive future revenue from the programs. In April 2018, the escrow fund balance in Fund 72 was transferred to Fund 60. The accountants at Recreation and Parks use a spreadsheet to keep track of the balance and activities of the programs and facilities that are part of the escrow fund.

Restrictions on Use of Funds

In General:

The underlying question after learning about the management of the funds is whether the escrowed money is restricted in any codified manner. On the County's financial statements, the funds are included in the unrestricted funds pool. We have come to the understanding that an unofficial agreement may have existed among the various programs' patrons that the County would spend a portion of proceeds directly on the programs and facilities that earned them. However, all staff personnel interviewed were unaware of any official documentation requiring this method of expenditure. Therefore, the funds that had been escrowed for many of the programs and facilities could conceivably be spent on any Recreation and Parks initiatives.

Project Open Space:

According to Project Open Space (*emphasis added*):

All acquisition projects must conform to the adopted local, regional and State land preservation and recreation plans. The intended purpose for the acquisition should be clearly stated, such as future recreation development, natural resource protection, park school site, or historic preservation. Proposed interim uses or management techniques involving property acquired with POS assistance such as rentals and leases must have prior approval by DNR. Some interim uses may be acceptable if compatible with the area. All revenues generated from such approved interim uses or management should be reinvested in the project. Examples are: agricultural leases, building rentals, timber management sales and grazing leases.¹

¹ Local Program Open Space Manual; published by the Maryland Department of Natural Resources; last updated 2006; p25

The Auditors recommend that County Management consider restricting proceeds from farm leases in order to comply with Project Open Space rules.

Recommendations / Findings

As previously mentioned, the Auditors were unable to find any codified restrictions on the funds designated as escrow (other than Project Open Space). We would recommend that management thoroughly review policies in existence (if any) that restrict funds earned by the remaining escrow programs and facilities. Currently, management operationally tracks these funds on a spreadsheet. As mentioned above, the County accounts for these funds financially in fund 60. The Auditors recommend that Recreation and Parks collaborate with the Finance Department to track the escrow fund(s) in Munis, instead of an external spreadsheet. This will add transparency, efficiency, and internal control to the management of the escrow funds.

Management Comment

Management appreciates the time the Internal Audit Department spent learning about the escrow accounts. We look forward to working with Finance and Administration on potential ways to track these accounts. Also we look forward to further discussions about creating specific policies for these funds.

Auditor's Closing Remark

The Wicomico County Office of the Internal Auditor would like to thank management and staff from the Department of Finance, and Recreation & Parks for their timely cooperation and assistance during the audit.