Internal Audit Report

HOWARD COUNTY
DEPARTMENT OF FINANCE
DEPARTMENT OF PUBLIC WORKS
CAPITAL PROJECTS CLOSING REVIEW
MAY 2009

Office of the County Auditor

OFFICE OF THE COUNTY AUDITOR

Haskell N. Arnold, CPA
County Auditor

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The County Council and County Executive
of Howard County, Maryland

Pursuant to Section 212 of the Howard County Charter and Council Resolution 22-1985, we have conducted a review of selected activities of the

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and our report is submitted herewith. The scope of our examination related specifically to a review of policies and procedures related to the closing of Capital projects. The body of our report presents our findings and recommendations.

The contents of this report have been reviewed with the Chief Administrative Officer, and the Departments of Finance and Public Works. We wish to express our gratitude to the various departments for their cooperation and assistance extended to us during the course of this engagement.

Haskell N. Arnold, C.P.A.
County Auditor

Keith N. Zumbrun
Auditor-in-Charge

George Howard Building, 3430 Court House Drive, Ellicott City, Maryland 21043-4392
(410) 313-2005 TTY Number: (410) 313-6401 Fax Number: (410) 313-3287
www.howardcountymd.gov

SUMMARY

We examined the policies and procedures related to the closing of capital projects within the County's capital project process. Closing of the projects involves several areas including the Department of Public Works, the Office of Budget, the Department of Finance, and several other departments that may have capital projects in their areas. We found the process to have adequate checks and balances and offer two recommendations pertinent to maintaining written policies and procedures in the Department of Public Works.

BACKGROUND

The Capital project budget is an ongoing process which is prepared by the Executive Branch under Article III of the Howard County Charter, and presented to the Council not later than 90 days prior to the end of the fiscal year. Article VI, Section 603 of the Charter states, "The proposed capital budget and capital program shall be so arranged as to set forth clearly the plan of proposed capital projects to be undertaken in the ensuing fiscal year and in each of the next five fiscal years and also the proposed means of financing the same. The capital budget shall include a statement of the revenues anticipated during the ensuing fiscal year from all borrowing and from other sources for capital projects." Section 609 of Article VI, part (b) states, "Interproject transfers of appropriations between capital projects in the capital budget may be authorized by legislative act of the Council upon requests of the Executive, but no new project shall be created nor any abandoned except in accordance with Section 613 of this Article." Section 613 is entitled Restrictions of capital projects; amendment to capital budget after adoption of budget. This section states, "No obligations of the County shall be authorized in any fiscal year for or on account of any capital project not included in the County budget as finally adopted for such year; provided, however, that upon receipt of a recommendation in writing from the Executive and the Planning Board, the Council may after public hearing and with the affirmative vote of two-thirds of its members, amend the County budget in accordance with such recommendation without increasing the total amount of appropriations therefore." Subtitle 4 of the Howard County Code, entitled Budget Procedures, further details the submission and time line of the budget, and the required public notice and public hearings, contents of the capital budget, capital program and extended capital program.

A Capital project can be active and open for several years. The County funds the capital program based on the needs expressed in the General Plan and the supporting master plan for schools, recreation and parks, libraries, etc. The County uses an annual debt affordability process that determines reasonable debt levels. The County uses both long and short tem debt issuance to finance its capital budget. This is determined by cash flow needs, likely revenue sources, market conditions, etc. External finance specialists assist the County in its debt issuance strategy. The maturity of a bond that is issued should never exceed the economic life of the asset it is associated

with. The county follows an internal debt management policy that dictates how it manages debt; the issuance as well as outstanding debt. The establishment of that policy commits the County to a full and timely repayment of all debt. This helps ensure that credit quality of the County is protected.

FINDINGS AND RECOMMENDATIONS

Section XIV of the Department of Public Works' Capital Project manual addresses Capital Project closeouts. It states that the purpose in closing out a project on a timely basis is to capitalize funding. It also frees funding authority for retirement or other capital projects. A capital project closing may occur when all activity has ceased on the project and the project is operational. Also, all invoices have been paid, all outstanding Purchase Orders have been closed and all grants budgeted have been received or reconciled. The procedures include the following:

- The Project Manager contacts the Project Administrator about the closing no more than 30 days after project completion.
- A closeout memo is written for the Director of the Department of Public Works' signature with copies to all affected parties including the Chief of Accounting. The memo is issued only after there are assurances that all project acquisitions are completed including their costs; all revenues are received and reconciled; the project has undergone inspection and meets applicable codes; and archiving of files and disposition of surplus funds and authority is implemented.
- A periodic Closeout Status Meeting occurs with the affected project departments to keep tabs of the projects closing progress.

A check off sheet is included in the manual which includes agency, responsibility, and the contact and telephone number. We found that sheet is out-of-date with some contacts terminated and others in different departments and different contact numbers. We noted that Section A.6 of Section XIV referred to an employee who has terminated County employment for several years. In order to properly train individuals and not be reliant on individuals, an accurate up to date manual is necessary. We therefore recommend that:

1. ***The Capital Project Closeout section XIV is updated and maintained that way on an ongoing basis.***

Administration's Response:

The Administration concurs with the recommendation and the Capital Project Closing procedure, Section XIV has been updated by the Department of Public Works.

We observed that the Department of Public Works has most of the project activity in the Capital Project Budget. This occurs because Water and Sewer, Highways, Sidewalks, Bridges, etc, fall under that vast department. Because of this concentration, a fiscal person who manages the capital budget and monitors the project activity is part of the Department of Public Works' staff. That employee checks the budget, talks with the project manager and communicates to the Department of Finance about the projects progress. We were told that no written procedures exist for this area of the Capital Project activity. We believe these activities should be written down and updated as needed, for clarity's sake; to be able to train others and rely less on the memory of an individual and to perhaps improve the process. We therefore recommend that:

2. ***The Capital project closing activity that occurs in the Department of Public Works be documented and updated as needed.***

Administration's Response:

The Administration concurs with this recommendation and will update the Capital Project Closing activity on an as needed basis. In addition, the procedure now reflects positions rather than identifying personnel by name.

The Department of Finance established Procedure #16013, Capital Project Closing to provide a methodology for Closing Capital projects on a fiscal year basis. The Bureau of Accounting & Reporting is responsible for the maintenance of the Capital Budget. It receives the close-out memos from the Department of Public Works throughout the fiscal year for projects that are to be closed. The Accounts Payable division in the Department of Finance maintains a project folder on each capital project. A reconciliation of all the disbursements and revenues occurs in the Department of Finance.

We reviewed a sample of several capital projects that were opened as far back as FY 1997. Our tests found that they were either closed properly or were currently active and open because they were not yet completed. We found no exceptions and found that overall, the communication and procedures in place within and throughout the various agencies and departments to be effective.