Internal Audit Report

DEPARTMENT OF RECREATION & PARKS
SELF-SUSTAINING RECREATION
PROGRAM FUND
MARCH 2016

Office of the County Auditor

EXECUTIVE SUMMARY

We conducted a performance audit of the Department of Recreation and Parks' (DRP) Self-Sustaining Recreation Program Fund (Fund). The objectives of our audit were to:

1. Determine if the Fund is operating in accordance with the County Code and County policies.
2. Ensure that proper controls exist over the Fund's revenues, and that disbursements are appropriate given the nature of the Fund.
3. Determine the reason(s) for the Fund's declining fund balance.

Conclusions

Regarding our first objective, we found that the Fund was not established by law or any other formal guidance issued by the County. As a result, the purpose and specific sources and uses of the Fund are not documented. In addition, although the Fund's title indicates it is self-sustaining, based on current trends, this is not the case.

For our second and third objectives, we found that DRP had adequate controls over Fund revenues. Disbursements tested were properly supported, and many disbursements supported program operations. However, a number of disbursements tested did not specifically benefit programs offered by DRP and contributed to the Fund's declining fund balance. For example, available Fund balances were used to help make debt service payments for the County's golf course and to pay the County's lease payments for the Roger Carter Center. We also found that the Fund was used to pay personnel costs for positions (such as park rangers) that did not serve DRP programs. The Fund was not assessed its full share of General Fund chargebacks and often the amount included in the budget was used for other purposes such as those noted above.

BACKGROUND

The Department of Recreation and Parks' (DRP) Self-Sustaining Recreation Program Fund (Fund) was established by the County to account for the revenues and expenditures of DRP's programs (such as camps, before and after care at schools, and sports). The Fund was established more than 20 years ago.

According to the fiscal year 2016 budget, the Fund "…provides efficient and effective administrative functions, management, business and marketing services for DRP. It provides a comprehensive registration system, delivers fee based recreational programs, special events and services designed to meet the needs of the community. Programs in the Fund are self-sustaining; that is, the entire cost of the program is covered by registration fees."

According to the County's audited financial statements, Fund revenue and expenditures for fiscal years 2010 to 2015 are shown in the table below:

Table
Self-Sustaining Recreation Program Fund
Revenues and Expenditures
Fiscal Years 2010 to 2015

	Fiscal Year					
	2010	2011	2012	2013	2014	2015
Revenues	$ 12,307,348	$ 13,144,066	$ 13,513,407	$ 14,478,442	$ 16,415,124	$ 17,342,141
Expenditures	11,238,866	11,340,265	14,016,981	14,648,351	17,788,755	17,444,941
Excess	$ 1,068,382	$ 1,803,801	$ (503,574)	$ (169,909)	$ (1,373,631)	$ (102,800)
Other Transfers	17,239		272,000	500,000	38,872	102,800
Net Revenues over (under)Expenditures	$ 1,051,143	$ 1,803,801	$ (775,574)	$ (669,909)	$ (1,412,503)	$ 0

Source: Audited Financial Statements – Schedule of Revenues, Expenditures and Changes in Fund Balance – Budgetary Basis

DRP uses ActiveNet, a third-party automated system for program registration and cash receipt processing. DRP forwards revenue information to the Department of Finance weekly for posting to SAP, the County's automated financial system. For fiscal year 2015, DRP operated 5,866 programs involving 101,548 participants.

FINDINGS AND RECOMMENDATIONS

In accordance with Section 212 of the Howard County Charter, I am calling your attention and taking exception to the following irregularities and improper procedures.

Finding 1
Funds were transferred to Timbers at Troy Golf Course without Council Approval. The funds were not treated as a loan.

During our testing we found two payments transferring a total of $392,000 from the Fund ($272,000 in fiscal year 2012 and $120,000 in fiscal year 2015) to the Recreation Special Facilities Fund - the Golf Course Fund (Timbers). The County Executive did not request the approval of the Council for the transfer. Although the Howard County Charter includes provisions for the transfer of appropriations within and between departments within the same fund, it does not include any provision for the transfer of appropriations between different funds. However, under Section 609(c) of the Charter, inter-fund cash borrowings are allowed to meet temporary cash requirements if requested by the Executive and approved by the Council. The transfers to Timbers, which is accounted for as an enterprise fund, were not recorded as a loan and have not been repaid to the Fund.

During our audit work we also determined that in addition to the transfers noted above, in fiscal year 2012 the County transferred $315,000 in general funds to Timbers. The County Executive did not request the approval of the Council for the transfer. This transfer was not recorded as a loan and has not been repaid to the general fund. According to Section 615(c) of the Charter, no general fund revenues should be dedicated to, expended for, or used to supplement appropriations from other funds, such as Timbers, except as a loan requested by the Executive and approved by the Council.

After further discussion with the Administration, we requested an Office of Law opinion which confirmed that (1) the transfers must be paid back by Timbers, and (2) the transfers should have been approved by the County Council.

NOTE: This was not an audit of the Golf Course. However, it appears that there have historically been multiple occurrences of transfers into the Golf Course Fund because it has not been self-supporting. We will be performing a review of all transfers in and transfers out of the Golf Course at a later date.

We recommend that the Administration review transfers in and transfers out of the Golf Course Fund, and treat any monies provided to the Timbers at Troy Golf Course as a loan to be repaid as circumstances allow. Additionally, interest should be calculated and assessed.

Administration's Response:
The Administration concurs with the Auditor's finding and will include routine reviews of transfers in and out of the Golf Course Fund as an additional control. The County will treat any future monies provided to the Golf Course as a loan to be repaid as circumstances allow. The County is in the process of developing a repayment plan in order to reimburse the General Fund and the Recreation and Parks Fund for the transfers noted in the report. The Administration would also like to include two other transfers made to the Golf Course under a previous Administration in our loan repayment plan. Once a favorable lease agreement is reached with Kemper Sports, a multi-year payback plan can be put in place. Currently the County calculates and monitors the interest on the transfers, but does not assess the interest; the County will work to determine if this is the best practice or if interest should begin being assessed.

We also recommend that the Administration, in the future, not transfer revenues between funds without the express approval of the Council.

Administration's Response:
The Administration concurs with the Auditor's finding. Going forward, the Administration will request transfer approval from the Council.

Finding 2
The Fund is not self-sustaining.

The Fund is not self-sustaining. Although programs offered by the Fund may cover costs, the overall financial status of the Fund is unhealthy. For 4 of the 6 fiscal years between 2010 and 2015, Fund expenditures have exceeded revenues. According to the budget adopted for fiscal year 2016, the County anticipates that the Fund will have a deficit fund balance of $2.7 million by the end of the year. While our review found that DRP programs are generally budgeted and priced to recover costs, much of the reason for the financial status of the Fund is due to its use for purposes other than programs offered by DRP. By running a deficit balance, the DRP may not be able to offer certain services or cover certain costs in the future.

We recommend that DRP consider removing nonself-sustaining programs from the Fund. Alternatively, DRP could change the name of the Fund to indicate its true nature and remove the title "self-sustaining" from the name. This would eliminate the perception that the Fund is able to cover all costs paid out of the Fund.

Administration's Response:
The Administration concurs with the Auditor's finding and will conduct an analysis of the Fund at the conclusion of the FY 2017 budget season. In addition, the words "self-sustaining" have been removed from the Fund and will be reflected in the agency's FY 2017 Proposed Budget submission. The Fund is now referred to as the Recreation and Parks Fund.

Finding 3
Many disbursements from the Fund do not relate to programs offered by DRP.

Our test of Fund expenditures made from fiscal year 2010 through 2015 found that while many expenditures related to program specific costs (such as the program activity guide and league registration fees) certain other costs, while DRP related, did not always directly benefit program operations as detailed below. DRP advised us that, in most instances, the Fund was used to pay these items as the Fund was a source of available funds when other sources such as General Funds were unavailable.

- **Belmont**

  DRP operates Belmont as a park and conference/catering facility. Revenues for the conference/catering facility for fiscal year 2015 per SAP totaled $218,000. According to DRP records, Belmont expenditures (such as tents, household items and electrical supplies) totaled $237,000. However, this amount does not include all of the costs of operating Belmont such as salaries, utilities and maintenance. An analysis prepared by the County Auditor when the County purchased Belmont estimated that expenditures would exceed revenues by $250,000 annually. Per DRP staff, DRP did not receive additional General Funds to operate Belmont's catering and conference services so the Fund was used to pay related costs. DRP staff indicated that Belmont would not be a self-sustaining enterprise.

We recommend that the Department Set up the Belmont Conference Center as a separate fund to allow the records to reflect the true cost of operations and help ensure that fees charged recover such costs to the extent possible.

Administration's Response:
Fees for Belmont have been reviewed and an increase in fees went into effect on January 1, 2016. Also, the debt service for Belmont that was previously paid from this fund will be placed back into the General Fund.

Discussions about implementing a separate sub-fund in order to track and monitor costs and revenues associated with the Belmont Conference Center are ongoing.

- **Roger Carter Center**

  In 2012, the County entered into a 32-year lease with the Howard County Housing Commission to operate and maintain the Roger Carter Center, a full service recreational facility paid for using revenue bonds issued by the Commission. As part of the lease, the County pays rent equal to the amount needed to make semi-annual bond payments. Bond payments total $835,000 annually. The Fund pays approximately $490,000 of this amount. Bond payments (which are made by the Housing Commission) are comprised of amounts paid by DRP through both the General and Self-Sustaining Funds and amounts paid by the Department of Housing. Prior to fiscal year 2016, amounts paid by the Fund were not budgeted and were paid from the amounts budgeted for General Fund chargebacks. While internal records maintained by DRP indicate that the Center's operating revenues exceed related costs, these costs do not include lease payments, utilities or other services (such as custodial and grounds maintenance) that are paid by other County departments.

We recommend that the budget specifically identifies Roger Carter Center rental payments and that program fees, to the extent practical, help to recover these costs.

Administration's Response:
The expense (debt service payment) that shows in the current Self-Sustaining Recreation Program Fund is offset by the transfer of funds into the account (revenue). Therefore, there is no net effect to the fund if all transactions are executed as planned. However, in recent years the payment originally set to be taken from the General Fund was paid out of this Fund and offset by a reduction to the Fund's budgeted chargeback. For example, in Nov. 2015 $140,257.60 was charged to SSF, but will be offset by a reduction in the chargeback that should have been charged to the Fund (related to Finding #4). The Budget Office and Finance are currently reviewing these transactions to ensure the proper accounting of actual expenditures moving forward.

- **Maryland Wineries Association**

  DRP contracts each year with the Maryland Wineries Association to sponsor Wine in the Woods (WITW). For providing wines for sampling and purchase, and performing certain other tasks, the Association receives 25 percent of ticket sales up to 10,000 tickets and 35 percent for sales over 10,000 tickets. We were advised that these percentages have remained unchanged for many years. For 2015, DRP paid the Association $156,000 applicable to its share of revenues. All revenue from WITW is deposited in the Fund and related expenditures are paid from the Fund. Net revenues increase the Fund's fund balance. For 2015, DRP estimated net revenues for WITW at $136,000. A reduction in the percentage paid to the Association could significantly increase net revenues. For example, decreasing the Association share to 15 percent up to 10,000 tickets sold and 25 percent for ticket sales over 10,000 would result in an additional $55,000 in net revenues based on 2015 ticket sales.

We recommend that the Department consider negotiating the revenue sharing percentages for Wine in the Woods.

Administration's Response:
The Administration and the Department have agreed to look into this contract as it begins to negotiate for the FY 2017 event.

- **Other Miscellaneous Payments**

  Our test disclosed payments for other items that benefit DRP overall instead of specific programs. For example, DRP used the Fund to pay for items such as security cameras at a recreation center, lighting and fences at parks and various large maintenance projects at the Roger Carter Center. In many of these instances we found similar costs paid for with other funds such as capital project funds. DRP advised that for these types of projects, if capital project funds were not available, they used the Fund because the projects needed to be done. Such uses reduce the available fund balance and can lead to a deficit fund balance.

We recommend that the Department Reduce or eliminate capital related purchases.

Administration's Response:
It has yet to be determined whether or not further restrictions will be placed on this Fund to not allow these sorts of miscellaneous payments. However, we agree that there is potential for greater scrutiny before such purchases/payments are made.

Finding 4
The Fund did not reimburse the General Fund for the full value of calculated chargebacks.

The Fund did not reimburse the General Fund for the full amount of chargebacks as assessed by the Budget Office. Non-general funded agencies are assessed a fee for services rendered by general funded administrative agencies (such as Finance, Budget and Human Resources). The amount of these chargebacks is calculated each year by a third party vendor. Chargebacks are reflected in the budgets of the respective agencies and transferred to the General Fund each year. The amounts in the Table below show the calculated chargeback, the amount budgeted, and the amount transferred to the General Fund for fiscal years 2012 to 2016.

Table
General Fund Chargebacks
Fiscal Years 2012 to 2016

	Fiscal Year				
	2012	2013	2014	2015	2016
Chargeback as Calculated	$ 1,364,939	$ 1,532,095	$ 1,331,284	$ 1,710,809	$ 1,950,422
Amount Budgeted	$ 1,000,000	$ 500,000	$ 500,000	$ 500,000	$ 500,000
Amount Transferred to General Fund	$ 0	$ 500,000	$ 8,872	$ 123,996	N/A

Source: Budget Office, SAP, Budget Book

Based on our review of SAP and related documentation as well as discussions with DRP and Budget Office staff, the full amount of the calculated chargeback was not budgeted because the

Fund has paid for items applicable to non-related programs (as we have commented on in Finding 3) and the overall negative trend in the Fund's fund balance. Further, the amount budgeted was not always transferred for much the same reasons (that is, it was used for other purposes).

We recommend that the Fund's budget include General Fund chargebacks to the extent permitted by the Fund's available fund balance. If the chargeback amount calculated is forgiven or used to fund other expenditures, such information should be specifically detailed in DRP's annual budget submission.

Administration's Response:
The Administration concurs with the Auditor's finding, and intends to review the proposed chargebacks being allocated to this Fund and determine affordability.

Finding 5
Employees paid from the Fund may not provide services specifically benefitting the Fund.

Many of the positions paid from the Fund do not specifically benefit the programs offered by the Fund. Our review of both full and part-time positions disclosed certain positions that provide services to the Department overall, but not specifically to the Fund. We found one full-time employee (out of the 45 paid from the Fund) who did not provide services specifically for programs. For part-time positions, we found many employees who may not specifically benefit the program side of the Department. For example, as of October 7, 2015, the payroll records included 11 active protective service positions (park rangers, for example) as well as 38 maintenance service worker positions and 16 professional positions (such as sign language interpreters and special project coordinators).

We recommend that the Department identify positions paid for by the Fund that do not provide services specifically to DRP programs. We further recommend that the Department work with the Office of Budget to determine the appropriate funding source for the positions identified.

Administration's Response:
The Administration concurs with this finding. In conjunction with the Office of Budget the Department is reviewing its current personnel structure to identify staff that should be moved out of this Fund. The initial personnel realignment will be included in the FY 2017 Proposed Budget submission.

Finding 6
The Fund is not established by law or any other formal document.

The DRP – Self Sustaining Program Revenue Fund is not established by law and there is no other formal written document that specifies the sources of revenues to the fund or the purposes for which those revenues shall be used. A number of other non-general funded accounts used by the County (such as the Community Renewal Program and Speed Enforcement Funds) are established by law. Although government accounting standards do not specifically require special revenue funds to be established by law, such standards do require that these funds report the proceeds of specific revenue sources and related expenditures for specified purposes. The lack of legal guidance can result in the Fund being used for purposes not originally intended.

We recommend that the County establish the Fund through legislation that specifies the anticipated sources and uses of the Fund.

Administration's Response:
The Administration concurs with the Auditor's finding. Discussions surrounding establishing the Fund by legislation are currently under way.

Additional Comments

Our review and related testing of programs offered by DRP found that there were procedures in place to set program fees at rates that met the requirements of internal policies designed to recover costs. Our test of 17 judgmentally selected programs offered in fiscal year 2015 disclosed that each program's fees were set to recover program direct costs. Further, we found that DRP monitored actual program revenues and costs. We reviewed actual revenue and cost data for 15 of the 17 programs noted above and found that revenues for all 15 programs covered direct costs and provided for indirect cost recoveries. One program tested was not run due to insufficient registrations, and DRP had not prepared financial data for the remaining program at the time of our testing.

Procedures and controls over cash receipts processed by DRP headquarters were adequate. We reviewed the process used by DRP to record and report revenues for programs and other sources (such as property rental), and found that procedures were in place to ensure that receipts were properly recorded and reported on DRP's records and in SAP.

AUDIT SCOPE, OBJECTIVES AND METHODOLOGY

We conducted a performance audit of the Department of Recreation and Parks' (DRP) Self-Sustaining Recreation Program Fund (Fund). We included the Fund's revenue process and expenditures for the period from July 1, 2009 to June 30, 2015.

We conducted our audit in accordance with generally accepted government auditing standards prescribed by the Comptroller General of the United States. Those standards require us to plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence we obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The objectives of our audit were to:

1. Determine if the Fund is operating in accordance with the County Code and County policies.
2. Ensure that proper controls exist over the Fund's revenues, and that disbursements are appropriate given the nature of the Fund.
3. Determine the reason(s) for the Fund's declining fund balance.

To accomplish our objectives, we met with DRP personnel to review the history and nature of the Fund. We also met with DRP staff to document the internal controls and procedures over the processing of Fund cash receipts. We tested the propriety of Fund disbursements by reviewing source documents and discussing the rationale for disbursements with DRP employees. We also reviewed data from SAP. We performed various tests of the relevant data and determined that it was sufficiently reliable for the purposes the data was used for during the audit.

DRP's management is responsible for establishing and maintaining effective internal control. Because of inherent limitations in internal control, errors or fraud may nevertheless occur and not be detected. Also, projections of any evaluation of internal control to future periods are subject to the risk that conditions may change or compliance with policies and procedures may deteriorate.

We conducted our field work from July to September, 2015. The DRP responses to our findings and recommendations are included in this report.