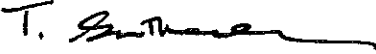


ANNE ARUNDEL COUNTY
Annapolis, Maryland
Auditor's Office

INTER-OFFICE CORRESPONDENCE

To: Members of the County Council
County Executive John R. Leopold

From: Teresa Sutherland, County Auditor 

Date: October 24, 2012

Subject: Pines on the Severn SCBD - improper procedures

In accordance with Section 311 of the County Charter, I am calling to your attention and taking exception to the improper procedures documented in the attached letter to the Pines Community Improvement Association, Inc. regarding the administration of special community benefit district tax funds.

Please call if you have any questions.

c: Office of Legislative Audits
Jessica Leys, Acting Budget Officer

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**ANNE ARUNDEL COUNTY
OFFICE OF THE COUNTY AUDITOR**

October 24, 2012

Board of Directors
Pines Community Improvement Association, Inc.
P.O. Box 19
Arnold, Maryland 21012

Dear Board of Directors:

Thank you for providing the Pines on the Severn special community benefit district (SCBD) books and records to me for fiscal years 2007 - April 2012.

I performed the following procedures with respect to the books and records you provided to me.

- I read all minutes to gain an understanding of the Board of Director's actions.
- I reconciled your bank statements to your general ledger from June 28, 2007 to March 31, 2012.
- I compared the reconciled cash balances per your general ledger to balance sheets submitted to me as of June 30, 2008, 2009, 2010, and 2011.
- I reviewed 50 invoices for expenditures other than legal fees to determine whether the invoices were supported by receipts and posted to the general ledger in the proper fiscal year.
- I reviewed all invoices to determine whether the expenditures were for purposes for which your SCBD was formed and supported by receipts.
- I reviewed all invoices for legal expenses to determine whether the invoices were recognized as expenditures in the fiscal year in which the services were rendered using the accrual basis of accounting.

The procedures I performed were limited to those listed above. I did not conduct an audit, review, or attestation engagement in accordance with Government Auditing Standards issued by the Comptroller General of the United States or with the standards established by American Institute of Certified Public Accountants. Accordingly, I offer no opinion or other form of assurance on the financial statements or books and records of the Pines on the Severn SCBD or the Pines Community Improvement Association, Inc. (PCIA).

The results of my procedures were as follows:

- Your bank statements reconciled to your general ledger for the period June 28, 2007 to April 1, 2012 without exception.
- The cash balances per your general ledger agreed to the amounts reported on the balance sheets submitted to me as of June 30, 2008, 2009, 2010, and 2011.
- 48 of the 50 invoices I reviewed for expenditures other than legal fees were supported by receipts and posted to the general ledger in the proper fiscal year. The three exceptions I noted were:
 - One disbursement for \$373.57 was supported by receipts that totaled only \$363.57, a \$10 difference.
 - One disbursement for \$110.23 was for the balance due on an Office Depot credit card.

This amount was supported by a credit card statement, but there were no receipts to show what was purchased.

- As a result of our finding for the Office Depot expenditure, we expanded our testwork to include all payments to Office Depot, and we found payments totaling \$1,908.73 for which there were only credit card statements, not original receipts. Therefore, we could not determine what was purchased.
- My review of all remaining invoices disclosed one which was not for SCBD purposes and three totaling \$58.76 for which there were no receipts to support the disbursement other than requests for reimbursement received from the individuals who made the purchases. The expenditure that was not for an SCBD purpose was \$100 paid for tax assistance in an IRS matter. This expenditure should not have been paid from SCBD funds as tax matters relate to the PCIA corporation, not the SCBD which is not a legal entity.
- My review of expenditures for legal fees disclosed that these expenditures have not been reported properly using the accrual basis of accounting.
 - \$4,348.50 of expenditures were posted to FY09 when the services were rendered in FY08.
 - \$11,000 of expenditures were posted to FY10 when the services were rendered in FY09.
 - \$3,861.25 of expenditures were posted to FY11 when the services were rendered in FY10.
 - \$3,314 of expenditures were posted to FY11 when services had not yet been rendered. These expenditures should have been posted as a prepaid expense (asset).

These misstatements had the following effect on the SCBD's expenditures:

- FY08 expenditures were understated by \$4,348.50. Posting these expenditures properly to FY08 would increase FY08's expenditures to \$29,603.50, and the adopted budget was \$33,590. Therefore, the SCBD's FY08 expenditures were not greater than its FY08 budget.
- FY09 expenditures are understated by \$6,651.50. Posting these expenditures to FY09 would increase FY09's expenditures to \$38,252.50, and the adopted budget was \$35,568.96. Therefore, the SCBD's FY09 expenditures exceeded its FY09 budget by \$2,683.54.
- FY10 expenditures were overstated by \$7,138.75. Restating FY10 expenditures to exclude this amount results in total expenditures of \$33,836.25, which is less than the FY10 budget of \$50,654.
- FY11 expenditures were overstated by \$7,715.25. Restating FY11 expenditures to exclude this amount results in total expenditures of \$32,195.75, which is less than the FY11 budget of \$54,932.

Under Section 311 of the County Charter, I am required to call these improper procedures to the attention of the County Council and the County Executive. I am also required to report my findings to the State Office of Legislative Audits.

Overall I found your books and records to be well-organized and well-documented, and you have done an excellent job of maintaining receipts to support and document your purchases. To further improve your processes, I recommend that you:

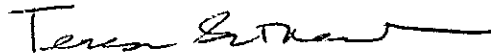
- implement procedures to ensure expenditures are solely for purposes for which your SCBD was approved. Expenditures related to PCIA corporate governance and tax matters should not be paid from SCBD funds.

Board of Directors
Pines Community Improvement Association, Inc.
October 24, 2012
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- implement procedures to ensure revenues and expenditures are recognized consistent with basis of accounting you choose to use for financial reporting purposes. If you use the accrual basis of accounting, revenues should be recognized when they are earned, not when they are collected, and expenditures should be recognized when the services are rendered, not when paid.
- adopt a policy governing the use of corporate credit cards and require receipts to support all amounts charged on corporate credit cards. Credit card statements are not sufficient to support the purposes of the purchases.

I know this was a long, difficult, stressful process, and I greatly appreciate your cooperation in my review. Please call if you have any questions regarding my procedures or findings.

Sincerely,



Teresa Sutherland, CPA
County Auditor