



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

April 10, 2014

The Honorable Members of the County Council
The Honorable County Executive Laura Neuman
Anne Arundel County, Maryland
44 Calvert Street
Annapolis, Maryland 21401

Dear Members and Ms. Neuman:

In accordance with Section 311 of the County Charter, I am calling to your attention and taking exception to the following improper procedure. In fiscal year 2013, the Board of Elections' expenditures exceeded the department's appropriations by \$24,933.99 in violation of §715 of the County Charter. Additionally, management failed to disclose this over-expenditure in the footnotes to the County's Comprehensive Annual Financial Report as required under generally accepted accounting principles.

In July 2013, the State Board of Elections billed the County Board of Elections \$65,670.48 for goods and services received for the period April 1, 2013 - June 30, 2013. Because the goods and services were received on or before June 30, 2013, the expenditure should have been posted against FY2013 appropriations.

In July 2013, when the County Board received the invoice, they contacted the Budget Office and asked whether they should use FY2013 funds to pay the invoice. The Budget Office responded that the department had only \$54,291 of appropriations available in FY2013, and that there likely would be payroll and other routine monthly expenses posted against that amount. The Board of Elections agreed that there would be other expenses posted, so they wrote "Our office will pay the FY13 State invoice in the amount of \$65,670.48 from FY14 funds," an action which the Budget Office concurred.

When the Office of Finance received the invoice in August 2013, they noted it was for April 1 - June 30, 2013 and properly posted it against FY2013 appropriations, causing the Board of Election's expenditures to exceed its budget. When the Budget Office saw the over-expenditure, they contacted the Board and asked them to "see if this (the expenditure) should be posted to FY13 or FY14." The Board responded that the invoice was for the fourth quarter billing from the State (FY13), but that the expenditure should be posted to FY14.

The Budget Office forwarded the invoice and correspondence to the Office of Finance, noting that the Board of Elections "is in a deficit" and that the cause was posting the \$65,670.48 expenditure to FY2013. The Budget Office wrote "it was determined that it (the invoice) was to be paid in FY2014," and that they were "providing this information for consideration in transferring this expenditure from FY13 to FY14." (The Budget Office does not say *who* made the determination to post the invoice to FY2014.)

In response, the Office of Finance made an entry to remove the expenditure from FY2013 and post it in FY2014. The Finance Office staff told us they made this entry after talking to the Budget Office because they thought the invoice related to the fourth quarter of the federal fiscal year from July through September 2013, which

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is fiscal year 2014. The Budget Office staff denies telling Finance the invoice related to the federal fiscal year, and they deny instructing Finance to make the entry to post the expenditure to FY2014, asserting that they only "asked for consideration" to transfer the expenditure from FY2013 to FY2014.

I find it highly inappropriate for the Budget Office to "ask for consideration" that an invoice be posted against a subsequent year's appropriations because a department's expenditures would exceed its appropriations if the invoice were posted properly. Further, it is alarming that this action happened after we called to your attention a similar situation last year whereby the Budget Office instructed the Office of Finance to post a FY2012 expenditure to FY2013 so the Department of Public Works would not exceed its FY2012 budget. While the Office of Finance may have to consult with a department or the Budget Office to determine in which year goods and services were received, neither the department nor the Budget Office should determine in which year to post an expenditure. The Office of Finance must be the "gatekeeper" who ensures expenditures are posted in accordance with generally accepted accounting principles and in compliance with the budgetary requirements of the County Charter.

We understand that estimating expenditures is not an exact science, and the Budget Office does a good job of seeking additional appropriations via ordinance when necessary. However, in those instances where it is determined after the close of the fiscal year that a department's expenditures exceed its appropriations, the Office of Finance should ensure the expenditures are posted in the proper fiscal year and disclose the overexpenditure in the County's Comprehensive Annual Financial Report as required by generally accepted accounting principles. There is no circumstance under which the Office of Finance should knowingly post an expenditure to a subsequent fiscal year to mask a department's noncompliance with the budgetary provisions of the County Charter.

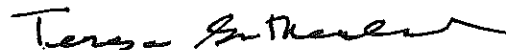
Management's Response

Management appreciates the Auditor's discovery of this situation. In this instance, Management did not disclose an over-expenditure in the audited financial statement footnotes because Management was not aware of it when the audited financial statements were issued in December 2013. We agree that the Office of Finance is the final authority on what expenditures are posted against each fiscal year and that the Office of Finance should not knowingly post a current fiscal year expenditure to a subsequent fiscal year. We also agree that any expenditures that exceed a department's appropriation should be disclosed in the County's Comprehensive Annual Financial Report as required by generally accepted accounting principles.

Future requests for accounting changes from all departments to Finance will require a "Request for Journal Entry" form, accompanied by appropriate documentation, and approved by the relevant Department Head or an appropriate designee vetted by the Office of Finance. All requests will be reviewed and approved by the Assistant Controller or Controller. Any requests that there is some question to the correct treatment will be presented to the County Auditor or external auditor for non-binding guidance. For matters regarding compliance with County Charter or Code the Office of Finance will consult with the Office of Law as needed. This process will be formally documented and approved as policy.

Please call if you have any questions. Thank you.

Sincerely,



Teresa Sutherland, CPA
County Auditor