

**FREDERICK COUNTY
INTERAGENCY INTERNAL AUDIT AUTHORITY**

**REVIEW OF
AGRICULTURAL TRANSFER TAX
RECEIPTS, EXPENDITURES AND
CHANGES IN FUND BALANCE
FOR THE PERIOD JULY 1, 2005 TO JUNE 30, 2006**



TABLE OF CONTENTS

Executive Summary	1
I. Introduction	2
II. Background	2
III. Scope and Objectives	4
IV. Methodology.....	5
V. Conclusion.....	5
VI. Findings, Recommendations and Comments.....	6
VII. Response.....	7

**FREDERICK COUNTY
INTERAGENCY INTERNAL AUDIT AUTHORITY**

**REVIEW OF
AGRICULTURAL TRANSFER TAX
RECEIPTS, EXPENDITURES AND
CHANGES IN FUND BALANCE
FOR THE PERIOD JULY 1, 2005 TO JUNE 30, 2006**

OCTOBER 4, 2006



**Review of Agricultural Transfer Tax
Receipts, Expenditures and Changes in Fund
Balance for the Period
July 1, 2005 to June 30, 2006**



Frederick County
Internal Audit Department

EXECUTIVE SUMMARY

The Review of the Agricultural Transfer Tax (ATT) is performed annually by the Internal Audit Department. The *Annotated Code of Maryland* specifies the criteria for collection of the ATT when a property transfer is made on land assessed for agricultural use.

The County Treasurer's Office is responsible for collecting ATT revenue, and remitting it to the County and State. The County's Accounting department retains that revenue, which is used to fund agricultural land preservation projects. Those projects are administered by the County's Planning Division.

For FY 2006, we found that the County met all statutory requirements for collecting and disbursing Agricultural Transfer Tax revenue. However, weak management controls in the Treasurer's Office led to several errors in processing ATT revenue. While none of these errors were materially significant, the lack of comprehensive standard operating procedures (SOPs) means that staff do not have the information they need to do their jobs correctly, and increases the risk of future, and possibly more serious, mistakes.

As required, we will report this compliance to the Maryland State Department of Agriculture.

I. Introduction

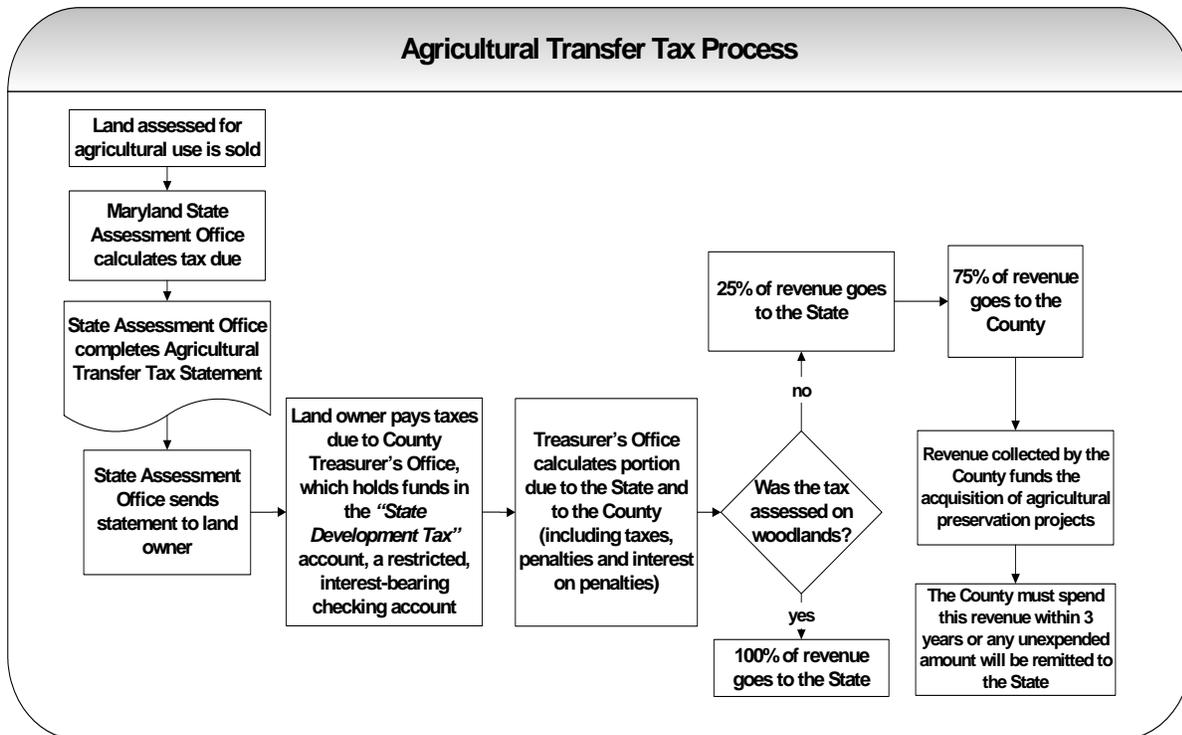
Every year, the Maryland State Department of Agriculture requires that an audit be conducted of Agricultural Transfer Tax (ATT) receipts. A report of this audit must be submitted to the State by December 31 following the end of the fiscal year (see attached). This mandatory audit is incorporated within the Frederick County Interagency Internal Audit Authority (IIAA) work plan each year. To conduct this audit, we reviewed all pertinent records and reports from the County Finance Division's Treasurer and Accounting offices, as well as the State Department of Assessments.

We performed a risk assessment on the processes related to the receipt, remittance, recording and use of the Agricultural Transfer Tax. This assessment was designed to identify risk factors that could lead to noncompliance with the *Annotated Code of Maryland*, or with the County's applicable policies and procedures. We conducted our review using standards as outlined in *Generally Accepted Government Auditing Standards 2003 Revision* issued by the Government Accountability Office (GAO). These standards require us to maintain competence, integrity, objectivity and independence. Other requirements are to adequately plan the audit and to gain a sufficient understanding of internal controls to determine the testing to be done.

This report is intended to provide information to Frederick County management and citizens. The report is a matter of public record, and with the exception of disclosure exemptions, distribution should not be limited. Information extracted from this report may also serve as a method to disseminate information to the public as a reporting tool to help citizens assess government operations. Management that is responsible for the functional area reviews the report and their formal written responses are incorporated into the final report per IIAA policy and *Generally Accepted Government Auditing Standards* (GAO Standard 5.27).

II. Background

Maryland State law requires that an Agricultural Transfer Tax be collected for any transfer of land assessed for agricultural use. As part of this transaction, the purchaser signs an Agricultural Declaration of Intent agreeing to start or continue to use the land for agricultural purposes. If the landowner fails to meet the terms of this agreement, the State imposes a penalty fee and interest charges for this violation. The process for collecting and remitting the Agricultural Transfer Tax is as follows:

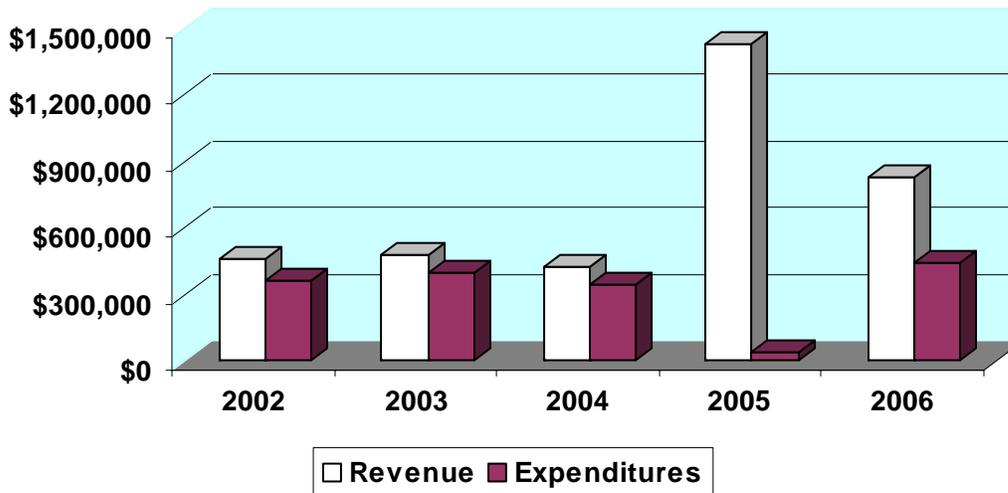


The County Treasurer’s Office remits Agricultural Transfer tax revenue from the State Development Tax account to both the County and the State each month. In years past, the Treasurer’s Office has also transferred interest earned on this checking account to the County’s operating fund on a monthly basis. This year, however, that interest was not transferred.

After the Treasurer’s Office remits the county’s 75% portion of the Agricultural Transfer tax revenue, the County’s Accounting department retains that revenue in its Agricultural Preservation Fund. This money is used to fund agricultural land preservation projects, and for any administrative expenses directly related to them. The Treasurer’s Office sends a “Report of Collections of Agricultural Transfer Tax” to the State, and the County’s Planning Division administers these projects.

This year, the County spent \$411,368.92 of Agricultural Transfer tax dollars for easement purchases, roughly half of the revenue generated by the transfer tax for FY 06. As the graph on the next page demonstrates, the Agricultural Transfer tax fund has maintained a significant balance each year.

Agricultural Transfer Tax Revenues and Expenditures 2002-2006



Source: PeopleSoft Financials

In part, these balances are due to the rise in Frederick County property values over the last five years. Also, this revenue can be spent only on land preservation projects as defined by the Maryland Agricultural Land Preservation Foundation program.

III. Scope and Objectives

The scope of the audit covers receipts and expenditures of ATT for the period July 1, 2005 through June 30, 2006 and includes certain statutory requirements in the *Annotated Code of Maryland – Title 13 – Tax Property* regarding the remittance to the State and use of such portion of receipts retained by Frederick County.

The audit objectives were to determine that:

- The proper amount of ATT was collected and remitted to the State Comptroller and the County;
- The administrative expenditures were not greater than the statutory limit of 10% of funds available or \$30,000 (whichever is greater); and
- The portion of tax collections retained by Frederick County had been expended for agricultural land preservation projects or related administrative expenditures within three



(3) years of collection and, if not, that such unexpended funds had been remitted to the State as required by statute.

IV. Methodology

Methods used in assessing risk, planning and conducting the audit were:

1. Discussions with management and staff;
2. Review of Treasurer's Office collection data;
3. Review of the *Report of Collection of Agricultural Transfer Tax* (remittance reports) submitted monthly to the State Comptroller;
4. Review of reports generated from PeopleSoft Financials;
5. Analysis of accounting data related to expenditures and testing of compliance with applicable statutory requirements;
6. Random testing of individual Agricultural Transfer Tax statements and the associated tax payments made; and,
7. Review of Treasurer's Office disbursements of ATT funds for accuracy of amount and payee.

V. Conclusion

For FY 2006, Agricultural Transfer Tax have, in all material respects, been properly collected and remitted to the State of Maryland and Frederick County. In addition, all statutory requirements as prescribed in §13-306 of *Title 13 – Tax Property* of the *Annotated Code of Maryland* have been met.

However, some taxes were remitted erroneously during FY 06, which required additional staff time to correct. To date, management in the Treasurer's Office has not produced comprehensive, written standard operating procedures (SOPs) explaining how to process Agricultural Transfer Tax revenue. The lack of SOPs means that staff members do not have the information they need

to do their jobs correctly, and increases the risk of mistakes when remitting tax revenue to both the County and the State.

VI. Findings and Recommendations

Management at the Treasurer's Office has not written comprehensive standard operating procedures (SOPs) to instruct staff how to process Agricultural Transfer Tax revenue. During FY 2006, this lack of SOPs contributed to several erroneous or incomplete remittances of Agricultural Transfer Tax collections. While none of these errors were materially significant, the lack of comprehensive SOPs means that staff do not have the information they need to do their jobs correctly, and increases the risk of future, and possibly more serious, mistakes.

- A \$20 overpayment balance with the State, created by a transposition error in FY 05, had not yet been corrected;
- In April, \$32,139.34 was transferred from the State Development Tax fund to the County. This amount, however, represents the total taxes collected for the month, rather than the County's portion. The actual amount due to the County for this month was \$24,104.52, a difference of \$8,034.82, which should have been remitted to the State. The Treasurer's Office did remit \$8,034.82 to the State on March 10, 2006, so they expended that amount twice, once to the State and once to the County. The Treasurer's Office corrected the overpayment to the County in March, 2006;
- Prior to FY 06, the Treasurer's Office disbursed bank interest earned on the Development Tax account to the County's general fund each month. In FY 06, this account generated \$237.45 in bank interest, but none of it was disbursed to the general fund. Additionally, \$112.18 in interest should have been carried over from FY 05 and remitted during FY 06. However, we found no evidence that any interest had been disbursed to the County during the audit period.

Recommendation

We recommended that the Treasurer's Office develop comprehensive written procedures. SOPs are critical in situations where key staff is lost due to turnover or staffing changes, both of which the Treasurer's Office has experienced in the last two years. The SOPs should include:

- Procedures that safeguard assets
- Communications required with other departments to obtain reporting information
- Adequate review processes to ensure completion and accuracy



Advisory Comment

The Treasurer's Office continues to maintain a separate checking account for Agricultural Transfer tax revenue. Although maintaining this account in a separate checking account poses little material risk, having to move funds into and out of a separate account does add another step to processing Agricultural Transfer tax revenues, which decreases efficiency and increases the risk of erroneous transfers.

We again suggest that the Treasurer's Office place Agricultural Transfer Tax revenues immediately in Accounting's Agricultural Preservation Fund, and that the monthly State remittances be done through the Accounts Payable processing PeopleSoft Financials.

VII. Responses

We would like to thank Finance's and Treasury's staff for the help and cooperation we received. Their written response is attached.

Finance's Response: It was recommended that the Treasurer's Office develop comprehensive written procedures to instruct staff how to process Agricultural Transfer Tax revenue. These procedures were to include procedures that safeguard assets, the communications required with other departments to obtain reporting information and an adequate review of processes to ensure completion and accuracy.

These procedures were developed as a cooperative effort of Accounting and Treasury. A copy of these procedures is included as an attachment to this response.

It was advised that the separate checking account currently being maintained for the Agricultural Transfer tax revenue be closed. I agree with this advisory comment and this account will be closed as of October 31, 2006. The revenues will be placed in the Agricultural Preservation Fund, the deposits in the operating account and the monthly State remittances will be done through the Accounts Payable processing of PeopleSoft Financials.

We appreciate the opportunity to work with IIAA to improve our Treasury operations.

October 4, 2006

/s/ Interagency Internal Audit Authority
Interagency Internal Audit Authority



FINANCE DIVISION FREDERICK COUNTY, MARYLAND

Department of Treasury

Winchester Hall • 12 East Church Street • Frederick, Maryland 21701
301-694-1111 • FAX 301-631-2347 • TTY Use Maryland Relay Service
www.co.frederick.md.us

October 5, 2006

COMMISSIONERS

John L. Thompson, Jr.
President

Michael L. Cady
Vice President

John R. Lovell, Jr.

Jan H. Gardner

Bruce L. Reeder

COUNTY MANAGER

Douglas D. Browning

FINANCE DIVISION

Richard J. Duthoy, CPA
Acting Division Director

DEPARTMENT OF TREASURY

Lori Decker, CPA
Acting Director



TRUSTWORTHINESS • RESPECT
RESPONSIBILITY • FAIRNESS
CARING • CITIZENSHIP

CHARACTER COUNTS! and the Six Pillars of Character are service marks of the CHARACTER COUNTS! Coalition, a project of the Josephson Institute of Ethics.
www.charactercounts.org

Mr. Martin Standel, Director, Internal Audit
Interagency Internal Audit Authority
8 East Second Street, Suite 130
Frederick, MD 21701

Dear Mr. Standel:

Per your request, I am submitting a written response to the recommendation and advisory comment in the Agricultural Transfer Tax audit report dated October 3, 2006.

It was recommended that the Treasurer's Office develop comprehensive written procedures to instruct staff how to process Agricultural Transfer Tax revenue. These procedures were to include procedures that safeguard assets, the communications required with other departments to obtain reporting information and an adequate review of processes to ensure completion and accuracy.

These procedures were developed as a cooperative effort of Accounting and Treasury. A copy of these procedures is included as an attachment to this response.

It was advised that the separate checking account currently being maintained for the Agricultural Transfer tax revenue be closed. I agree with this advisory comment and this account will be closed as of October 31, 2006. The revenues will be placed in the Agricultural Preservation Fund, the deposits in the operating account and the monthly State remittances will be done through the Accounts Payable processing of PeopleSoft Financials.

We appreciate the opportunity to work with IIAA to improve our Treasury operations.

Sincerely,

/s/ Lori L. Decker
Lori L. Decker
Acting Director of Treasury

Enclosure – Procedures

Cc: Richard J. Duthoy, Acting Director of Finance
Kelly Hammond, Manager, Internal Audit
Sonja Erickson, Auditor

Finance Division Procedures

Department: Treasury

Originated Date: 3/31/2006

Updated: 6/2/2006

Updated By: Susan Blum & M.C.Jackman

Function Area: 26-Agricultural Preservation Fund

Procedure: Collection & Remittance of Agriculture Transfer Tax

Frequency: On Going

Staff Involved: Treasury Collection Specialist, Treasury Data Technician, Treasurer, Agricultural Preservation Accountant, Accounting Team Leader

Brief Description: This procedure describes the collection, remittance and accounting for the Agricultural Preservation Fund.

Corresponding Related Procedures: None

Treasury Responsibilities:

The *Annotated Code of Maryland - Title 13 - Tax Property* specifies the collection of Agricultural Transfer Tax on property transfers of land assessed as agricultural and provides for the imposition of penalty and interest for violations of any Agricultural Declaration of Intent to start or continue agricultural use of land submitted by an owner. When a property transfer is made an *Agricultural Transfer Tax Statement* (ATTS) is generated at the Maryland State Department of Assessments with the tax payment being made at the County Treasurer's Office.

The Treasury Collection Specialist verifies that the amount collected equals the amount required by the ATTS. The total amount is deposited in the County Operating Bank Account.

During the first week of the month the Treasury Data Technician totals the collections for the previous month. The collections section of the monthly Report of Collections of Agricultural Transfer Tax (remittance report) is filled out. The report is then forwarded to the Agricultural Preservation Accountant to complete the expenditure section. Once the report has been totaled, a check is requested through the PeopleSoft System for the amount owed to the State. As soon as the check is available Treasury picks up the check and attaches it to the remittance report. The remittance report and check are mailed to the State before the 10th of the month.

Accounting Responsibilities:

State Report Filing:

Upon receipt of the Report of Collections of Agricultural Transfer Tax (remittance report) from the Treasurer's Office, the Agricultural Preservation Fund accountant completes the expenditure section. The administrative fees for the previous month are calculated and the fee section of the report is completed. These expenditures are recorded in the 26 fund, project code A00006. The report is then forwarded to the Accounting Team Leader to verify the figures. Upon verification the report is sent back to Treasury.

Accounting:

The County's portion of ATTS collections (75% in the case of farmland and 0% in the case of woodland) is recorded as deferred revenue in the Agricultural Preservation Fund's (26-3121-26136-A00006). The State's portion (25% in the case of farmland and 100% in the case of woodland) is recorded as a liability in the Agricultural Preservation Fund (26-3121-21727-A00006). The County has three years to spend the County's share of the ATTS collections. Periodically the program expenditures will be assessed and deferred revenue will be reclassified as current revenue to offset current expenditures.

CAFR Reporting:

The Agricultural Preservation Fund is a Special Revenue Fund. This fund is used to purchase agricultural preservation easements to preserve farm and woodlands. Easements for this particular program, MALPF (MD Agricultural Land Preservation Fund) are recorded jointly with the State of Maryland and Frederick County. The County has elected not to capitalize easements purchased with these funds because of their joint ownership. Historically this fund has been presented in the CAFR with the Nonmajor Governmental Funds. Because of the large dollars being spent in this and other preservation programs it is approaching the level of major fund reporting.

Planning Division Responsibilities:

The Land Preservation Office with the assistance of The Treasurer's Office, Accounting and Internal Audit keeps track of the fund balance for use of the restricted funds for purchase of Agricultural Preservation easements or for activities that lead directly to the purchase of easements. Staff budgets the use of Agricultural Transfer Tax Revenues (ATTR'S) for use in the Maryland Agricultural Land Preservation Foundation (MALPF) Program. Staff provides information to MALPF as to the amount of ATTR'S committed to the MALPF matching program for easement purchases. The Land Preservation Office receives invoices for the County share of MALPF easement purchases and requests vouchers for payment. The backup information submitted to accounting will apportion the amount of the invoice to be paid from budgeted ATTR'S. Policy has been to use all budgeted ATTR'S before any County general revenue money is expended.