



New Castle County Auditor's Office
Review of Financial Statement Audits of Police Athletic League
Executive Summary

Background

New Castle County Government leases space/times from the Police Athletic League of Delaware, which operates recreational facilities in Hockessin and Garfield Park.

In September 2010, the prior County Executive asked the County Auditor to "review an upcoming independent audit of the Police Athletic League (PAL) ... in order to better understand the financial situation of PAL and assist in reaching an agreement fair to the County taxpayers and PAL ..." County Council followed up with its own letter asking the County Auditor to "review the results of the PAL audit once it is completed."

The County Auditor reviewed PAL's financial statements for the years ending June 30, 2009 and June 30, 2010, and also reviewed the CPA Firm's workpapers for those years. As part of this review, he also examined the financial statements for the fiscal years ending June 30, 2006 through June 30, 2008. The objective of the County Auditor's review was to provide the County Administration and County Council with an independent assessment of PAL's financial condition as of June 30, 2010 and its results of operations for the fiscal years ending June 30, 2009 and June 30, 2010.

The County Auditor's report (attached) provides observations and suggestions based on the limited scope of the County Auditor's review and the limited access to PAL's detailed accounting records. These observations and suggestions are intended to assist the Administration in making decisions on the path forward with PAL. Many of the suggestions are things the County Auditor's Office could have performed had it been given the authority to perform its own operational audit of PAL.

County Auditor's Presentation to County Council

The County Auditor met with the County Council Finance Committee in February 2011 and presented an assessment of PAL's financial statements. The County Auditor then furnished the General Manager of Community Services with a draft audit report. Since that time, the County Administration has been conducting negotiations with PAL on amendments to the leases. The General Manager of Community Services will present the results of the lease negotiations to County Council on November 8th. Since the lease negotiations are now substantially complete, the County Auditor is issuing the final audit report.

Significant Issues

The following are issues which we deem to be significant in evaluating the County's path forward with PAL. In our report, we asked the County Administration to keep these and other report items in mind while negotiating lease amendments with PAL.

- As of June 30, 2010, PAL was experiencing significant financial difficulties. PAL had significant liquidity problems and was not able to meet its short-term obligations from available resources. PAL continued to

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- have operating losses and, thus, was neither able to meet its current obligations nor add to its reserves. We do not know what PAL's current financial condition is.
- Fundraising expense (primarily the amount paid to a 3rd party fundraiser for soliciting individual and corporate contributions) as a percentage of fundraising income (the amount raised by the 3rd party fundraiser plus amounts raised by fundraising events conducted by PAL) was 61.6% at June 30, 2010. This means that approximately 62% of every dollar raised is going to expense.
- Contribution income (amount raised from individual and corporate donors by PAL itself, not by the 3rd party fundraiser), as a percentage of total revenue, was less than 1% at June 30, 2010. This is an indication that PAL was making little effort to raise funds beyond those solicited by the 3rd party fundraiser. The Board of Directors does not appear to be fulfilling its responsibilities with respect to fundraising.
- The County is apparently the owner of the buildings which PAL operates; therefore, the County should research whether it makes more sense to lease building space and program times to PAL rather than vice versa.
- There are several situations within PAL which could be considered conflicts of interest or appearances of impropriety.
- PAL has a \$250,000 unsecured line of credit with Wilmington Trust Company (now M & T Bank). The balance at June 30th for the last five fiscal years has been approximately \$129,000. There is a requirement in the line of credit that PAL must reduce the balance to zero for a minimum of 30 consecutive days during the year, which PAL has not been able to do. Because PAL has not met this requirement each year, M & T Bank technically has the ability to "call" the entire balance. If this were to happen, PAL would not have funds to pay this balance.

County Auditor's Meeting with Audit Committee

On October 20, 2011, the County Auditor presented his Office's draft report to the Audit Committee. The Committee approved the report subject to adding this Executive Summary, and including in the Executive Summary the Audit Committee's concerns. Those concerns are as follows:

- Has the County Administration been evaluating PAL's financial condition on an ongoing basis? Should there be someone from the County on PAL's Board?
- Why would PAL not let the County Auditor see its detailed accounting records? Will the County Auditor's ability to do so be reflected in the language in the amended leases?
- The Board of Directors does not appear to be fulfilling its fiduciary responsibilities.
- Has the County performed an evaluation of the percentage of the County's usage of the facilities versus PAL's? How has the County determined the fair value of the County's use of the facilities?
- If the County owns the facilities, then why is the County leasing the facilities from PAL and not vice versa?
- County Council voted to approve the County's payment to Delmarva, on behalf of PAL, of \$101,000 towards PAL's delinquent utilities bill. What does the County's payment to Delmarva, with respect to PAL, represent? Is it an advance on future lease payments?
- Should the County be recording on its financial statements anything regarding the PAL facilities and the County's leases with PAL?

The Audit Committee asked the County Auditor to share the Audit Committee's concerns with County Council prior to the County Administration's presentation to County Council on November 8th.