AUDIT REPORT – CAPITAL IMPROVEMENT PROGRAMMING

Final Report – November 22, 2016 from the New Castle County Auditor's Office

November 22, 2016

Audit Report – Capital Improvement Programming

To: Michael Coupe, Chief Financial Officer
Wayne Merritt, Acting General Manager, Special Services Department
Ron Russell, Accounting & Fiscal Officer, Office of Finance

Audit Conclusions and Reportable Items

In looking at the specific audit objectives beginning on page 3, if we do not have a report comment relating to that objective, then our audit did not find any issues pertaining to that objective.

There are three items, beginning on page 8, which we consider to be Areas of Particular Concern and we believe warrant management's immediate attention. These are:

- **Audit Objectives 2f and 2g: Re-establish Capital Strategies and Review Committee (CSRC). See page 8.**
- **Audit Objective 5: Evaluate whether Police Athletic League (PAL) buildings should be reflected in County's financial statements. If it is determined that they should be, this would be a significant adjustment to the statements. See page 10.**
- **Audit Objectives 6 and 9a: Ensure compliance with Generally Accepted Accounting Principles for capital projects accounting. We do not know how pervasive this issue is as we only looked at a few capital projects and, for those projects, only looked at a sample of items. However, we saw enough to lead to the conclusion that better guidelines are needed in making the decision to capitalize rather than expense an item. See page 11.**

Other opportunities for improvement are included in the "Opportunities for Improvement" section of this report beginning on page 14.

Overview – Capital Improvement Programming

Per the Government Finance Officers Association's (GFOA's) publication, "Capital Improvement Programming,"

- A capital asset is defined as a new or rehabilitated physical asset that is nonrecurring, has a useful life of more than three to five years, and is expensive to purchase.
- A capital project is undertaken to acquire a capital asset.
- A capital improvement program (CIP) is a multi-year plan identifying capital projects to be funded during the period. The program identifies each proposed capital project to be undertaken, the year in which it will be started or acquired, the amount expected to be expended on the project each year, and the proposed method of financing these expenditures.

- The capital improvement budget represents the first year of the capital improvement program. The capital budget is a government's annual appropriation for capital spending and is legally adopted by the legislative body. The capital budget authorizes specific projects and appropriates specific funding for those projects. Projects and financing sources listed in the CIP for years other than year 1 are not authorized until the annual budget for those years is legally adopted.

Overview – Capital Improvement Programming for New Castle County

Delaware State Code Title 9, Section 1134 states:

a) "The Chief Administrative Officer shall annually prepare a capital program and a capital budget under the direction of the County Executive. In the course of the preparation of the capital program and Budget, the Chief Administrative Officer shall confer with the Department of Land Use to ascertain that the proposed program is in accordance with the comprehensive development plan prepared by the Department of Land Use.

b) No later than April 1 of each year, the County Executive shall recommend to the County Council, a capital program for the ensuing 6 years and a capital budget for the ensuing year. Not later than the date that the program is submitted to County Council, the County Executive shall submit it to the Department of Land Use for its review and recommendations to County Council. The County Executive shall also submit it to the Planning Board for the sole purpose of determining if it is in accordance with the comprehensive development plan."

Delaware State Code Title 9, Section 1159 deals with the adoption of the capital program and budget by County Council; such meeting must occur before, or at the same meeting as, it adopts the annual operating budget.

New Castle County (NCC) has established its own administrative structure and policy framework for the various steps involved with a capital improvement program.[1] NCC's annual Capital Program & Budget book states "The County has adopted, as a part of the annual budget, quantitative financial policies that address (1) project duration, (2) the recommended percentage of debt service to the operating budgets, (3) the recommended percentage of cost increase in the six-year capital program after the base year, (4) the limitations to amendments during the year, (5) the three-year operating budget impact, (6) the quarterly capital project and program review, and (7) the monthly capital cash forecast for twelve months and a quarterly variance analysis."

The Fiscal Year 2017 capital budget is $55,554,483.

Audit Objectives, Methodology, and Scope

We conducted a "performance audit" of the County's capital improvement programming processes. Performance audits, as defined by Generally Accepted Governmental Auditing Standards, are audits that

[1] See Appendix A for an exhibit outlining these steps.

provide findings and conclusions based on an evaluation of sufficient, appropriate evidence against criteria. The overall performance audit objectives for this audit were:

- Internal Control: An assessment of the County's system of internal control for capital improvement programming that is designed to provide reasonable assurance of achieving efficient and effective operations, reliable financial and performance reporting, and compliance with applicable laws and regulations.
- Compliance: An assessment of the County's compliance with criteria, related to capital improvement programming, established by provisions of laws, formal policies and procedures, and other requirements.
- Program effectiveness, economy, and efficiency: An assessment of the extent to which the County is achieving its goals and objectives related to the capital improvement programming processes.

Specifically, our performance audit, and its scope and methodology, encompassed the following:

1. Determined whether the preparation and approval of the most recent capital program and capital budget were done in accordance with State Code.
2. Evaluated compliance with Key Financial Policies (KFP) as outlined in the annual Capital Program & Budget Book and the Comprehensive Annual Budget Summary (CABS).[2]
   a. KFP #1: Evaluated the process by which County Council lifts the sunset provisions for projects that have not been completed within 24 months of the date of authorization.
   b. KFP #2: For Fiscal Years (FY) 2016 and 2017, recalculated the allowable percentage of debt service to the Operating Budget for both the General and Sewer Funds. Evaluated adequacy of management's explanation to County Council if a particular percentage was exceeded.
   c. KFP #3: For both the General and Sewer Funds, recalculated for FY 2017 the allowable percentage of cost increase in each year of the six-year capital program after the respective base year.
   d. KFP #4: Determined if the language in any capital project amendments during FY 2015 and FY 2016 would have caused the County to exceed the annually adopted budget and funding levels. If so, evaluated the adequacy of management's explanations.
   e. KFP #5: For a sample of capital project requests for FY 2017, determined if the submitting department provided a three-year operating budget impact. Also determined if such impact complied with the procedures in the FY 2017 Capital Budget Preparation Manual and if it agreed with information in the FY 2017 Capital Budget Book. Also reviewed the project request for overall compliance with the Office of Finance's procedures in the Capital Budget Preparation Manual.
   f. KFP #6: Determined if a Capital Strategies and Review Committee (CSRC) is conducting quarterly project and program reviews to monitor existing project performance and to update the six-year capital program. Also determined if each applicable department is providing to management and County Council quarterly reports on the physical and fiscal status of each project.

[2] See Appendix B for information on each of these policies.

g. KFP #7: Determined whether each applicable department is submitting to the CSRC monthly capital cash forecasts (receipts and disbursements) for a 12-month period and a quarterly variance analysis (forecast to actual).

3. Evaluated existing capital policies against GFOA Best Practice documents and various other articles/publications.
4. Evaluated management's overall methodology for determining capital spending levels and selecting capital projects to perform.
5. Evaluated system(s) used by Special Services Department to keep an inventory of sewer- and facility-related capital assets and to track items such as age, condition, and maintenance history. Evaluated whether such system(s) is adequate to facilitate decisions on capital asset replacement/repair.
6. Evaluated the County's compliance, for FY 2016, with Delaware Code Title 9, Section 1163(a)(7.)[3]
7. Recalculated, for FY 2016 and FY 2017, the County requirement that the debt principal to be retired in 10 years shall not fall below 49.2%.
8. Evaluated the County's compliance with its policy that bonded debt is to be issued to mature not more than 20 years from date of issue for the General Fund and 30 years for the Sewer Fund.
9. Evaluated County's processes for ensuring compliance with the Tax Regulatory Agreement for the February 2015 bond issuance. For example,
   a. Allowable expenditures for the 2015 bond proceeds.
   b. Rules regarding the reimbursement of prior capital expenditures.
   c. Rules regarding "replacement proceeds."
   d. Limitations regarding the investment of bond proceeds, including arbitrage requirements.
10. Evaluated the County's processes for fulfilling its continuing disclosure responsibilities per the documents for the February 2015 bond issuance.
11. Reviewed draft "Post-Issuance Compliance Procedures Manual" prepared by Public Financial Management (PFM).

In general, our testing involves audit sampling. We evaluate the results of the tests and use professional judgment, based on the number of exceptions and/or the materiality of such exceptions, whether to include exceptions in the audit report. In some cases, we perform additional testing to help us obtain additional audit evidence in making such evaluation and determination.

If our audit work reveals an item which we believe is significant in the context of one or more audit objectives, we include this in an "Areas of Particular Concern" section of the audit report. An Area of Particular Concern is an item (such as a deficiency in internal control or noncompliance with a particular

---

[3] This section (1) establishes a debt ceiling of 3% of the assessed value of taxable real estate, excluding debt for certain special assessments and enterprise funds, (2) requires that the County shall not have the authority to issue debt for the following purposes: the payment of any operating expenses, the payment of any judgment resulting from the failure of the County to pay any item of operating expense, and the payment for any equipment having a useful life of less than three years, and (3) requires that the proceeds from the sale of bonds shall be used only for the objects and purposes specified in the ordinance authorizing the bonds.

law) which we believe has or could have a significant adverse impact upon the County's ability to accomplish a major objective and, therefore, warrants management's immediate attention. All other reportable items are included in an "Opportunities for Improvement" section of the audit report.

Because the scope of an audit does not allow us to examine every single function and transaction performed by an area, an audit would not necessarily disclose all matters that might be reportable items.

Generally Accepted Government Auditing Standards

Except as discussed in the following paragraph, we conducted our audit in accordance with Generally Accepted Government Auditing Standards promulgated by the United States General Accounting Office. These standards require that we 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 obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

We have not met the requirement of Section 3.96 of Government Auditing Standards that requires an audit organization performing audits in accordance with GAGAS to have an external review every three years. We plan to have such a review performed in Fiscal Year 2017.

Views of Responsible Officials

Management has included a response to each of the report recommendations. These responses are incorporated into the body of the report.

Appreciation of Cooperation

We sincerely appreciate the cooperation of the Executive Office, the Office of Finance, and the Special Services Department in their willingness to work together with us in determining constructive improvements to the capital improvement programming processes.

Cc:

Thomas Gordon, County Executive
Timothy Mullaney, Chief Administrative Officer
Betsy Gardner, Clerk of County Council
Bernard Pepukayi, County Attorney
Ken Porter, Accounting & Fiscal Officer
New Castle County Council Members
New Castle County Audit Committee Members

GENERAL COMMENTS

Engagement of Public Financial Management (PFM)

The Office of Finance informed us, at the beginning of the audit, that the County had engaged Public Financial Management to write a "Post-Issuance Compliance Procedures Manual" for bond issuances. Such a manual will provide a procedural guide to ensure the County is in compliance with the myriad of rules and regulations (many of which are complex) concerning the issuance of tax-exempt municipal bonds. Some of the key procedural categories in this manual (which is currently in draft) are "Use of Proceeds, Accounting for Proceeds, Investment of Proceeds," "Arbitrage and Yield Restriction Compliance," and "Continuing Disclosure."

We commend the Office of Finance for contracting for the preparation of this manual. The manual, and the related discussions on it, have enabled Finance to examine its own internal procedures (many of which were unwritten) and ensure the County is in compliance with the various rules and regulations governing tax-exempt municipal bonds. With two new Accounting & Fiscal Officers joining the Office of Finance's leadership team, this has been a good time to examine Finance's policies and procedures in the municipal bond arena.

We have reviewed the draft manual, asked the Office of Finance many questions concerning it, and will be providing written comments to Finance for possible clarifications/enhancements prior to the manual's finalization.

Key Financial Policies (KFPs) for Capital Programming and Debt Issuance

In the Comprehensive Annual Budget Summary (CABS), Capital Program & Budget Book, and Capital Budget Preparation Manual, there are various Key Financial Policies (KFPs) for capital programming and debt issuance. We evaluated these KFPs for compliance and have a few comments for management in the "Opportunities for Improvements" section of this report.

We commend the Office of Finance for having these KFPs. However, in light of some of our comments and the fact that these KFPs have apparently remained unchanged for several years, we believe Executive and Office of Finance management should re-evaluate these policies.

Systems Used by Special Services to Plan Capital Improvements

In recent years, the Special Services Department has taken a more proactive approach in managing the County's assets. The department has developed a Building Needs Assessment database that contains details such as age, condition, location, etc. for each building and facility owned by the County. For sewers, the County has implemented the CityWorks work order system. This system interfaces with the County's GIS and eliminates data duplication. It also reduces the need for custom applications and is

scalable so future needs can be met. Currently, Special Services is in the process of loading non-sewer data onto GIS. Once that is complete, CityWorks would be the single Computerized Maintenance Management System (CMMS) work order system used for both sewer and non-sewer County assets.
This will provide the County with more current data on the state of its assets and provide information to plan for capital improvement projects.

AREAS OF PARTICULAR CONCERN

Audit Objectives 2f and 2g: Re-establish Capital Strategies and Review Committee (CSRC). Hold quarterly meetings and provide reports to Executive management and County Council on status of capital projects, including reasons for large variances. Re-evaluate KFP #7 regarding monthly cash forecasts.

Comment

There are various written policies regarding monitoring and reporting on the status of capital projects:

- The County's Capital Budget & Program book states "… in 2005 by Executive Order a Capital Strategies and Review Committee (CSRC) currently consisting of the Executive Office, Office of Finance, Procurement, Land Use, Special Services, County Council, and Law was established."
- The County's Key Financial Policy (KFP) #6, as outlined in the Comprehensive Annual Budget Summary (CABS), Capital Program & Budget book, and Capital Budget Preparation Manual, states "Quarterly capital project and program reviews conducted by the CSRC are to monitor existing project performance and to update the six-year capital program." The stated rationale for this policy is "Each agency must actively manage each project and provide quarterly reports on the physical and fiscal status of each project to management and to County Council."
- The CABS and the Capital Budget & Program Book state "… the Chief Administrative Officer and the members of the CSRC meet quarterly to review and monitor the status of all approved projects and programmed capital projects. A status report summary of all capital projects is issued at the end of each review forum …" There is then a section on the three major items discussed in these meetings, i.e., Status of existing projects, Status of the program for the next six years, and Impact of capital spending upon the operating budget.
- The County's Key Financial Policy (KFP) #7, as outlined in the Comprehensive Annual Budget Summary (CABS), Capital Program & Budget book, and Capital Budget Preparation Manual, states "Each agency shall submit to the CSRC a monthly capital cash forecast (receipts and disbursements) for a twelve-month period and a quarterly variance analysis (forecast to actual). The stated rationale for this is "Each agency must actively oversee and report the fiscal activity of each project in order to maximize the County's investment opportunities and to meet the Treasury arbitrage regulations."

In our initial audit meeting with the CFO and his team, the CFO told us that the CSRC has not met in a while. He said there used to be a quarterly meeting and Finance would then prepare a memorandum to County Council on the status of the capital projects. We asked the Acting General Manager of the Special Services Department, and one of his managers, about these meetings and they thought such meetings were beneficial; however, they couldn't remember when the last meeting occurred. A discussion with County Council's Policy Director revealed that Council has not been represented on this committee (at least since 2005).

We are concerned that the County has been stating in official County documents (CABS, Capital Budget Book) that the CSRC exists and is performing various functions when, in reality, this is not the case.

Although we know that each applicable department is indeed managing the capital projects for which it is responsible, we believe meetings of the CSRC (and reporting to Executive management and County Council) would lead to more analysis and discussion and ultimately more effective monitoring.

The CFO said it is his intention to reformulate the CSRC, have quarterly meetings on the status of capital projects, and to issue a quarterly report to Executive management and to County Council. To ensure that the CSRC meets regularly, it might be beneficial to designate a particular day, time and location for the quarterly CSRC meetings (e.g., 9 a.m. on the third Thursday of the first month of each quarter in the Managers Conference Room in the Government Center). Also, it might be helpful to designate an official from the Office of Finance who would be responsible for posting an agenda for the meeting at least two weeks in advance and recording minutes from such meetings.

Regarding the monthly capital cash forecasts and quarterly variance analyses, the CFO informed us that departments are only submitting these semi-annually and that departments are not identifying reasons for large variances. Finance used to require departments to provide explanations for large variances; however, departments balked at doing this and, therefore, Finance no longer requests it.

Recommendations - Office of Finance, Executive Office

We recommend that management:

- Re-establish the CSRC, ensure quarterly meetings are held on the status of capital projects, and formally report to Executive management and County Council on such status (particularly the reasons for large variances between budget and actual.)
- Re-evaluate KFP #7 and determine if semiannual (rather than monthly) cash forecasts are adequate to meet the Office of Finance's cash forecasting and investment requirements. If so, revise the policy.
- Require departments to submit adequate explanations for "large" (definition to be determined by Finance) variances.

Office of Finance Response

- We are in agreement that the CSRC should be re-established and regular meetings scheduled on a quarterly basis. The CFO has asked that this process be implemented. We will also develop a summary report detailing the discussions for distribution to the County Executive and County Council within a "reasonable" amount of time after the meeting.
  - ➢ Timing: Given the pending change in administration we will work with the new CFO once selected to form and implement the CSRC. We anticipate having this in place by the end of fiscal 2017.

- We will coordinate efforts with the cash management section to determine the needs for cash forecasting and adjust KFP#7 accordingly.
  - Timing: We will explore the proper frequency of cash forecast in conjunction with implementing the CSRC.
- We agree that each department should submit explanations for large variances versus planned spending on capital projects. We will determine the appropriate threshold for requiring an explanation. We will explore a percentage and/or dollar threshold for such requirement.
  - Timing: to be completed by end of Fiscal 2017.

Audit Objective 5: Evaluate whether Police Athletic League (PAL) buildings should be reflected in County's financial statements.

Comment

We noted that there are capital projects for the Hockessin and Garfield Park PALs in the Fiscal Year 2017 Capital Budget. We also noted that capital funds have been spent on these buildings in prior years, in the project "Building Rehabilitation" which has a description in the Capital Budget Book of "capital improvements to County buildings as required."

Since these buildings are not on the County's Balance Sheet, we first questioned whether capital funds can be used for non-County facilities. However, we reviewed our 2011 audit report titled "Review of Financial Statement Audits of Police Athletic League" and noted that there was a report comment indicating that the County Attorney (at the time) had concurred that the County is the owner of these buildings. See Appendix C for this report comment. Please note, though, that PAL's leadership had disputed that the County owns the buildings.

Recommendation – Office of Finance

We recommend that the Office of Finance, in January 2017, request the Office of Law to make a legal determination of whether or not the County is the owner of these buildings. If the Office of Law determines that the County is the owner, Finance should make the appropriate accounting entries to reflect such ownership in the County's financial statements.

Office of Finance Response

We feel this issue has been thoroughly explored as part of the County's audit of the PAL centers in 2011. As a result, we feel anything further pursued on this issue should be done as part of resurfacing that audit.

Audit Objectives 6 and 9a: Ensure compliance with Generally Accepted Accounting Principles for capital projects accounting.

Background

The following definitions are contained in the County's annual Capital Budgeting & Program book:

- Capital Improvement: any permanent physical improvement and/or activity with a normal life of three years or more and a cost exceeding $5,000. The $5,000 limit may be waived in the case of a series of small project expenditures which are essentially elements of a large development program, the total of which exceeds $5,000.
- Development Program: A major capital improvement which will be carried to completion in stages over a period of years. It may be broken into a series of projects.
- Project: The basic unit of the capital improvements program. A project is a capital improvement which generally will span a shorter period of time for completion.

The Internal Revenue Code (IRC) imposes certain requirements that must be met on a continuing basis subsequent to the issuance of bonds in order to assure that interest on the bonds will be excludable from gross income (for the bondholders) for federal income tax purposes.

Section 4c of the Tax Regulatory Agreement for the 2015 bond issuance states the types of expenditures the bond proceeds may be used for. Such expenditures do not explicitly include operating expenditures.[4] Also, Delaware Code Title 9, Section 1163(a)(1) disallows the use of bond proceeds for the payment of any operating expenses and the payment for any equipment having a useful life of less than three years.

Comment

The County's Capital Budget has included for many years a capital project titled "Information Systems Expansion." (Our review of the Comprehensive Annual Budget Summaries revealed that the project goes back to at least Fiscal Year 2004.) The work description of this project in the Fiscal Year 2017 Capital Budget & Program Book is "Identify and implement additional technical business solutions, especially for e-government." Please note that a new project (with a new project number) was created in the Fiscal Year 2016 capital budget; this project, titled "Information Systems Expansion II," has the same work description as "Information Systems Expansion." Although a new project was created, however, the project's expenses are still being charged to "Information Systems Expansion" since "Information Systems Expansion II" is really a continuation of "Information Systems Expansion" and the only reason

[4] Please note, however, that the Tax Regulatory Agreement states that bond proceeds can be used "for costs that are directly related to New Money Projects financed by the 2015 Bonds that, in total, do not exceed 5 percent of the Sales Proceeds of the New Money Bonds." Bond Counsel informed us that this can include operating costs as long as such costs are directly related to the applicable project. He did suggest, however, that the County should review the Treasury Regulations associated with the 5% rule.

why the II project was created was due to space limitations for subprojects in the County's financial system.

The IRS has a manual on Property and Equipment Accounting; this manual governs the purchases of property and equipment by the IRS itself. (Since the IRS is a government agency, we thought this would be a good manual for us to review.) We reviewed the section in the manual on Property and Equipment Capitalization. This section, which states that property and equipment assets include "IT Equipment" and "Internally Developed Software / Internal Use Software," provides guidance on what to capitalize and what to expense:

- The IRS capitalizes all IT equipment, regardless of price or value, unless it is specifically exempted as "expendable equipment" (such as monitors, keyboards, hard drives, and memory upgrades).
- Extended warranties on items such as servers, laptops, and desktops are expensed.
- Components purchased separately from the piece of IT equipment are generally expensed.
- Software and software licenses are capitalized only when the cost is $50,000[5] or more and the useful life is two or more years.
- Other equipment (such as TV sets, sound recording/reproduction equipment, projectors, GPS equipment) is capitalized only when the cost of such equipment is $50,000[6] or more and the useful life is two or more years.

Using the IRS criteria, we reviewed a sample of expenditures in the Information Systems Expansion project for Fiscal Year 2014, and the Computer System (Public Safety), Fleet Equipment, and Glasgow Park projects for Fiscal Year 2016. We have the following observations:

- There does not appear to be written guidance for departments to follow in deciding whether a particular expense should be charged to the capital budget or the operating budget. Therefore, the question arises as to whether the County may be deferring expenses on items which should be immediately expensed in the year of purchase. (We do want to say, however, that the Special Services Department appears to be quite diligent in ensuing compliance with the County's existing policy.)
- In the Information System Expansion project, there are many expenditures that fall below the $5,000 threshold. Although the definition of "capital improvement" states that this threshold may be waived if the smaller expenditures are part of a large development program, we question whether the Information Systems Expansion Project (in totality) meets the above definitions of "project" and/or "development program." We question whether this project(s) will ever be "carried to completion" or "span a shorter period of time for completion", as the project by its work description will apparently never have an end.
- Some examples of expenses that appear to be operating but are being charged to capital are as follows. Please note that this was a small sample of project expenses. Had we looked at every capital project, we possibly would have found more.

[5] We are not sure why the IRS uses such a large dollar threshold here; perhaps it is because the IRS is such a large government agency. We don't believe the County's threshold for such items should be this high.
[6] Ibid.

- In Public Safety’s Computer System project, approximately $6,400 in expenses for three employees to attend a New World CAD Conference. It is questionable whether such expenses should be charged to capital.
- In the Information Systems Expansion project, there are funds charged to capital for license/subscription fees as well as for warranties. The IRS policy (mentioned above) does not allow for capitalization of these.

- The Office of Finance needs to investigate whether generally accepted accounting principles allow for the pooling of certain assets (such as computers) as a means of avoiding the individual dollar threshold.

Recommendations – Office of Finance

We recommend that management:

- Develop written guidance for departments to follow in deciding whether a particular expense should be charged to the capital budget or to the operating budget.
- Have the CSRC review and approve such guidance prior to dissemination to the departments.
- Train the various departments on the written guidelines.
- Implement controls to ensure such guidelines are followed.

Office of Finance Response

- Finance will expand and clarify our existing policy on the proper guidelines for the capitalization of expenditures versus expensing the items as operating costs.
  - Timing: We will implement by the end of January, 2017, in order to incorporate the updated understanding in the 2018 capital plan.
- We will have the CSRC, once up and running, review the policy, provide feedback and make sure the policy is understood.
  - Timing: At first meeting of reinstituted CSRC.
- We will issue the policy to all departments and provide a training session for the fiscal personnel in each department to ensure the policy is understood. We will also determine who the additional personnel within each department are that need to understand the policy and make sure that they receive proper training from either the Office of Finance or the fiscal personnel within the department.
  - Timing: We will implement by the end of January, 2017, in order to incorporate the updated understanding in the 2018 capital plan.
- We will examine our existing controls over the process and add any needed enhancements or implement additional controls to ensure adherence to the guidelines contained in the policy.
  - Timing: by the end of fiscal 2017.

OPPORTUNTITIES FOR IMPROVEMENT

Audit Objectives 4 and 7: Consider performing more scientific analysis of the County's financial capacity to undertake capital projects.

Background

The Government Finance Officers Association's (GFOA's) publication "Capital Improvement Programming" states:

> "An essential step in the process of preparing a capital improvement program is to estimate how much the jurisdiction can afford to spend for all capital improvements. During this phase of the process, which is sometimes referred to as the financial capacity analysis, the activities that will be undertaken are:
> - Evaluating the jurisdiction's financial condition by reviewing historical trends in revenues and expenditures, outstanding debt levels, current operating position, and other key variables.
> - Assessing the likelihood that historical trends will continue and their impact on available resources to fund the capital program."

We recently participated in a GFOA webinar titled "Debt Management: Update on Continuing Disclosure Requirements." One of the webinar's speakers discussed her organization's (i.e., the Los Angeles Unified School District's) Debt Management Policy and also provided a webpage link for attendees to see this policy. We reviewed this policy and noted that the determination of how much debt the governmental entity should incur is based on a Capital Financing Plan, developed by the CFO, which analyzes the long-term capital needs of the entity and the impact of planned debt issuances on the long-term affordability of all outstanding debt. The policy did not provide details, however, of how the CFO develops this Capital Financing Plan.

Comment

As indicated in our report comment beginning on page 16 (Audit Objectives 2b, 2c, and 7), we are concerned about the County's percentage of debt service to its annual operating budget. As such, we believe there are trends which could be analyzed in performing a more comprehensive financial capacity analysis. Examples[7] are as follows:

---

[7] Note: Such examples were taken from financial trends monitoring systems developed by other municipalities as a means to evaluate fiscal capacity and fiscal health. These municipalities generally use a "green light, yellow light, red light system" in evaluating trends and in evaluating whether such trend indicates actual or potential danger. Please note that the International City Management Association (ICMA) has developed a Financial Trend Monitoring System (FTMS) to comprehensively evaluate and monitor the economic health of a municipality. This model includes 42 financial indicators; perhaps the County could choose some indicators from this model. Some of the information for evaluating such trends is already in the County's Comprehensive Annual Financial Report (CAFR).

- Community Needs and Resource Indicators: These encompass various economic and demographic characteristics including population, employment, personal income, property value and development. For example, changes in population can directly affect County revenues such as property tax collections and costs of services, and Personal income per Capita is a measure of a community's ability to pay its taxes.
- Revenue Indicators: These determine the capacity of the entity to provide services. Important issues to consider with respect to revenue are economic growth, diversity, reliability, flexibility, and administration. Examples of such trends are Rate of Increase/Decrease in (1) Revenue per Capita, (2) Property Tax Revenues, and (3) Uncollected Property Taxes.
- Expenditure Indicators: Examples are Expenditures per Capita, Employees per Capita, and Fringe Benefits as a % of Salaries & Wages.
- Operating Position Indicators: Examples are Growth in Revenues versus Growth in Expenditures and Unrestricted Operating Revenues as a Percentage of Net Operating Revenues.
- Debt Structure Indicators: The County already utilizes some of these. For example, the County's Key Financial Policy (KFP) #2, as outlined in the Comprehensive Annual Budget Summary (CABS), Capital Program & Budget book, and Capital Budget Preparation Manual, is as follows:

  ”The recommended percentage of debt service to the operating budgets is (a) General Fund – 15%, (b) Sewer Fund – 20%.” The rationale provided is that “Growing debt service payments as a percentage of the operating budget must be limited so as to maintain the financial flexibility of the County. Capital expenditures funded by general obligation debt will have to be programmed to avoid increasing the future debt burden upon the residents. Exceptions to this policy may be considered only for projects with a contemporary impact upon the health, safety and welfare of the residents and county employees.”

Recommendation - Office of Finance, Executive Office

We recommend that management consider developing a comprehensive, sophisticated financial capacity model to help in determining how much the County can realistically afford in its capital budget each year.

Office of Finance Response

- We agree that a model of this nature would be beneficial by adding clarity and important variables to the decision making process of approving capital projects. By considering variables such as future revenue streams, expected changes in expenditures, and others noted above the CSRC will have more detail available enabling them to make more informed decisions. We will explore the feasibility of implementing such a model giving consideration to timing and ownership of the model.
  - Timing: We will explore the feasibility of a model in conjunction with the upcoming 2017 bond issue (tentative date by end of March 2017). Depending on the outcome of our analysis, we will implement by the next bond issuance cycle.

Audit Objectives 2b, 2c, and 7: Review all debt management policies and determine whether any need to be made more restrictive so as to lower the debt burden on County taxpayers and future administrations.

Comment

There is a section in the County's Comprehensive Annual Budget Summary (CABS) and Capital Program & Budget book which states "Active debt management provides fiscal advantages to the citizens of the County. Overuse of debt places a burden on the financial resources of the County and its taxpayers." This section provides various debt limitations, one of which is the requirement that the percentage of debt principal to be retired in 10 years (as a percentage of all debt) shall not fall below 49.2%.

We recalculated this percentage for FY 2016 and FY 2017 and determined the percentage limitation was met for FY 2017 (49.6%) but not for FY 2016 (46.8%). Also, the percentage reported in the CABS for Fiscal Year 2016 was 49.2%, not the 46.8%. The Office of Finance agrees with this error and has taken steps to minimize the chances of it happening again.

We do not consider this difference to be material. We are concerned for the future, however, in that the County is very close to not meeting this requirement and, thus, could be placing more future debt in outlying years than desired.

Recommendation - Office of Finance, Executive Office

We recommend that management review all of its debt management policies and determine whether any need to be made more restrictive so as to lower the debt burden on future administrations.

Office of Finance Response

We are in agreement that management should review all current debt management policies and determine whether they need to be revised to meet the current needs of the County. We believe a review of these policies by the CSRC would be the first step in evaluating the appropriateness of the policies currently in place. We will propose this as an agenda item once the CSRC has been re-established and meetings have commenced.

- Timing: will be done at the first meeting of the reinstituted CSRC.

Audit Objective 2b: Re-evaluate Sewer Fund percentage threshold in Key Financial Policy #2 in light of past history. Alternatively, provide County Council each year with a formal explanation for why Sewer Fund percentage continues to be exceeded.

Comment

The County's Key Financial Policy (KFP) #2, as outlined in the Comprehensive Annual Budget Summary (CABS), Capital Program & Budget book, and Capital Budget Preparation Manual, states "The recommended percentage of debt service to the operating budgets is (a) General Fund – 15%, (b) Sewer Fund – 20%." The rationale provided is that "Growing debt service payments as a percentage of the operating budget must be limited so as to maintain the financial flexibility of the County. Capital expenditures funded by general obligation debt will have to be programmed to avoid increasing the future debt burden upon the residents. Exceptions to this policy may be considered only for projects with a contemporary impact upon the health, safety and welfare of the residents and county employees."

Our review and recalculation of these percentages for Fiscal Years (FY) 2016 and 2017 revealed that the County has adhered to the General Fund percentage for both years while it has exceeded the Sewer Fund percentage for those same years. The percentages for the Sewer Fund represent 25.2% for FY '16 and 24.6% for FY '17. (The percentages were 25.9% for FY '14 and 26.2% for FY '15, although we did not recalculate these.) Please note that the County has included a footnote in the CABS each year that the Sewer Fund debt "includes federal mandated sewer rehabilitation in Brandywine Hundred." However, in listening to the last two years' public budget hearings on the County's debt, the subject of exceeding the percentage limitation for the Sewer Fund and why the County continues to exceed this limitation has not been discussed. (Although, in the April 2016 budget hearing, it's mentioned that the $100 million borrowing for the Brandywine Hundred project was unavoidable.)

Our review of the County's overall debt requirements (principal and interest) for Fiscal Years 2000 through 2016, based upon the debt service schedules in the CABS, showed that the percentage of overall debt to the operating budget was a low of 8.7% in Fiscal Year 2005 and a high of 16.4% in Fiscal Year 2013. The percentage was 14% in Fiscal Year 2016.

The Office of Finance informed us that debt service associated with the Brandywine Hundred project is indeed the reason why the County has been exceeding the 20% Sewer Fund limit for the past several years.[8] Finance, at our request, provided us with information showing what the percentage would be if the debt service associated with Brandywine Hundred is backed out; this information indicates that the percentages for FY '16 and FY '17 would both be below the 20% threshold. Finance informed us, as a result of this audit, that they are considering raising the allowable percentage for the Sewer Fund.

Recommendations – Office of Finance, Executive Office

We recommend management do the following:

[8] Fiscal Year 2011 was the last year the debt percentage was less than 20%.

- Re-evaluate the percentage limitation for both the Sewer and General Funds in light of the overall growth in the County's debt over the past several years and the overall level of County reserves. Also, consider having a percentage limitation for the combined General and Sewer Fund operating budgets.
- When presenting the annual capital budget to County Council and it is anticipated that the percentage limitation for the Sewer and/or General Fund is going to be exceeded, formally inform them of the breach and the reason(s), and provide support for how that reason will cause the County to exceed the limitation.

Office of Finance Response

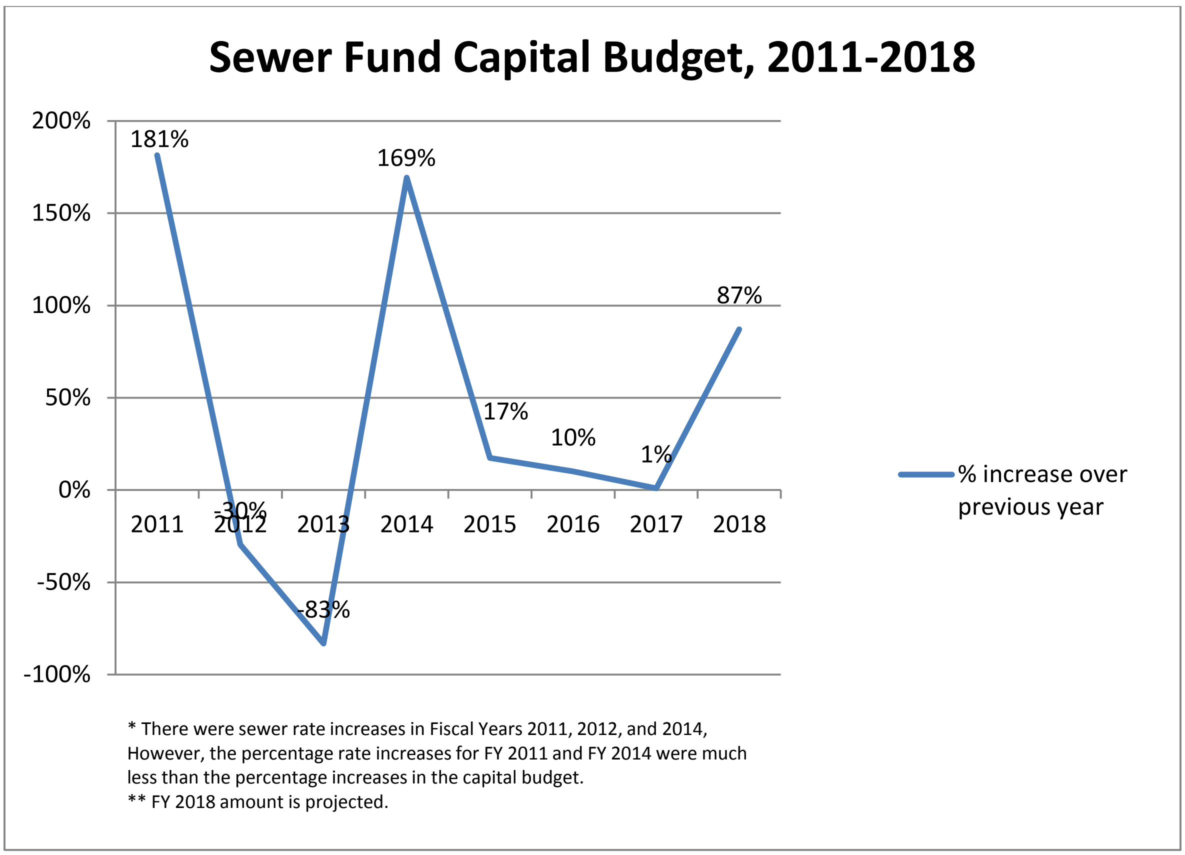
- We are in agreement that Finance should review the percentage limitation for both the Sewer and General funds given the current level of County debt. We had discussed the prospect of increasing the percentage for the Sewer Fund with the CFO prior to the audit. We have determined that an increase is needed and intend to do so in the next cycle. We also agree that it would be worthwhile to explore whether a combined limitation for the General and Sewer funds provides value to the process for determining debt levels. This could be done in conjunction with evaluating a comprehensive debt capacity model.
  - ➢ Timing: will be completed by end of February to allow for inclusion in the 2018 capital budget book.
- We are in agreement that any exception to the debt percentage limitation should warrant a formal notice and explanation for County Council. We will work with our budget section to make sure this become part of the capital budget presentation when this scenario is present.
  - ➢ Timing: will be completed as part of the 2018 capital plan.

Audit Objective 2c: Re-evaluate Sewer Fund allowable percentage increase in Key Financial Policy #3 in light of past history. Alternatively, provide County Council each year with a formal explanation for increases in Sewer Fund capital budget without an increase in sewer user fees.

Comment

The County's Key Financial Policy (KFP) #3, as outlined in the Comprehensive Annual Budget Summary (CABS), Capital Program & Budget book, and Capital Budget Preparation Manual, states "The recommended percentage of cost increase in each year of the six year capital program after the respective base year is (a) General Fund – 5% for the fiscal years 2017-2022 (non-cumulative), (b) Sewer Fund - No greater than the acceptable annual sewer rate increase for user fees." The rationale provided is that "Each agency must manage their capital program within certain time and cost constraints so as to maintain effective project and cost controls."

Our testing of the County's compliance with this policy revealed the General Fund percentage threshold is being complied with while the Sewer Fund percentage threshold is not. The FY 2017 budgeted dollar amount for Sewer Fund capital projects is approximately $22,390,000 while the FY 2018 projected amount is approximately $41,888,000. This represents an increase of 87%. Since the projected amount for the FY 2018 outlying year is a projected amount (will not become a budgeted amount until it appears in the FY 2018 budget), we analyzed the amounts in the Sewer Fund capital budget for Fiscal Years 2011 through 2017, and calculated the increases from year to year. The following chart gives the percentage increase in the Sewer Fund Capital Budget from 2011 to 2018. (Please note, however, that the FY 2018 amount is only a projected amount as indicated above.)



Thus, irrespective of any projected increases in the outlying years of the annual Sewer Fund Capital budget, the County has increased the capital budget in years where there was no increase in sewer user fee rates. Also, in the years where the sewer rate was increased, the percentage increase in the rate was less than the percentage increase in the capital budget.

Recommendations - Office of Finance, Executive Office

As long as KFP #3 remains in force, we believe management needs to formally explain to County Council and the taxpayers the reason for an increase in the Sewer Fund capital budget when there is no increase in sewer user fees. Also, since (technically) KFP #3 does not allow <u>any</u> increase to the Sewer Fund capital budget unless there is a sewer rate increase for the particular budget year, we believe management needs to re-evaluate this KFP and determine if this is what it really intends.

Office of Finance Response

We agree that Finance and Management should evaluate the appropriateness of KFP#3 to determine if this limitation allows the County to properly manage an aging sewer infrastructure. We also agree that as long as this policy is in place that County Council should be given appropriate explanations as to why the Sewer Capital budget would increase even though no sewer rate increase has been implemented. We will work with our budget section to make this part of the capital budget presentation going forward.

- Timing: We will address as part of the 2018 capital budget cycle. Completed by March 2017.

<u>Audit Objective 2a: Evaluate whether sunset provisions apply to all capital projects.</u>

Comment

The County's Key Financial Policy (KFP) #1, as outlined in the Comprehensive Annual Budget Summary, Capital Program & Budget book, and Capital Budget Preparation Manual, states "Each capital project will have a 'sunset provision' after 24 months which can only be lifted by a resolution adopted by County Council." The rationale is that "Each agency must commit to the timely completion of each project adopted by the County Council and approved by the County Executive."

We noted that there are many projects in the capital budget year after year (e.g., Information Systems Expansion, General Stormwater Improvements, General Parkland Improvements) which don't necessarily lend themselves to having a sunset provision. That is, there is going to be <u>some</u> work in that project every year.

Recommendations – Office of Finance, Executive Office

We recommend that management give consideration to either:

- Changing KFP Policy #1 to indicate that certain projects do not need a sunset provision because they do not have a finite lifespan, or
- Applying a finite lifespan to these projects so that there <u>is</u> a project end date.

Office of Finance Response

We are in agreement that the sunset provisions need to be clarified or changed in regards to projects that fall into this scenario. Our initial thoughts are that we would like to establish a finite life of a project. We will explore the options with the CSRC once implemented.

- Timing: will be discussed at the first CSRC meeting.

<u>Audit Objective 2e: Implement additional controls over the review of the operating budget impact of a capital project.</u>

Comment

The County's Key Financial Policy #5 states "Each agency shall submit a three-year Operating Budget impact for personnel services costs, materials and supplies, and debt service costs with each project request ... Annual Operating Budget costs will be considered in the project acceptance process. These operating costs will provide management and County Council with total project-related costs."

When a department is entering its capital budget information to the Tier System for a particular project, it enters the operating budget information in a particular budget entry screen. The department is apparently not required to submit any backup information for how it derives such budget (e.g., job titles and salaries/benefits needed for new positions in a new library).

Although the department itself maintains such backup information, we believe it should be reviewed by the Office of Finance or the Capital Strategies Review Committee (if it is reconstituted) for consistency and overall reasonableness. After all, such information is one of the factors in management's and County Council's decision on whether to provide capital funding for a project.

The Government Finance Officers Association's (GFOA's) Best Practice on "The Impact of Capital Projects on the Operating Budget" provides an example of what such backup information might look like.

Please note that this comment is not meant to be a criticism of how any department determines the operating budget impact of a capital project. We also realize that some projects do not have <u>any</u> impact upon the operating budget.

Recommendation - Office of Finance, Executive Office

We recommend that departments be required to submit to the Office of Finance and/or CSRC substantiation for operating budget impacts, and that the Office of Finance review and approve such information for consistency and overall reasonableness.

Office of Finance Response

We are in agreement that the departments should provide more supporting detail for three year operating impacts on capital projects. We think this will cause the departments to perform a more thorough analysis of the future operating costs and provide more useful information as part of the budget submission. This will enable management to make more informed decisions on the selection of capital projects for approval.

- Timing: Will be done as part of the 2018 capital budget cycle. Completed by end of March 2017.

Audit Objectives 9, 10, and 11: Continue to improve bond issuance policies, procedures, and monitoring tools in preparation for 2017 bond issuance.

Comment

As mentioned in the General Comment on page 6 of this report, the Office of Finance engaged Public Financial Management (PFM) in early 2016 to write a "Post-Issuance Compliance Procedures Manual" for County bond issuances. We commend the Office of Finance for engaging PFM and for working with us on this audit to ensure policies, procedures, and controls exist to help ensure the County is in compliance with applicable laws, regulations, and legal documents.

The Accounting & Fiscal Managers responsible for the Accounting and the Cash Management areas began working for the County less than a year ago and the one responsible for Cash Management was transferred from Assessments to Cash Management fairly recently. Thus there are still aspects of their jobs, including the accounting and investment of bond proceeds, which they are still learning. There is also a Senior Financial Officer who was moved to the Accounting area in 2015 and is still working to learn all the aspects of a bond issuance process.

These three individuals are intelligent and are quick learners. During the audit, we found our discussions with them to be highly productive and that they are working diligently to ensure policies and controls exist to ensure all regulatory and other aspects of a bond issuance are adhered to. We have had numerous discussions with them on PFM's draft "Post-Issuance Compliance Procedures Manual."

We evaluated the 2015 bond issuance for:

- The County's compliance with its policies, including arbitrage requirements, regarding the investment of bond proceeds.
- The County's processes, when it issues general obligation bonds, for ensuring compliance with the Tax Regulatory Agreement signed by the CFO.
- The County's processes for fulfilling its continuing disclosure responsibilities per bond documents.

We have the following observations which we have shared with the Office of Finance:

- The Office of Finance employee who worked on key aspects of County Bond issuances retired in 2016. Some of her responsibilities had not been formalized in written policies and procedures.
- We question whether, in the past, the Office of Finance was fully aware of the spending exceptions (in federal regulations) to arbitrage rebate. However, we feel comfortable that Finance is fully aware of these exceptions now. Also, regardless of whether or not a spending exception exists, the Cash Management area has been consistently calculating whether an arbitrage rebate liability has accrued.
- The Office of Finance does not have an individual in the Office of Law to consult with on technical issues regarding bond regulatory/tax matters.[9] Obviously, the County engages Bond Counsel and such Counsel can always be consulted. However, we believe someone in the Office of Law should be given the responsibility of learning, and keeping up-to-date on, the regulatory/tax rules and regulations concerning bond issuances. Please note that this is not meant to be a criticism of Law as this is a highly complex area. We are also not trying to underestimate the importance of having outside legal counsel for any bond issuance.
- Due to a technical error in the electronic posting of the County's CAFR for Fiscal Years 2010 and 2011, the filing was not indexed as a continuing disclosure filing for some of the outstanding general obligation bonds issued by the County. So, as a part of our testing, we ascertained that the six documents filed on February 29, 2016 were indexed as continuing disclosure filings for all 22 CUSIPs associated with the 2015 Bond Issue. One thing that we'd like to note here is that the documents got posted multiple times and under incorrect titles[10]. This could prove to be confusing for investors. We did not find this to be the case when we viewed the continuing disclosure filing for some CUSIPs for the State of Delaware General Obligation Bonds, Series 2014[11]. The State of Delaware posts all its information in one document which seems to be specially prepared for the purpose of meeting the requirements of their Continuing Disclosures Agreement. This document presents relevant information in a succinct manner and the County might want to consider creating its own report for the Continuing Disclosures requirement.

Recommendations – Office of Finance

We recommend management:

- Continue discussions with PFM on the "Post-Issuance Compliance Procedures Manual," and finalize the manual by the end of 2016.
- Ensure the policies and procedures in the manual are adhered to. Please note that the draft PFM manual assigns responsibilities to a "Chief Compliance Officer" and also to a "Post Issuance Compliance (PIC) Team." The manual states "On an annual basis, the PIC Team will complete the post-issuance compliance assessment … The purpose of the assessment is to document compliance

[9] During the audit, both Audit and Finance had questions concerning the Tax Regulatory Agreement and other matters. It became necessary for Audit and Finance to hold a three-hour conference call with Bond Counsel on these questions.
[10] http://emma.msrb.org/SecurityView/SecurityDetailsARD.aspx?cusip=AA9ADC924A73CB54A0AE7FF4CB1744BFB
[11] http://emma.msrb.org/ER951732-ER744501-ER1146188.pdf

with post-issuance compliance procedures and to identify areas of concern. The Chief Compliance Officer will submit the completed assessment to the Chief Financial Officer …”

- Determine who the Chief Compliance Officer is going to be and ensure this person has the necessary skills and training.
- Discuss with the Office of Law the need to have an in-house attorney who has some level of understanding of the regulatory/tax matters associated with bond issuances.
- Consider creating its own Continuing Disclosure report with links to its audited financial statements and budget, and include all information required by the Continuing Disclosure Agreement

Office of Finance Response

- We are eager to finalize the policy with PFM within a reasonable amount of time after completion of the CAFR.
  - Timing: Will be discussed with the new CFO once the new administration is in place. Completed by the end of fiscal 2017.
- As part of completion of the manual, we will formalize the Post-Issuance Compliance Procedures Manual (PIC) and identify the individual who will be the Chief Compliance Officer. This designation carries a significant level of exposure and we need to determine, perhaps with the help of the law department, who is in the best position to assume this role or if added levels of protection would need to be put in place to protect the individual.
  - Timing: Will be discussed with the new CFO once the new administration is in place. Completed by the end of fiscal 2017.
- We support the idea of having someone in our law department with an enhanced level of understanding of bond compliance laws and regulations. This is an extremely complex area relating to one of the main actions of the County which is raising capital to fund capital projects.
- We will explore the benefits of creating a unique Continuing Disclosure report once we have completed the PFM manual and the PIC is up and running.
  - Timing: Will be discussed with the new CFO once the new administration is in place. Completed by the end of fiscal 2017.

<u>Audit Objective 9b: Evaluate policies and procedures for reimbursement of prior expenditures from the proceeds of a new bond issuance.</u>

Testing

The Tax Regulatory Agreement for the 2015 Bond Issuance lists, in Exhibit E – Reimbursement Schedule, the amounts to be reimbursed for various capital projects’ expenses incurred prior to the 2015 Bond

Issuance. For a sample of 6 projects having reimbursed expenses, we verified on the County's financial system that the total expenditures from the Date of Earliest Expenditure (as listed on Exhibit E to the agreement) to the date of the bond issuance were indeed greater than or equal to the project's reimbursement amount. {Please note that our review did not involve determination of the reimbursement period since the Tax Regulatory Agreement was prepared and reviewed by Bond Counsel. (The Bond Counsel had provided the County, on July 15, 2014, with a memorandum on Reimbursement Rules.) Thus, for the purpose of our review, we assumed the Date of Earliest Expenditure listed in Exhibit E of the Tax Regulatory Agreement to be true. Also, please note that we were not able to ascertain that these were reimbursement expenditures and not "refundings" as defined by Treasury Regulation 1.150-2(g)(1).}

Of the 6 capital projects reviewed, we found that the total expenditures from the Date of Earliest Expenditure to the date of bond issue were greater than or equal to the reimbursement amount in all cases. Hence, we concluded that the allocation to reimbursements from the New Money Proceeds of the 2015 Bond Issuance was spent on capital expenses. However, we do not know why all of the eligible prior expenditures were not reimbursed from the 2015 bond issue (although it is our understanding that this is not a requirement).

Comment

The Office of Finance uses a spreadsheet to keep track of monthly expenditures on capital projects for the 2015 Bond Issuance. However, due to personnel changes, similar spreadsheets could not be found for the earlier bond issuances and, thus, we were not able to determine the process used for calculating the Date of Earliest Expenditure. The Accounting & Fiscal Manager and the Senior Financial Officer are still fairly new to their roles and the Office of Finance employee primarily responsible for bond tracking retired.

Recommendations – Office of Finance

We recommend the Office of Finance:

- Establish and document a procedure for determining Dates of Earliest Expenditure on the financial system.
- Determine for New Money bond proceeds whether it will be the County's policy to reimburse all eligible expenditures and, if so, develop a methodology for doing so (e.g., set markers for when the proceeds allocated to a capital project from a prior bond issuance have been exhausted).
- Cross train personnel on bond reimbursement procedures and other facts of bond issuances. This would ensure minimal disruptions and minimal loss of information in case of changes in personnel.

Office of Finance Response

- We will establish and document the methodology and procedure for determining the date of earliest expenditure eligible for reimbursement. This will be part of our discussion with PFM in completing the manual.
  - Timing: Will be done as part of the process of the 2017 Bond Issue (tentative date by end of March 2017).
- We agree that it is important to establish a method for reimbursing eligible capital expenditures from future bond issuance proceeds. We will investigate whether there are any reasons why we would not want to reimburse past expenditures and develop a policy accordingly. The policy would need to be approved and implemented by the PIC.
  - Timing: Will be done as part of the process of the 2017 Bond Issue (tentative date by end of March 2017).
- We support cross training on bond expenditure reimbursement procedures. We are attempting to build this level of redundancy on multiple tasks and functions throughout the finance section.
  - Timing: Process has begun and we will continue to cross train throughout the issuance of the 2017 bonds.

Audit Objective 9: Consider bond tracking capabilities in researching new financial systems.

As mentioned in the first General Comment above, there are a myriad of rules and regulations (many of which are complex) concerning the issuance of tax-exempt municipal bonds.

The Office of Finance primarily uses Excel spreadsheets to track key items associated with bond issuances (e.g., the amounts remaining from the allocation of New Money proceeds to particular projects, amounts spent on projects from the County's general cash account that need to be reimbursed from bond proceeds, expenditures that can be reimbursed from the proceeds of a new bond issuance).

The Office of Finance, in its budget presentation booklet for Fiscal Year 2017, included as a challenge "Continue to research what other financial systems are being utilized by counties of similar size and scope to record accounting, budget, and asset management." It is the County's intent to replace its existing financial system (Tier) with a new one sometime in the next few years.

As the Office of Finance explores procuring a new financial system, we recommend that Finance consider looking for a system that has the ability to track the various tasks associated with bond issuance (rather than having to use Excel spreadsheets).

Office of Finance Response

We agree that tracking the tasks associated with the issuance of bonds is a significant item performed by the finance section. As we explore new financial systems in the future we will include this item as needed functionality to help us determine what tools are available.