

Update on Special Audit of 2016-2022 OHCA Special Community Benefit District (SCBD) and Piers & Harbors (P&H) Funds

For 5/23/23 OHCA Community Meeting

By the OHCA Board Chairman, President, and Board Attorney

To fund Oyster Harbor's expenses, OHCA has both Special Community Benefit District (SCBD) funds, which come from County tax revenue, and Piers & Harbor (P&H) funds, which come from boat slip fees. OHCA receives about \$400,000 a year from the County in SCBD funds that are collected as real property tax revenue by Anne Arundel County in your property tax payments, and about \$15,000 a year from boat slip fees from those who rent boat slips from OHCA. The spending procedures for both sets of funds are governed by the OHCA Constitution (<https://www.oysterharbor.org/wp-content/uploads/CONSTITUTION-CORRECTED.pdf>), and the SCBD funds are also governed by State and County laws and regulations. By County law, the SCBD funds must be kept separate and must be spent by OHCA through authorized procedures with a clear auditable trail of receipts. The SCBD funds may only be used for certain limited purposes allowed by Anne Arundel County law, and every year, OHCA must submit to an audit by an outside accountant of the SCBD funds.

In the fall of 2022, it was discovered that (1) in the fall 2016, Eric Epstein, the past OHCA President, transferred \$50,000 in OHCA SCBD funds to a new P&H checking account he had set up, and (2) throughout the period of October 2016 to June 2022, the past president transferred a total of \$275,000 from the SCBD account to the P&H account, which he spent without proper oversight or authorization. From that P&H account, he made certain expenditures, including by ACH (electronic funds transfer), debit card and check, and also withdrew substantial funds by cash, apparently without maintaining any receipts or concurrent log that has been made available to OHCA.

Because of Anne Arundel County's strict law on management and co-mingling of SCBD funds, the OHCA Board authorized the OHCA Attorney to approach the County Office of Law and County Audit Department to report that approximately \$275,000 of SCBD collected funds from 2016 to 2022 were not actually properly audited, because the independent CPA who acted as OHCA's auditor was not provided information about the P&H account or the documentation of the expenditures from that account necessary to perform the audit mandated by County law.

As a result of those conversations with Anne Arundel County officials, in which OHCA self-reported the audit lapses, the County agreed to give OHCA the opportunity to perform a special/revised audit in order to correct those past audits, without taking immediately taking any actions against OHCA, such as delaying distribution of the FY 2024 SCBD funds collected by

the County through the tax collection process. The County agreed to allow for the results of that special/revised audit to be provided to the County in the fall of 2023 as part of the audit for FY 2023. Given the extraordinary nature of this circumstance, from the County's perspective, they have not yet made a specific decision as to how they will handle OHCA's circumstance; the County is currently awaiting the results of the special/revised audit before issuing a decision as to how OHCA's SCBD will be handled going forward. The County did, however, follow up by email this past week seeking an update on the audit process given that the Anne Arundel County State's Attorney's Office has apparently been notified of some of these circumstances by other interested parties.

In February, the Board received and reviewed three quotes from independent audit firms to perform the requested special/revised audit. The Board selected Stout Advisors to perform the special/revised audit, and provided Stout with all the transaction records the Board had from 2016 to 2022 for the SCBD account and the P&H account. Those records are now posted on the Oyster Harbor website. Once the audit firm finished reviewing those initial account records, it requested further documentation of vouchers and receipts for the purpose of completing the special/revised audit mandated by Anne Arundel County, specifically:

1. All vouchers that were submitted to OHCA for payment out of the PNC P&H account during the period July 1, 2016 - June 30, 2022 and how they were related to the SCBD Purposes or P&H purposes, including all receipts that supported or resulted from payment of the vouchers or payments made out of the account.
2. The Log-in credentials, name and Shipping/Billing address for any Amazon Account that was used for purchases and charges out of the PNC P&H Account during the period July 1, 2016 - June 30, 2022.
3. An explanation of each of the \$35,700 in cash withdrawals made out of the PNC P&H Account and how they were related to the SCBD purposes or P&H purposes along with receipts documenting how the cash was spent during the period July 1, 2016 - June 30, 2022.
4. An explanation of each of the ACH Deposits made into the PNC P&H Account - who they were from and what they were for during the period July 1, 2016 - June 30, 2022.
5. An explanation of each of the ACH payments and/or purchases made out of the PNC P&H Account - who they were to and what they were for during the period July 1, 2016 - June 30, 2022 and how they were related to the SCBD Purposes or P&H purposes.
6. An explanation of each of the Amazon payments and/or purchases made out of the PNC P&H Account - who they were to and what they were for during the period July 1, 2016 - June 30, 2022, and how they were related to the SCBD Purposes or P&H purposes.
7. An explanation of each of the checks written out of the PNC P&H Account - who they were written to and what they were for during the period July 1, 2016 - June 30, 2022, and how they

were related to the SCBD Purposes or P&H purposes.

8. The Comcast Account name and the number of the Account that was being paid for out of the PNC P&H Account during the period July 1, 2016 - June 30, 2022, and what address was the equipment located at for the Account.

A diligent search of the OHCA records and OHCA office by several people has been conducted, including a review of all past Board and Community meeting minutes (which are also being posted on the OHCA website), looking for the records requested by the auditor.

In addition, at least two specific requests have been made to the past president via email to provide the additional documentation and records for the completion of the audit.

To date, the missing financial records and/or explanations of the expenditure of the funds have not been found or provided by the past president.

We continue to work with the auditor to understand next steps. However, we've been told that In order to complete the special audit and report as required to the County, the audit firm needs this documentation for how the \$275,000 in SCBD funds was spent out of the P&H account. If the expenditure of those funds cannot be properly documented by the special/revised audit, then Anne Arundel County could require the Oyster Harbor Citizens Association to pay back those funds to the County before any further SCBD tax funds are released to OHCA. This precedent has been set by the county in similar situations.