

Special Report

**Review of Annual Reports
Submitted by Recipients of Arts and Sciences Grants**

Fiscal Year Ended June 30, 2008



Office of the County Auditor
Baltimore County, Maryland



MARY P. ALLEN, CPA
COUNTY AUDITOR

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OFFICE OF THE COUNTY AUDITOR**

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October 20, 2009

Honorable Members of the County Council
Honorable James T. Smith, Jr., County Executive
Baltimore County, Maryland

In accordance with Section 10-1-108(b)(3) of the Baltimore County Code, we have reviewed the annual financial reports submitted by organizations that received County grants for arts, sciences, and cultural enrichment during the fiscal year ended June 30, 2008. This Code section requires all organizations that receive in excess of \$10,000 of arts and sciences grant funds per fiscal year to submit audited financial statements or acceptable equivalents for review by the County Auditor. The Department of Recreation and Parks requires the reports to be submitted no later than 90 days after the end of the organization's fiscal year. For FY 2008, funds totaling \$4,144,500 were disbursed to 29 organizations that received arts and sciences grant funds in excess of \$10,000.

Our review disclosed that as of June 15, 2009, 7 of the 29 organizations did not submit the required annual reports. In addition, we noted that the 22 reports that were received contained insufficient detail to determine accountability of the County arts and sciences grant funds. Further, we noted that of the 22 reports, 20 were received 1 to 13 months after the 90-day reporting deadline. The timeliness of the other two reports received could not be determined since the receipt date was not documented. Finally, as a matter for consideration, we noted that an organization that received \$200,000 of FY 2008 County funding ceased operation in the spring of 2009 and two organizations that received a total of \$765,000 (\$750,000 + \$15,000) were at considerable risk of going out of business according to their audited financial statements.

A response to our findings from the Department of Recreation and Parks is included as Appendix A to this report.

We wish to express our appreciation to the Department of Recreation and Parks for the cooperation and assistance extended to us during our review.

Our reports and responses thereto are available to the public and may be obtained online at "www.baltimorecountymd.gov/agencies/auditor" or by contacting the Office of the County Auditor, 400 Washington Avenue, Towson, Maryland 21204.

Respectively submitted,

A handwritten signature in cursive script, reading "Mary P. Allen", followed by a horizontal line.

Mary P. Allen, CPA, CGFM
County Auditor

Background Information and Purpose of Review

Each year the County provides grant funds to various organizations for the purpose of developing, coordinating, and promoting the visual arts and sciences. The Commission on Arts and Sciences is responsible for recommending to the County Executive the organizations to fund and the respective grant amounts. The County Executive considers the Commission's recommendations and determines the amount of grant funds for each organization to be included in the proposed operating program budget, which is submitted to the County Council for approval. In addition to this program budget approval, individual arts and sciences grants in excess of \$5,000 are subject to Council approval when awarded. The Department of Recreation and Parks provides administrative support to the Commission and is responsible for administering the arts and sciences grant awards.

The Baltimore County Code, Section 10-1-108(b)(3) requires recipients of County grant funds for arts, sciences, and cultural enrichment in excess of \$10,000 per fiscal year to submit "...an annual audit by a certified public accountant or acceptable equivalent which will reflect the accountability of the grant or grants received..." Further, the Code provides that the annual reports shall be submitted to the County Auditor for review. In addition, the grant agreements between the County and the grantees require that the annual reports be provided within 90 days of the completion of the grantee's fiscal year and identify the County grant funds received.

For the fiscal year ended June 30, 2008, grant funds totaling \$4,144,500 were awarded to 29 organizations that received in excess of \$10,000 of County arts and sciences grants.

The purpose of our review was to determine whether the organizations that received County arts and sciences grants in excess of \$10,000 during the fiscal year ended June 30, 2008 complied with the aforementioned reporting requirements.

Findings and Recommendations

- 1. Of the 29 organizations that received County grant funds in excess of \$10,000 during FY 2008, 7 did not submit the required annual reports as of June 15, 2009 and 20 submitted reports after the 90-day reporting deadline.**

The Baltimore County Code, Section 10-1-108(b)(3) requires recipients of County arts and sciences grant funds in excess of \$10,000 per fiscal year to submit an annual audit by a certified public accountant or acceptable equivalent, which reflects the accountability of the grant funds received. The grant agreement between the County and each recipient organization further requires the annual report to be provided within 90 days of the completion of the organization's fiscal year.

Our review disclosed that as of June 15, 2009, 7 organizations had not submitted the required annual reports. Consequently, there was no accountability for the County grant funds disbursed to these seven organizations, which totaled \$962,000. In addition, we noted that 20 organizations submitted their reports 1 to 13 months after the 90-day deadline, including 19 that were more than 2 months after the deadline. We were unable to determine the timeliness of the audit reports received from the remaining two organizations because the Department did not document the date the reports were received.

We commented on these conditions in previous reports. During FY 2008, the Department implemented a policy of withholding County grant funding from organizations until they submit the required annual report. In addition, the Department extended the reporting deadline for FY 2009 grant funding, by 60 days, from 90 days to 150 days of the completion of the organization's fiscal year.

To ensure the accountability of arts and sciences grant funds disbursed, we recommend that the Department pursue the receipt of the seven annual reports not submitted or require the organizations to repay the FY 2008 grant funds to the County. In addition, we recommend that the Department continue to withhold future grant funding from all organizations until receipt of the required annual reports.

- 2. The 22 annual reports that were received as of June 15, 2009 did not provide sufficient detail to determine accountability of the FY 2008 County grant funds.**

As previously mentioned, the Baltimore County Code, Section 10-1-108(b)(3) requires recipients of County arts and sciences grant funds in excess of \$10,000 per fiscal year to submit an annual audit by a certified public accountant or an acceptable equivalent, which reflects the accountability of the grant funds received. Additionally, the grant agreement between the County and each organization specifically requires the annual report to identify the amount of arts and sciences grant funds received. However, we noted that none of the 22 reports that were received as of June 15, 2009 provided sufficient detail to reflect the accountability of the receipt and expenditure of County grant funds.

For example, the grant agreements expressly prohibit the use of grant funds for lobbying activities. However, the audited financial statements submitted by an organization that received \$95,000 of arts and sciences grant funds during FY 2008 disclosed that the organization engaged a board member to provide lobbying services totaling \$15,100. Since the audited financial statements did not provide sufficient detail of the accountability of the County grant funds, the County lacks adequate assurance that the grant funds were not expended for the lobbying activities, which would violate the terms of the grant agreement.

As another example, an organization that received \$63,000 of arts and sciences grant funds during FY 2008 submitted audited financial statements that reflected the wrong amount of County grant funds provided to the organization. Therefore, the organization's financial statements did not account for all County grant funds received.

We commented on this condition in our previous reports. The Department concurred with our December 2008 recommendation to require recipients to include sufficient detail in their audited financial statements to reflect the accountability of the County grant funds. However, as of June 15, 2009, the Department had not taken action to implement the recommendation.

To provide adequate assurance for the accountability of County arts and sciences grant funds, we again recommend that the Department require grant recipients to include sufficient detail in their annual reports to reflect the accountability of the grant funds in accordance with the grant agreements. For example, sufficient detail could be included in a footnote to audited financial statements or could be the subject of an attestation report prepared by an independent certified public accountant in conjunction with or in lieu of an audit of the financial statements.

3. One recipient of FY 2008 County arts and sciences grant funding ceased operations in the spring of 2009 and two recipients were at considerable risk of going out of business according to their audited financial statements.

During our review of the annual reports for recipients of FY 2008 grant funds and based on news reports, we noted that one recipient organization ceased operations in the spring of 2009 and two organizations were at considerable risk of going out of business as follows:

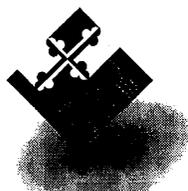
- Based on news reports, we noted that the Baltimore Opera Company, Inc., which received \$200,000 of FY 2008 County funding, filed for Chapter 11 bankruptcy-law protection in December 2008 and ceased operations in the spring of 2009. This organization is one of the seven that did not submit the required annual report for FY 2008. The FY 2007 financial statements that it submitted had raised concern about the organization's financial ability to continue operations. This organization received another \$200,000 in County grant funds during FY 2009; however, it received no award of grant funding for FY 2010.
- The financial statements as of and for the year ended June 30, 2008 of Maryland Zoological Society, Inc., which received \$750,000 of FY 2008 County funding, disclosed that the organization's operating costs significantly exceeded its operating revenues. The financial statements further disclosed that to remain operational, the organization significantly relied on public funding, primarily from the State of Maryland and Baltimore City, and stated that since these resources are subject to budgetary decisions and availability, public funding is not guaranteed and cannot be relied upon to meet future operational needs. In this regard, a September 15, 2009 article in *The Sun* reported that the Zoo increased certain ticket prices due to reduced contributions from State and local governments. The Zoo received \$900,000 of Baltimore County funding during FY 2009 and was awarded \$900,000 of County funding for FY 2010.
- The financial statements as of and for the year ended June 30, 2008 of The Handel Choir of Baltimore, Inc., which received \$15,000 of FY 2008 County funding, disclosed a projected financial loss by the end of FY 2009 and noted that the ability of the organization to continue operations is dependant upon the implementation and success of a strategic plan designed to decrease costs and increase revenues. The Handel Choir received \$15,000 of County funding during FY 2009 and was awarded \$15,000 of County funding for FY 2010.

It is important to consider an organization's risk of going out of business when allocating County funds for arts and sciences purposes. If an organization ceases operations, it is unable to fulfill the County's funding objectives of furthering artistic and cultural activities. This is especially true in light of the current economy.

With regard to the two organizations that are still operating but are at considerable risk of going out of business as noted above, we recommend that the Commission on Arts and Sciences take this issue into consideration in evaluating any FY 2011 funding requests from these organizations.

APPENDIX A

DEPARTMENT OF RECREATION AND PARKS' RESPONSE



BALTIMORE COUNTY
MARYLAND

JAMES T. SMITH, JR.
County Executive

ROBERT J. BARRETT, *Director*
Department of Recreation and Parks

INTER-OFFICE CORRESPONDENCE

TO: Mary P. Allen, County Auditor
Lauren M. Smelkinson, Director of Audits

FROM: Bob Barrett, Director 
Department of Recreation and Parks

SUBJECT: Arts & Sciences Grant Reporting – FY 2008

DATE: October 19, 2009

Thank you for the opportunity to respond to the issues identified by the Office of the Auditor during the course of performing the review of annual reports submitted by recipients of arts and sciences grants and endowments for FY 2008.

As evidenced in the enclosed response to the findings and recommendations of the review of the FY 2008 annual reports, the Department of Recreation and Parks is in agreement with the Office of the Auditor as to importance of ensuring the accountability of Baltimore County grant funds.

The Department is appreciative of your recommendations and would like to thank your audit staff for their efforts and assistance during the course of this review.

Enclosure

c: Peter O'Malley
Fred Homan
Donna Morrison

**BALTIMORE COUNTY DEPARTMENT OF RECREATION AND PARKS
COMMISSION ON ARTS AND SCIENCES
GRANT REPORTING – FISCAL YEAR 2008**

Finding #1: Of the 29 organizations that received County grant funds in excess of \$10,000 during FY 2008, 7 did not submit the required annual reports as of June 15, 2009 and 20 submitted reports after the 90-day reporting deadline.

Recommendation #1: To ensure the accountability of arts and sciences grant funds disbursed, we recommend that the Department pursue the receipt of the seven annual reports not submitted or require the organizations to repay the FY 2008 grant funds to the County. In addition, we recommend that the Department continue to withhold future grant funding from all organizations until receipt of the required annual reports.

Department Response

The department has continued to pursue the receipt of all outstanding annual reports. To date (October 19, 2009), we have received three of the seven annual reports that were referenced in the audit findings. The Department has received the annual reports from the Walters Art Museum, the Fire Museum of Maryland, and the Star Spangled Banner Museum & Flag House. These reports have been forwarded to the Office of the Auditor. The Department will continue to attempt to obtain the annual reports from the four remaining organizations, the Living Classroom Foundation, Camp Puh'Tok, Baltimore Opera Company and the Great Blacks in Wax Museum. The Living Classroom Foundation and Camp Puh'Tok have advised the Department that their annual reports will be completed by the end of October 2009. Both organizations have been advised that the failure to submit these reports will negatively impact any future grant awards. The Baltimore Opera Company filed for Chapter 11 bankruptcy-law protection in December 2008 and ceased operations in the spring of 2009. The Great Blacks in Wax Museum no longer receives grant funding from Baltimore County and they have not responded to our requests for their 2008 report.

The Department has continued the policy of withholding grant funds from organizations that have not submitted the required reports. This policy was enacted in Fiscal Year 2008.

Finding #2: The 22 annual reports that were received as of June 15, 2009 did not provide sufficient detail to determine accountability of the FY 2008 County grant funds.

Recommendation #2: To provide adequate assurance for the accountability of County arts and sciences grant funds; we again recommend that the Department require grant recipients to include sufficient detail in their annual reports to reflect the accountability of the grant funds in accordance with the grant agreements. For example, sufficient detail could be included in a footnote to audited financial statements or could be the subject of an attestation report prepared by an independent certified public accountant in conjunction with or in lieu of an audit of the financial statements.

Department Response

The Department agrees with the need for the grant recipients to provide sufficient detail to reflect the accountability of the use of County grant funds. The Department will continue to work with the County Administration, Office of Budget and Finance, and the grant recipients to attempt to identify the appropriate reporting mechanism so as to provide the required accounting of the use of County grant funds without placing undue hardships on the non-profit arts organizations. Additionally, we will continue our efforts to inform and educate the grant recipients as to the required reporting conditions of their grant.

Finding #3: One recipient of FY 2008 County arts and sciences grant funding ceased operations in the spring of 2009 and two recipients were at considerable risk of going out of business according to their audited financial statements.

Recommendation #3: With regard to the two organizations that are still operating but are at considerable risk of going out of business as noted above, we recommend that the Commission on Arts and Sciences take this issue into consideration in evaluating any FY 2011 funding requests from these organizations.

Department Response

The Commission on Arts and Sciences does consider the financial viability of the organizations requesting grant funding through their review of the grant applications. All applications are judged on artistic merit, service to Baltimore County, multicultural outreach, fiscal feasibility and the organization's ability to carry out their proposed activities. The Department will request that the Commission continue to use their established grant evaluation criteria and ensure that the financial viability of these organizations receive careful consideration.



PROJECT TEAM

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