

Special Report

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

Fiscal Year Ended June 30, 2011



Office of the County Auditor
Baltimore County, Maryland



BALTIMORE COUNTY, MARYLAND
OFFICE OF THE COUNTY AUDITOR

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April 18, 2012

Honorable Members of the County Council
Honorable Kevin Kamenetz, 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 grant funds for arts, sciences, and cultural enrichment during the fiscal year ended June 30, 2011. 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 grant agreement between the County and each recipient organization requires the annual report to be submitted no later than 150 days after the end of the organization's fiscal year. For FY 2011, funds totaling \$3,385,500 were disbursed to 33 organizations that received arts and sciences grant funds in excess of \$10,000. Due to the end dates of the grantees' fiscal years, all 33 organizations were required to submit audited financial statements or acceptable equivalents as of the end of our review on February 10, 2012. Additionally, three organizations that received in excess of \$10,000 of County arts and sciences grant funds totaling \$65,000 for the fiscal year ended June 30, 2010 were not required to submit their annual reports as of the end of our FY 2010 review (on February 18, 2011) and are included in this review.

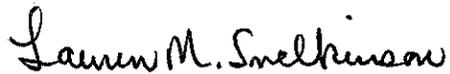
Our review disclosed that 7 of the 36 organizations did not submit the required annual reports. In addition, we noted that of the 29 reports submitted, 22 were received 5 to 280 days after the 150-day reporting deadline. We further noted that the 29 reports received contained insufficient detail to determine accountability of the County arts and sciences grant funds.

Due to a change in administrative responsibility for the arts and sciences grant awards process during FY 2011, the Department of Recreation and Parks disbursed the FY 2010 grant awards while the Department of Economic Development received the required annual reports supporting the FY 2010 grant awards and disbursed the FY 2011 grant awards. During FY 2011, a subsequent change in administrative responsibility transferred program support staffing to the Office of Communications, which received the required annual reports supporting the FY 2011 grant awards. A response to our findings from the Office of Communications is included as Appendix A to this report.

We wish to express our appreciation to the Office of Communications 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 on-line at "www.baltimorecountymd.gov/agencies/auditor" or by contacting the Office of the County Auditor, 400 Washington Avenue, Towson, Maryland 21204.

Respectively submitted,



Lauren M. Smelkinson, CPA
County Auditor

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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 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 150 days of the completion of the grantee's fiscal year and identify the County grant funds received.

For the fiscal year ended June 30, 2011, grant funds totaling \$3,385,500 were awarded to 33 organizations that received in excess of \$10,000 of County arts and sciences grants. Due to the end dates of the grantees' fiscal years, all 33 organizations were required to submit audited financial statements or acceptable equivalents as of the end of our review on February 10, 2012. Additionally, 3 organizations that received in excess of \$10,000 of County arts and sciences grant funds totaling \$65,000 for the fiscal year ended June 30, 2010 that were not required to submit their annual reports as of the end of our FY 2010 review (on February 18, 2011) are included in this review.

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

The responsibility for administering the arts and sciences grant funds was transferred from the Department of Recreation and Parks to the Department of Economic Development effective July 1, 2010. The Department of Recreation and Parks disbursed the FY 2010 grant awards. The Department of Economic Development received the required annual reports supporting the FY 2010 grant funds awarded and disbursed the FY 2011 grant awards. During FY 2011, a subsequent change in administrative

responsibility transferred program support staffing to the Office of Communications; the Office received the required annual reports supporting the FY 2011 grant funds awarded.

Findings and Recommendations

- 1. Of the 36 organizations that received County grant funds in excess of \$10,000 and were required to submit annual reports during our review period as of February 10, 2012, 7 did not submit the required annual reports. Of the 29 reports submitted, 22 were submitted after the 150-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 150 days of the completion of the organization's fiscal year.

Our review disclosed that of the 36 organizations that received County grant funds in excess of \$10,000 and were required to submit annual reports during our review period as of February 10, 2012, 7 organizations had not submitted the annual reports as required. Consequently, there was no accountability for the County grant funds totaling \$560,000 disbursed to these seven organizations.

Our review also disclosed that 22 reports were submitted 5 to 280 days after the 150-day deadline.

To ensure the accountability of arts and sciences grant funds disbursed, we recommend that the Office of Communications pursue the receipt of the seven annual reports not submitted or require the organizations to repay the grant funds to the County.

- 2. The 29 annual reports that were received as of February 10, 2012 did not provide sufficient detail to determine accountability of the 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 29 reports that were received as of February 10, 2012 provided

sufficient detail to reflect the accountability of the expenditure of County grant funds in accordance with the terms of the grant agreements.

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 2011 disclosed that the organization expended \$15,000 during the year for lobbying services provided by a board member. 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.

We commented on this condition in our previous reports. In its response to our reports, the Office of Communications and previously, the Department of Recreation and Parks, concurred with our recommendation to require recipients to include sufficient detail in their annual reports to reflect the accountability of the County grant funds. However, as of February 10, 2012, no action had been taken to implement the recommendation.

To provide adequate assurance for the accountability of County arts and sciences grant funds, we recommend that the Office of Communications 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.

APPENDIX A

OFFICE OF COMMUNICATIONS

RESPONSE



KEVIN KAMENETZ
County Executive

DONALD I. MOHLER III, *Director*
Office of Communications

TO: Lauren M. Smelkinson
Elizabeth J. Irwin
Scott M. Mitchell

FROM: Fronda J. Cohen, Director 
Baltimore County Commissioner on Arts & Sciences

SUBJECT: Arts & Sciences Special Report FY2011

DATE: April 6, 2012

Thank you for the opportunity to respond to 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 FY2011.

We appreciate your recommendations and thank your staff for their efforts and assistance during this review.

Enclosure

cc: Fred Homan
Donna Morrison
Don Mohler

**Department Response
Findings and Recommendations**

Finding 1

Of the 36 organizations that received County grant funds in excess of \$10,000 and were required to submit annual reports during our review period as of February 10, 2012, 7 did not submit the required annual reports. Of the 29 reports submitted, 22 were submitted after the 150-day reporting deadline.

Recommendation 1

To ensure the accountability of arts and sciences grant funds disbursed, we recommend that the Office of Communications pursue the receipt of the seven annual reports not submitted or require the organizations to repay the grant funds.

Department Response

Five of the seven audited financial statements have been received. One organization will receive their draft audited financial statement April 6, 2012, with release of the final statement to follow approval by their board of directors (anticipated by April 30). The remaining organization is on a calendar year budget and has notified the County that their statement will be completed and submitted in May.

Finding 2

The 29 annual reports that were received as of February 10, 2012 did not provide sufficient detail to determine accountability of the County grant funds.

Recommendation 2

To provide adequate assurance for the accountability of County arts and sciences grant funds, we recommend that the Office of Communications 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 the 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

In light of Section 10-1-108(b)(3), Baltimore County Code, recent examples of non-compliance with grant agreements by grantees associated with the Arts & Sciences Commission grant application process, and a recognition by the Office of Budget and Finance that receipt of "an annual audit by a certified public accountant or acceptable equivalent" would be in Baltimore County's best interests, the Office of Budget and Finance commits to further examine and implement procedures that will ensure statutory compliance and to assist the Office of Communications with said implementation. We are especially aware of the need to inform and educate grant recipients of the County's intent to enforce mandatory reporting.

PROJECT TEAM

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Audit Manager

Megan R. Dovell, CPA
Auditor