

**ANNE ARUNDEL COUNTY**  
**Annapolis, Maryland**  
**Auditor's Office**

**INTER-OFFICE CORRESPONDENCE**

To: Members of the County Council  
County Executive John Leopold

From: Teresa Sutherland, County Auditor *T. Sutherland*

Date: May 12, 2011

Subject: Executive Summary - Community Grants Audit

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COUNTY COUNCIL

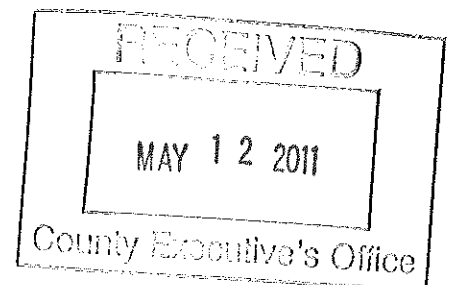
We recently conducted a performance audit of the community grants program in the County Executive's Office. We conducted our audit in accordance with generally accepted government auditing standards prescribed by the Comptroller General of the United States.

As a result of our audit work, we determined that:

- the County Executive's Office has established objective, written criteria for evaluating and awarding grants to not-for-profit organizations.
- the County Executive's Office does not apply all of the established criteria to determine which organizations would receive grants. The evaluation committee did not include all established criteria in its ratings, some applications were not reviewed, some applications were incomplete, and two grantees received grant awards when they never submitted formal grant applications.
- all grant agreements were not signed and executed by individuals authorized to execute the agreements on behalf of their organizations. The grant instructions specify who may execute an agreement on behalf of the grantee, and one of the 13 agreements was not executed in accordance with those instructions.
- the County Executive's Office did include compliance reporting requirements in the grant agreements.
- the County Executive's Office monitors compliance reporting, but their monitoring efforts could be enhanced.

Details of our findings, our recommendations, and management's response are found in our report dated May 12, 2011.

Please call if you have any questions on our audit.





**ANNE ARUNDEL COUNTY  
OFFICE OF THE COUNTY AUDITOR**

May 12, 2011

The Honorable Members of the County Council  
The Honorable County Executive John R. Leopold  
Anne Arundel County  
44 Calvert Street  
Annapolis, MD 21401

Dear Members and Mr. Leopold:

We conducted a performance audit of the community grants program in the County Executive's Office. We conducted our audit in accordance with generally accepted government auditing standards prescribed by the Comptroller General of the United States. Those standards require us to 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 we obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The objectives of the audit were to determine:

- whether the County Executive's Office established objective, written criteria for evaluating and awarding grants to not-for-profit organizations.
- whether the County Executive's Office applied the established criteria to determine which organizations would receive grants.
- whether the grant agreements were signed and executed by individuals authorized to execute the agreements on behalf of their organizations.
- whether the County Executive's Office included compliance reporting requirements in the grant agreements.
- whether the County Executive's Office adequately monitored compliance reporting.

To accomplish our objectives, we:

- met with the Assistant Chief Administrative Officer and the Community and Constituent Services staff in the County Executive's Office to document the procedures and internal controls over grant awards and monitoring;
- tested compliance with established procedures, internal controls, and grant requirements; and
- reviewed available accounting records and other applicable grant records.

This report is intended solely for the use of the County Council and the management of Anne Arundel County. Our findings and recommendation address controls in place and transactions that occurred during fiscal years 2009 and 2010. Management's responses to our recommendations are shown in italics.

This report is a public document that may be obtained from the Office of the County Auditor.

## BACKGROUND

The Community and Constituent Services (Community Services) division of the County Executive's Office manages the community grants program. Not-for-profit organizations that operate programs for county residents and are in good standing with the State of Maryland Department of Assessments and Taxation may apply for funding. During fiscal year 2009, the County awarded 37 grants totaling \$1.8 million, and in fiscal year 2010, the County awarded 35 grants totaling \$1.4 million.

## FINDINGS AND RECOMMENDATIONS

**Objective 1:** To determine whether the County Executive's Office established objective, written criteria for awarding grants to not-for-profit organizations.

We reviewed the County Executive Office's criteria for awarding grants to not-for-profit organizations. Grant proposals must demonstrate why the project should be funded, including the goals and objectives of the project, a work plan that lists grant-eligible procedures, and an evaluation that measures the outcomes of the project.

Based on our work, we conclude that the office has established formal objective, written criteria for awarding grants to not-for-profit organizations.

**Objective 2:** To determine whether the County Executive's Office applied the established criteria to determine which organizations would receive grants.

A committee comprising the Assistant Chief Administrative Officer and three staff members in Community Services evaluates each application based on some, but not all, of the established criteria and assigns a numerical score to each application. According to the Assistant Chief Administrative Officer, the score is used to determine whether an applicant is eligible for grant funds; awards are not recommended or made solely based on the numerical score. The committee recommends to the County Executive which organizations should receive grants and in what amounts, and the County Executive makes the final decision.

The County received 60 grant applications in 2009 and 50 in 2010, and 72 grants were awarded. We reviewed the evaluations for 23 applications. Thirteen were approved, and 10 were denied. For the applications we reviewed, we determined the following:

- The committee does not include all of the established criteria in its ratings. Specifically, the following criteria were not included:
  - the completeness of the application package, letters of support, experience, etc.
  - whether the grant proposal has reasonable plans for sustainability without depending on the County beyond the grant period
  - whether the grant proposal displays creative ways for helping people help themselves
  - whether the grant proposal represents a cooperative effort among the applicant, community, and other public/private partners
  - whether the grant proposal provides activities to help residents access services that sustain and enhance the quality of life
  - whether the work plan is innovative and provides sufficient access to necessary resources
- The committee never reviewed six applications, all of which were denied. The files did not contain adequate documentation to explain why the applications were denied or not evaluated.
- Nine of the 17 applications the committee evaluated were incomplete and did not include at least one of the following required documents:
  - documentation to substantiate that the applicant is an I.R.C. § 501(c)(3) not-for-profit entity;
  - an annual audited or reviewed financial statement;
  - the adopted budget for the prior year; or
  - the entity's by-laws.

- Two grantees never submitted formal grant applications. One received a \$5,000 grant in fiscal year 2009 and a \$5,000 grant in fiscal year 2010. The other received a \$20,000 grant in fiscal year 2010 based on a fiscal year 2009 application.

We also reviewed the numerical rankings the committee assigned to the 72 grantees who received awards in fiscal years 2009 and 2010. We noted that the committee generally recommended funding to those applicants with the highest scores. However, in both fiscal years 2009 and 2010, the committee recommended, and the County Executive approved, grants for two applicants whose scores were lower than other applicants' scores. Also, the committee did not assign a score to either of the two grants awarded in fiscal year 2010 that are discussed in the bullet immediately preceding this paragraph.

Management advised us that the numerical rankings are not the sole determinant of which grants they recommend for funding. Rather, the numerical rankings are used to determine whether an applicant qualifies to be considered for a grant. However, the committee has no policy setting a minimum qualifying score or defining the criteria other than the numerical rankings that will be used to determine who will receive grant funding, i.e., the circumstances under which a lower-ranked application would be recommended or funded over a higher-ranked one.

To improve the objectivity of the evaluation process, we recommend that the committee consider only those applications submitted formally on the required forms with all required documentation. The committee members should review both the application forms and the required documents, and their ratings should include all established criteria. We recommend that the committee evaluate all applications submitted, documenting both the committee's rankings and the reasons for their recommendations. Finally, if management intends to use criteria other than the numerical ranking to make their decisions, we recommend that management establish both a minimum qualifying score and a policy defining the criteria other than the numerical rankings that will be used to determine who will receive grant funding.

***Management's Responses:***

*The Committee will ensure that the required forms are prepared and submitted by all applicants in the future with all relevant documentation and that all applications will be reviewed. A minimum score will be established for consideration as to the awarding of grant funds. However, the Committee and the County Executive need the flexibility to award grant funds to organizations that best serve the community. Accordingly, the Committee will document the rationale for awarding grant funds to organizations that are ranked lower than other organizations that don't receive grant funding.*

**Objective 3: To determine whether the grant agreements were signed and executed by individuals authorized to execute the agreements on behalf of their organizations.**

The grant instructions require the board of directors to pass a resolution if someone other than the board president or vice-president is authorized to sign the grant agreement on behalf of the organization. Of the 13 applications approved for funding that we reviewed, one grant agreement was not properly signed by the president, vice-president, or someone authorized by the board of directors by resolution. This agreement was signed by the organization's chief operating officer who "self-certified" that she had the legal and organizational authority to sign on the organization's behalf.

Management asserts that the chief operating officer's "self-certification" is sufficient to ensure that the chief operating officer had the authority to enter into the agreement on behalf of the organization. We do not concur.

We recommend that the office adopt the same standards used by the Purchasing Office to determine who is authorized to sign and obtain the appropriate documentation to support that authorization.

***Management's Responses:***

*The grant agreements now include a certification by the grantee that the person executing the agreement has the*

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*legal and organizational authority to do so. Applicants will be provided with the grant guidelines as to who is authorized to execute the grant agreement.*

**Objective 4: To determine whether the County Executive's Office included compliance reporting requirements in the grant agreements.**

In our sample of the 13 grant applications that were approved for funding, we determined that the County Executive's Office did include compliance reporting requirements.

**Objective 5: To determine whether the County Executive's Office adequately monitors compliance with the terms of the grants.**

We determined that the County Executive's Office does monitor grant compliance by reviewing the grantees' submissions of interim and final reports that the grantees certify are accurate under penalties of perjury. However, we believe County Executive's Office could improve its monitoring of the grantees' compliance with the grant terms by implementing additional procedures.

#### **Unspent Funds**

We identified several grants for capital improvements that had unspent funds at the end of the grant term. The grant agreements require the grantees to return all unspent funds at the end of the grant period to the County. The grantees with unspent funds requested extensions to grant terms, and management granted the extensions via letters without executing formal amendments to the grant agreements.

We recommended that management require the grantees to return unspent funds at the end of the grant term unless a formal amendment to the grant agreement is executed. Management should identify objective criteria to apply in determining the circumstances under which they will grant an extension.

We also recommend that management consider changing its method of payment to grantees for capital improvements. For example, the County could pay the vendors directly after the grantee submits supporting documentation, or the grantee could be paid on a reimbursement basis after submitting copies of invoices. Both methods would allow management to better monitor that expenditures were for allowable purposes.

#### ***Management's Responses:***

*The Committee believes that the execution of a letter documents the approval to retain the unspent funds. The Law Office will be contacted to determine if the letter can be incorporated as addendum to the grant agreement. The Committee will identify the criteria for retaining funds and document this when granting an extension. The Committee believes that the payment method utilized for the capital improvements does not need to be modified in light of the small amount of funding.*

#### **Insurance Certificates**

The County Executive's Office requires minimum insurance coverage for all operating grants over \$15,000. Of the 13 applications approved for funding that we reviewed, we found seven for which there was insufficient documentation of the required insurance coverages. Of the seven:

- six did not have the required level of workers' compensation coverage specified in the grant agreements;
- one did not submit documentation of any workers' compensation coverage.
- four did not submit documentation of the required directors' and officers' liability coverage; and
- one recipient did not submit documentation of the required automobile liability coverage.

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Inadequate insurance coverage could expose the County to unnecessary risk. We recommend that management ensure that grantees obtain and document all required insurance coverage.

***Management's Responses:***

*The Committee will ensure that the adequate insurance coverage is obtained from all future grantees.*

**Conflict of Interest Policies**

The grant agreement requires recipients who receive grants greater than \$15,000 to maintain written policies and procedures that prohibit their officers and directors from conflicts of interest. Within ninety days of the execution of the grant agreement, the grantee must submit copies of the policies and procedures that prohibit any financial or business transactions between the grantee's officers and directors and the grantee.

Of the 13 applications approved for funding that we reviewed, 11 were for grants greater than \$15,000. We reviewed those 11 and determined that nine applicants did not submit the required policies and procedures. Further, we noted that one recipient's articles of incorporation specifically allow directors of the organization to have an interest in a contract or transaction with the grantee as long as they disclose it.

We recommend that management enforce the conflict of interest policy included in the grant agreements. Management should require grantees to submit their policies and procedures prohibiting transactions between the grantee and its officers and directors, and management should require the grantees to comply with the conflict of interest policy.

***Management's Responses:***

*The Committee will ensure that the grantees that receive in excess of \$15,000 submit its policies and procedures that prohibit their officers and directors from conflicts of interest and verify that documents prohibit any potential conflicts of interest.*

**Change in Grantee**

In fiscal year 2010, one organization that applied for a grant subsequently merged with a similar organization, and the County paid the grant funds to the new organization. Although the original organization had supplied many of the required documents, management did not require documentation from the new organization, such as proof of its I.R.C. § 501(c)(3) status.

We recommend that management ensure the appropriate documentation has been received from the grantee before disbursing grant funds.

***Management's Responses:***

*The Committee will ensure that all required documents are received from grantees prior to disbursing funds.*

**Grant Expenditure Documentation**

The County Executive's Office requires grantees to submit interim and final reports showing how they spent the grant funds. However, the office does not require the grantee to submit invoices or other documentation supporting the amounts they report, and management does not review supporting documentation of grant expenditures during the site visits.

We recommend that management enhance its oversight of grant activity by reviewing documentation that expenditures were for the purposes of the grant. This could be done through site visits or desk reviews. Such documentation might include invoices and audited or reviewed financial statements for the grant period.

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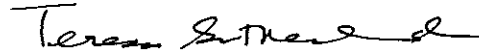
***Management's Responses:***

*The Committee will compare the final expenditure reports to the audited financial statements for organizations that receive continued funding to verify that funds were for the intended grant purposes.*

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We thank Erik Robey, Assistant Chief Administrative Officer, and his staff for their assistance and courteous cooperation. Please call if you have any questions regarding our findings and recommendations.

Sincerely,



Teresa Sutherland, CPA  
County Auditor