



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

August 14, 2013

The Honorable Members of the County Council
Ms. Laura Neuman, County Executive
Ms. Julie Mussog, Controller
Mr. John Hammond, Budget Officer
Anne Arundel County, Maryland
44 Calvert Street
Annapolis, Maryland 21404

Dear Members, Ms. Neuman, Ms. Mussog, and Mr. Hammond:

In accordance with Section 311 of the County Charter, I am calling to your attention and taking exception to the improper procedures noted in this letter.

When assisting the outside auditors by reconciling the original and final budget appropriations in the Grants Special Revenue Fund (Grants Fund) to the amounts reported in the Fiscal Year 2012 Comprehensive Annual Financial Report, it came to our attention that the Administration may not be complying with the requirements of § 4-11-114 regarding conditional appropriations in the Grants Fund. Consequently, we recently undertook a more comprehensive review of the conditional appropriations to determine whether management was complying with the Code requirements.

Our review was not conducted in accordance with generally accepted government auditing standards or standards issued by the American Institute of Certified Public Accountants and was more limited than would be necessary to express an opinion on the system of internal accounting control over conditional appropriations to the Grants Fund. Accordingly, we do not express an opinion or any other form of assurance on the system of internal accounting control over conditional appropriations to the Grants Fund.

This report, which includes management's response to our findings and recommendations, is intended solely for the use of the County Council and the management of Anne Arundel County. However, it is public information that may be obtained from the Office of the County Auditor.

Background and Criteria

Section 4-11-114(d) requires proposed and approved expenditures from the Grants Fund to be classified by agency and by individual grant in the Annual Budget and Appropriation Ordinance (ABAO). Under § 4-11-114(f), the Budget Officer may increase the appropriations in the Grants Fund for revenue not anticipated or in excess of that anticipated in the original budget without further action by the County Council if the conditions of § 4-11-114(e) are met. Under § 4-11-114(g), the Controller may then certify the availability of funds for expenditure under § 715 of the Charter if the conditions of §§ 4-11-114(e) and (f) are met.

The Office of Finance processed 93 grant certifications during fiscal year 2012, and management increased the appropriations in the Grants Fund by \$3.8 million for unanticipated revenue from these grants. We selected 15 grants totaling approximately \$2.1 million to determine whether management complied with the following criteria.

- § 4-11-114(e)(1): Revenue from a grant that is included in the ABAO but in excess of the amount anticipated for the grant and any required County matching funds are deemed appropriated if:
 - there is a grant award letter or other writing that confirms to the satisfaction of the Controller that the grant funds are available for expenditure, and
 - there are sufficient funds available in the Grants Fund for the payment of any required match.
- § 4-11-114(e)(2): Revenue from a grant that was not included in the ABAO and any required matching funds are deemed appropriated if:

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- the application for the grant has been approved by the County Council by a resolution that includes the estimated amount of the grant and any matching funds and identification of the County agency that will administer the grant expenditures and matching funds;
 - there is a grant award letter or other writing that confirms to the satisfaction of the Controller that the grants fund are available for expenditure; and
 - there are sufficient funds available in the Grants Fund for the payment of any required match.
- § 4-11-114(f): If the conditions of subsection (e) are satisfied, the Budget Officer shall amend the budget in the County's financial system to show the appropriation in the Grants Fund to the agency that will administer the expenditure of the grant and the matching funds, *provided* the Budget Officer sends a report to the Controller and to the County Auditor that describes the grant, the amount, the agency, and, if applicable, the resolution approved by the County Council.
 - § 4-11-114(g): If the provisions in subsection (e) are met *and* if the Controller has received the report the Budget Officer is required to provide under subsection (f), the Controller shall certify the funds are available for expenditure under § 715 of the Charter.

Findings

Our review of 15 grant certifications disclosed the following:

- The Administration treated a lease arrangement between the County and the Department of the Army under which the Army reimburses the County for certain operating and capital expenses related to Sarah's House as a grant. Because the County received these funds under a lease arrangement, not a grant agreement or award, we conclude the appropriations for this initiative should not have been included in the Grants Fund.

For the purposes of the remainder of our testwork, we included this lease arrangement as if it were a grant since the Administration included the appropriations in the Grants Fund.
- For all 15 grants, there was a grant award letter or other writing that satisfied the Controller that the grant funds were available for expenditure in accordance with §§ 4-11-114(e)(1)(i) or (e)(2)(ii).
- The Budget Office amended the budget for all 15 grants without sending the report required under § 4-11-114(f) to the Controller and the County Auditor. The Budget Office did provide a report to the Controller after the close of the fiscal year that summarized the grants for which appropriations were increased; however, the report did not describe the grants, the agencies administering the grants, or the resolution approved by the County Council, if applicable.
- Six of the 15 grants required the County Council's approval by resolution under § 4-11-114(e)(2)(1) because revenue from the individual grants was not included in the ABAO. However, management did not obtain the Council's approval by resolution for five of the six grants.
- Four of the 15 grants required the County to provide matching funds. Per the Office of Law, when a grant in the Grants Fund requires the County to provide matching funds, both the grant and the matching funds must be expended from the Grants Fund. We noted that the Administration paid the matching funds from the Grants Fund for only one of the four grants. For the other three grants, the Administration improperly paid the matching funds out of the General Fund.
- For all 15 grants the Controller improperly certified the availability of funds for expenditure under § 715 of the Charter prior to receiving the required report from the Budget Officer under § 4-11-114(f).
- For three of the 15 grants, the Controller certified the availability of funds for expenditure under § 715 of the Charter *after* the close of the fiscal year, but departments made payments or incurred obligations greater than \$2,500 before the Controller certified the funds. Section 715 of the Charter with § 8-2-106 of the County Code precludes a department from making a payment or incurring an obligation greater than \$2,500 without the Controller first certifying the funds are available for expenditures. For these three grants, we found:

- For one grant in the Fire Department, the Controller did not certify \$52,800 of funds were available for expenditure until August 8, 2012. However, management incurred \$52,800 of expenses in the General Fund on or before June 30 that they transferred to the Grants Fund on August 3, 2012, prior to the Controller's certification, with a retroactive post date of June 30, 2012.
- For one grant in the Health Department, the Controller certified the funds were available for expenditure on September 11, 2012. However, management incurred \$42,828 of expenditures from the Grants Fund on or before June 30, and management transferred \$5,010 of expenditures from the General Fund and another grant to this grant on July 3, 2012, prior to the Controller's certification, with a retroactive post date of June 30, 2012.
- For one grant in the Department of Public Works, Waste Management Division, the Controller certified the funds were available for expenditure on July 19, 2012. However, management incurred \$7,873 of expenditures in the Solid Waste Fund on or before June 30 that they transferred to the Grants Fund on August 1, 2012 with a retroactive post date of June 30, 2012.

Recommendations

We recommend that the Administration implement procedures to ensure compliance with the conditional appropriation provisions of § 4-11-114. Specifically:

- Section 4-11-114(d) requires proposed and approved expenditures from the Grants Fund to be classified by agency and by individual grant in the ABAO. Often individual grants are received from the same grantor for the same purposes, but for different grant periods. The Administration's practice is to include an amount identified by the "parent grant" in the ABAO while listing the individual "child grants" only in the Enterprise One system.

To ensure compliance with the requirements found in § 4-11-114(d) to classify proposed and approved expenditures by agency and individual grant, we recommend that the Administration identify each child grant in the ABAO. This also will allow for clearer identification of whether the provisions of § 4-11-114(e)(1) apply because an individual grant was included in the ABAO, or whether the provisions of § 4-1-114(e)(2) apply because the individual grant was not included in the ABAO.
- We recommend that the Budget Officer ensure that all provisions of § 4-11-114(e) have been satisfied before increasing appropriations in the Grants Fund for unanticipated grant revenue, including ensuring there are sufficient funds in the Grants Fund for the payment of any required match. We also recommend that the Budget Officer provide the report required by § 4-11-114(f) to the Controller and to the County Auditor when the Budget Office increases the appropriations in the Grants Fund.
- The Controller should certify the unanticipated grant revenues are available for expenditure *after* ensuring the requirements of § 4-11-114(e) have been met and *after* receiving the required report from the Budget Officer under § 4-11-114(f).
- The Controller should implement procedures to ensure departments do not make payments or incur obligation greater than \$2,500 prior to his certification of the availability of funds for expenditure under § 715 of the Charter. The internal controls in place to ensure compliance with § 715 of the Charter and § 8-2-106 of the County Code are significantly compromised if the Controller certifies the availability of funds for expenditure after the fiscal year has ended and if departments make payments or incur expenditures greater than \$2,500 in other funds and transfer those expenditures to the Grants Fund after the close of the fiscal year.
- Per the Office of Law, both the grant and the required matching funds are to be appropriated in and expended from the Grants Fund. Therefore, the Administration should ensure it does not expend the matching funds from the General Fund, and any appropriation to transfer funds from the General Fund to the Grants Fund to provide matching funds required by unanticipated grants should be appropriated in the Office of Finance's budget, not the budget of the department administering the grant.

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Management's Response

Management generally agrees with the findings in this report and agrees to review and change procedures and processes to better comply with § 715 of the Charter and § 4-11-114 of the Finance Article of the County Code. Management will solicit advice from the County Office of Law, where necessary to ensure this compliance.

The ABAO classifies grant appropriations by agency and by individual grant as required by Section 4-11-114(d). The "parent grant" in the ABAO represents each individual grant while the "child grant" represents each award in the financial system. This is similar to the way the Capital Budget appropriation is structured whereby individual capital projects are represented by the "parent project" (i.e., ending with "00") and specific jobs related to each project are represented by the "child projects" (i.e., ending with "##").

Management encourages departments to maximize their use of grant monies before spending County funds. After year-end, this has resulted in some occurrences noted by the County Auditor where departments determine that some expenses charged to the County's general fund in the previous year qualify for grant reimbursement, move the expenses to the grant fund, and request reimbursement with their final grant reimbursement request related to the previous fiscal year. Management agrees to end the practice of increasing grant appropriation limits after June 30 of each fiscal year to accommodate such expenses. However, Management would like to continue to maximize grant reimbursements and will seek legal advice and, if necessary, a change to the County Code to permit the transfer of such reimbursable expenses to the grant fund post-June 30.

AUDITOR'S COMMENTS ON MANAGEMENT'S RESPONSE

In the second paragraph of management's response, management attempts to differentiate between an "individual grant" and an "individual grant award." Essentially management asserts that individual grant awards are not individual grants for the purposes of complying with the requirements of § 4-11-114(d) to classify grants by individual grant in the ABAO.

Typically the County enters into an individual grant agreement for each grant awarded to the County. The grant agreement specifies the terms and conditions of that particular grant for a particular grant period. In my opinion, each separate grant agreement defines an individual grant, and if the County executes two separate grant agreements for a grant program, each with a different grant periods and possibly with different terms and conditions, each grant award is an individual grant.

Whether the two grant awards represent one individual grant or two individual grants determines what action is needed under the provisions of the County Code to increase appropriations in the Grants Fund without County Council approval if grant revenue exceeds the amount included in the ABAO for the "individual grant." Accordingly, I recommend that the Administration seek the advice from the Office of Law as to whether its interpretation complies with the provisions of §4-11-114(d).

I thank the Office of Finance and the Office of the Budget for their cooperation and assistance. Please call if you have any questions regarding our findings and recommendations.

Sincerely,



Teresa Sutherland, CPA
County Auditor