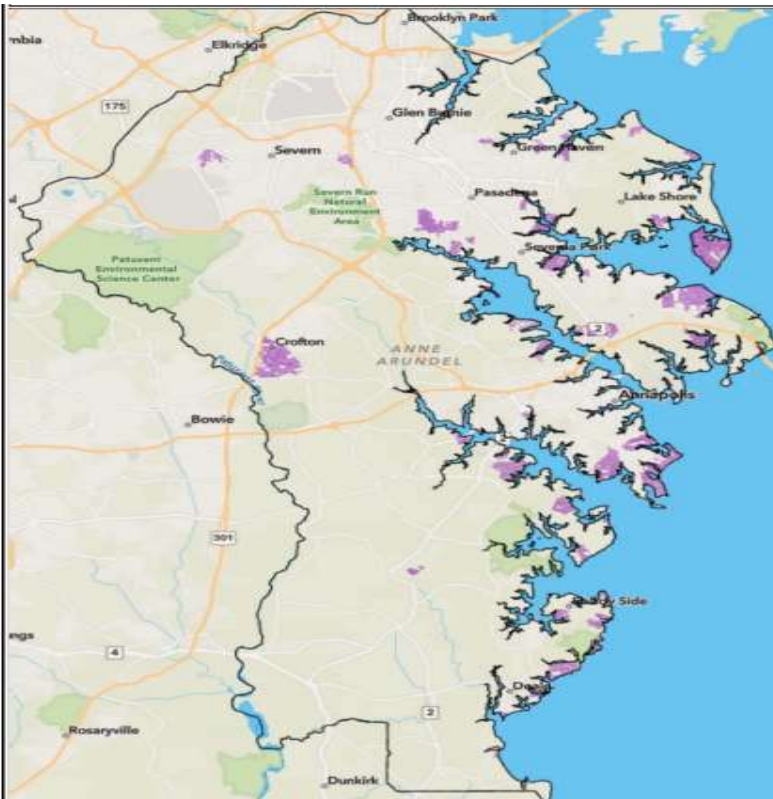




## Special Report

# Review of Special Community Benefit District Financial Reports for Fiscal Year Ending June 30, 2021

March 2022



Special community benefit districts (SCBDs) located in Anne Arundel County that received tax funds during the fiscal year or held tax funds from a prior fiscal year are required to file an annual financial report and an audit report, where applicable, with the County in accordance with state law. The Office of the County Auditor, on behalf of the County, reviews each SCBD's financial report for compliance with state law and provides these financial reports and the results of the review to the Maryland Legislative Auditor.

Our desk review of financial reports and audit reports for fiscal year ending June 30, 2021 (FY21) disclosed that certain SCBDs have not submitted their FY21 financial report as well as their prior fiscal year financial report or audit report, where required, and that several SCBDs submitted their FY21 financial

report after the required deadline. Certain other SCBDs also filed financial reports for prior fiscal years during FY21. In addition, our desk review identified several instances of other compliance issues, such as financial reports did not meet certain requirements of generally accepted accounting principles, total expenditures exceeded total budgeted appropriations, funds were spent on unallowable expenditures, and SCBD and non-SCBD funds were commingled.

## **Anne Arundel County Council**

Council Chair Lisa D. B. Rodvien  
Council Vice Chair Andrew Pruski  
Councilmember Amanda Fiedler  
Councilmember Jessica Haire  
Councilmember Sarah F. Lacey  
Councilmember Allison M. Pickard  
Councilmember Nathan Volke

## **Anne Arundel County Executive**

Steuart Pittman

The Office of the County Auditor was created by the Anne Arundel County Charter as an independent office reporting to the County Council to help establish accountability and improve County services. We conduct a desk review of SCBDs' annual financial reports and audit reports, where applicable, for compliance with the applicable provisions of state and County law, generally accepted accounting principles, and auditing standards.

This report is intended solely for the use of the County Council, Anne Arundel County Management, and the Maryland Legislative Auditor. We acknowledge the cooperation extended to us during the course of our review by the Office of Finance, Office of the Budget, and various civic or community associations that administer the SCBDs.

Copies of our SCBD reports are available at:

<https://www.aacounty.org/departments/auditor/special-community-districts/index.html>

## **To Obtain Further Information**

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Cover: "Map of Anne Arundel County with SCBDs (as of 2018) shown in purple by the Geocortex Geographic Information System provided by Anne Arundel County's Office of Information Technology."

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## Objective and Background

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As of June 30, 2021, there were 82 SCBDs in the County of which 70 SCBDs received funds collected by the County and were required to file a FY21 financial report (see Appendix A). Twenty-six of the 70 SCBDs were required to file an audit report with their FY21 financial report. During FY21, one SCBD (Timbers SCBD) was created and no existing SCBDs were dissolved.

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The Local Government Article, § 16-308 of the Annotated Code of Maryland requires the County to review each special community benefit district (SCBD) for compliance with the reporting requirements established by state law. This article further requires that each SCBD that receives funds collected by the County file a financial report with the County no later than 90 days after the close of the fiscal year. The financial report is to include a balance sheet, a statement of revenues, a statement of expenditures and encumbrances, and a statement of changes in fund balance. The County also requires accompanying notes to be provided for the financial report. SCBDs with annual expenditures exceeding \$250,000 are required to file audited financial statements while SCBDs with annual expenditures of less than \$250,000 require an audit every four years unless the County determines, on a case-by-case basis, that more frequent audits are required.

Anne Arundel County Code (Code) § 4-7-101(d) requires that the administration of each SCBD be conducted by a civic or community association that is an incorporated association and provides for membership for each property owner in the SCBD (except as otherwise provided for a particular SCBD).

In accordance with Section 311 of the Anne Arundel County Charter (Charter), we performed a desk review of the fiscal year 2021 (FY21) financial reports or audit reports as well as any overdue reports for prior fiscal year financial reports submitted by the SCBDs. Specifically, the desk review consisted of reviewing each financial report or audit report in order to determine if the SCBDs were in compliance with the applicable state and County law. This included:

- Identifying any instances of noncompliance with certain provisions of state law (for example, failure to file the financial report and/or audit report, where required, and untimely filing of the financial report).

- Identifying areas of other noncompliance (for example, not meeting certain requirements of generally accepted accounting principles, total expenditures exceeding total budgeted appropriations, and spending funds on unallowable expenditures).

At the conclusion of our desk review, we communicated to the applicable SCBDs notifying them of certain deficiencies disclosed during the review and certain noncompliance with state law so that corrective actions can be taken to help ensure future compliance. We will continue to monitor and communicate other deficiencies that have been identified with certain SCBDs.

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# Results of Desk Review

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## Summary

Our desk review disclosed that certain SCBDs have not submitted their FY21 financial report as well as their prior fiscal year financial report or audit report, where required, and that several SCBDs submitted their FY21 financial report after the required deadline. Certain other SCBDs also filed financial reports for prior fiscal years during FY21. In addition, our desk review identified several instances of other compliance issues, such as financial reports did not meet certain requirements of generally accepted accounting principles, total expenditures exceeded total budgeted appropriations, funds were spent on unallowable expenditures, and SCBD and non-SCBD funds were commingled.

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## Finding 1

A number of SCBDs had not filed the required financial reports or had filed the reports after the required filing date.

As of December 2021, 6 of the 70 SCBDs who received funds collected by the County had not submitted their FY21 financial report as required by the Local Government Article of the Annotated Code of Maryland. Also, 2 of these 6 SCBDs had not filed prior fiscal year financial reports, as required. Specifically, we noted the following overdue financial reports:

SCBD	Fiscal Year(s) Outstanding
Franklin Manor	2021
Landhaven	2011*, 2012, 2013, 2014, 2015*, 2016, 2017, 2018, 2019*, 2020, 2021
Queens Park	2021
South River Heights	2018, 2019*, 2020, 2021
Stone Haven	2021
Warthen Knolls	2021

\*Audited financial report required.

In addition, 16 of the 64 SCBDs that submitted FY21 financial reports were submitted after the state mandated filing date. The number of days for late submission ranged from 1 to 70 days after the required filing date. Specifically, we noted the following:

SCBD	Date FY21 Financial Report filed	Number of day(s) late
Loch Haven	12/07/2021	70
Sylvan View on the Magothy	11/20/2021	53
Bayside Beach	11/18/2021	51
Chartwell	10/28/2021	30
Woodland Beach (Pasadena)	10/25/2021	27
Annapolis Roads	10/21/2021	23
Capetowne	10/20/2021	22
Beverly Beach	10/12/2021	14
Epping Forest	10/04/2021	6
Idlewilde	10/04/2021	6
Heritage	09/30/2021	2
Oyster Harbor	09/30/2021	2
Severn Grove	09/30/2021	2
Bay Highlands	09/29/2021	1
Columbia Beach	09/29/2021	1
Owings Beach	09/29/2021	1

Furthermore, four SCBDs filed prior fiscal year financial reports during calendar year 2021. Beverly Beach SCBD submitted fiscal year 2018 (FY18), fiscal year 2019 (FY19), and fiscal year 2020 (FY20) financial

reports while Avalon Shores, Bayside Beach, and Capetowne SCBDs submitted FY20 financial reports.

The Local Government Article, § 16-308 of the Annotated Code of Maryland requires financial reports to be filed with the appropriate County officials no later than 90 days after the close of the fiscal year. State law does not provide any extension to this deadline. The failure of a SCBD to file a financial report or audit report, or a delay in filing, results in the lack of timely accountability to its members of the SCBD. We are in the process of pursuing compliance with the applicable filing requirement for these SCBDs and appropriate follow-up action is being taken. An example of this action is withholding payment of additional funds.

## Finding 2

Thirty-three SCBDs submitted financial reports with compliance deficiencies.

Our desk review disclosed that 33 of the 70 submitted financial reports had compliance deficiencies. Specifically, 70 SCBDs received funds collected by the County and were required to file a FY21 financial report. The 70 submitted financial reports consisted of 64 financial reports filed for FY21 and 6 financial reports filed for prior fiscal years (1 for FY18, 1 for FY19, and 4 for FY20) as noted in Finding 1. The following provides a summary of the deficiencies noted and the corresponding number of reports:

<b>Deficiencies Noted in Financial Reports Submitted by SCBDs</b>	<b>Number of Financial Reports*</b>
Certain requirements of generally accepted accounting principles were not met	33
Total expenditures exceeded total budgeted appropriations	3
Unallowable expenditures	1
Funds were commingled with community association funds	1

\* See Appendix B for a detailed listing of the SCBDs in which these deficiencies were noted.

Specifically, 33 financial reports from 33 different SCBDs, consisting of 31 reports for FY21 and 2 reports from prior fiscal years, did not meet certain requirements of generally accepted accounting principles. The deficiencies identified included certain amounts reported on more than one financial document (e.g., the financial report, the Office of Finance statement, and the Budget Request form) did not reconcile. For instance, the beginning fund balance noted in the FY21 financial report did not agree with the ending fund balance of the FY20 financial report, mathematical errors were identified in the report (e.g., the total revenue over expenditure amount was calculated incorrectly), and presentation issues in the report (e.g., the financial report not including required items, such as the variance between budgeted and actual expenditures).

Also, three SCBDs' financial reports disclosed that funds were expended in excess of their budgeted appropriation. Specifically, two SCBDs (Birchwood and Pine Grove Village SCBDs) in FY21 and one SCBD (Beverly Beach SCBD) in FY18 expended funds in excess of their budgeted appropriation by approximately \$9,600. According to the financial report, the Birchwood SCBD overspent its budget by \$626 due to a missed landscaping bill for FY20 that was subsequently



paid in FY21, while the Pine Grove Village SCBD did not disclose the reason for exceeding their budgeted appropriation by \$7,421 in their financial report. The Beverly Beach SCBD exceeded their budgeted appropriation by \$1,542 due to making additional loan payments in excess of the normal monthly payment to pay off the loan quicker. We brought this information to the Office of the Budget's attention as the budgetary management unit of the County.

In addition, one SCBD (Kensington SCBD) expended approximately \$2,700 of SCBD funds in FY21 on certain legal expenses which was determined to be an unallowable expenditure by the County's Office of Law. The SCBD has agreed to repay the unallowable expenditures to the SCBD account by the end of FY22, which we deemed reasonable.

Furthermore, one SCBD (Bayside Beach SCBD) commingled SCBD and non-SCBD (community association) funds during FY20 by depositing \$1,152 into the SCBD account instead of into the association funds. A note was included in the financial report disclosing the commingled funds, however a corrective action plan was not required because there are no funds due to the SCBD.

During our desk review, we contacted certain SCBDs in which deficiencies were noted and required their financial reports to be corrected and resubmitted for review prior to releasing funds.

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## Finding 3

Unallowable legal expenses dating back to 2016 for the Columbia Beach SCBD has not been reimbursed, resulting in the County withholding the SCBD's funds until a reasonable corrective action plan is submitted.

Our review of the FY21 financial reports submitted disclosed that the Columbia Beach SCBD had unallowable legal expenses dating back to fiscal year 2016 that has not been reimbursed as of February 28, 2022, resulting in the County withholding the SCBD's funds. Specifically, legal fees totaling \$3,338 paid from the SCBD funds were deemed to be unallowable expenses because they were not for an allowable purpose of the SCBD. Therefore, the SCBD was informed by the Office of the County Auditor that these unallowable expenses must be reimbursed and a note is required in the financial report to explain the situation and provide a corrective action plan. Although the SCBD disagreed with this determination, the SCBD included a note in subsequent submitted financial reports reviewed by our office, however, the note indicated that the SCBD had no intention to reimburse the funds. This response did not satisfy the requirement to include a corrective action plan. Consequently, until the unallowable legal expenses are reimbursed or a reasonable corrective action plan is included in a resubmission of the FY21 financial report, the County Auditor will continue to direct the Office of Finance to withhold the SCBD's funds.

Our office worked with the Office of Law to confirm that these unallowable expenses must be reimbursed and that it is appropriate to withhold the SCBD's funds until the expenses are reimbursed or a corrective action plan is established.

# Appendix A

## List of all SCBDs in Anne Arundel County (as of June 30, 2021)

Note: As of February 28, 2022, this list is still current.

Required to file financial reports		Not required to file financial reports
1 – Amberley	36 – Long Point on the Severn	1 – Bay Ridge
2 – Annapolis Roads	37 – Magothy Beach	2 – Broadwater Creek
3 – Arundel-on-the-Bay	38 – Magothy Forge	3 – Fair Haven Cliffs
4 – Avalon Shores	39 – Manhattan Beach	4 – Herald Harbor
5 – Bay Highlands	40 – Mason Beach	5 – Mayo
6 – Bayside Beach	41 – North Beach Park	6 – Mil-Bur
7 – Beverly Beach	42 – Owings Beach	7 – Scheides Cove
8 – Birchwood	43 – Owings Cliffs	8 – Southgate
9 – Bittersweet	44 – Oyster Harbor	9 – Steedman Point
10 – Cape Anne	45 – Parke West	10 – Tanglewood Lane
11 – Cape St. Claire	46 – Pine Grove Village	11 – Timbers
12 – Capetowne	47 – Pines on the Severn	12 – Wetheridge Estates
13 – Carrollton Manor	48 – The Provinces	
14 – Cedarhurst-on-the-Bay	49 – Queens Park	
15 – Chartwell	50 – Rockview Beach/ Riviera Isles	
16 – Columbia Beach	51 – Selby on the Bay	
17 – Crofton	52 – Severn Grove	
18 – Deale Beach	53 – Severna Forest	
19 – Eden Wood	54 – Severndale	
20 – Epping Forest	55 – Sherwood Forest	
21 – Felicity Cove	56 – Shoreham Beach	
22 – Franklin Manor	57 – Snug Harbor	
23 – Gibson Island	58 – South River Heights	
24 – Greenbriar II	59 – South River Manor	
25 – Greenbriar Gardens	60 – South River Park	
26 – Heritage	61 – Stone Haven	
27 – Hillsmere Estates	62 – Sylvan Shores	
28 – Homewood Community Association	63 – Sylvan View on the Magothy	
29 – Hunter’s Harbor	64 – Upper Magothy Beach	
30 – Idlewilde	65 – Venice Beach	
31 – Indian Hills	66 – Venice on the Bay	
32 – Kensington	67 – Warthen Knolls	
33 – Landhaven	68 – Wilelinor	
34 – Little Magothy River	69 – Woodland Beach	
35 – Loch Haven	70 – Woodland Beach (Pasadena)	

# Appendix B

## Finding 2 – Deficiencies Noted in Financial Reports Submitted by SCBDs

Deficiencies Noted in Submitted Financial Reports	Count	SCBDs	Fiscal Year (FY)
Certain requirements of generally accepted accounting principles were not met	1	Amberley	FY21
	2	Avalon Shores	FY21
	3	Bayside Beach	FY21
	4	Birchwood	FY21
	5	Cape Anne	FY21
	6	Carrollton Manor	FY21
	7	Cedarhurst-on-the-Bay	FY21
	8	Chartwell	FY21
	9	Columbia Beach	FY21
	10	Deale Beach	FY21
	11	Eden Wood	FY21
	12	Epping Forest	FY21
	13	Fair Haven Cliffs	FY21
	14	Greenbriar II	FY21
	15	Greenbriar Gardens	FY21
	16	Hillsmere Estates	FY21
	17	Hunter's Harbor	FY21
	18	Indian Hills	FY21
	19	Kensington	FY21
	20	Loch Haven	FY21
	21	Magothy Forge	FY21
	22	Manhattan Beach	FY21
	23	Mason Beach	FY21
	24	Oyster Harbor	FY21
	25	Parke West	FY21
	26	Selby on the Bay	FY21
	27	Severna Forest	FY21
	28	Severndale	FY21
	29	Sherwood Forest	FY21
	30	South River Manor	FY21
	31	Wilelinor	FY21
	32	Capetowne	FY20 (Prior FY)
	33	Beverly Beach	FY19 (Prior FY)
Total expenditures exceeded total budgeted appropriations	1	Birchwood	FY21
	2	Pine Grove Village	FY21
	3	Beverly Beach	FY18 (Prior FY)
Unallowable expenditures	1	Kensington	FY21
Funds were commingled with association funds	1	Bayside Beach	FY20 (Prior FY)

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## Methodology

To complete this compliance review, we took the following steps:

- Conducted background research and reviewed applicable state and County codes, policies, and procedures.
- Logged financial reports submitted by the SCBDs in our records.
- Consulted with the Office of Law regarding legal matters pertaining to the SCBDs, where applicable.
- Performed a financial report desk review by reviewing the information in the FY21 financial report and prior fiscal year report submissions along with the Office of Finance statement; approved Budget Request form; prior fiscal year approved financial report; FY21 audit report, where applicable; and expense records of the SCBDs, where applicable.
- Communicated with the SCBDs to inform them of the issues noted, to make corrections, and file revised financial reports, where applicable.
- Provided scheduled reports to the Office of Finance of the SCBDs in compliance with state law and therefore cleared for their applicable funds to be disbursed, and those that are not in compliance and continue to require a withholding of funds.

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## Review Standards

The Office of the County Auditor performed this review in accordance with the financial reporting and audit requirements set forth in the Annotated Code of Maryland, Local Government Article § 16-308, Charter and Code, generally accepted accounting principles, and auditing standards.

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