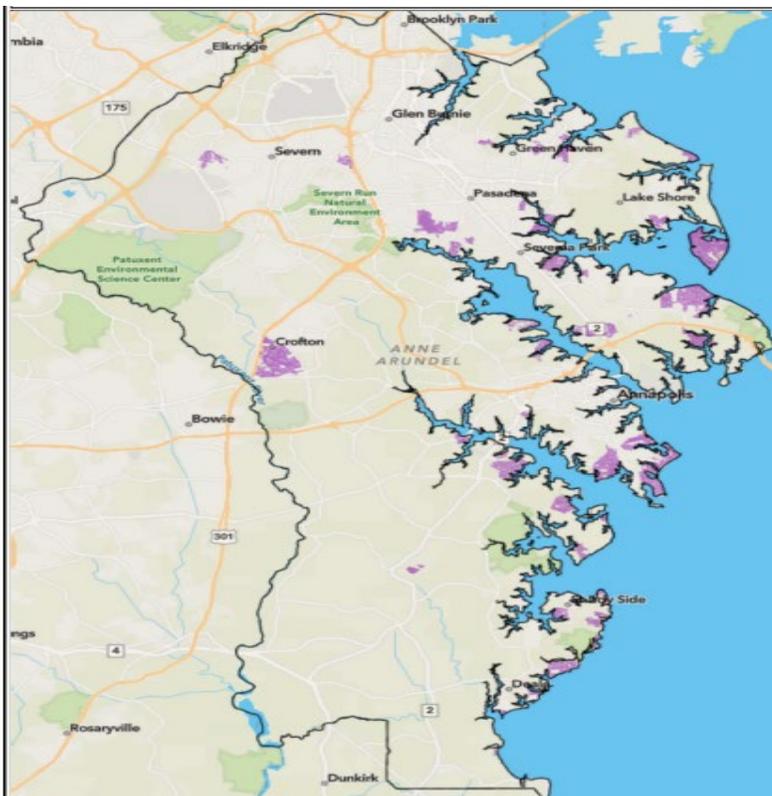




## Special Report

# Review of Special Community Benefit District Financial Reports for Fiscal Year Ending June 30, 2022

February 2023



Civic and community associations (Associations) located in Anne Arundel County that received special community benefit district (SCBD) tax funds during the fiscal year or held tax funds from a prior fiscal year are required to file an annual SCBD 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 Associations' SCBD 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, 2022 (FY22) disclosed that certain Associations have not submitted their FY22 SCBD financial report as well as their prior fiscal year SCBD financial

report or audit report, where required, and that several Associations submitted their FY22 SCBD financial report after the required deadline. Certain other Associations also filed SCBD financial reports for prior fiscal years during calendar year 2022. In addition, our desk review identified several instances of other compliance issues, such as financial reports did not meet certain requirements of the County and state laws and regulations, expenditures reported without having a budgeted appropriation, and funds were spent on unallowable expenditures.

## **Anne Arundel County Council**

Council Chair Peter Smith  
Council Vice Chair Allison M. Pickard  
Councilmember Amanda Fiedler  
Councilmember Julie Hummer  
Councilmember Shannon Leadbetter  
Councilmember Lisa D. B. Rodvien  
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 Associations' annual SCBD financial reports and audit reports, where applicable, for compliance with the applicable provisions of County and state laws and regulations 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 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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# Contents

Objective and Background	1
Prior Finding Status	2
Results of Desk Review	3
Appendix A – List of SCBDs	8
Appendix B – Deficiencies by SCBDs for Finding 2	9
Appendix C – Prior Finding Status	10
Methodology and Review Standards	11

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, 2022, there were 72 SCBDs in the County whose related Associations were required to file a FY22 SCBD financial report. Twenty-one of the 72 Associations were required to file an SCBD audit report with their FY22 SCBD financial report. During FY22, Hollywood on the Severn SCBD was created and no existing SCBDs were dissolved.

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The Local Government Article, Section 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 civic or community association (Association) that receives funds collected by the County file a SCBD 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) Section 4-7-101(d) requires that the administration of each SCBD be conducted by an 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 2022 (FY22) financial reports or audit reports as well as any overdue reports for prior fiscal year financial reports submitted by the Associations. Specifically, the desk review consisted of reviewing each SCBD financial report and audit report, where applicable, in order to determine if the Associations were in compliance with the applicable County and state laws and regulations. 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 the County and state laws and regulations, total expenditures exceeding total budgeted appropriations, and spending funds on unallowable expenditures).

At the conclusion of our desk review, we communicated to the applicable Associations 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 Associations.

## Prior Finding Status

Our desk review included a review to determine the status of the three findings contained in our prior special report dated March 2022, as detailed in the chart below. Certain Associations have had prior findings 1 and 2 repeated in this report, as detailed in Appendix C. Prior finding 3 was satisfactorily addressed.

**Status of Prior Findings**

<b>Prior Finding</b>	<b>Finding Description</b>	<b>Current Status</b>
Finding 1	A number of Associations had not filed the required SCBD financial reports or had filed the reports after the required filing date.	See Appendix C
Finding 2	Thirty-three Associations submitted SCBD financial reports with compliance deficiencies.	See Appendix C
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.	Not Repeated

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## Results of Desk Review

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### Summary

Our desk review disclosed that certain Associations have not submitted their FY22 SCBD financial report as well as their prior fiscal year SCBD financial report or audit report, where required, and that several Associations submitted their FY22 SCBD financial report after the required deadline. Certain other Associations also filed SCBD financial reports for prior fiscal years during calendar year 2022. In addition, our desk review identified several instances of other compliance issues, such as financial reports did not meet certain requirements of the County and state laws and regulations, expenditures reported without having a budgeted appropriation, and funds were spent on unallowable expenditures.

## Finding 1

Seventeen Associations had not filed the required SCBD financial reports or had filed the reports after the required filing date.

As of December 2022, 3 of the 72 Associations had not submitted their FY22 SCBD financial report as required by the Local Government Article of the Annotated Code of Maryland. Specifically, we noted the following overdue SCBD financial reports:

<b>SCBD</b>	<b>Fiscal Year(s) Outstanding</b>
Chartwell	2022
Landhaven	2011 through 2022
South River Heights	2018 through 2022

The County currently holds a total of \$28,734 for Landhaven (\$6,158) and South River Heights (\$22,576) SCBDs, which funds were collected by the County for purposes established in Code. These SCBDs are not in good standing with the County as the Associations failed to submit the required SCBD financial reports and audit reports for the specific fiscal years noted above, as required by state law. Consequently, Landhaven Community Association, Inc. and South River Heights Residents Association, Inc. cannot access the SCBD funds to be utilized for the intended purposes until all outstanding requirements are resolved.

In addition, 10 of the 69 Associations that submitted FY22 SCBD financial reports were submitted after the state mandated filing date. The number of days for late submission ranged from 1 to 33 days after the required filing date. Specifically, we noted the following:

<b>SCBD</b>	<b>Date FY22 Financial Report Filed</b>	<b>Number of Day(s) Late</b>
Carrollton Manor	10/31/2022	33
Mason Beach	10/24/2022	26
Manhattan Beach	10/19/2022	21
Loch Haven	10/13/2022	15
Annapolis Roads	10/11/2022	13
Sylvan View on the Magothy	10/02/2022	4
Beverly Beach	10/01/2022	3
Capetowne	09/30/2022	2
Timbers	09/30/2022	2
Severndale	09/29/2022	1

Furthermore, four Associations filed prior fiscal year SCBD financial reports during calendar year 2022. Franklin Manor, Queens Park, Stone Haven, and Warthen Knolls SCBDs' Associations submitted FY21 SCBD financial reports. All SCBD financial reports submitted as of December 31, 2022 were accepted.

The Local Government Article, Section 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 an Association to file a SCBD financial report or audit report, or a delay in filing, results in the lack of timely accountability to its property owners. We are in the process of pursuing compliance with the applicable filing requirement for these Associations and appropriate follow-up action is being taken. An example of this action is withholding payment of additional funds.

## Finding 2

Thirty Associations submitted SCBD financial reports with compliance deficiencies.

Our desk review disclosed that 30 of the 73 submitted SCBD financial reports had compliance deficiencies. The 73 submitted SCBD financial reports consisted of 69 SCBD financial reports filed for FY22 and 4 SCBD financial reports filed for FY21 as noted in Finding 1. The following provides a summary of the deficiencies noted and the corresponding number of reports:

<b>Deficiencies Noted in the SCBD Financial Reports Submitted by the Associations</b>	<b>Number of Financial Reports*</b>
Certain requirements of the County and state laws and regulations were not met	28
Expenditures reported without having a budgeted appropriation	1
Unallowable expenditures	2

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

Specifically, 28 SCBD financial reports filed for FY22 did not meet certain requirements of the County and state laws and regulations. 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 FY22 SCBD financial report did not agree with the ending fund balance of the FY21 SCBD financial report, mathematical errors were identified in the report (e.g., the loan obligation notes were not always properly calculated to present the correct outstanding loan balance), and presentation issues in the report (e.g., the SCBD financial report not including required items, such as the signatures of the audit committee members or approval of the audit committee).

Also, one SCBD financial report disclosed that funds were expended without a budgeted appropriation for FY22. Specifically, Stone Haven Improvement Association, Inc. expended SCBD funds without having a budget formally approved by the Office of the Budget and the County Council, as required. According to the SCBD financial report, Stone Haven Improvement Association, Inc. expended \$2,286 related to purposes established for the SCBD. We brought this information to the Office of the Budget's attention as the budgetary management unit of the County.

In addition, two Association's SCBD financial reports disclosed unallowable expenditures. Specifically, the Property Owners Association of Arundel-on-the-Bay, Inc. expended \$850 of SCBD funds in FY22 on accounting fees for preparation of two years of personal property tax returns which was determined to be an unallowable expenditure by the County's Office of Law. The Association of the SCBD repaid the unallowable expenditure to the SCBD account on September 23, 2022, which we deemed reasonable. Also, the Columbia Beach Citizens Improvement Association, Inc. (CBCIA) expended \$3,338 of SCBD funds in fiscal year 2016 on legal fees, which was determined to be an unallowable expenditure by the County's Office of Law. The CBCIA provided a corrective action plan in response to the unallowable expenditure, which was commented upon in our prior FY21 SCBD report (Finding 3). In accordance with the CBCIA's remediation plan, the CBCIA has been repaying the unallowable expenditure to the SCBD account through annual gate key rental fees collected (non-SCBD revenue) and should be paid in full by fiscal year 2023, which we deemed reasonable.

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

# Appendix A

## List of all SCBDs in Anne Arundel County (as of June 30, 2022)

Note: As of December 31, 2022, this list is still current.

Required to File Financial Reports		Not Required to File Financial Reports
1 – Amberley	37 – Magothy Beach	1 – Bay Ridge
2 – Annapolis Roads	38 – Magothy Forge	2 – Broadwater Creek
3 – Arundel-on-the-Bay	39 – Manhattan Beach	3 – Fair Haven Cliffs
4 – Avalon Shores	40 – Mason Beach	4 – Herald Harbor
5 – Bay Highlands	41 – Mil-Bur	5 – Hollywood on the Severn
6 – Bayside Beach	42 – North Beach Park	6 – Mayo
7 – Beverly Beach	43 – Owings Beach	7 – Scheides Cove Community Association
8 – Birchwood	44 – Owings Cliffs	8 – Southgate
9 – Bittersweet	45 – Oyster Harbor	9 – Steedman Point
10 – Cape Anne	46 – Parke West	10 – Tanglewood Lane
11 – Cape St. Claire	47 – Pine Grove Village	11 – Wetheridge Estates
12 – Capetowne	48 – Pines on the Severn	
13 – Carrollton Manor	49 – The Provinces	
14 – Cedarhurst-on-the-Bay	50 – Queens Park	
15 – Chartwell	51 – Rockview Beach/Riviera Isles	
16 – Columbia Beach	52 – Selby on the Bay	
17 – Crofton	53 – Severn Grove	
18 – Deale Beach	54 – Severna Forest	
19 – Eden Wood	55 – Severndale	
20 – Epping Forest	56 – Sherwood Forest	
21 – Felicity Cove	57 – Shoreham Beach	
22 – Franklin Manor	58 – Snug Harbor	
23 – Gibson Island	59 – South River Heights	
24 – Greenbriar II	60 – South River Manor	
25 – Greenbriar Gardens	61 – South River Park	
26 – Heritage	62 – Stone Haven	
27 – Hillsmere Estates	63 – Sylvan Shores	
28 – Homewood Community Association	64 – Sylvan View on the Magothy	
29 – Hunter’s Harbor	65 – Timbers	
30 – Idlewilde	66 – Upper Magothy Beach	
31 – Indian Hills	67 – Venice Beach	
32 – Kensington	68 – Venice on the Bay	
33 – Landhaven	69 – Warthen Knolls	
34 – Little Magothy River	70 – Wilelinor	
35 – Loch Haven	71 – Woodland Beach	
36 – Long Point on the Severn	72 – Woodland Beach (Pasadena)	

## Appendix B

### Finding 2 – Deficiencies Noted in the SCBD Financial Reports Submitted by the Associations

Deficiencies Noted in Submitted Financial Reports	Count	SCBDs	Fiscal Year (FY)
Certain requirements of the County and state laws and regulations were not met	1	Amberley	FY22
	2	Bayside Beach	FY22
	3	Beverly Beach	FY22
	4	Birchwood	FY22
	5	Cape Anne	FY22
	6	Carrollton Manor	FY22
	7	Cedarhurst-on-the-Bay	FY22
	8	Columbia Beach	FY22
	9	Eden Wood	FY22
	10	Franklin Manor	FY22
	11	Greenbriar II	FY22
	12	Greenbriar Gardens	FY22
	13	Heritage	FY22
	14	Homewood Community Association	FY22
	15	Idlewilde	FY22
	16	Loch Haven	FY22
	17	Long Point on the Severn	FY22
	18	Magothy Forge	FY22
	19	Mason Beach	FY22
	20	Mil-Bur	FY22
	21	North Beach Park	FY22
	22	Oyster Harbor	FY22
	23	Severn Grove	FY22
	24	Severna Forest	FY22
	25	Severndale	FY22
	26	Sherwood Forest	FY22
	27	South River Manor	FY22
	28	Venice on the Bay	FY22
Expenditures reported without having a budgeted appropriation	1	Stone Haven	FY22
Unallowable expenditures	1	Arundel-on-the-Bay	FY22
	2	Columbia Beach	FY22

# Appendix C

## Status of Prior Findings – Repeat of Findings 1 and 2

*Finding 1 – A number of Associations had not filed the required SCBD financial reports or had filed the reports after the required filing date.*

Deficiency	Count	SCBD	Outstanding Fiscal Year(s)
<b>Non-Filers</b>	1	Landhaven	2011 through 2022
	2	South River Heights	2018 through 2022
<b>Late Filers</b>	1	Annapolis Roads	Not Applicable
	2	Beverly Beach	Not Applicable
	3	Capetowne	Not Applicable
	4	Loch Haven	Not Applicable
	5	Sylvan View on the Magothy	Not Applicable

*Finding 2 – Thirty-three Associations submitted SCBD financial reports with compliance deficiencies.*

<b>Deficiencies Noted in the Submission of the Financial and Audit Reports</b>	Count	SCBD
	1	Amberley
	2	Bayside Beach
	3	Beverly Beach
	4	Birchwood
	5	Cape Anne
	6	Carrollton Manor
	7	Cedarhurst-on-the-Bay
	8	Columbia Beach
	9	Eden Wood
	10	Greenbriar II
	11	Greenbriar Gardens
	12	Loch Haven
	13	Magothy Forge
	14	Mason Beach
	15	Oyster Harbor
	16	Severna Forest
	17	Severndale
	18	Sherwood Forest
	19	South River Manor

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## Methodology

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

- Conducted background research and reviewed applicable County and state laws and regulations, policies, and procedures.
- Logged SCBD financial reports submitted by the Associations in our records.
- Consulted with the Office of Law regarding legal matters pertaining to the SCBDs, where applicable.
- Performed a SCBD financial report desk review by reviewing the information in the FY22 SCBD 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; FY22 audit report, where applicable; and expense records of the SCBDs, where applicable.
- Communicated with the Associations to inform them of the deficiencies noted, to make corrections, and file revised SCBD 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.
- Followed up on prior findings to determine their current status.

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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 Section 16-308, Charter and Code, and auditing standards.

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