August 16, 2013

Honorable Members of the County Council
Harford County, Maryland
212 S. Bond St., 2nd Floor
Bel Air, MD 21014

County Executive David Craig
Harford County, Maryland
220 S. Main St.
Bel Air, MD 21014

Dear Council Members and Mr. Craig:

In accordance with Section 213 of the Harford County Charter, we have performed an audit of Harford County's Grant Administration and Monitoring Controls. The results of that audit, our findings and recommendations for improvement are detailed in the attached report. We would like to thank the members of management for their cooperation during the audit.

The audit found that because grants are awarded by various departments and county-wide formal procedures do not exist, there is no consistency between departments with regard to how grants are being awarded and monitored. Some departments award grants and contributions without grant agreements, so there is no documentation of the parties' responsibilities. Some departments award grants at the sole discretion of one employee and have no process in place to verify funds are being used as intended by the County. Since the award process is not centralized, we found several organizations that receive funds from multiple County departments. Finally, our audit disclosed that documentation was not available to confirm the internal financial and legal approval of grant agreements for funding received by the County.

The audit team is available to respond to any questions you have regarding the attached report.

Sincerely,

Chrystal Brooks, CPA, CGFM, CIA, CISA, CGAP
County Auditor

cc: Ms. Mary Chance, Director of Administration
Ms. Elizabeth Hendrix, Director, Community Services
Ms. Arden McClune, Director, Parks and Recreation
Mr. Jim Richardson, Director, Economic Development
Ms. Kathryn Hewitt, Treasurer
Ms. Kimberly Spence, Chief, Budget and Management Research

HARFORD COUNTY, MARYLAND
Office of the County Auditor

AUDIT OF GRANT ADMINISTRATION
AND MONITORING CONTROLS

Period Covered:
07/01/2011 through 12/31/2012

Report Number: 2012-A-03

Date Issued:
08/16/2013

Audit Team:

Chrystal Brooks, CPA, CIA, CGAP, CISA, CGFM
County Auditor

Laura Tucholski, CPA, CFE
Auditor

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BACKGROUND INFORMATION

INTRODUCTION AND KEY STATISTICS

Grants Provided

Harford County provides funding to outside organizations through several departments. The funding takes various forms including General Contributions, Competitive Grants, Reimbursement Programs and payments on behalf of other organizations. The annual budget includes "Grant-In-Aid" which is administered by the Department of Community Services; the budget also includes "Grants and Contributions" for many departments. For the departments and funding included in the scope of this audit, the total funds provided by Harford County were as follows:

		County
Grant-in-Aid	Total	Funded
Community Services	$ 1,450,312	$ 1,450,312
Grants and Contributions		
Office of the County Executive	$ 494,898	$ 494,898
Department of Administration	4,350	4,350
Department of Community Services	1,916,061	579,624
Department of Emergency Services	50,000	50,000
Parks and Recreation	115,775	114,405
Office of Economic Development	1,188,673	1,188,673
Department of Law	49,896	49,896
Housing Agency	118,169	-
County Council (Cultural Arts Board)	174,647	15,279
TOTAL	**$ 5,562,782**	**$ 3,947,438**

Grants Received

Additionally, Harford County is the recipient of more than $20 million in Federal, State and other grants each year. Generally, when a department is interested in receiving funding from an outside organization, they prepare a proposal or application that is submitted to the funder. A copy of the application should also be provided to the Budget Office for tracking. When the funder has awarded a grant to the County, they will provide a grant agreement detailing the terms of the funding. Grant agreements generally require the signature of the County Executive as formal acceptance of the grant terms. Prior to the County Executive's approval, the requesting department, Treasurer, Budget and Law Offices must also review the agreement to ensure its legal and financial sufficiency. The requesting departments, in coordination with the Treasurer's Office are responsible for

ensuring that funding is requested timely and that all terms of the grant agreement are met.

REVIEW OBJECTIVE, SCOPE AND METHODOLOGY

The objective of this review was to confirm that Harford County has appropriate controls in place to ensure that the grants that it receives, provides, or administers are sufficient to ensure that funds are used as intended and as allowed by the grant agreements. The audit considered both grants in which Harford County was the recipient and grants in which Harford County was the grantor.

The scope of this review was limited to reviewing grant requests, grant agreements, and related documentation to ensure that grants were awarded fairly and were properly monitored. This review did not include a complete evaluation of internal control, but instead, relied on substantive testing to support conclusions. Due to the narrow scope of this review, our evaluation of internal control was limited to administration and monitoring of grants and contributions. This lack of a complete review of internal control did not affect our achievement of the audit objectives. The audit focused on activity during the period of 07/01/2011 through 12/31/2012. Our audit procedures included interviewing personnel, observation and substantive testing.

Grants Provided

For funding provided by Harford County, we identified expenses that were budgeted and/or incurred in the County's "Grants and Contributions" account. We also identified expenses that were budgeted or incurred as Grant-in-Aid funding.

To better focus on the objectives of the audit, we have excluded the County's component units – Board of Education, Harford Community College, Harford County Public Library and Harford Center. Additionally, since they have been included in the County's budget as distinct departmental operating funds, we have excluded operating funds for the following organizations: Humane Society, ARC Northern Chesapeake, Maryland School for the Blind, Soil Conservation, Extension Services, Health Department and Volunteer Fire Companies. These groups all provide annual financial statements to the County or are components of the State government. Other funding, including Grant-In-Aid and "Grants and Contributions", provided to these organizations above the departmental budget was included in our review.

Grants Received

For grants received by Harford County, we identified the funding sources included in the County's budget and in the County's Statement of Expenditures of Federal Awards. We

determined which funds had been audited as Single Audit major programs in recent years and attempted to determine if any other programs were audited by other agencies. We focused our testing on funds that were not previously audited. For these grants, we sought to determine 1) if the County's internal approval process was followed, 2) if expenses incurred were allowed under the grant agreements, 3) if required reports and reimbursement requests were submitted timely and 4) if the County's management had processes in place to ensure that grants were not overspent.

The audit was performed in accordance with Generally Accepted Government Auditing Standards (GAGAS). Those standards require that we plan and perform the audit to obtain sufficient evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

REVIEW RESULTS

Harford County management is responsible for establishing and maintaining effective internal controls. Internal control is a process designed to provide reasonable assurance that objectives pertaining to the reliability of financial records, effectiveness and efficiency of operations including safeguarding of assets and compliance with applicable laws, rules and regulations are achieved. Because of inherent limitations in internal control, errors or fraud may nevertheless occur and not be detected.

Grants Provided

Our procedures disclosed that County-wide procedures addressing the award and monitoring of Grants and Contributions have not been established. As a result, controls are not consistent across departments to ensure awarding of grants was proper and unbiased, and the terms of the grant awards were clearly documented. We noted some grants are awarded at the sole discretion of a department head or single employee.

Additionally, county grants to outside organizations are not centrally summarized to ensure awards are not duplicated and that organizations do not receive excessive funding. Defining what amount is "excessive" or appropriate is within the purview of the Administration, in consideration of its goals and priorities. During our review period, without consideration of grant amounts, we noted 31 organizations received funding from 2 departments, 10 organizations received funding from 3 departments and 1 organization received funding from 5 different departments.

We noted that in some cases, grants were provided as general operating contributions. The circumstances of these grants are more akin to an unrestricted charitable donation than a

grant, which would have specific terms and conditions for its use. We noted that contributions are budgeted and recorded in the County's records in the same account as grants ("Grants and Contributions"- subobject 7101), so they have been included in the scope of this audit. Our sample of grants included some 'Contributions'; we noted that the award of these funds did not involve an application process or an expectation of a specific use by the grantee. Consequently, there was no monitoring of how the recipients used the funds.

Further, for grants with approved or implied agreements in place, expenditures reported by grantees were not always verified to supporting documentation (such as timesheets for salaries, receipts for purchases, or attendance at a grant funded event) to ensure funds were used as the County intended. However, we did note that some departments informally (without documentation) monitor the activities of their grantees and are generally aware of the grantees' efforts and results.

To summarize, the table below notes the departmental differences in controls related to grants provided by the County. Departments below are listed in the order presented in the Annual Budget. Ideal processes are in green tickmarks; Control weaknesses are indicated by red tickmarks.

Legend
✔ – Yes
✘ – No
✦ - Partially
⊘ – Not Applicable

Award Process	County Executive	Community Development (Grant in Aid)	Office of Drug Control	Cultural Arts Board	Parks and Recreation	Econ. Develop. – Workforce Technical Training Grants	Econ. Dev. – Harford Business Innovation Ctr. and Susqueh. Workforce Ntwk.
Grant Applications are required	✘	✔	✘	✔	✔	✔	✘
There are formal criteria for awards	✘	✔	✘	✔	✔	✔	✘
Awards are based on the recommendations of a review board	✘	✔	✘	✔	⊘	✔	⊘
Grants awards are determined by more than one person	✘	⊘	✘	⊘	⊘	⊘	✔
Grant agreements are created and approved	✘	✔	✘	✔	⊘	⊘	✔
Applications contain the terms of the grant award	⊘	⊘	⊘	✔	✔	✔	⊘
Specific awards are included in the annual budget	✦	✔	✦	✘	✦	✘	✔

Legend
✔ – Yes
✗ – No
✦ - Partially
⊘ – Not Applicable

	County Executive	Community Development (Grant in Aid)	Office of Drug Control	Cultural Arts Board	Parks and Recreation	Econ. Develop. – Workforce Technical Training Grants	Econ. Dev. – Harford Business Innovation Ctr. and Susqueh. Workforce Ntwk.
Payment Process							
Payment is made on a reimbursement basis	✗	✔	✗	✗	✔	✔	✗
Payment requires submission of receipts supporting eligible expenses	⊘	⊘	⊘	⊘	✔	✔	⊘
Payment requires submission of reports (financial or narrative)	✗	✔	✗	✗	⊘	⊘	✗
Payments are made prospectively.	✔	⊘	✔	✔	⊘	⊘	✔
Monitoring Process							
Narrative Reports are provided	✗	✔	✦	✔	⊘	⊘	✗
Financial Reports are provided	✗	✔	✦	✔	⊘	⊘	✦
Narrative/Financial reports are reviewed by County agency	✗	✔	✗	✔	⊘	⊘	✗
Site visits are performed	✗	✦	✦	⊘	⊘	⊘	✗
Receipts/ evidence of funding use are reviewed by County agency	✗	✗	✗	✗	⊘	⊘	✗
Informal monitoring by County agency through regular interaction with grantee	✗	✔	✔	✔	⊘	⊘	✔

Grants Received

For grants received by the County, we observed that a checklist is maintained for each grant which summarizes the funding source, grantor, grantee, and county match amount. This completed form along with the grant proposal and supporting documentation is forwarded to various departments, including Treasury, Budget and Law. Those departments review the agreement and provide their concurrence prior to final approval by the County Executive. Review by these departments is necessary to ensure the grant agreement's legal and financial sufficiency. The concurrence is generally provided by email. However, documentation confirming approval by the required departments was not available for our review.

In our review of reimbursement requests for grants received by the County, we found that departments had adequate processes in place to monitor their spending and request timely

reimbursements. However, we noted that the process for Transit grant reimbursements is complicated and requires a significant amount of manual data entry and multiple calculations.

Areas for improvement are described in the Findings and Recommendations section of this report. Management has been provided an opportunity to respond to this report.

MANAGEMENT RESPONSE

Management appreciates the County Auditor's review and recommendations to improve the Grant Process. Responses on how Management is working to implement some of these recommendations can be found in the "Management Responses" section at the end of each category.

FINDINGS AND RECOMMENDATIONS

Finding Number: 2012-A-03.01 Inconsistent Award Processes

Grants are awarded by several County agencies, but the award processes are not consistent.

Analysis: Harford County provides grants to community organizations through multiple County Departments. Funding for these grants comes from County revenue, grants from State or Federal entities and contributions from other entities. Ideally, grants should be awarded with a grant agreement stipulating how the grantor intends the funds to be spent. Additionally, if funding is provided as unrestricted contributions, they should be budgeted and recorded, for the sake of transparency, in a manner that distinguishes them from grants that have specific obligations for the grantee.

We noted that each department has its own process for awarding grants. Some departments have competitive award processes that include applications, eligibility criteria and advisory board review and recommendations. Other awards are made at the sole discretion of a department head without formal eligibility criteria.

Our audit procedures disclosed that, in some cases, the County provides grants to organizations without the benefit of a grant agreement. Also, organizations have received grants from multiple County departments with different requirements for use and reporting of the funds. In our sample of 31 grants, we noted that 11 did not have formally documented and approved agreements in place indicating how the grantee should use the funds awarded or how they should report their results to the County.   The establishment of written agreements would clarify the responsibilities of each party.

Recommendation: The County should develop standard procedures to ensure that all departments award grants in a fair, transparent manner and to ensure the terms of grants are documented in written agreements. At a minimum, grant agreements should address the intended and allowable uses of the grant funds, the responsibilities of all parties and reporting requirements.

Management Response: It has become obvious during the course of the audit that the grants awarded by each department, and even by each division within each department, are very different and require different procedures for the award process. Community Development, within the Department of Community Services, awards the vast majority of grants out into the community from Harford County. Community Development already has in place a detailed

competitive award process, which includes formal applications, eligibility requirements, board review and recommendations, written grant agreements, and reporting requirements.

Other divisions and departments, however, which award fewer grants and for different purposes, may not require such an extensive and detailed process. In fact, it has been determined that some awards labeled as "Grants and Contributions" in our financial system are actually "contributions" and not "grants" at all. However, both types of payments were audited under the scrutiny of being a grant. Certain payments to community organizations, especially by the Office of the County Executive, are intended as general contributions, or donations, in order to provide support to the organization on behalf of the County. These types of contributions do not require a formal agreement, for example, because there are no requirements attached to the funding. Payments are made based solely on County priorities and needs that may arise during a fiscal year. To address this matter, on July 24, 2013, the County created a new subobject number 7108 to be used specifically for "contributions". Therefore, going forward these unique funds can be identified separately from "Grants".

Expected Completion Date: 07/24/2013

Finding Number: 2012-A-03.02 Inconsistent Monitoring Processes

Grant monitoring procedures were not adequate to ensure grantees used County funds as intended.

Analysis: Harford County provides grants to community organizations through multiple County Departments. Funding for these grants comes from County revenue, grants from State or Federal entities and contributions from other entities. Regardless of the source of the funds, as custodian, Harford County has an obligation to ensure that those funds are used appropriately.

We noted that the departments vary in the amount of grantee monitoring they perform and there is no county-wide policy in place detailing minimum standards. Ideally, grantees will submit receipts for allowable costs prior to payment or the grantor will perform and document on-site or desk reviews of grantees' costs to ensure the reports submitted were accurate and allowable. Within Harford County Government, some departments perform one or both of these practices, but some do neither. For example, some departments required grantees to submit periodic reports in order to receive a portion of their funding but did not perform verification procedures to ensure that amounts reported by grantees were proper. Some departments had little to no reporting from, or oversight of, their grantees.

Our tests showed that, for 10 grants, issued by various departments, payments were not supported by narrative reports and, for 8 grants, payments were not supported by financial reports.

We noted that Community Development, within Community Services, does have a procedure requiring periodic site visits and/or desk audits. Site visits were performed or scheduled for 7 of 15 grants in our sample and included reviews of grantees' records for compliance with other grant program requirements, such as client eligibility, file completion and program expenses. However, in our test of sampled grants, only 1 received a review that addressed the Grant In Aid awards.   In this case, the GIA award was intended to fund program costs. Often, Grant In Aid awards fund administrative and personnel costs; for monitoring purposes, those funds can be addressed by adding a related step to the current site visit review program.

Recommendation: The County should develop standard procedures or minimum requirements to ensure that all departments monitor the appropriate use of County funds. The process should require review of narrative and financial reports submitted by the grantees. We recommend departments ensure that, at least on a sample basis, grant recipients are visited and evidence of eligible expenses is reviewed periodically.

Management Response: While broad minimum requirements (such as some form of reporting and periodic review of eligible expense back-up documentation) is appropriate in most circumstances, each department's specific procedures will vary based on the nature and purpose of the grant being provided. Many departments perform on-going, informal monitoring throughout the year based on regular interaction with grantees and attendance at grantees' events. In Community Development, most of the nonprofit organizations funded through the County's Grant in Aid program actually receive multiple other state and federal grants, also administered through Community Development. Therefore, monitoring of these organizations should be evaluated from a broad perspective, considering all funding received.

Community Development completes a Risk Analysis form for every Grant in Aid recipient annually, scheduling site visits based on the level of risk determined and based on the monitoring schedules for other grants received. For example, if a particular organization is scheduled to receive a site visit in a particular fiscal year for a state or federal grant received, then it is not likely to be scheduled for a Grant in Aid site visit as well in the same year. Just as the federal government monitors each of the federal grants administered by Community Development every 2-4 years, Community Development does not wish to burden Harford County's small nonprofits with the administrative stress of multiple site visits in any one fiscal year. Pursuant to this report, Community Development will create monitoring spreadsheets for its Grant in Aid program, as well as for the state and federal grants it administers, to provide a clearer picture going forward of how often each organization is monitored and for which grant over time. Monitoring reports for all types of grants administered will be kept in

a central location, easily accessible for cross-reference and review.

Expected Completion Date: 01/31/2014

Finding Number: 2012-A-03.03 Transit Reimbursement Calculations

The Transit Grant Reimbursement process is complicated and susceptible to errors.

Analysis: Harford County receives multiple grants to fund Transit programs. Staff salaries in the Transit department are fully or partially allocated, for budget purposes, to the various grants even though employees' work may actually be attributable to other grants. The department has developed a database to track bus driver time, maintenance, fuel and administrative costs by program/grant. Those costs are then re-allocated to the appropriate grants. This re-allocation calculation is a multi-step process that requires a significant amount of manual data entry in multiple systems. When the re-allocation is complete, a reimbursement request is submitted to the State.

While the cost accounting process is inherently complicated, the potential for error increases with the number of manual data entry points and data manipulation points. Since the database was developed internally, Harford Transit is limited to the time that Information and Communication Technology can dedicate to support and enhancement of the system. A commercially available information system designed for management of Transit systems may help improve the efficiency and accuracy of this process.

We determined that the reimbursement request process is adequately designed, but the review of the submission was not sufficient for the level of complexity associated with generating the reimbursement request. As a result, for a grant in our sample, we attempted to confirm the details behind a reimbursement requests and noted that there were small data entry errors that resulted in the County receiving less reimbursement than it was entitled to. The sum of the errors was immaterial and we were advised that the difference will be corrected in a future reimbursement request.

Recommendation: We recommend management consider simplifying the process for submitting Transit reimbursement requests and find ways to automate the data entry process and related calculations. We further recommend implementing more detailed reviews of the data that supports the reimbursement requests.

Management Response: Harford Transit agrees reimbursement is currently a multi-step process that requires a significant amount of manual data entry in multiple systems.

Unfortunately, the federal and state governments have set these complicated reporting parameters in order to receive federal and state funding. Harford Transit has worked with ICT for several years in an attempt to automate the reporting process as much as possible and would like to continue this process even further by making it one of ICT's priority projects.

Expected Completion Date: 01/31/2014

Finding Number: 2012-A-03.04 Approval of Grant Review Checklists

Support for approval of Grant Review Checklists was not available.

Analysis: When the County receives a grant from an organization, the County Executive must generally sign an agreement accepting the terms of the funding. Prior to signing the grant agreement, various departments, including Treasury, Budget and Law, review the agreement and provide their concurrence. The terms of the grant are summarized on a Grant Review Checklist and the related approvals are documented on the form as well. In many cases, the departments' concurrence is provided via email to the Grants Administrator, so there is no signature on the form to confirm the review took place. Instead, the Grants Administrator documents the date of concurrence on a hardcopy of the form or in the electronic version. The emails are maintained in the Administrator's email box. This method of storage means that only the Grants Administrator has access to the supporting documentation. Further, the documentation may be accidentally deleted.

For the grants that we tested, emailed approvals were not available for our review.

Recommendation: We recommend that email concurrence of grant reviews be maintained (as msg, pdf or text files) with related grant documentation on the Grant Administrator's shared network space, so that the files will be available for future reference and confirmation.

Management Response: We concur with this recommendation and as of May 14, 2013 we have started saving emails related to all Grant Review Checklist on a shared network drive. In addition, we are working with ICT in researching a Grant Management software program.

Expected Completion Date: 05/14/2013