



HARFORD COUNTY, MARYLAND

Office of the County Auditor

AUDIT OF GRANT AWARD AND MONITORING CONTROLS

Report Highlights

Why We Did This Audit

This audit was conducted as part of the County Auditor's risk-based Annual Audit Plan approved by the County Council for FY2017.

What We Found

We noted that controls are not adequate to ensure grant funds are used as intended.

Report Number: 2017-A-06

Date Issued: 01/23/2017

Council Members and County Executive Glassman:

In accordance with Section 213 of the Harford County Charter, we have performed an audit of Grant Award 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 monitoring processes should be improved to ensure that grant funds are used as intended and unused funds are returned in a timely fashion. We also noted that the monitoring processes might be made more efficient and the award process might be made more strategic by adding a degree of centralized oversight.

Management's response to each finding noted have been included in the audit report. However, the responses provided by management did not fully address the issues noted. We have included additional auditor notes in the report explaining our outstanding concerns. The audit team is available to respond to any questions you have regarding the attached report.

Sincerely,

Chrystal Brooks, CPA

Chrystal Brooks
County Auditor

cc: Mr. Billy Boniface, Director of Administration
Ms. Karen Holt, Director of Economic Development
Ms. Amber Shrodes, Director of Community Services
Mr. Leonard Parrish, Director of Housing and Comm. Develop.
Ms. Kathy Burley, Director of Parks and Recreation



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REVIEW RESULTS

We have audited Harford County's Grant Award and Monitoring Controls for the period of 7/1/2014 through 6/30/2016 with the objective of confirming that grants provided by Harford County were awarded fairly and County funds were used as intended.

Our opinion, based on the evidence obtained, is monitoring controls and County-wide oversight can be improved to ensure that County funds are used as intended by grantees. The audit approach focused on testing the key controls that address management's objectives for the process. Conclusions drawn are below.

Risk	Expected Control	Conclusion
Grants are awarded unfairly or inappropriate entities receive grants	<ul style="list-style-type: none"> • Grantees submit complete applications demonstrating need and intentions • Grant applications are reviewed by an independent committee that recommends award amounts • Grant agreements are signed by all parties before payments are issued • Grant payments are properly allocated for financial reporting purposes 	<p>Needs Improvement</p> <p>Satisfactory</p> <p>Satisfactory</p> <p>Needs Improvement</p>
Proposed grantee objectives are not met	<ul style="list-style-type: none"> • Grantees submit quarterly narrative progress reports for review by County staff 	<p>Needs Improvement</p>
Grant funds are not used for their intended purposes	<ul style="list-style-type: none"> • Grantees submit quarterly and year-end financial reports for review by County staff • County employees review supporting documents to confirm the financial information provided by grantees • Unspent funds are returned to Harford County each year 	<p>Needs Improvement</p> <p>Unsatisfactory</p> <p>Unsatisfactory</p>

Areas for improvement are described in the Findings and Corrective Actions section of this report. Management has been provided an opportunity to respond to this report; the responses provided follow each finding.

FINDINGS AND CORRECTIVE ACTIONS

Finding Number: 2017-A-06.01 County-wide Oversight

Lack of County-wide Oversight of Grants

Analysis: Some entities receive significant funding through multiple County departments. For example, a not-for-profit could receive funding through grant-in-aid programs from Housing, Community Services and Economic Development plus budgeted contributions from the County Executive or Director of Administration's Office. Those same entities routinely request additional contributions during the year and solicit contributions in the form of event sponsorships and tickets. In some cases, those additional amounts caused departments to exceed the amount budgeted for the grant or contribution.

We noted 22 entities that received funding from multiple departments in fiscal year 2015 or 2016. Providing multiple awards is ideal to ensure accountability for the use of funds. However, while there is some informal review of grants between departments, there is no centralized process in place to track grants and contributions awarded by the County. This can become problematic when various departments perform their monitoring procedures. For example, when grantees report their eligible expenses, no one confirms that those same expenses have not been reported as eligible expenses for another County grant. Further, some agreements require audited financial reports, and departments have not always confirmed that those reports are received timely. If one department receives that report, it is not shared among the other departments that may be seeking the same information, creating a duplication of effort for both the grantee and the government.

We also noted that monitoring procedures are not consistent across departments. For example, Housing and Community Services distribute grant funds quarterly after narrative reports have been provided. In contrast, Economic Development pays grants in full at the beginning of the year, but still requires quarterly reporting. Likewise, Community Services requires annual site visits for each grantee; Housing only performs site visits when the agency also receives State or Federal Funding and Economic Development does not require site visits.

Management Response: Disagree. The grants awarded by each department are different in nature and as a result, different monitoring procedures are warranted. A short term project requires different monitoring than a long range project. Management is aware that

some entities may receive additional funding not originally included in the budget; however, all are thoroughly vetted and documented. While Management agrees that there is no centralized process in place to track grants and contributions awarded by the County, this has not been problematic.

Auditor Note: It is expected that various programs will require different levels of oversight. While we believe that some level of county-wide oversight would improve the efficiency of monitoring grants, we understand that management has accepted the risk of not implementing such oversight and we will not continue to follow-up on this matter.

Finding Number: 2017-A-06.02 Allocation of Grants and Contributions

A number of Grants were recorded as Contributions in the financial system.

Analysis: Following our audit of Grants in 2013, management separated the accounts for grants and contributions to better identify funding given with conditions (grants) and funding given without a specified purpose (contributions).

In this audit, we noted that those categories are not consistently used correctly. Our testing of grants found that 24 of 47 transactions were allocated to the wrong object code. Generally, these transactions were coded as Contributions instead of Grants or vice versa.

Further, in our testing of 59 contributions, we found 4 transactions were coded incorrectly. One of those should have been coded to 'Grants' and one contribution exceeded the amount budgeted. Finally, we found that one contribution was for a construction project and would be more properly allocated to a different subobject code.

Based on discussions with management, we understand that some transactions were labelled as grants or contributions because departments needed a way to track spending for specific programs such as Heroin Addiction Programs or Tourism Funded activities. These transactions should have been allocated to their true use such as professional services, meals or advertising.

Management Response: Disagree. Although there may be confusion with the verbiage used in the various agreements, the transactions were allocated correctly. To avoid future confusion, Management has changed the verbiage for tourism funding from “grant” to “competitive funding”.

Management also disagrees with the finding that one contribution for a construction project was allocated incorrectly. This was a contribution to a non-county entity for their

construction project that was not a county capital project. The county has given contribution to non-county entities for construction projects that benefit the County and its citizens in the past.

Expected Completion Date: 06/30/2017

Auditor Note: Management's plan to keep the same cost allocations but change the language used in tourism agreements from 'grant' to 'competitive funding', simply renews the prior audit recommendation to create a clear designation between funding that is provided with conditions for its use (grants) and without conditions (contributions). Since management did not provide an expected completion date for changing the agreement language, we have selected 06/30/2017 based on the context of the response.

Management has explained that the current allocation of transactions meets its needs for reporting and tracking expenditures when combined with external manual processes. We understand that management has accepted the risk of continuing to track these expenditures manually.

Finding Number: 2017-A-06.03 Monitoring Controls

Grant Monitoring Procedures were not always performed.

Analysis: For grants that are awarded by Harford County, granting departments require grantees to apply for funding; those applications are reviewed by advisory boards that recommend the level of funding to be provided. Granting departments should follow-up with the grantee periodically to confirm they are making adequate progress and spending their funding as authorized.

We tested 47 grants and found:

- 3 did not have narrative reports for each quarter
- 4 did not have receipts or reports supporting how funds were used
- -12 had not provided audited year-end financial statements *
- 10 did not demonstrate that funds were fully spent
- 6 grants had unspent funds that were not returned to Harford County (totaling approx. \$42,600)
- 8 did not have documentation of site visits *

*These were not required for the 26 Economic Development transactions, but could be considered as a monitoring tool for future grant agreements. Additionally, management

advised us of the dates that some visits were done, but did not have documentation of what was reviewed during those visits.

Many of the above issues appear to be related to adopting new procedures and moving funding and personnel between departments. For the grants that were underspent, Economic Development does not have a mechanism in place to confirm that funds are spent at year end. Their review process might be simplified and made more effective by issuing quarterly disbursements and using the same grantee financial reporting form required by Community Services and Housing.

Management Response: Disagree. The grants awarded by each County department are different in nature and require different monitoring procedures. To place overly burdensome requirements on minimally staffed non-profits would negatively impact their ability to provide necessary services to our citizens. However, Management agrees that it will review the monitoring procedures for each department/agency to determine if the process can be streamlined/simplified.

Expected Completion Date: 06/30/2017

Auditor Note: It is expected that various programs will require different levels of oversight. Accordingly, we agree that it is appropriate for management to attempt to simplify or streamline the monitoring process. Since management did not provide an expected completion date for its review of grant monitoring procedures, we have selected 06/30/2017 based on the context of the response.

While management does not intend to implement county-wide oversight of grant awards (as noted above for finding 2017-A-06.01), the impact of the lack of consistent oversight is evident when it comes to monitoring the grants that have been provided. There are specific terms of the grant agreements that have not been met and follow-up action has not been taken by management. We have been advised that the language used in these agreements did not fully reflect the intent of the County Executive, in particular, the requirement for grantees to return unused funds was not expected. Accordingly, management will not seek reimbursements. We disagree with this approach and believe that this position should be reconsidered.

BACKGROUND INFORMATION

PROGRAM DESCRIPTION AND KEY STATISTICS

Harford County awards funding to local not-for-profit organizations to accomplish the County's objectives. Funding is provided in the form of grants or contributions. Grants are awarded for a specific purpose, with financial and progress reporting requirements; Contributions are given without restrictions or requirements. In fiscal years 2015 and 2016, Harford County awarded \$1.80 million and \$2.31 million, respectively, to approximately 175 entities through various departments.

Some Grants are awarded through the grant-in-aid process while others are awarded at the discretion of the members of management. Grant-in-Aid requires grantees to submit an application to the County detailing their funding needs and expected outcomes. A committee reviews the applications and recommends award amounts for the next fiscal year. Recipients sign agreements requiring them to provide quarterly financial and operational progress reports. Grants outside of this process are generally amounts that have been routinely provided in prior years to assist grantees operations. In some instances, additional grants are given mid-year as the result of an emergency request from a grantee.

REVIEW OBJECTIVE, SCOPE AND METHODOLOGY

The objective of this audit was to confirm that Harford County's controls are sufficient to ensure that grant and contribution funds are awarded properly and used as intended. Since we have audited the Grant Award and Monitoring processes in the past, for this audit, we placed an emphasis on the newly created Tourism grant program. The scope of this review was limited to the grants awarded or administered by Harford County.

The audit focused on activity during the period of 7/1/2014 through 6/30/2016. Our audit procedures included data analysis, interviewing personnel, and inspecting relevant documentation. Specifically, we performed data analysis to determine which departments provided funding (in the form of grants or contributions) and the total amount received by each grantee. We inquired about the grant award and monitoring processes in each of the identified departments to confirm they were consistent, fair and properly designed. We reviewed a sample of contributions to confirm that they were classified properly and supported by a request for assistance. Finally, we inspected supporting documents to confirm that grantees properly applied for grants and routinely provided required reports that were supported by receipts or other confirmatory information. We reviewed the supporting documentation for \$3.07 million worth of funding; this equates to 73.8% of the funds awarded during the review period.

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.

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.

Audit Team:

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

Sarah Self
Staff Auditor