



HARFORD COUNTY, MARYLAND

Office of the County Auditor

AUDIT OF GRANT AWARD AND MONITORING CONTROLS

Report Number:
2023-A-18

Report Date:
04/14/2023

Council Members and County Executive Cassilly:

In accordance with Section 213 of the Harford County Charter, we have performed an audit of Grant Award and Monitoring Controls for the period of 7/1/2020 through 1/31/2023. This audit was conducted as part of the County Auditor's risk-based Annual Audit Plan approved by the County Council for FY2023.

The objective of this audit was to confirm that Harford County's grant award and monitoring controls are sufficient to ensure that funds are used as intended and as allowed. The scope was limited to the grants administered by Harford County, but excluded pandemic relief grants directed to businesses and individuals by the Office of Economic Development between July, 2020 and December, 2021. The results of the audit, our findings and recommendations for improvement are detailed in this report.

We would like to thank the members of management for their cooperation during the audit; they have been provided an opportunity to respond to this report; the response(s) provided follows the Issues and Corrective Actions.

Sincerely,

Chrystal Brooks
County Auditor

CONCLUSIONS

Our opinion, based on the evidence obtained, is procedures are adequate to ensure grants are awarded to qualified entities and grantees' financial and programmatic progress is generally monitored by County Officials. However, grants and contributions are not consistently allocated to the correct accounting categories. This assessment is based on the strengths and weaknesses identified for the operational objectives below.

Business Process Objective	Assessmentⁱ
Provide funding to support community needs	Effective
Grant funding accomplishes intended outcomes	Generally Effective
Grant awards are spent on allowable expenses	Generally Effective

ISSUES AND CORRECTIVE ACTIONS

2023-A-18.01 Allocation of Grants and Contributions

In prior audits, we noted that grants and contributions were accounted for in the same account making it difficult to determine which funding recipients should be subject to monitoring. At that time, management separated the accounts to better identify funding given with conditions (grants) and funding given without a specified purpose (contributions). Later, management added a third distinction - Grant-in-Aid. All Grants and Contributions are awarded at management's discretion, but Grants-In-Aid is provided through a competitive evaluation process. Grants may or may not be competitively awarded, but they should all have agreements in place specifying the recipients' obligations. Contributions are discretionary, based on a solicitation from an organization, and would not require the recipient to provide further details about their use of the funding.

In this audit, we noted that those categories are not consistently used correctly. Our testing of "Contributions" found that 15 of 37 sampled items were actually Grants. Additionally, one item tested was a series of contributions for coordination of Recovery Services but would more correctly be allocated to a Professional Services spend category. Before selecting a sample of Grants for testing, we expanded the population to include transactions for the specific departments with exceptions identified in the Contributions testing. Our testing of "Grants" found 12 of 46 were allocated to the incorrect spend category. One of those transactions was also allocated to the incorrect Cost Center (department). The \$995,000 contribution was funded with dedicated Tourism revenue, but would be more correctly called Economic Development. Management advised that "Having the headquarters located here is an economic boost, and a testament to their commitment to growing sports tourism in the County." We disagree that the organization, whose major facility is already based in Harford County, relocating its administrative offices has an impact on tourism.

Based on prior and recent discussions with management, we understand that some transactions were labeled as grants or contributions because departments needed a way to track spending for specific programs. Our testing confirmed this to be the case for transactions related to Heroin Addiction spending, Tourism and Economic Development,

most commonly. It remains difficult to distinguish which funding was provided with conditions to be met. Further, when transactions are charged to a dedicated revenue source incorrectly, it means that funding can't be used for its legally authorized purposes.

We recommend management update its procedures for allocating funding to spend categories based on whether they require a grant agreement and monitoring and whether they were competitively awarded.

Management Response: As we move forward with Tourism Funding administered through OED effective FY'24, we have identified grant procedures with agreements in place specifying recipients' obligations.

In addition, for FY 24 all grants provided by the County through Grant-in-Aid will be administered by the Department of Housing and Community Development for a more streamlined process.

Expected Completion Date: 07/01/2023

BACKGROUND, OBJECTIVES, SCOPE AND METHODOLOGY

Harford County awards funding to local non-profit organizations to accomplish the County's objectives. Funding is provided in the form of grants or contributions. In fiscal years 2021, 2022 and 2023 (through January), Harford County awarded \$6.8, \$8.3, and \$11.9 million, respectively, to nearly 300 entities through various departments. Housing and Tourism are the largest grant categories. Grants and Contributions have increased over the past few years, in part, related to Federal Housing grants revenue and Tourism revenue, which was then granted/contributed towards those purposes. The County also received significant State and Federal pandemic relief grants to be distributed to local businesses. The pandemic relief grants ended around March 2021 and were excluded from the scope of this project since they were tested in another audit.

Grants (including Grant-in-aid) are awarded for a specific purpose, with financial and progress reporting requirements. Organizations submit applications detailing their program budgets and objectives. The applications are reviewed by County staff and relevant Advisory Boards to make recommendations for grant awards. The recommendations are reviewed by the County Executive and included in the annual budget. Upon approval, recipients sign grant agreements that detail how the funds will be used and reporting requirements. Quarterly or monthly, recipients provide financial and narrative progress reports that are reviewed by County staff to confirm funding was used as intended.

Contributions are given without restrictions or requirements. Generally, recipients will submit a request to the County Executive or another department head for consideration. Upon approval by the County Executive, payment is made to the requestor. These payments are attributed to various departments' budget based on the nature and timing of the request. Monitoring of the funding provided is not performed or required.

The audit approach focused on testing the key controls that address management's objectives. We sampled 46 grants for testing totaling \$9.5 million. Those grants and the related transactions reviewed totaled approximately \$12.0 million, approximately 35.0% of the population of transactions. Our audit procedures included interviewing personnel, observation and testing as described in the table below.

Process / Control Objective	Scope of Review
Grants support community needs	
Grant-in-aid is awarded to organizations through a competitive application review process	For a sample of grants, confirm: <ul style="list-style-type: none"> • Applications were complete • Grantees were qualified and in good standing with the State Comptroller
Advisory Boards review and make recommendations for awards	<ul style="list-style-type: none"> • Confirm relevant boards supported the recommended award amounts
The County Executive directs non-competitive awards (Contributions) to organizations	<ul style="list-style-type: none"> • For a sample of Contributions, confirm the funding was approved by the County Executive and allocated to the correct spend category and cost center
Grants accomplish intended outcomes	
The purpose and terms of each award are formalized in grant agreements	<ul style="list-style-type: none"> • For a sample of grants, confirm that a signed grant agreement was on file before the first payment was issued.
Grantees must provide narrative progress reports demonstrating their progress and accomplishments before subsequent payments are issued	For sampled grants, confirm: <ul style="list-style-type: none"> • Quarterly reports were provided to the County • Management reviewed the progress reports prior to issuing subsequent payments
Funds are spent on allowable expenses	
Grantees must provide financial reports and supporting documentation to confirm their spending is allowable	For sampled grants, confirm: <ul style="list-style-type: none"> • Financial status reports were received prior to subsequent payments • Other grants to the organization do not overlap their purposes • Year-end financial statements were received, if the grantee received an award in the prior year • Payments did not exceed the approved award amount • If required, unspent funds were returned to the County

We have reviewed the issues reported in prior audits; they were each closed prior to starting this audit. Current conclusions for the findings included in Audit Report No. 2019-A-13 are noted below.

We previously reported on the “Incorrect allocation of Grants and Contributions”. Similar issues were found in the current testing. *This issue has been reopened as finding# 2023-A-18.01 above.*

In audits 2019-A-13 and 2017-A-06, we noted “Grant Monitoring procedures were not always performed.” Granting departments should follow-up with the grantee periodically to confirm they are making adequate progress and spending their funding as authorized. In the current audit, we sampled 46 grants to confirm that their quarterly or monthly progress reports were adequate. Generally, the progress reports were complete with supporting documentation and the subsequent payments were only issued after the progress reports were received. For Tourism grants, the awarded amounts are paid without regard for when progress reports are received, but we found, generally, progress reports are received and supported. *This issue will remain closed.*

We previously noted, “Guidelines for Criminal Justice Coordinating Council (CJCC) grants were not followed.” In the current audit, no exceptions were noted for the CJCC grants tested. *This issue will remain closed.*

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.

We conducted this performance audit in accordance with Generally Accepted Government Auditing Standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate 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.

Report Distribution:

Ms. Barbara Richardson, Director of Housing and Community Development
Mr. Joseph Sliwka, Director of Community Services
Ms. Karen Holt, Director of Economic Development
Mr. Robert McCord, Director of Administration

Audit Team:

Chrystal Brooks
CPA, CIA, CGAP, CISA, CGFM, CRMA
County Auditor
Sarah Self, CIA, CGAP
Senior Auditor

ⁱ Definitions

Effective: The design and effectiveness of the internal control environment address key risks. The business unit complies with external laws and regulations, and internal policies, procedures and guidelines. Business processes are managed effectively resulting in achievement of expected outcomes.

Generally Effective: The design and/or effectiveness of the internal control environment generally address key risks; however, the number and severity of findings relative to the size and scope of the business unit being audited indicate that some minor areas of weakness in the control environment need to be addressed. Isolated instances of non-compliance with external laws and regulations, and internal policies, procedures and guidelines may exist. Business processes may not be managed effectively in all areas resulting in reduced achievement of expected outcomes.

Not Effective: The design and/or effectiveness of the internal control environment does not address key risks. Non-compliance or historical patterns of non-compliance with key regulatory requirements and internal policies, procedures and guidelines exist which expose the audited entity to financial, reputational, and operational risks. Business processes are not managed effectively and expected outcomes are not achieved.