

Audit Report

Board of Public Works

June 2011



OFFICE OF LEGISLATIVE AUDITS
DEPARTMENT OF LEGISLATIVE SERVICES
MARYLAND GENERAL ASSEMBLY

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Karl S. Aro
Executive Director

DEPARTMENT OF LEGISLATIVE SERVICES
OFFICE OF LEGISLATIVE AUDITS
MARYLAND GENERAL ASSEMBLY

Bruce A. Myers, CPA
Legislative Auditor

June 9, 2011

Delegate Guy J. Guzzone, Co-Chair, Joint Audit Committee
Senator James C. Rosapepe, Co-Chair, Joint Audit Committee
Members of Joint Audit Committee
Annapolis, Maryland

Ladies and Gentlemen:

We have audited the Board of Public Works (BPW) for the period beginning February 1, 2008 and ending January 24, 2011. BPW is responsible for the review, approval, and oversight of a number of statutorily mandated projects and programs, including significant State expenditures and general obligation bond issuances.

Our audit disclosed that BPW did not adequately monitor a grantee's financial activity to ensure State funds were accounted for and used in accordance with the related grant agreements. BPW also had not submitted required annual reports on the State's procurement system to the General Assembly as required.

The BPW response to the audit is included as an appendix to the report. We wish to acknowledge the cooperation extended to us during the audit by BPW.

Respectfully submitted,

Bruce A. Myers, CPA
Legislative Auditor

Background Information

Agency Responsibilities

The Board of Public Works (BPW) was established by Article XII of the State Constitution and comprises the Governor, the Comptroller of Maryland, and the State Treasurer. BPW reviews, approves, and/or oversees a number of statutorily mandated projects and programs, including significant State expenditures and general obligation bond issuances. BPW maintains an administrative staff, which is directed by the Executive Secretary. According to the State's records, BPW expenditures totaled approximately \$6.9 million during fiscal year 2010.

Status of Findings From Preceding Audit Report

Our audit included a review to determine the status of the two findings contained in our preceding audit report dated July 7, 2008. We determined that BPW had satisfactorily addressed one of these two findings. The remaining finding is repeated in this report.

Findings and Recommendations

Grants to Nonprofits

Finding 1

BPW did not adequately monitor a grantee's financial activity to ensure State funds were accounted for and used in accordance with related grant agreements.

Analysis

BPW did not adequately monitor one grantee's financial activity to ensure State funds were accounted for and were used in accordance with related grant agreements. During fiscal years 2008 to 2010, BPW disbursed \$17.3 million to three grantees, of which the one grantee received \$15.3 million.

BPW did not review the independent audit reports for the aforementioned grantee to ensure that all State funds were accounted for. Due to concerns with the financial viability of this grantee, the Joint Chairmen's Reports issued during the audit period required the grantee to submit audited financial statements and other operational reports to the budget committees. These audited financial statements provide an independent accounting of the grant expenditures reported by the

grantee. Our review of the grantee's independent audit reports for fiscal years 2008 through 2010 disclosed that the State grant revenue reported for one year did not agree with the amount disbursed to the grantee. Specifically, according to State accounting records and the grantee's annual report of grant expenditures, BPW disbursed approximately \$5.1 million to the grantee during fiscal year 2009; however, the audited financial statements only reported \$4.9 million in State grant revenue. BPW management was not aware of the discrepancy until we brought it to its attention. We were subsequently advised by the grantee that one grant payment was reported in the financial statements as other State revenue instead of being included with all other payments related to this grant. Given the availability of these financial statements and the related Joint Chairmen's concerns, we believe that BPW should review the statements to ensure the accuracy of the grantee's annual reports.

State Law, and by reference, the grant agreement provide that recipients of State grant funds are to submit a report containing an itemized statement that fully and accurately accounts for how State aid was spent. The granting agency is required to determine whether the grantee has spent and accounted for the State funds in accordance with the agreement and is to notify the Department of Budget and Management and the Department of Legislative Services of any inconsistencies.

Recommendation 1

We recommend that BPW review this grantee's independent audit reports to ensure that all grant funds were accounted for, and follow up on any discrepancies.

Annual Procurement Reports

Finding 2

BPW had not submitted annual reports on the State's procurement system to the General Assembly, as required by State law.

Analysis

Annual reports on the State's procurement system had not been submitted to the General Assembly for fiscal years 2004 through 2010, as required. Specifically, State law requires BPW to submit an annual report to the General Assembly on the State's procurement system that includes information on actions necessary to improve effective broad-based competition in procurement. The law specifically requires that the annual report include findings and recommendations for

improvements to the procurement system, and the identification of barriers to effective broad-based competition in State procurement, with recommendations for the elimination of these barriers.

BPW management advised us that the annual reports are normally prepared by the BPW Procurement Advisor, and that this position had been vacant for an extended period. In this regard, a new Procurement Advisor was appointed in June 2009 but, as of March 21, 2011, no reports had been issued. This condition was noted in our preceding audit report.

Recommendation 2

We recommend that BPW submit annual reports to the General Assembly on the State's procurement system, as required by State law (repeat).

Audit Scope, Objectives, and Methodology

We have audited the Board of Public Works (BPW) for the period beginning February 1, 2008 and ending January 24, 2011. The audit was conducted 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.

As prescribed by the State Government Article, Section 2-1221 of the Annotated Code of Maryland, the objectives of this audit were to examine BPW's financial transactions, records and internal controls, and to evaluate its compliance with applicable State laws, rules, and regulations. We also determined the status of the findings contained in our preceding audit report.

In planning and conducting our audit, we focused on the major financial-related areas of operations based on assessments of materiality and risk. The areas addressed by the audit included grants to nonprofits, the State's contingent fund, and cash receipts. Our audit procedures included inquiries of appropriate personnel, inspections of documents and records, and observations of BPW's operations. We also tested transactions and performed other auditing procedures that we considered necessary to achieve our objectives. Data provided in this report for background or informational purposes were deemed reasonable, but were not independently verified.

Our audit did not include BPW's Capital Appropriation that is administered by the Department of General Services. This activity is audited during our audit of that Department. In addition, our audit did not include the Interagency Committee for Public School Construction which, although a budgetary unit of BPW, is audited and reported upon separately.

Our audit also did not include certain support services provided to BPW by the Comptroller of Maryland – Office of the Comptroller. These support services (for example, payroll, processing of invoices, maintenance of accounting records and related fiscal functions) are included within the scope of our audits of the Office.

BPW's management is responsible for establishing and maintaining effective internal control. 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. Also, projections of any evaluation of internal control to future periods are subject to the risk that conditions may change or compliance with policies and procedures may deteriorate.

Our reports are designed to assist the Maryland General Assembly in exercising its legislative oversight function and to provide constructive recommendations for improving State operations. As a result, our reports generally do not address activities we reviewed that are functioning properly.

This report includes a condition that we consider to be a significant deficiency in the design or operation of internal control that could adversely affect BPW's ability to maintain reliable financial records, operate effectively and efficiently, and comply with applicable laws, rules, and regulations. This report also includes conditions relating to significant instances of noncompliance with applicable laws, rules, or regulations. Another less significant finding was communicated to BPW that did not warrant inclusion in this report.

BPW's response to our findings and recommendations is included as an appendix to this report. As prescribed in the state Government Article, Section 2-1224 of the annotated Code of Maryland, we will advise BPW regarding the results of our review of its response.



State of Maryland
Board of Public Works

80 Calvert Street
Annapolis, Maryland 21401
410-260-7335
Fax: 410-974-5240
Toll Free: 1-877-591-7320

APPENDIX

Martin O'Malley
Governor

Nancy K. Kopp
Treasurer

Peter Franchot
Comptroller

Sheila C. McDonald
Executive Secretary

June 6, 2011

Mr. Bruce A. Myers, CPA
Legislative Auditor
301 West Preston Street, Room 1202
Baltimore, Maryland 21201

Dear Mr. Myers:

Our response to the audit report of Board of Public Works operations from February 1, 2008 through January 24, 2011 is as follows.

Audit Finding 1: BPW did not adequately monitor a grantee's financial activity to ensure State funds were accounted for and used in accordance with related grant agreement.

Recommendation: We recommend that BPW review this grantee's independent audit reports to ensure that all grant funds were accounted for, and follow up on any discrepancies.

Our Response: By statute and by the grant agreement, grantees are required to submit to the Board of Public Works an annual "itemized statement that full and accurately accounts for how the State aid was spent and [the statement must be] verified by an officer of the [grantee]."¹ *This grantee submitted verified statements to the Board each year that accounted for all expenditures of the State aid each year.* However, as the Auditor notes, for this particular grantee the Joint Chairmen required the organization to submit audited financial statements to the budget committees each year. Apparently, as the Auditor uncovered, the grantee's auditor erred in listing the amount of State grant funding in that audited financial statement.

As long as the grantee continues to submit audited financial statements to the Board of Public Works, this Office will comply with the Auditor's recommendation to ensure that the amount of the State grant listed in the audited financial statement is consistent with the verified itemized statement of expenditures and, if inconsistent, to require an explanation.

¹ Section 7-402 of the State Finance and Procurement Article, Annotated Code of Maryland.

Audit Finding 2: BPW had not submitted annual reports on the State's procurement system to the General Assembly, as required by State law.

Recommendation: We recommend that BPW submit annual reports to the General Assembly on the State's procurement system, as required by State law.

Our Response: We agree that this report on the State's procurement system has not been filed with the General Assembly and that the law requires the report. All other reports and regulatory actions required by law are up to date. We anticipate that this will not appear again as a repeat finding.

Sincerely,

A handwritten signature in black ink, appearing to read "Sheila McDonald". The signature is fluid and cursive, with the first name "Sheila" being more prominent than the last name "McDonald".

Sheila McDonald

cc: The Honorable Martin O'Malley
The Honorable Nancy K. Kopp
The Honorable Peter Franchot

AUDIT TEAM

Brian S. Tanen, CPA, CFE
Audit Manager

Keonna M. Wiley
Senior Auditor