

Audit Report

Board of Public Works

July 2008



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

July 7, 2008

Senator Verna L. Jones, Co-Chair, Joint Audit Committee
Delegate Steven J. DeBoy, Sr., 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 September 19, 2005 and ending January 31, 2008.

Our audit disclosed that BPW did not ensure the timely submission of annual reports by its grantees, and had not submitted required annual reports on the State's procurement system to the General Assembly.

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 the Treasury, 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 \$9.7 million during fiscal year 2007.

Status of Finding From Preceding Audit Report

Our audit included a review to determine the status of the finding contained in our preceding audit report dated March 28, 2006. We determined that BPW satisfactorily addressed this finding.

Findings and Recommendations

Grants to Nonprofits

Finding 1

BPW did not ensure that grantees submitted required annual reports in a timely manner and annual reports were not always properly reviewed.

Analysis

BPW did not ensure that grantees submitted annual reports required by the related grant agreements in a timely manner. Specifically, our review of the four annual reports submitted by BPW's two grantees for fiscal years 2006 and 2007 disclosed that the two fiscal year 2007 reports were submitted approximately six months after the required due date (September 1st after the close of the fiscal year). BPW did not contact the grantees to determine why the required annual reports had not been submitted until approximately five months after the reports should have been submitted.

In addition, we noted that the annual report submitted by one grantee for fiscal year 2007 accounted for expenditures of only \$5 million of State grant funds even though State funding provided to the grantee totaled \$5.6 million. This annual

report was reviewed and certified as being accurate by BPW. Upon bringing this discrepancy to BPW's attention, BPW subsequently obtained an accounting from the grantee for the remaining \$600,000 of State grant funds.

According to the State's accounting records, State grant disbursements made by BPW during fiscal year 2007 totaled approximately \$6.3 million.

Recommendation 1

We recommend that BPW enforce provisions of its grant agreements requiring the submission of annual reports of the expenditure of State grant funds by September 1st after the close of the fiscal year. We further recommend that BPW adequately review the annual reports for propriety, and that this review be documented.

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 2007, as required by State law. 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 personnel advised us that the annual reports are normally prepared by the BPW Procurement Advisor, and that this position has been vacant for an extended period.

Recommendation 2

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

Audit Scope, Objectives, and Methodology

We have audited the Board of Public Works (BPW) for the period beginning September 19, 2005 and ending January 31, 2008. 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 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 finding 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. 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 examination 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 did not include certain support services provided to BPW by the Comptroller of the Treasury – 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 a condition relating to a significant instance of noncompliance with applicable laws, rules, or regulations.

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

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APPENDIX

Martin O'Malley
Governor

Nancy K. Kopp
Treasurer

Peter Franchot
Comptroller

Sheila C. McDonald
Executive Secretary

July 1, 2008

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 September 19, 2005 through January 31, 2008 is as follows.

Audit Finding: BPW did not ensure that grantees submitted required annual reports in a timely manner, and annual reports were not always properly reviewed.

Recommendation: We recommend that BPW enforce provisions of its grant agreements requiring the submission of annual reports of the expenditure of State grant funds by September 1st after the close of the fiscal year. We further recommend that BPW adequately review the annual reports for accuracy, and that this review be documented.

Our Response: The Board's only two grantees submitted their fiscal year 2007 annual reports a few months after the due date. We will ensure that grantees report timely in the future. Further, the Board staff will, as always, review (and document the review) the annual reports for accuracy.

Audit Finding: 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: The annual report on the State's procurement system has not been filed with the General Assembly since our Procurement Advisor retired. The Board of Public Works agrees that it must submit the annual reports required by law.

Sincerely,

Sheila C. McDonald

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

AUDIT TEAM

Mark A. Ermer, CPA
Audit Manager

Terry S. Gibson
Senior Auditor