

**Art Works Studio School, Inc.**

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**GRANT AUDIT  
OCTOBER 2023**

**OFFICE OF AUDITS AND INVESTIGATIONS  
Prince George's County  
Largo, Maryland**

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# THE PRINCE GEORGE'S COUNTY GOVERNMENT

## Office of Audits and Investigations

October 2023

The County Council and County Executive  
of Prince George's County, Maryland

Council Resolution 51-1991, adopted June 25, 1991, requires the Office of Audits and Investigations (A&I) to perform random financial audits of grants and transfer payments appropriated in the Non-Departmental section of the County's Approved Annual Current Expense Budget.

We have examined the books and records of

### **ART WORKS STUDIO SCHOOL, INC.,**

for the period July 1, 2019, through June 30, 2021. Our examination included such tests of the accounting records and such other auditing procedures as we considered necessary under the circumstances.

We noted no matters involving the Prince George's County grants to Art Works Studio School, Inc. that led us to believe that the County grant funds were used for other than their intended purpose.

This report, in our opinion, fulfills the requirements of Council Resolution 51-1991 to perform random financial audits of grants and transfer payments made pursuant to the Non-Departmental section of the Prince George's County, Maryland, Fiscal Year 2020 and 2021 Approved Operating Budgets.

A handwritten signature in black ink, appearing to read "Turkessa M. Green".

Turkessa M. Green, CPA, CIA, CISA  
County Auditor

*Sylvia S. Singleton*

Sylvia Singleton, CIA, CFE, CICA  
Auditor

### **Executive Summary**

Art Works Studio School, Inc. (AWN) received a total of \$114,500 of grant funds from the Prince George's County Government (the County) between July 1, 2019 and June 30, 2021. During our audit, we noted some areas for improvement involving the grant funding provided to Art Works Studio School, Inc. A summary of these matters is provided below, and further details can be found in the following report.

- AWN did not maintain adequate documentation to support board meeting reviews, partnership agreements, expenditures, and approval of bank reconciliations.
- AWN's policies and procedures document is outdated and does not account for the organization's shift from an in-person to 100% remote management of its accounting operations.
- Possible Conflict of Interest - We were unable to determine if AWN's former Director approved invoices related to a vendor owned by the individual. White Angelica, LLC owns the building that AWN leases for its operations. We noted that the individual no longer serves as the Director of AWN but is currently the Chair of the Board of Directors and that the relationship is disclosed in AWN's annual audited financial statements as a related party transaction.

Overall Audit Rating	Total County Grant Funding*	Other County Funding*
	\$114,500	\$30,804

●	No Significant Findings Noted – Opportunities for Improvement Identified
●	Some Deficiencies Noted – Eligible for Funding
●	Significant Deficiencies Noted – Ineligible for Funding

\*Grant and/or other funding paid directly/indirectly by the County (i.e., M-NCPPC, PGCC, State grants, license fees, etc.). Excludes funding received before/after the audit period.

### **Art Works Studio School, Inc.**

Art Works Studio School, Inc. d/b/a Art Works Now (AWN or the Organization) is a 501(c)(3) nonprofit organization incorporated in the State of Maryland in 2010. The mission of AWN is to provide visual art education for adults and children in an effort to develop creative abilities and skills in the arts while building self-confidence and community relationships. AWN is located at 4800 Rhode Island Avenue, Suite 1, Hyattsville, MD 20781.

Art Works Studio School, Inc. (AWN) offers affordable programs at below-market prices in the visual arts for all ages. Programs include low-cost skills classes, a workshop for developing individual creative voices, and drop-in programs for studio activities for toddlers, elementary-age children, teens, and adults. AWN provides an avenue for emerging artists to exhibit artwork and provides training in the development of professional skills to prepare artists to exhibit their works in commercial galleries. AWN exhibition space is used to provide exhibits of educational value for the community and students.

The programs provided by Art Works Studio School, Inc. include:

- **Art Works @ School** provides weekly virtual classes for children who regularly attend Thomas Stone Elementary School. A Teaching Artist works with the school staff liaison to create engaging art activities that are influenced by the students' lives and interests and provide an opportunity to build their creative confidence. In addition, AWN created murals at Hyattsville Elementary School.
- **Creative Aging** is a free, weekly sequential arts program for older adults ages 55+ who are looking to engage in technically-focused arts education. This program utilizes drawing, acrylic painting, and watercolor to introduce students to tools, color theory, and artistic techniques.
- **Creative Community Actions (CCA)** blends social justice initiatives and civic engagement with creative activities on a public platform. AWN partnered with local community groups on the Families March for Black Lives, providing a free virtual poster-making activity and the use of AWN's outdoor space for marchers to safely gather. AWN also displayed protest signs on its fence and in its windows throughout the summer.
- **Parent's Night Out (PNOs)** is a monthly event for school-age children that provides an evening of creative activities, typically centered around a specific children's movie, while also providing an opportunity for parents to have some time without the kids at the end of the week.

- **PreSchool ARTventure (PA)** is a weekly program that engages literacy development and creativity for children under five years old. This program prepares the youngest students for the preschool learning environment with read-aloud, manipulatives, sensory tools, and more.
- **Skills-Based Programs (SBP)** are provided on a weekly basis and connect students of all ages to classes focused on increasing technical skills in a wide range of media. This includes upcycling arts for kids, drawing and painting classes for kids, project-based workshops for kids and teens, and adult classes in ceramics, drawing, painting, textile arts, and mixed media. Classes in portfolio development for middle and high school students are printmaking, creative development, sculpture, animation, and a variety of painting-based offerings. Wheel Throwing covers a variety of techniques involved in working with clay on a pottery wheel, the glazing and firing process, and more for all ages.
- **School's Out We're In (SOWI)** summer camps for school-age kids.
- **Partnerships –**
  - \* Smithsonian Institution's Anacostia Community Museum - delivers six virtual programs connecting the arts, STEM learning, and the local environment for K-12 students in the Greater Washington area.
  - \* Pizzeria Paradiso and International Gourmet Foods - delivers free meals and art activities to area residents, hospital workers, older adults living in senior living facilities, and the constituents of several area elected officials on request.

During the audit period, Art Works Studio School, Inc. was governed by a Board of Directors that consisted of eight (8) members who served without compensation. One (1) Board member also served as the Executive Director and received compensation. The Board manages the affairs of the organization and has all the powers and duties necessary or appropriate for the administration of the affairs of the organization.

The Prince George's County Council appropriates funds to support nonprofit organizations throughout the County in the form of grants. The Non-Departmental budget included funds to fulfill grant requests received from County nonprofit organizations. Non-departmental grant funds are to be used to support citizen/community-based programs and services that help address the human, social, education, recreation, and other service needs of the County's citizens and communities. The Special Appropriation Grants are dispersed by Council Members to help support nonprofit organizations providing programs and services to Prince George's County citizens and communities. County Council grants are awarded through a formal application process.

The Community Partnership Grant (CPG) is a grant initiative offered by the Office of the County Executive to qualified nonprofit organizations based upon a set of criteria, including the value added to the identified community, overall program costs, organizational stability, and adequacy of other funding sources. Community Partnership grants are awarded through a formal application process.

The Prince George's County Government, by way of the Prince George's County Council and County Executive Angela D. Alsobrooks, awarded Art Works Studio School, Inc. 16 grants totaling \$114,500 in fiscal years 2020 and 2021. Awards were issued from September 2019 through July 2021. A summary of the grants awarded is shown in **Exhibit 1** below.

<u>Disbursement Date</u>	<u>Grant Type</u>	<u>Grant Award Amount</u>
09/18/2019	FY20 Non-Departmental	\$20,000
11/07/2019	FY20 Special Appropriation (D7)	1,500
12/18/2019	FY20 Special Appropriation (D2)	5,000
03/31/2020	FY20 Special Appropriation (D1)	1,500
06/09/2020	FY20 Community Partnership	25,000
06/12/2020	FY20 Special Appropriation (CMAL)	10,000
01/12/2021	FY21 Non-Departmental	20,000
01/12/2021	FY21 Special Appropriation (D4)	2,000
01/27/2021	FY21 Special Appropriation (CMAL)	3,000
02/04/2021	FY21 Special Appropriation (D7)	1,500
02/12/2021	FY21 Special Appropriation (D3)	3,000
04/21/2021	FY21 Special Appropriation (D2)	3,000
06/07/2021	FY21 Community Partnership	15,000
06/18/2021	FY21 Special Appropriation (D1)	2,000
07/06/2021	FY21 Special Appropriation (D5)	1,500
07/06/2021	FY21 Special Appropriation (D6)	500
<b>Total Amount Awarded</b>		<b>\$ 114,500</b>

*(Exhibit 1)*

The Special Appropriation and Non-Departmental grants were to be utilized to provide accessible, content-rich arts education through virtual programmatic efforts for Prince George's County residents of all age groups and abilities and to provide free pizzas and art activities to essential workers and those experiencing food and income insecurity. CPG funds were awarded to provide unrestricted financial support for the organization's general operations.

Art Works Studio School, Inc. receives funding from grants and contributions, program revenues, fundraising, donations, and other sources. The County grants accounted for less than 10% of the organization's revenue in FY 2020 and FY 2021.

## **OBJECTIVE, SCOPE AND METHODOLOGY**

The objectives of our audit were to (a) assess the adequacy of the system of internal and management controls over grant funds received and expended; (b) assess whether grant-related transactions occurred in a manner consistent with the Art Works Studio School, Inc.'s grant request applications and other generally accepted business practices; and (c) identify factors inhibiting satisfactory performance in these areas and make recommendations to protect the County's interest concerning the grant funds.

The scope included all transactions related to the receipt and disbursement of the total grant funds received from July 1, 2019, through June 30, 2021 (a total of \$114,500).

The criteria used to evaluate the audit evidence gathered included:

- The grant applications submitted by Art Works Studio School, Inc.;
- The United States General Accountability Office Standards for Internal Control publication ([GAO-14-704G](#));
- [Maryland Nonprofit's Standards for Excellence: An Ethics and Accountability Code for the Nonprofit Sector](#); and
- Internal Revenue Code (IRC)/Internal Revenue Service (IRS) guidelines.

The audit included interviews with key personnel of Art Works Studio School, Inc. and detailed tests, including:

- An examination of the organization's monthly bank statements;
- A review of the organization's Federal Form 990 return for 2019-2020;
- A review of available cash receipts and disbursements documentation; and
- A review of available minutes for meetings held by the Board of Directors.

Art Works Studio School, Inc. operates and reports on a calendar year basis; however, our examination was conducted on a June 30 fiscal year-end basis for consistency with grant disbursements. For report purposes, the attached Statement of Activities (**Schedule 1**) is presented on a calendar year basis ending on December 31, consistent with AWN's operations.

We examined the books and records maintained by Art Works Studio School, Inc. and included tests of the accounting records and other auditing procedures, as we determined necessary. Our examination included a review of expenditures and supporting documentation to ensure that payment amounts were properly approved and corresponded to related invoices. Consideration was given to the fact that the records of the organization were reviewed and included in the scope of the financial audit conducted by Nanette K. Miller, CPA, for the periods ending December 31, 2019, through December 31, 2021, and no discrepancies or irregularities were disclosed. **We noted no instances that led us to believe that County grant funds were used for other than**



**their intended purpose.** However, A&I noted some areas for improvement, which are discussed in further detail below.

## **FINDINGS, COMMENTS AND RECOMMENDATIONS**

### **INTERNAL CONTROLS AND THE CONTROL ENVIRONMENT**

An organization's control environment should establish the overall tone, awareness, and actions of the board of directors, management, and staff concerning the importance of internal controls and its role in the organization. In an organization with a good internal control environment, responsibilities are clearly defined, and authority is assigned to specific individuals to permit identification of whether persons are acting within the scope of their authority.

Auditing standards define internal controls as a process designed to provide reasonable assurance that entity objectives will be achieved, including the objectives of reliable financial reporting, compliance with applicable laws, and the effectiveness and efficiency of the organization's service delivery processes. The primary function of internal controls is to provide assurance that errors and irregularities may be discovered with reasonable promptness.

According to the *Standards for Excellence: An Ethics and Accountability Code for the Nonprofit Sector* ("Standards for Excellence"), nonprofits should have sound financial and operational systems in place and should ensure that accurate records are kept. The organization's financial and non-financial resources must be used in furtherance of tax-exempt purposes. Organizations should conduct periodic reviews to address the accuracy and transparency of financial and operational reports and safeguards to protect the integrity of the reporting systems.

#### **FINDING 1: Inadequate Documentation to Support Grant Expenditures and Approval of Bank Reconciliations**

A&I sampled 41 expenditure transactions totaling \$90,075 (or 79%) of the total funds awarded during the audit period to determine whether the expenditures were properly categorized/recorded, properly supported, in compliance with the grant applications, and consistent with the organization's mission/purpose. As a result of our testing, A&I found the following:

- We were unable to verify that expenses were properly approved by management and that there was adequate segregation of duties between the requestor and approver of invoices due to a lack of documentation to support reviews/approvals being maintained by the organization.
- The agreement between AWN and Pizzeria Paradiso to split project expenses for the coined 10K, 20K, and 30K pizzas was not documented. The programs were implemented in response to the pandemic, where AWN partnered with Pizzeria Paradiso on a special project

to provide food and art activities to emergency responders, essential workers, older adults, and children.

- Supporting documentation such as invoices/receipts were not available for review for seven (7) transactions for a total of \$2,109, or 2% of the sample reviewed.

Additionally, A&I reviewed a representative sample of Board Meeting minutes and bank reconciliations for the audit period and noted that there was no documented evidence of management/Board review and/or approval or the frequency of reviews of bank reconciliations.

In the publication on standards for internal controls (GAO-14-704G) (09/14), the Government Accountability Office (GAO) standard states that “documentation is required for the effective design, implementation, and operating effectiveness of an entity’s internal control system.” Additionally, the standards state the following regarding the appropriate documentation of transactions and internal control activities:

*“Management clearly documents internal control and all transactions and other significant events in a manner that allows the documentation to be readily available for examination. The documentation may appear in management directives, administrative policies, or operating manuals in either paper or electronic form. Documentation and records are properly managed and maintained.”*

Adequate documentation to support expenditures incurred by the organization includes invoices, itemized receipts, documented business purpose, management approval, proof of payment, etc. Note that a combination of supporting documents may be needed to substantiate the business expense.

Failure to maintain adequate documentation to support grant transactions prevents an effective detailed review of these transactions, either from management when the transaction was initiated or during a subsequent audit, ensuring that they were reasonable, accurate, and aligned with the organization’s mission/purpose.

## **FINDING 2: Outdated Policies and Procedures**

A review of the organization's policies and procedures document indicated that the document has not been updated since January 2014 and should be updated as many of the accounting processes have evolved from in-person to 100% remote management.

The Standards for Excellence stipulate that a nonprofit should have written financial policies that are adequate for the size and complexity of the organization. A nonprofit should also have written, board-approved personnel policies and procedures that govern the work, actions, and safety of all

employees and volunteers of the organization and written, board-approved administrative policies that are periodically reviewed by the board.

A lack of updated written policies and procedures may result in staff taking varying approaches based on personal preferences, which can lead to organizational inconsistency and inefficiency. Without current written procedures, the continuity of an activity may be threatened if there is unexpected staff/vendor/volunteer turnover and the introduction of new staff/volunteers to an unfamiliar activity. Updated written procedures protect the organization from unplanned interruptions in that activity. Further, it establishes proper procedural guidelines to abide by, which lends to the integrity of the process and serves to reduce risks. Finally, written procedures serve to reinforce management's objectives for the activity and to ensure that these objectives are consistently considered.

### **FINDING 3: Potential Conflict of Interest**

During the audit period, Ms. Barbara Johnson, Executive Director/founder of the organization, also served as a Board member with primary responsibilities, which included approval of invoices for payment. We noted that the lease agreement for the facility where AWN is located was executed by Ms. Johnson as the sole member of White Angelica, LLC and by the Board Chair and Vice Chair of AWN in 2017. However, we were unable to verify whether Ms. Johnson recused herself from approval of any of the invoices or business related to transactions with White Angelica, LLC while also serving in the capacity of Executive Director and member of the Board of Directors of AWN because of a lack of documentation. The lease agreement is disclosed as a related party transaction in the organization's annual financial statements prepared by a registered Certified Public Accountant (CPA). Ms. Johnson no longer serves as the Executive Director but currently serves as Chair of the Board of Directors.

We noted that monthly payments were made timely to White Angelica, LLC for rent, as well as care and maintenance. AWN is committed under a ten (10) year lease for office space commencing in May 2017 and ending in May 2027. The base annual rental at the signing of the lease was \$3,000 per month. The lease contains annual escalations of 2% and a 50% share of monthly maintenance costs. Additionally, the lease may be extended upon written notice for an additional ten (10) years. For the year ended December 31, 2020, AWN paid the Founder and Executive Director \$57,345, representing rent (\$37,454), common area maintenance (\$16,291), and utilities (\$3,600) under the lease agreement. For the year ended December 31, 2021, rent expenses, excluding common area costs and utilities, totaled \$73,321. AWN received a rent abatement in 2021 relating to the rental portion of occupancy costs. The abatement totaled \$13,203 and will be amortized over the remaining lease term. As of December 31, 2021, deferred rent remaining to be amortized totaled \$10,727. AWN has paid the Founder and Executive Director \$62,319 representing rent, net of rent abatement (\$31,811), common area maintenance (\$26,908) and utilities (\$3,600) under the lease agreement.

**According to the Standards for Excellence,** *“(1) Nonprofits should have a written conflict of interest policy and statement. These should be applicable to board members and staff, as well as volunteers who have significant, independent decision-making authority regarding the resources of the organization. The policy and statement should be executed by covered individuals, both at the time of the individual’s initial affiliation with the organization and at least annually thereafter.”*

**Furthermore, AWN’s Bylaws** state, *“If the Board determines that a conflict of interest does exist, it must ensure that the interested director(s) do not participate in final decision making with regard to the transaction. The Board may approve the transaction or arrangement, or some alternative if it determines it: a) is in the organization’s best interests and for its own benefit; b) is fair and reasonable to the organization; and c) is the most advantageous transaction or arrangement the organization can obtain with reasonable efforts under the circumstances.”*

The Board of Directors has the fundamental responsibility to provide oversight and accountability for the organization. Nonprofits that fail to adhere to good governance principles may be at risk of poor management, wastefulness of resources, and public mistrust.

### **RECOMMENDATIONS**

AWN should take the necessary steps to ensure that a sound accounting and internal control system is in place to properly account for future funding it may receive. A strong internal control system includes:

- Maintaining appropriate documentation to support expenditure transactions, including but not limited to receipts, invoice copies, signed memoranda of understanding (MOUs), etc. Documentation should be maintained for a period of at least three (3) years after the tax return is filed, in accordance with IRS guidelines, and be stored in a manner that is readily accessible.
- Ensuring that there is adequate documentation to support the review and approval of invoices/bank reconciliations, such as, but not limited to: electronic routing/approval logs and timestamps, signatures, and/or emails attached to the invoice copies. The organization should seek to incorporate a means to electronically store invoices and approvals, which are easily assessable to keep pace with its change in procedures from a manual to an electronic process.
- Ensuring that the Board of Directors reviews, approves, and documents the existence of the conflict of interest related to White Angelica, LLC and the current Board Chair and maintains adequate oversight over transactions with this entity. Ensure that the Chair recuses herself and does not participate in final decision-making for AWN with regard to the transactions between the organization and White Angelica, LLC .

- Ensuring written policies and procedures are updated periodically. Nonprofit organizations should not only have written financial policies that address internal controls but also ensure that the policies and procedures are updated regularly, communicated to all applicable personnel, and are being followed by organization managers/staff.

# Schedule 1

**ART WORKS STUDIO SCHOOL, INC.**  
**d/b/a ART WORKS NOW**  
**STATEMENT OF ACTIVITIES**  
**FOR THE PERIODS ENDING**  
**DECEMBER 31, 2019 - DECEMBER 31, 2021**  
**ACCRUAL BASIS - AUDITED**

	<b>2019</b>	<b>2020</b>	<b>2021</b>
<b>REVENUES</b>			
Grants and contributions	\$ 193,053	\$ 404,089	\$ 495,192
Program revenue	317,261	129,213	135,637
Fund raising events	164,616	33,297	21,723
Miscellaneous income	7,762	24,625	4,195
<b>Total Revenues</b>	<b>682,692</b>	<b>591,224</b>	<b>656,747</b>
<b>EXPENDITURES</b>			
Salaries, benefits and payroll taxes	\$ 336,889	\$ 320,890	\$ 340,360
Staff development and training	3,276	5	-
Grants, contribution, partnership payments	610	25,590	50
Consultants and professional fees	145,595	89,640	122,484
Camp fees	830	-	-
Materials, supplies, equipment under \$5,000	32,695	28,165	20,976
Computer Related Expenses	-	-	16,120
Occupancy and related expenses	65,209	76,235	87,794
Insurance	1,099	3,757	5,267
Bank fees	16,647	11,753	4,578
Taxes and fees	640	30	1,066
Travel and meetings	10,514	5,522	9,194
Depreciation expense	3,096	3,270	11,345
Equipment leases	2,085	-	-
Office expenses	50,664	10,562	32,261
Miscellaneous	-	3,070	-
<b>Total Expenditures</b>	<b>669,849</b>	<b>578,489</b>	<b>651,495 *</b>
<b>Excess Revenues Over/(Under) Expenditures</b>	<b>12,843</b>	<b>12,735</b>	<b>5,252 *</b>

\*Variance with amount reported in audited financial statement due to rounding.