



THE PRINCE GEORGE'S COUNTY GOVERNMENT

Office of Audits and Investigations

November 2012

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 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 the

KETTERING-LARGO-MITCHELLVILLE BOYS AND GIRLS CLUB, INC.

for the period July 1, 2006, through December 31, 2011. Our examination included such tests of the accounting records and such other auditing procedures, as we considered necessary under the circumstances.

We noted one instance involving the Prince George's County grant to the Kettering-Largo-Mitchellville Boys and Girls Club, Inc. where the County grant funds were used for other than the intended purpose. Additionally, we noted several areas related to the accounting for the grant funds that require improvement. These matters are described in the Findings, Comments, and Recommendations section of this report.

This report, in our opinion, fulfills the minimum 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, Approved Current Expense Budget.

A handwritten signature in black ink, appearing to read "D. H. Van Dyke".

David H. Van Dyke, CPA
County Auditor

A handwritten signature in black ink, appearing to read "Natalie M. Beckwith".

Natalie M. Beckwith
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Kettering-Largo-Mitchellville Boys and Girls Club, Inc.

BACKGROUND

The Kettering-Largo-Mitchellville Boys and Girls Club, Inc. is a self-supported organization, receiving funds from grants, registrations, and fundraising activities for community youth. All coaches and support staff personnel are volunteers committed to their community. The Kettering-Largo-Mitchellville Boys and Girls Club, Inc. has been in existence for 41 years, providing beneficial activities for the youth of the community. The organization is incorporated as a 501(c) (3) non-profit organization.

The Kettering-Largo-Mitchellville Boys and Girls Club, Inc. was established in 1971, with a Drum and Bugle Corp, as well as other community activities, such as wrestling, boxing, baseball, basketball, bowling, soccer, and football. In the mid-1970's, Largo and Kettering were comprised of only 200 homes and community centers were not placed in such sparsely populated areas.

The developers of the communities determined that there was a need for a meeting place for youth activities and therefore enclosed the horse stables for meeting rooms, banquet rooms, and a location to house equipment for the boys and girls club, boy and girl scout groups, and the homeowners association. Many activities were held in the building formerly called the Kilby Center, which was later changed to the Kettering Center in 1994.

In March 1998, the Kettering Center experienced a fire due to an electrical malfunction, which destroyed approximately \$132,000 in equipment. With the help of local officials and a private donator, the Kettering-Largo-Mitchellville Boys and Girls Club, Inc. (KLM) was able to raise funds to purchase new equipment. Although funds were raised to get the programs started again, not enough money was raised to replace the burned facility. The Prince George's County Government provided a grant totaling \$300,000 to KLM in fiscal year 2007. The \$300,000 in restricted grant funds were for the construction of a new facility or the renovation of an existing facility for the purpose of storing equipment and becoming the new central location for KLM activities. Expenses associated with restricted funding are to be expressly used for the purposes outlined in KLM's grant application. Any goods or services purchased with these funds, which fall outside of those parameters, are strictly prohibited.

Objectives, Scope and Methodology

Our objectives 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 intended use of the grant funds 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 grant funds.

Our scope included all transactions related to the receipt and disbursement of the total grant funds received (\$300,000).

Our examination included a review of the Club's bank accounts, grant contributions, fundraising, donations, expense accounts, and monthly treasury reports.

The criteria used to evaluate the audit evidence gathered included:

- KLM's Federal Form 990 returns for 2008 through 2010;
- The United States General Accounting Office standards for internal control publication (GAO/AIMD-00-21.3.1); and
- KLM's grant application.

Our audit included interviews with KLM's key personnel and detailed tests including:

- An examination of the organization's monthly bank statements and related transactions; and
- A review of all available cash receipt and disbursement documentation.

Findings, Comments and Recommendations

Chelsea House

In 2011, KLM partnered with the Maryland-National Capital Park and Planning Commission (M-NCPPC) to renovate the historic Chelsea House located on a strip of land adjacent to the Largo-Kettering-Perrywood Community Center. KLM along with the M-NCPPC estimated that the cost to fully renovate Chelsea House and make it suitable for occupation was \$1.2 million. KLM was also awarded a matching grant from the State of Maryland in the amount of \$150,000 to assist with the renovation costs. KLM plans to apply for additional State grant funding and appeal to the M-NCPPC's Planning Board for the remaining funding necessary to complete the renovation. To date, KLM has completed Phase I and Phase II of the

Chelsea House renovation, which included replacing the roof and repairing the chimney. KLM has already started formalizing Phases III through VIII of the renovation with the assistance of the M-NCPPC, however they expect the restoration to extend beyond the eight planned phases. As of December 31, 2011, the Chelsea House restoration project has incurred expenditures totaling approximately \$27,000.00. KLM expects to start storing their equipment at Chelsea House by October 2012, however a final completion date has not been determined.

Inappropriate Use of Restricted Grant Funds

The initial \$300,000 in grant funds awarded to KLM was specifically intended to be used for the construction or renovation of a structure for the purpose of storing the organizations equipment. During the course of the audit, it was noted that KLM transferred \$47,000 of restricted grant funds to an unrestricted operating account in August of 2011. We were able to trace the expenditures related to these funds to supporting documentation, and determined that they were used to purchase football equipment. Since these restricted grant funds were for the purpose of constructing a new facility or the renovation of an existing facility, this transfer and subsequent purchase was inappropriate. Upon discussion with KLM regarding this finding, they were able to provide evidence supporting a transfer of \$51,687 in unrestricted funds into their restricted Chelsea House fund account on June 21, 2012. The transferred funds will be utilized for the sole purpose of supporting the Chelsea House renovation. All other subsequent grant expenditures, in the amount of \$26,556, were confirmed to be directly related to the Chelsea House renovation.

Inadequate Financial Reporting

KLM currently does not have a proper accounting system in place to adequately administer funds from varying sources. During the course of the audit we determined that KLM did not separate restricted grant fund revenues and expenditures from other operating revenues and expenditures. A lack of a proper accounting system can lead to inaccurate financial reporting and mismanagement of grant funds.

When examining KLM's financial records, we discovered that all of KLM's expenditures were listed on the monthly treasury reports, however, there was no indicator on the report that

identified restricted grant fund expenditures as opposed to other operating expenditures. In the past, KLM utilized one checking account for all operational transactions. It wasn't until 2011 that they began to use a separate checking account for County grant related activities, and thus enabling them to account for their various types of expenditures.

KLM's Treasurer prepares a monthly treasury report detailing the organization's monthly financial activity. Upon our review, we determined that several of the treasury reports were inaccurate or incomplete. We also noted that in 2011, treasury reports were not prepared for the months of January, April, or July.

Inadequate Record Keeping

During the course of the audit, it was noted that KLM was unable to provide bank statements or any other financial documentation for its grant fund activities for the months of June 2007, through December 2007. During that time, KLM utilized Chevy Chase Bank as its primary banking institution. Chevy Chase Bank was acquired by Capital One Bank in 2008. KLM requested Capital One Bank to provide the missing bank records, however Capital One Bank has since purged its database of Chevy Chase's bank records for the time frame in question.

KLM also secured a Certificate of Deposit with Bank of America using County grant funds in December 2008. KLM was able to provide documentation that supported the opening of the Certificate of Deposit, and statements for the months of May 2009 through April 2011. However, they were unable to provide any information for the months of January 2009, through April 2009, or May 2011, through November 2011. Along with the assistance of a Bank of America representative, KLM was however able to provide us with the Certificate of Deposit's month end balance as of December 31, 2011.

It is essential that organizations maintain all relevant financial documentation. A lack of a complete set of financial documents makes it nearly impossible to accurately account for an organization's financial activity.

Uncategorized Expenses

During the course of the audit, we examined all grant related revenues and expenses and developed a Statement of Grant Activities based on our review. Through our reconciliation of

KLM's activities related to restricted grant funds, we determined that KLM had incurred \$1,050 in uncategorized expenses. These uncategorized expenses represent a shortfall between the bank statement cash balance and the cash balance as a result of the audit. Upon discussion with KLM regarding this finding, they were able to provide evidence supporting a transfer of \$51,687 in unrestricted funds into their restricted Chelsea House fund account, on June 21, 2012, as previously mentioned, satisfying the shortfall. No additional discrepancies were noted.

Based on the findings described above and throughout this report we recommend the following:

- 1. KLM immediately put in place an accounting system to appropriately account for County grant funds as well as other funds administered by the organization.**
- 2. KLM retain the necessary supporting documents for all financial transactions.**
- 3. KLM ensure that all monthly treasury reports are completed in an accurate and timely manner.**
- 4. KLM ensure that restricted grant funds are used only for their intended purpose.**

The following Statement of Grant Activities shows the activities of the organization for the period July 1, 2006, through December 31, 2011. This statement was prepared on a cash basis.

Kettering-Largo-Mitchellville Boys and Girls Club, Inc.
Statement of Grant Activities
For the Period July 1, 2006 through December 31, 2011
(Cash Basis)

Revenues and Other Support

County Grant Funds	\$300,000
Interest	<u>20,289</u>
Total Revenues and Other Support	\$320,289

Expenses

Taxes	\$14
Football Equipment ¹	47,000
Bank Service Fees	30
Uncategorized Expense	1,050
Chelsea House Renovation	
Roofing	\$25,400
Attorney Fees	1,025
Check Printing	<u>131</u>
	<u>26,556</u>

Total Expenses	\$74,650
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Change in Net Assets	\$245,639
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Net Assets as of July 1, 2006	0
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Net Assets as of December 31, 2011	<u>\$245,639</u>
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¹ Restricted grant funding in the amount of \$47,000 was transferred to an unrestricted operating account and used to purchase football equipment.