

LAUREL BOYS AND GIRLS CLUB, INC

**FINANCIAL AUDIT
DECEMBER 2006**

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

December 2006

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 annual current expense budget.

We attempted to examine the books and records of Laurel Boys and Girls Club, Inc. for the period December 1, 2004 through November 2005. Our examination included such tests of the accounting records and such other auditing procedures, as we considered necessary under the circumstances. We are not independent with respect to this grant as the Office of Audits and Investigations administers the grant for the Prince George's County Council.

The Laurel Boys and Girls Club, Inc., did not prepare financial statements or maintain critical accounting information necessary for us to perform a comprehensive audit of revenues and expenditures for the audit period. Our application of other auditing procedures to determine the revenues and expenditures of the organization was substantially limited, as the available records did not readily facilitate the use of alternate procedures.

Although we noted no instances of Prince George's County grant funds to the Laurel Boys and Girls Club, Inc. being spent for other than its intended purpose, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the Laurel Boys and Girls Club, Inc.'s use of Prince George's County grant funds.

The County Council and County Executive
December 2006
Page -2-

This report, in our opinion, fulfills the requirements of Council Resolution 51-1991 concerning random financial audits of grants and transfer payments made pursuant to the Non-Departmental section of the Prince George's County, Maryland, fiscal year 2005 Approved Current Expense Budget.

David H. Van Dyke, CPA
County Auditor

Raymond L. Rheault
Auditor-In-Charge

Laurel Boys and Girls Club, Inc.

Background and Scope of Audit

The Prince George's County Government provided three grant checks totaling \$15,500 to Laurel Boys and Girls Club, Inc. during the period July 1, 2004 through June 30, 2005. These FY2005 County payments were comprised of: (a) \$1,000 from the County Executive's Special Appropriations in August 2004, (b) \$1,000 from the County Executive's Special Appropriations in January 2005, and (c) \$12,500 from the Prince George's County Council's Special Appropriations in May 2005.

Laurel Boys and Girls Club, Inc. (LB&GC) was established in 1954. LB&GC provides recreational and enrichment programs to youth in the greater Laurel area, which includes Prince George's, Howard, and Anne Arundel Counties. The services provided include sports programs, after-school activities, tutoring and mentoring, and summer and school vacation day camps. Unlike most Boys and Girls Clubs in Prince George's County, LB&GC has occupied a large headquarters and operational facility, formerly the old Laurel High School, for over 25 years. In December of 2002, pursuant to County Council Bill CB-72-2002, the property was declared surplus and transferred at no cost to the Club. The property has also been listed in the National Register of Historic Places since 1979.

As a Section 501(c) (3) non-profit corporation, LB&GC has its own by-laws (last updated 11/8/2005) and board of directors whose twelve members are to be elected to two year terms by the membership each November. The Board may, by majority vote, increase or decrease the

number of directors. Included in the Board's responsibilities is the approval of a budget each November for their fiscal year December 1 through November 30th, as well as the issuance of an annual report (including financial statements and a report of the general condition of the corporation). The by-laws also indicate that the Treasurer of the Board is also responsible, sometimes in conjunction with the Ways and Means and Financial Advisory committees, for (a) preparation of monthly financial statements for use by the Board, (b) review of all funds, receipts, securities, and disbursements of the club, and; (c) working with the assigned accounting firm to ensure that all required IRS reports are prepared and filed in a timely manner and that a yearly audit of the club is prepared and issued. The Treasurer is also authorized to sign checks, drafts, and other orders for payment of money by the club (as are the President and Vice President of the Board, as well as the Executive Director of the club).

As part of our audit we made a site visit to review accounting records available for the period under review. We examined the records provided to us by LB&GC and developed a selection of transactions to be tested. The testing included a sampling of items related to payroll; sports and recreational program operating expenses; building maintenance and renovations; payments on bank loans; deposit of revenues from various sources (grants, rental income, fundraising, registration fees, summer camp fees, etc.); expenses for professional services such as legal fees, auditing fees, computer networking, and architectural fees; employee health benefit premium payments; fundraising receipts and expenses, and; petty cash. We did not find any irregularities or discrepancies based on our testing. However, during our test work we discovered some internal control issues and other areas of concern that should be addressed by management.

Lack of Adequate Financial Statements and Accounting Records

The Executive Director and Bookkeeper were relieved of their duties in the winter of 2006. As such, financial statements and key accounting records were not up to date. Due to the incomplete nature of the LB&GC's financial statements, we were unable to provide any pro-forma financial statement analysis. The general ledger provided us for the period 12/1/2004-11/30/2005 was largely lacking in any evidence of (a) bank reconciliation entries, (b) non-cash transactions such as depreciation, revenues and expenses and/or asset adjustments deriving from the State's direct payment of architectural, engineering, and renovation expenses relative to the Capital Projects Grant, and (c) review of the correct amount of liabilities recorded. For example, when building maintenance proposals were approved, a liability was recorded in the total amount of the proposal, rather than expensing as the work is completed. As a result current liabilities were overstated and only liquidated when a check was written. As a result of our testing, we found that at least \$75,000 of the accounts payable balance carried on the 11/30/2005 general ledger was erroneous.

Incomplete Independent Audit and Federal Tax Forms

As of the date of this report, neither the IRS Form 990 nor the independent audit for the fiscal year ending 11/30/2004 has been completed due to the fact that their CPA firm had declined to renew their engagement. LB&GC has indicated to us that they have received a second 90-day extension (until 1/16/2007) to submit the Form 990. As of the date of this report we have not yet received a copy of the IRS approval. Upon request, LB&GC was unable to produce copies of any IRS Forms 1099-MISC which would have been required to be filed for the tax year 2005 for any payments of \$600 or more made to their attorneys,

Non-incorporated contractors (e.g., carpenters, painters, grounds maintenance, etc., including the company/individual cited under “Related Party Transactions” below), referees, and any other person or entity required by IRS regulations.

The audit report for the last period audited, 12/1/2003-11/30/2004 contained an omission evidently not disclosed to the CPA firm who performed the audit. The LB&GC FY2004 property tax bill of \$16,131.96 was unpaid as of 11/30/2004. Had this been disclosed it is probable that the issue would have been handled in a more timely fashion and the auditing firm would have likely reported the item as either a current liability or, at a minimum, in a note disclosure.

Related Party Transactions

A large amount of contracting work was awarded, apparently without obtaining competitive bids, to a company owned by a relative of the former bookkeeper. Moreover, we have been unable to find a business license or a contractor’s license in the name of the business. Most troubling is the fact that in late April 2005 LB&GC deposited a \$7,975 State of Maryland check made out in this company name, replacing it with a \$7,975 check made out personally to the owner.

Lack of Fiscal Oversight by the Board of Directors

There was little or no evidence of significant fiscal oversight by the Board of Directors of the activities of the club, as evidenced by the failure to quickly address a property tax issue which resulted in an unnecessary payment of taxes, interest, and penalties. We determined that the club’s real property had been subject to FY 2004 and FY 2005

property taxes due to a determination by the State Assessor that their rental of space eliminated their tax-exempt status. The property tax assessments were uncontested and unpaid and the property went to tax sale.

Further, the Board failed to prepare monthly and annual fiscal reports as required by its By-Laws, and evidently did not properly monitor the financial systems and bookkeeping so that the previous auditing firm felt that they were unable to continue the audit engagement for the FYE 11/30/2005.

RECOMMENDATIONS

1. We recommend that, in conjunction with the compilation of their FYE 11/30/2005 IRS Form 990 and audited statements, LB&GC should request that the independent CPA firm perform a thorough assessment of the club's internal control environment and internal financial systems. The CPA firm should be requested to issue a management letter to the Board of Directors with recommendations on financial system improvements, financial staffing, internal control processes and procedures, and periodic reporting standards which would enable the Board of Directors to better accomplish its oversight and fiduciary responsibilities.
2. Consideration should be given to revising LB&GC's financial systems and statements to segregate operational revenues and expenses from the ongoing effort to rehabilitate the 701 Montgomery Street facility. Because the rehabilitation is such a massive endeavor, and likely to take a number of years to accomplish, consolidated financial statements will be difficult to compare since the renovation efforts could vary widely from year to year.
3. There appears to be a lack of open and transparent communication with respect to the workings of the club, the Board of Directors, and the membership. Although the club's By-Laws call for annual elections of Board Members there was little evidence that a serious effort to conduct an open election took place. In the course of our audit we saw virtually no evidence of substantial fiscal oversight performed by the Board or the existence of interim financial statements being prepared for their use, despite being listed as required functions of the Board. The Board needs to perform the duties listed in the by-laws, and conduct operations as transparently as possible.

4. The club's web site, (<http://laurelboysandgirls.bizopia.com/>), contains no information on Board Meeting minutes, approved budget(s) and expenses, election results, etc. In our opinion the club could make better use of this site as a source of information and communication to its members; e.g., posting the by-laws, listing the names and contact information of the Board of Directors, posting Board Meeting minutes, interim and final financial statements, etc.
5. Finally, serious consideration should be given to retaining a competent accounting firm or professional, experienced in accounting for non-profit organizations, to provide ongoing assistance in (a) keeping accounting ledgers current, (b) providing advice in internal control or other financial matters, (c) issuing interim managerial accounting reports for use by the Board of Directors, and (d) ensuring that all IRS, State, and other Federal requirements for accounting and reporting are met.