

COMMUNITY BUILDERS OF MARYLAND, LTD.

GRANT AUDIT
June 2021

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



THE PRINCE GEORGE'S COUNTY GOVERNMENT

Office of Audits and Investigations

June 2021

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

COMMUNITY BUILDERS OF MARYLAND, LTD

for the period July 1, 2017, through June 30, 2019. 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 grant to Community Builders of Maryland, Ltd., that led us to believe that the County grant funds were used for other than their intended purpose. However, we did note deficiencies in certain areas and have made recommendations for improvement in the report.

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 2018 and 2019 Approved Operating Budget.

A handwritten signature in blue ink that appears to read "D.H. Van Dyke".

David H. Van Dyke, CPA
County Auditor

A handwritten signature in blue ink that appears to read "Deneen D. Mackall".

Deneen D. Mackall, CFE
Senior Auditor

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Community Builders of Maryland, Ltd.

Community Builders, Ltd., dba Community Builders of Maryland (“Community Builders”) is a 501(c)(3) non-profit organization incorporated and registered with the State of Maryland in 2006. The organization’s mission is to serve children, youth, and families in Prince George’s County, Maryland and throughout the Washington Metropolitan area. Specifically, the organization serves the primary group(s) of elementary, middle school and high school age youth residing in Council Districts 7, 8, and 9. Through collaborative efforts with the Community of Hope AME Church and several community partners, Community Builders provides programs that impact health, education, finance and public safety.

Community Builders receives Non-Departmental, Special Appropriation, Local Development Council, Rosecroft Local Impact, and Community Partnership grants from the Prince George’s County Government. These grants accounted for 31% of the organization’s total revenue for calendar year 2018 and 61% for calendar year 2019. During fiscal years 2018 and 2019, Community Builders was awarded, nine (9) grants totaling \$210,000. These awards were issued from July 1, 2017 through June 30, 2019 and were to be used explicitly for Community Builders’ core program functions. A summary of the grants awarded are as follows:

Disbursement Date	Grant Type*	Grant Award
06/06/18	Non - Departmental	\$ 10,000
06/28/18	Special Appropriation	2,000
07/12/18	Community Partnership	15,000
10/10/18	Non - Departmental	10,000
03/06/19	Rosecroft Local Impact	100,000
06/17/19	Local Development	50,000
06/27/19	Special Appropriation	2,000
07/05/19	Community Partnership	20,000
07/19/19	Special Appropriation	1,000
Total Awarded		\$ 210,000

* Non-Departmental and Special Appropriation grants are both sourced from the Non-Departmental section of the County budget. Non-Departmental grants are designated and allocated by the Prince George’s County Council. Special Appropriation grants are designated and allocated by each Council member individually. The Community Partnership Grant is offered by the Office of the County Executive to qualified nonprofit organizations. The Local Development Council offers the Local Impact Grant, which are funds that are a portion of gaming revenue for use primarily in communities in proximity to MGM National Harbor. The Rosecroft Local Impact Grant are funds that must be used for public safety projects in the community surrounding the Rosecroft Raceway. The use of the funds is to provide after school enrichment and life skills development programs.

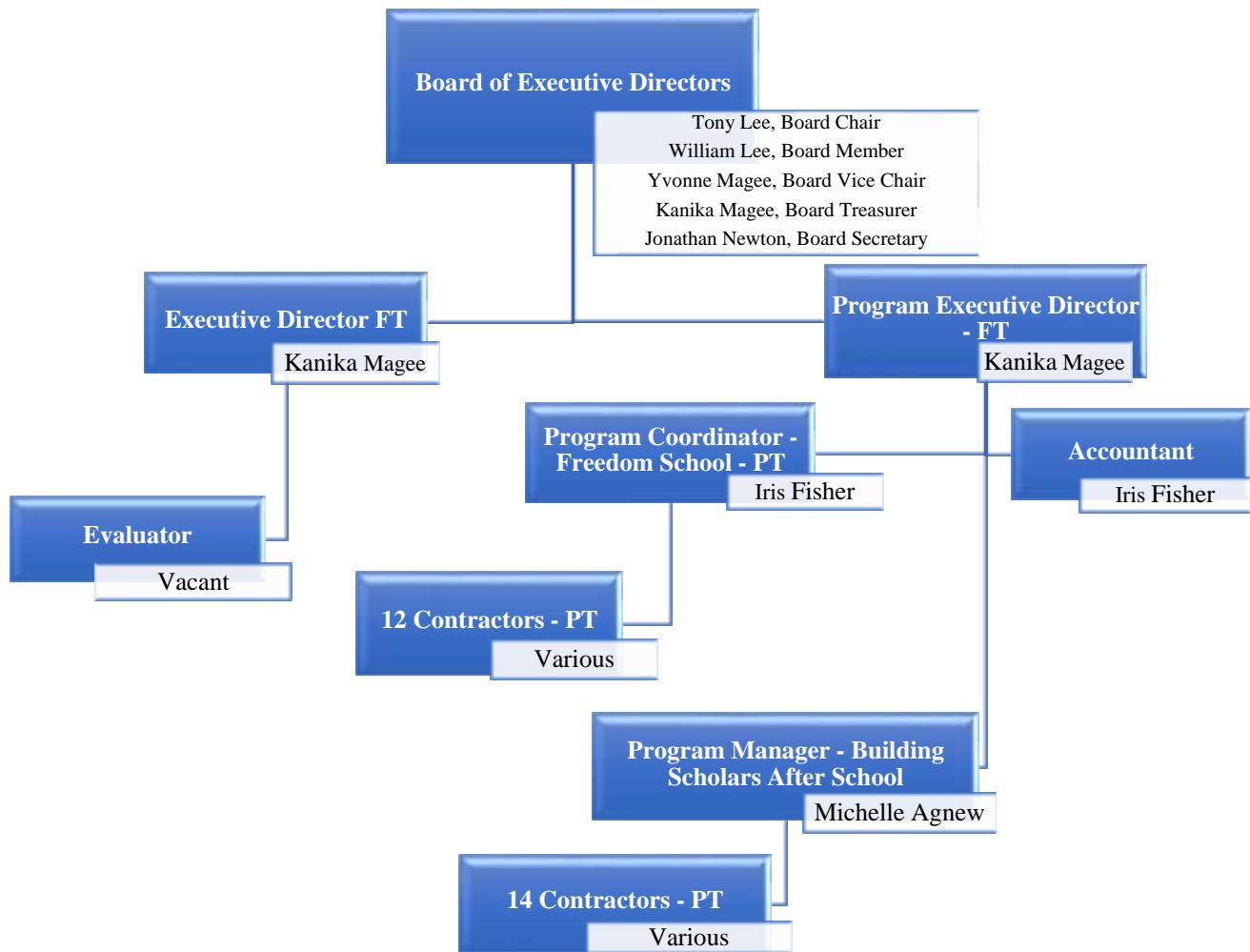
The business and affairs of Community Builders are managed by a Board of Executive Directors, who serve without compensation.

The Board of Executive Directors, as a whole, may delegate the management of day-to-day operations of the organization to committees, staff, or the Executive Director provided that the

activities and affairs of the organization shall be managed, and all corporate powers shall be exercised under the ultimate direction and authority of the Board of Executive Directors. For that reason, Community Builders is managed by an Executive Director and employs one (1) Program Manager and one (1) Program Coordinator. The Executive Director, Program Manager and Program Coordinator are established as compensated positions.

The organization also utilizes twenty-six (26) contractors to fulfil daily operations. A current overview of Community Builders' organizational structure is shown in **Figure I** below.

Figure I



Community Builders provided the following programs during FY 2018 and FY 2019:

- *Youth & Education Programs*
 - **Children's Defense Fund Freedom School** (Launched Summer 2014): Provides intensive STEAM learning for students through games and activities to over 350 children to date. The program is in collaboration with the Prince George's County Government, Community of Hope AME Church, Howard University, and Glassmanor Elementary School.

- **Building Scholars After School Program:**
After school tutoring to area children and youth at Glassmanor Elementary School to promote academic achievement and excellence.
- **Summer Chess and Media Camp:**
The program reinforces math, science, and life skills among youth.
- *Health Education Program*
 - **Abstinence & Sexual Health Program:**
The program is an evidence-based and State approved program that trained over 350 youth on abstinence and healthy decision-making.
- *Community & Economic Development Program*
 - **Youth People Care Grief Program:**
Semiannual workshops for children and youth. Participants are equipped with coping mechanisms, art therapy and group sharing.

A&I examined the books and records maintained by Community Builders 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. We noted no instances that led us to believe that County grant funds were used for other than their intended purpose. However, we noted several areas of needed improvement related to inadequate Board oversight, inadequate controls over accounting operations, lack of policies and procedures, inadequate recordkeeping, and inadequate segregation of duties. The areas of improvement are discussed in further detail below.

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 Community Builder's grant request application 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, 2017 through June 30, 2019, totaling \$210,000.

The criteria used to evaluate the audit evidence gathered included:

- Grant applications submitted by Community Builders;
- The United States General Accountability Office Standards for Internal Control publication (GAO-14-704G); and
- Maryland Nonprofit's Standards for Excellence: An Ethics and Accountability Code for the Nonprofit Sector; and

The audit included interviews with key personnel of Community Builders and detailed tests to include:

- Examination of the organization's monthly bank statements;
- Review of reconciliation processes;
- Review of the organization's Federal Form 990 returns for 2017 and 2018;
- Review of 1099s issued to contractors
- Review of available cash receipts and disbursements documentation; and
- Review of available minutes for meetings held by the Board of Executive Directors.

It is of note that Community Builders operates and reports on a calendar year, however our examination was conducted on a fiscal year basis. For report purposes, the attached Statement of Activities (**Schedule 1**) are presented on a calendar year consistent with Community Builders operations. The Statement of Activities shows the revenues and expenditures of the organization for the periods ending December 31, 2018 and December 31, 2019. **We noted no instances that led us to believe that County grant funds were used for other than their intended purpose.** However, we did note the following deficiencies:

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 Executive 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.

FINDING: Lack of Segregation & Independence

Upon inquiries with Ms. Kanika Magee, Executive Director we noted that while serving as Executive and Program Director for which she is compensated, she also serves as Board Treasurer. Dual-capacity individuals do not help satisfy quorum, especially when the board is voting on compensation for the position held by the dual-capacity employee. Upon discussions with the Executive Director we noted the relationship (Mother/Daughter) between Ms. Yvonne Magee and Ms. Kanika Magee who both serve on the board. In addition, we also noted a separate relationship between Mr. Tony Lee, Board Chair and Mr. William Lee, Board Member (Brothers), both serving on the board.

The possible relationship provides the appearance of a conflict of interest. Although related parties serving on the board is not illegal it is of best practice to avoid or minimize these instances.

The organization receives accounting services from Ms. Iris Fisher, Accounting & Tax Service who prepared the tax returns during the review period. In our review of the grant application we noted that Ms. Fisher is also staffed as the organization's Program Coordinator. Upon review of the accounting services contract we noted that Ms. Fisher was obligated to provide accounting and disbursement services only. The contract does not indicate tax return preparation on behalf of the organization. It should be noted that Ms. Fisher's dual capacity role prohibits her ability to remain independent. We determined that the additional role poses a segregation of duties concern and should be addressed.

According to the Maryland Nonprofits Standards of Excellence the "conflict of interest policy should identify the types of conduct or transactions that raise conflict of interest concerns, should set forth procedures for disclosure of actual or potential conflicts, and should provide a review of individual transactions by the uninvolved members of the board of Executive Directors."

Per the GAO, The United States General Accountability Office Standards for Internal Control publication "Management considers segregation of duties in designing control activity responsibilities so that incompatible duties are segregated and, where such segregation is not practical, designs alternative control activities to address the risk." It also states, "If segregation of duties is not practical within an operational process because of limited personnel or other factors, management designs alternative control activities to address the risk of fraud, waste, or abuse...". It should be noted that the inadequate oversight of key activities can lead to an increased risk of fraud.

FINDING: Inadequate Accounting and Formal Policies and Procedures

Community Builders has formal accounting and financial reporting policies and procedures for the purchases of goods and services. Although, policies and procedures are in place for purchases it should be noted that the policies and procedures only apply to purchases for goods and services governed under federal regulations and are not applicable to general purchases of the organization.

In reviewing the bank statements, the organization has one (1) bank account (primary account) with Bank of America that is used for daily transactions. The primary account also registers deposit and withdrawal transactions made by the organization. Upon review A&I noted that the organization does not complete monthly bank reconciliation of its financial transactions. However, the Executive Director performs all bookkeeping responsibilities maintains an Excel spreadsheet of purchase transactions completed on a monthly basis.

A&I observed that multiple electronic transfers were initiated from the primary account to an unknown personal account totaling \$ 8,686. In discussions with the Executive Director as to the nature of these transactions she informed A&I that she would reimburse herself for supplies purchased for program operations. The reimbursements were direct transfers from the organization's primary account to the Executive Director's personal bank account. We also noted that the organization does not have a formal process and policies/procedures related to general expense purchases, bank reconciliations, and other key financial controls.

According to the GAO, The United States General Accountability Office Standards for Internal Control publication "... management evaluates the delegation for proper segregation of duties within the unit and in the organizational structure." It further states in part "... segregation of

duties helps prevent fraud, waste, and abuse in the entity by considering the need to separate authority, custody, and accounting in the organizational structure.” Inappropriate accounting practices may lead to opportunities for theft.

Note: The organization reported that, as of July 2020, it has acquired and implemented accounting software and has solicited the services of an accounting firm to perform accounting services.

FINDING: Inadequate Controls over Accounting Operations

Bank statements for the period July 1, 2017 through June 30, 2019 were reviewed. County grants awarded to the organization for the period were traced to the organization’s bank statements to verify whether the funds were properly deposited. As a result of the testing A&I determined that the FY 2018 - FY 2019 grant awards were properly deposited to the organization’s bank account. However, due to the lack of an adequate accounting system and/or recordkeeping, A&I was unable to trace the County funds through the organization’s general ledger or accounting records.

We noted that the grantee does not perform monthly bank reconciliations. As a result, A&I was unable to perform testing on the bank reconciliation to verify the continuity between the bank and accounting records. The grantee was unable to produce financial records, reconciliations, or reports upon request due to the lack of an adequate accounting system and/or accounting software. A&I performed alternate testing to provide a representation of the organization’s financial activity. After discussions with the Executive Director, A&I was informed that as of July 2020 the organization has acquired Quickbooks and the support of an accounting firm to assist with the accounting functions.

Maryland Nonprofits Standards of Excellence states in part, “... A nonprofit should create and maintain reports on a timely basis that accurately reflect the financial activity of the organization. Internal financial statements should be prepared at least quarterly, should be provided to the board of Executive Directors, and should identify and explain any material variation between actual and budgeted revenues and expenses.”

Inadequate controls over accounting operations increases the risk of fraud, waste and/or abuse. Additionally, inadequate accounting operations reduces the reliability of the financial statements to which management utilizes to make decisions.

FINDING: Inadequate Documentation to Support Grant Expenditures

In reviewing the bank statements, A&I sampled sixty (60) transactions totaling \$74,695.52 or 36% of the total funds awarded during the audit period. The purpose of the selection and testing was to determine whether the expenditures were properly categorized/recorded, properly supported with adequate documentation, and were consistent with the organization’s mission/purpose.

As a result of testing we found the following:

- Sixty (60) expenditures, or 100% of the total expenditures were not categorized or recorded in an accounting system; and

- Four (4), or 2%, totaling \$1,329 were missing documentation and/or did not support the expenditure. The unsupported expenditures included two (2) payments or transfers to the Executive Director totaling \$1,028 or 1% of the total tested. The Executive Director reported that these expenditures were reimbursements for various program expenses, including the use of petty cash to purchase gift cards.

Documentation is a necessary part of an effective internal control system. The GAO standard states that “documentation is required for the effective design, implementation, and operating effectiveness of an entity’s internal control system.” Adequate documentation to support expenditures incurred by the organization includes proof of payment, itemized receipts, invoices, documented business purpose, etc. Note that a combination of supporting documents may be needed to substantiate the business expense.

The GAO also recommends that... “Transactions are promptly recorded to maintain their relevance and value to management in controlling operations and making decisions. This applies to the entire process or life cycle of a transaction or event from its initiation and authorization through its final classification in summary records. In addition, management designs control activities so that all transactions are completely and accurately recorded.”

It is necessary for the organization to establish adequate controls related to online banking transfers for the purpose of reimbursement(s); the use and distribution of petty cash; and for the purchasing, security, and disbursement of gift cards. Establishing these controls are critical in minimizing the risk of fraud, waste, and/or abuse.

RECOMMENDATIONS

1. Community Builders, Ltd. should implement internal controls to ensure key financial duties are properly segregated across several authorities to reduce possible fraudulent activities. This should include separating position responsibilities so that one individual does not have control over all key aspects of a transaction or event.
2. Community Builders, Ltd. should accept responsibility for designing, implementing and maintaining internal control. As such, the organization should establish comprehensive policies and procedures to include proper procurement practices for general and administrative expenditures.
3. Community Builders, Ltd. should ensure sound accounting and an internal control system is in place to properly account for grant funds received and expended for the organization. A sound internal control system includes:
 - a. Reconciliation - Maintaining monthly reconciliations to verify that balances in an accounting system correspond to balances in accounts held by other entities.
 - b. Maintaining appropriate documentation - Ensure that proper recordkeeping practices are utilized to assist in generating timely and reliable reporting.
 - c. Approval authority – Requiring additional individual(s) of authority to approve certain types of transactions to confirm that the transactions have been seen, analyzed and approved by appropriate authorities.

Schedule 1

COMMUNITY BUILDERS, LTD.
STATEMENT OF ACTIVITIES
FOR THE PERIODS ENDING
DECEMBER 31, 2018 AND DECEMBER 31, 2019
(ACCRUAL BASIS)

	<u>2018</u>	<u>2019</u>
REVENUES:		
Prince George's County	\$ 54,191	\$ 210,972
Other Government Grants (State of Maryland)	19,178	27,843
Contributions	17,666	8,222
Total Revenues	<u>\$ 91,035</u>	<u>\$ 247,037</u>
EXPENDITURES:		
Staff Salary & Wages	\$ 96,005	\$ 85,564
Insurance	2,847	-
Banking Fees	71	85
Travel and Field Trips (ie. Airfare & Motorbus)	748	1,752
Program Expenses (ie. Food & Supplies)	4,834	5,033
Postage & Delivery	25	20
Other (Withdrawal Transfers, Uncategorized Items)	9,707	1,484
Scholarships	-	1,500
Total Expenditures	<u>\$ 114,237</u>	<u>\$ 95,438</u>
Excess Revenue Over/(Under) Expenditures	<u>\$ (23,202)</u>	<u>\$ 151,599</u>