

Audit Report

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**Baltimore County Local Management Board**

Independent Auditor's Report, Schedules of  
Revenues and Expenditures for the Years Ended  
June 30, 2002 and 2001

Report on Compliance and on Internal Control Over  
Financial Reporting

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Office of the County Auditor  
Baltimore County, Maryland

## TABLE OF CONTENTS

	<u>Page</u>
Independent Auditor's Report .....	1
Schedules of Revenues and Expenditures .....	3
Notes to the Schedules of Revenues and Expenditures.....	4
Independent Auditor's Report on Compliance and on Internal Control over Financial Reporting.....	8
Baltimore County Local Management Board's Response Appendix .....	A



BALTIMORE COUNTY, MARYLAND  
OFFICE OF THE COUNTY AUDITOR

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MARY P. ALLEN, CPA  
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**Independent Auditor's Report**

Honorable Members of the County Council  
Honorable James T. Smith, Jr., County Executive  
Baltimore County, Maryland

We have audited the accompanying Schedules of Revenues and Expenditures of the Baltimore County Local Management Board (the Board) for the years ended June 30, 2002 and 2001. The schedules are the responsibility of the Board's management. Our responsibility is to express an opinion on these schedules based on our audits.

We conducted our audits in accordance with the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Schedules of Revenues and Expenditures are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Schedule of Revenues and Expenditures. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall schedule presentation. We believe that our audits provide a reasonable basis for our opinion.

The accompanying schedules were prepared to present the Board's revenues and expenditures for the purpose of complying with the policies of the State of Maryland, Governor's Office for Children, Youth and Families as described in Note 1 and are not intended to be complete presentations of the Board's financial statements.

In our opinion, the Schedules of Revenues and Expenditures referred to above present fairly, in all material respects, the revenues and expenditures as described in Note 2 of the Baltimore County

Local Management Board for the years ended June 30, 2002 and 2001 in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 25, 2004 on our consideration of the Board's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants (page 8). This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audits.

This report is intended solely for the information and use of the management of Baltimore County for filing with the State of Maryland, Governor's Office for Children, Youth and Families, and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

Brian J. Rowe, CPA  
County Auditor

March 25, 2004

**Baltimore County Local Management Board  
Schedules of Revenues and Expenditures  
Years Ended June 30, 2002 and 2001**

	Year Ended June 30,	
	2002	2001
<b><u>Revenues (Note 2):</u></b>		
Grants from Governor's Office for Children, Youth and Families (OCYF):		
Current Year Grant	\$4,195,913	\$3,590,723
Prior Year Advance	664,563	423,930
Passed through Baltimore County Public Schools	149,266	0
Total Grants from OCYF	5,009,742	4,014,653
Other State Grants	173,596	0
Baltimore County General Funds	119,956	119,956
Interest Income	44,817	76,384
Total Revenues	5,348,111	4,210,993
<b><u>Expenditures (Note 2):</u></b>		
Contracted Program Costs (Note 3)	4,558,566	2,896,432
Administrative Operating Costs	301,032	280,630
Total Expenditures	4,859,598	3,177,062
Excess of Revenues Over Expenditures	\$488,513	\$1,033,931

The accompanying notes are an integral part of these schedules.

**Baltimore County Local Management Board**  
**Notes to the Schedules of Revenues and Expenditures**  
**Years Ended June 30, 2002 and 2001**

**(1) Organization and Purpose**

The Baltimore County Local Management Board (the Board) is an agency of Baltimore County government. The Board is established pursuant to Article 49(d), Section 11 of the Annotated Code of Maryland, which requires each local jurisdiction to establish and maintain a local management board to ensure the implementation of a local, interagency service delivery system for children, youth and families. While the transactions of the Board are recorded in separate program accounts in the County's accounting records, the transactions of the Board are reported together with those of other programs in the County's Comprehensive Annual Financial Report.

**(2) Reporting and Basis of Accounting**

The revenues and expenditures of the Board are included in the County's Special Revenue Funds and include the following:

**Revenues:**

The Board is primarily supported by grants from the State of Maryland, Governor's Office for Children, Youth and Families (OCYF) and other State grants (i.e., Governor's Office of Crime Control and Prevention and Maryland Department of Human Resources, Child Care Administration). Funds received from these grants are deposited and invested along with other County funds until required for eligible operating costs. Interest income is credited to the Board based on the balance of grant funds on hand at the end of each month.

County General Funds are provided to meet matching requirements for certain youth service bureau grants.

**Baltimore County Local Management Board  
Notes to the Schedules of Revenues and Expenditures  
Years Ended June 30, 2002 and 2001**

**Expenditures:**

Expenditures for eligible operating costs include costs for the management and administrative operations of the Board as well as contractual services, grants and allotments made for direct program services.

**Basis of Accounting:**

The Schedules of Revenues and Expenditures are prepared on the modified accrual basis of accounting in accordance with generally accepted accounting principles. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual, which is defined as when the revenues are both measurable and available; expenditures are recorded when the liability is incurred.

**(3) Contracted Program Costs**

The Board has entered into contracts with or made grants or allotments to various organizations to provide services for programs administered by the Board. For the years ended June 30, 2002 and 2001, payments to these organizations for services provided under the specific programs were as follows:

	<u>Year Ended June 30,</u>	
	<u>2002</u>	<u>2001</u>
Direct Expansion (e.g., After School Programs)	\$2,753,802 *	\$1,290,512
Family Preservation (Home-Based Case Mgmt. Svs.)	650,000	650,000
Return (from out-of-state placements)	620,115	483,710
Home Visiting (Healthy Families Program)	281,505	281,505
Education (e.g., Teen Pregnancy Prevention)	97,648	114,635
Youth Strategies Initiative (e.g., Juvenile Offenders in Need of Supervision Program)	95,977	0
Child Care Collaboration (Study of Child Care Issues)	59,519	0
Diversion (from out-of-state placements)	<u>0</u>	<u>76,070</u>
Total	<u>\$4,558,566</u>	<u>\$2,896,432</u>

\* FY 2002 represents the first full year for services, primarily after school programs.

**Baltimore County Local Management Board  
Notes to the Schedules of Revenues and Expenditures  
Years Ended June 30, 2002 and 2001**

**(4) Deferred Revenue**

The balance of OCYF Subcabinet funds as of June 30, 2002 and 2001 totaled \$128,614 and \$664,563, respectively, as follows:

	<u>FY 2002</u>	<u>FY 2001</u>
Prior Year Carryover	\$664,563	\$434,973
Current Year Revenues	<u>4,389,996</u>	<u>3,667,107</u>
Total Subcabinet Funds	5,054,559	4,102,080
Expenditures	<u>(4,584,146)</u>	<u>(3,057,106)</u>
Subcabinet Funds, End of Year	470,413	1,044,974
Earned Reinvestment Funds (Note 5)	<u>(341,799)</u>	<u>(380,411)</u>
Deferred Revenue	<u>\$128,614</u>	<u>\$664,563</u>

**(5) Earned Reinvestment Funds**

Earned reinvestment funds result from additional revenue earned by meeting or exceeding certain performance criteria approved by the OCYF. Earned reinvestment funds may be retained by the Board and used toward future program costs in accordance with a spending plan prepared by the Board and approved by the OCYF. During FY 2002 and 2001, the Board's reported performance resulted in estimated earned reinvestment funds totaling \$341,799 and \$380,411, respectively, subject to final authorization by the OCYF. The balances of unused reinvestment funds as of June 30, 2002 and 2001 total \$897,361 and \$555,562, respectively, as follows:

	<u>FY 2002</u>	<u>FY 2001</u>
Earned Reinvestment Funds, Beginning of Year	\$555,562	\$175,151
Earned Reinvestment Funds for the Year Ended June 30	<u>341,799</u>	<u>380,411</u>
Earned Reinvestment Funds, End of Year	<u>\$897,361</u>	<u>\$555,562</u>

**Baltimore County Local Management Board  
Notes to the Schedules of Revenues and Expenditures  
Years Ended June 30, 2002 and 2001**

**(6) Related Party Transactions**

Certain members of the Board's governing body are also employees of the Baltimore County Departments of Social Services, Recreation and Parks, Health, and Education, which received significant payments for services provided during FY 2002 and 2001 as follows:

<u>Related Party</u>	<u>Year Ended June 30,</u>	
	<u>2002</u>	<u>2001</u>
Department of Social Services	\$677,810	\$672,259
Baltimore County Public Schools	\$441,696	\$338,579
Department of Recreation & Parks	\$281,900	\$97,224
Department of Health	\$228,048	\$95,326



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MARY P. ALLEN, CPA  
DEPUTY COUNTY AUDITOR

**Report on Compliance and on Internal Control Over Financial Reporting  
Based on Audits of the Schedules of Revenues and Expenditures  
of the Baltimore County Local Management Board  
Performed in Accordance with *Government Auditing Standards***

Honorable Members of the County Council  
Honorable James T. Smith, Jr., County Executive  
Baltimore County, Maryland

We have audited the Schedules of Revenues and Expenditures of the Baltimore County Local Management Board (the Board) for the years ended June 30, 2002 and 2001, and have issued our report thereon dated March 25, 2004. We conducted our audits in accordance with the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Compliance**

As part of obtaining reasonable assurance about whether the Board's Schedules of Revenues and Expenditures are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of amounts contained in the schedules. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed the following instance of noncompliance that is required to be reported under *Government Auditing Standards*.

### Contractor Audit

The policies of the State of Maryland, Governor's Office for Children, Youth and Families require local management boards to acquire and review an audit of any contractor that receives in excess of \$300,000 in Subcabinet funds during a fiscal year. During FY 2002, three contractors received Subcabinet funds in excess of \$300,000; however, our review disclosed that the Board did not obtain the required audit from one of the contractors which received \$392,802 in Subcabinet funds. A similar condition was commented upon in our preceding audit report. To ensure compliance with the policies of the Governor's Office for Children, Youth and Families, we again recommend that the Board obtain and review audits of all contractors receiving in excess of \$300,000 during a fiscal year.

### **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Board's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the Schedules of Revenues and Expenditures and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Board's ability to record, process, summarize and report financial data consistent with the assertions of management in the schedules. We identified the following reportable conditions:

#### Segregation of Duties

During FY 2002 and FY 2001, the Board received \$5,348,111 and \$4,210,993, respectively. Our review disclosed a lack of proper internal controls over cash receipts and disbursements. Specifically, we noted that one employee received, recorded and deposited cash receipts. Additionally, we noted that one employee prepared, recorded and authorized disbursements. This situation precluded effective internal control since errors or fraud could occur without detection. To improve internal control, we recommend that the Board establish procedures to segregate incompatible duties. We advised the Board how to accomplish the necessary segregation of duties utilizing existing personnel.

### Disbursements

Our review disclosed numerous instances in which payments to contractors and grantees were based upon photocopied or facsimiled invoices. Specifically, our audit of 134 contractor and grantee payments disclosed that 26 payments totaling \$288,513 were based upon photocopied or facsimiled invoices. Effective internal control requires that expenditures be supported by original documentation in order to safeguard against theft or misappropriation and to help prevent duplicate payments. To improve internal control, we recommend that the Board establish procedures that prohibit payments based upon photocopied or facsimiled documentation.

### Contractor Payments

In order to provide services on a County-wide basis, the Board contracts with or awards grants to numerous non-profit contractors, consultants and various County agencies. During FY 2002, disbursements to the contractors, consultants and County agencies totaled \$4,558,566. Although requests for reimbursement were periodically submitted to the Board, our review disclosed that the Board did not obtain or review supporting documentation to substantiate the amounts requested for reimbursement. Consequently, there was a lack of assurance that payments to the contractors, consultants and County agencies were adequately supported and that requests for reimbursement were based on actual cost of services or clients served. In order to assure that payments to contractors, consultants and County agencies are properly supported, we recommend that the Board obtain or review documentation supporting the amounts requested for reimbursement.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the schedules being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described is a material weakness.

A response to our findings from the Board is included as Appendix A to this report.

We also noted a separate instance regarding the Board's operations that we have reported to management in a separate letter dated March 25, 2004.

This report is intended solely for the information and use of the management of Baltimore County for filing with the State of Maryland, Governor's Office for Children, Youth and Families, and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

Brian J. Rowe, CPA  
County Auditor

March 25, 2004

## **APPENDIX A**

Baltimore County Local Management Board's Response



Baltimore County  
Local Management Board

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May 6, 2004

Brian J. Rowe, CPA  
County Auditor  
Office of the County Auditor  
Courthouse - Room 221  
Towson, Maryland 21204

Dear Mr. Rowe:

Thank you for the opportunity to respond to issues identified by the Office of the Auditor during the course of performing the FY 02 audit of the Local Management Board. Following is our reply to your specific concerns:

**Compliance**

**Contractor Audits:** Subsequent to the review of LMB records, all required audits have been received.

**Internal Control Over Financial Records**

**Segregation of Duties:** The LMB will establish internal controls over cash receipts and disbursements.

**Disbursements:** The LMB now requires original invoices for payment of contractors and grantees.

**Contractor Payments:** The LMB will make every effort to obtain and review documentation supporting the amounts requested for reimbursement by contractors, consultants and County agencies.

Sincerely,

A handwritten signature in black ink, appearing to read "Roe Davis", is written over a faint, larger version of the signature.

Roe Davis  
Executive Director

c: Michelle A. Gourdine, M.D., LMB Chair  
LMB Staff