

Audit Report

**Baltimore County, Maryland
Local Management Board**

Independent Auditor's Report, Schedules of
Revenues and Expenditures – Regulatory Basis
For the Years Ended June 30, 2003 and 2002

Report on Compliance and on Internal Control Over
Financial Reporting



Office of the County Auditor
Baltimore County, Maryland

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BALTIMORE COUNTY, MARYLAND
OFFICE OF THE COUNTY AUDITOR

BRIAN J. ROWE, CPA
COUNTY AUDITOR

COURT HOUSE - ROOM 221
TOWSON, MARYLAND 21204
410-887-3193
410-887-4621(Fax)

MARY P. ALLEN, CPA
DEPUTY COUNTY AUDITOR

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 – Regulatory Basis of the Baltimore County Local Management Board (the Board) for the years ended June 30, 2003 and 2002. 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 – Regulatory Basis are free of material misstatement.

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the schedules. 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.

As described in Note 2, the accompanying schedules were prepared pursuant to the accounting practices prescribed by the Governor's Office for Children, Youth and Families' policies and procedures for local management boards, which is a comprehensive basis of accounting other than generally accepted accounting principles. They are not intended to be complete presentations of the Board's financial statements.

In our opinion, the Schedules of Revenues and Expenditures – Regulatory Basis 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, 2003 and 2002 in conformity with the basis of accounting described in Note 2.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 29, 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 29, 2004

Baltimore County Local Management Board
Schedules of Revenues and Expenditures – Regulatory Basis
Years Ended June 30, 2003 and 2002

	Year Ended June 30,	
	2003	2002
<u>Revenues (Note 2):</u>		
Grants from Governor's Office for Children, Youth and Families (Note 3)	\$3,882,932	\$5,009,742
Other State Grants	1,137,257	173,596
Baltimore County General Funds	119,956	119,956
Interest Income	<u>19,974</u>	<u>44,817</u>
Total Revenues	<u>5,160,119</u>	<u>5,348,111</u>
<u>Expenditures (Note 2):</u>		
Contracted Program Costs (Note 4)	4,132,179	4,558,566
Administrative Operating Costs	<u>263,981</u>	<u>301,032</u>
Total Expenditures	<u>4,396,160</u>	<u>4,859,598</u>
Excess of Revenues Over Expenditures	<u>\$763,959</u>	<u>\$488,513</u>

The accompanying notes are an integral part of these schedules.

Baltimore County Local Management Board
Notes to the Schedules of Revenues and Expenditures – Regulatory Basis
Years Ended June 30, 2003 and 2002

(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 a grant from the State of Maryland, Governor's Office for Children, Youth and Families (OCYF) and other State grants (e.g., 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.

Expenditures:

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

Baltimore County Local Management Board
Notes to the Schedules of Revenues and Expenditures – Regulatory Basis
Years Ended June 30, 2003 and 2002

Basis of Accounting:

The Schedules of Revenues and Expenditures – Regulatory Basis are prepared on a regulatory basis of accounting in accordance with the accounting practices prescribed by the Governor's Office for Children, Youth and Families. Revenues are recorded when grants are awarded and when interest is earned. Expenditures are recorded when the liability is incurred.

(3) Office for Children, Youth and Families (OCYF) Grants

Grants from OCYF totaled \$3,882,932 and \$5,009,742, respectively, for the years ended June 30, 2003 and 2002 as follows:

	Year Ended June 30,	
	2003	2002
Subcabinet Funds:		
Current Year Grant Funds Received	\$3,656,508	\$4,195,913
Prior Year Advance Applied to Current Year Grant	128,614	664,563
Passed Through Baltimore County Public Schools	55,724	149,266
Non-Subcabinet Funds	<u>42,086</u>	<u>0</u>
Total Grants Awarded	<u>\$3,882,932</u>	<u>\$5,009,742</u>

(4) Contracted Program Costs

The Board has entered into contracts with or made grants to various organizations to provide services for programs administered by the Board. For the years ended June 30, 2003 and 2002, payments to these organizations for services provided under the specific programs were as follows:

Baltimore County Local Management Board
Notes to the Schedules of Revenues and Expenditures – Regulatory Basis
Years Ended June 30, 2003 and 2002

	Year Ended June 30,	
	2003	2002
Direct Expansion (e.g., After School Programs)	\$1,686,059	\$2,753,802
Youth Strategies Initiative (e.g., Juvenile Offenders in Need of Supervision Program)	1,086,333	95,977
Family Preservation (Home-Based Case Mgmt. Svs.)	561,551	650,000
Return (from out-of-state placements)	305,245	620,115
Home Visiting (Healthy Families Program)	270,522	281,505
Education (e.g., Teen Pregnancy Prevention)	114,861	97,648
Child Care Collaboration (e.g., Study of Child Care Issues)	60,845	59,519
Healthy Families – Responsible Choices	<u>46,763</u>	<u>0</u>
Total	<u>\$4,132,179</u>	<u>\$4,558,566</u>

(5) Carryover Funds

The policies of the OCYF require that any grant funds not expended, encumbered, or retained as earned reinvestment funds within each fiscal year be returned to the Subcabinet Fund unless permission is given to carryover (i.e., the unspent funds are applied against the next year's grant award as a cash advance) or carry forward (i.e., the unspent funds are re-awarded in the next year and increase the next year's award) the unspent funds. The amount of earned reinvestment funds that may be retained by the Board is determined by OCYF based on the Board's performance during the year (Note 6). The OCYF authorized the Board to carryover the following grant funds to be used as a cash advance against the subsequent year's grant award:

	<u>FY 2003</u>	<u>FY 2002</u>
Subcabinet Funds Received	\$3,732,206	\$4,389,996
Subcabinet Funds Expended	<u>(3,082,263)</u>	<u>(4,584,146)</u>
Excess (deficiency) Subcabinet Funds	649,943	(194,150)
Current Year Earned Reinvestment Funds	<u>(305,712)</u>	<u>(341,799)</u>
Net Change in Carryover Funds	344,231	(535,949)
Carryover Funds, Beginning of Year	<u>128,614</u>	<u>664,563</u>
Carryover Funds, End of Year	<u>\$472,845</u>	<u>\$128,614</u>

Baltimore County Local Management Board
Notes to the Schedules of Revenues and Expenditures – Regulatory Basis
Years Ended June 30, 2003 and 2002

(6) 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. Based on the Board's reported performance, it retained estimated earned reinvestment funds totaling \$305,712 and \$341,799 for the years ended June 30, 2003 and 2002, respectively, subject to final authorization by the OCYF. The cumulative total of unused reinvestment funds retained as of June 30, 2003 and 2002 was \$1,203,073 and \$897,361, respectively, as follows:

	<u>FY 2003</u>	<u>FY 2002</u>
Current Year Earned Reinvestment Funds	\$305,712	\$341,799
Earned Reinvestment Funds, Beginning of Year	<u>897,361</u>	<u>555,562</u>
Earned Reinvestment Funds, End of Year	<u>\$1,203,073</u>	<u>\$897,361</u>

(7) Related Party Transactions

Certain members of the Board's governing body are also employees of the Baltimore County Departments of Education, Social Services, Health, and Recreation and Parks, which received significant payments for services during FY 2003 and 2002 as follows:

<u>Related Party</u>	<u>Year Ended June 30,</u>	
	<u>2003</u>	<u>2002</u>
Baltimore County Public Schools	\$600,913	\$441,696
Department of Social Services	\$589,358	\$677,810
Department of Health	\$540,428	\$228,048
Department of Recreation & Parks	\$179,015	\$281,900



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BRIAN J. ROWE, CPA
COUNTY AUDITOR

COURT HOUSE - ROOM 221
TOWSON, MARYLAND 21204
410-887-3193
410-887-4621(Fax)

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 – Regulatory Basis
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 – Regulatory Basis of the Baltimore County Local Management Board (the Board) for the years ended June 30, 2003 and 2002, and have issued our report thereon dated March 29, 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 – Regulatory Basis 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 2003, four contractors received Subcabinet funds in excess of \$300,000; however, our review disclosed that the Board did not obtain the required audits from two of the contractors that received a total of \$943,879 (one for \$354,521 and one for \$589,358). A similar condition was commented upon in our preceding audit report. To help ensure that funds are spent in 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 – Regulatory Basis 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 2003 and FY 2002, the Board received \$5,160,119 and \$5,348,111, 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 the same employee prepared, recorded and authorized disbursements. This situation precluded effective internal control since errors or fraud could occur without detection. A similar condition was commented upon in our preceding audit report. 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 100 contractor and grantee payments disclosed that 32 payments totaling \$508,140 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. A similar condition was commented upon in our preceding audit report. 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 2003, disbursements to the contractors, consultants and County agencies totaled \$4,132,179. 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 the actual cost of services or clients served. A similar condition was commented upon in our preceding audit report. 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 29, 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 29, 2004

APPENDIX A

Baltimore County Local Management Board's Response



Baltimore County
Local Management Board

Drumcastle Center
6401 York Road, 3rd Floor
Baltimore, Maryland 21212
410-887-4254
Fax: 410-377-2935

September 2, 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 03 audit of the Local Management Board. Following is our reply to specific concerns included in the Report on Compliance and on Internal Control Over Financial Reporting:

Compliance

Contractor Audits

Notes indicate that the LMB did not obtain two of four required contractor audits. Subsequent to the Auditor's Office review of LMB files, the identified contractor audits have been secured.

Internal Control Over Financial Reporting

Segregation of Duties

Notes indicate a lack of proper internal controls over cash receipts and disbursement. The LMB has initiated a multi-level sign-off process to ensure that more than one employee is involved in oversight of cash receipts and disbursements.

Disbursements

Notes indicate that some contractor payments were made based on faxed or photocopied invoices. The LMB now requires original documentation to process contractor invoices.

Contractor Payments

Notes indicate a lack of review of source documents to support payments to contractors, consultants and/or County agencies. LMB staff has requested training on the basics of conducting desk audits, and will develop a checklist to ensure verification of source documents that support vendor claims of services rendered.

Sincerely,

A handwritten signature in cursive script that reads "Roe Davis".

Roe Davis
Executive Director

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