

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, 2005 and 2004

Report on Internal Control Over Financial Reporting
and on Compliance and Other Matters



Office of the County Auditor
Baltimore County, Maryland

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BALTIMORE COUNTY, MARYLAND
OFFICE OF THE COUNTY AUDITOR

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COUNTY AUDITOR

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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, 2005 and 2004. These 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 auditing standards generally accepted in the United States of America and 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 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 of the Baltimore County Local Management Board for the years ended June 30, 2005 and 2004 on the basis of accounting described in Note 2.

In accordance with *Government Auditing Standards*, we have also issued our report (page 10) dated January 24, 2007 on our consideration of the Board's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing 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 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

January 24, 2007

**Baltimore County, Maryland
Local Management Board
Schedules of Revenues and Expenditures – Regulatory Basis
Years Ended June 30, 2005 and 2004**

	Year Ended June 30,	
	2005	2004
<u>Revenues:</u>		
Grants from Governor’s Office for Children (GOC):		
Cabinet Funds	\$ 2,120,151	\$ 2,253,690
Non-Cabinet Funds	0	9,676
Total Grants from GOC (Note 3)	2,120,151	2,263,366
Grants from Governor’s Office of Crime Control and Prevention	799,675	1,189,285
Baltimore County General Funds	119,956	119,956
Interest Income	26,025	17,946
Total Revenues	3,065,807	3,590,553
<u>Expenditures:</u>		
Program Costs (Note 4)	2,993,367	3,456,518
Administrative Operating Costs	236,817	270,012
Total Expenditures	3,230,184	3,726,530
Deficiency of Revenues Over Expenditures	(164,377)	(135,977)
Fund Balance, Beginning of Year (Note 7)	1,088,223	1,224,200
Fund Balance, End of Year (Note 7)	\$ 923,846	\$ 1,088,223

The accompanying notes are an integral part of these schedules.

Baltimore County, Maryland
Local Management Board
Notes to the Schedules of Revenues and Expenditures – Regulatory Basis
Years Ended June 30, 2005 and 2004

(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 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 Fund and comprise the following:

Revenues:

The Board is supported by grants from the State of Maryland, Governor's Office for Children (GOC) and the Governor's Office of Crime Control and Prevention. Funds received from these grants are deposited and invested along with other County funds until required for eligible operating costs. Interest income is credited 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, Maryland
Local Management Board
Notes to the Schedules of Revenues and Expenditures – Regulatory Basis
Years Ended June 30, 2005 and 2004**

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 (the Office). Revenue related to expenditure driven grants is recognized when the applicable eligibility requirements have been met and to the extent that cash is expected to be received within 60 days of year-end. Interest income is recognized when earned. Expenditures are recorded when the liability is incurred.

(3) Governor's Office for Children Grants

Total GOC grant revenue earned totaled \$2,120,151 and \$2,263,366, respectively, for the years ended June 30, 2005 and 2004 as follows:

	Year Ended June 30,	
	2005	2004
Children's Cabinet Interagency Funds:		
Current Year Grant Funds Received	\$ 2,376,715	\$ 2,263,366
Prior Year Advance Applied to Current Year Grant	0	21,127
Non-Cabinet Funds	0	9,676
Total Grants Awarded	<u>2,376,715</u>	<u>2,294,169</u>
Unexpended Funds	(256,564)	(9,676)
Prior Year Advance	0	(21,127)
Total GOC Grant Revenue Earned	<u><u>\$ 2,120,151</u></u>	<u><u>\$ 2,263,366</u></u>

(4) Program Costs

The Board has entered into contracts/agreements with various organizations to provide services for programs administered by the Board. For the years ended June 30, 2005 and 2004, payments for services provided under the specific programs were as follows:

**Baltimore County, Maryland
Local Management Board
Notes to the Schedules of Revenues and Expenditures – Regulatory Basis
Years Ended June 30, 2005 and 2004**

	Year Ended June 30,	
	2005	2004
Direct Expansion (e.g., After School Programs)	\$ 1,088,692	\$ 1,126,455
Youth Strategies Initiatives (e.g., Juvenile Delinquency Intervention/Prevention Programs)	808,156	1,189,284
Family Preservation (Home-Based Case Mgmt. Svs.)	472,124	650,000
Home Visiting (Healthy Families Program)	281,505	297,247
Community Services Initiative (return from out-of-state placements)	126,290	71,132
Local Coordinating Council (oversight of residential placements)	114,217	0
Earned Reinvestment	102,383	0
Education (e.g., Teen Pregnancy Prevention)	0	122,400
Total	<u>\$ 2,993,367</u>	<u>\$ 3,456,518</u>

(5) Children’s Cabinet Interagency Funds

The policies of the GOC require that any grant funds not expended, encumbered, or retained as earned reinvestment funds (Note 6) within each fiscal year be returned to the Children’s Cabinet Interagency Fund (formerly Subcabinet for Children, Youth and Families) unless permission is given to carry over (i.e., the unspent funds are applied against the next year’s grant award as a cash advance) the unspent funds. As of June 30, 2004 and June 30, 2005, the Board had not received approval to use the unexpended funds.

As of June 30, 2005 and 2004, the balance of unexpended funds totaled an estimated \$497,592 and \$241,028, respectively, as follows:

**Baltimore County, Maryland
Local Management Board
Notes to the Schedules of Revenues and Expenditures – Regulatory Basis
Years Ended June 30, 2005 and 2004**

	Children's Cabinet Interagency Funds	
	FY 2005	FY 2004
Current Year Grant Award (excl. Carryover)	\$ 2,376,715	\$ 2,263,366
Interest	26,025	17,946
Current Year Funds Available	2,402,740	2,281,312
Funds Expended and Encumbered	(2,120,151)	(2,277,613)
Unexpended Current Year Grant Funds	282,589	3,699
Carryover Funds	0	21,127
Earned Reinvestment Funds Retained	(26,025)	(15,150)
Total Unexpended Grant Funds	256,564	9,676
Unexpended Funds, Beginning of Year	241,028	472,845
Funds Reverted During the Year	0	(241,493)
Unexpended Funds, End of Year	<u>\$ 497,592</u>	<u>\$ 241,028</u>

(6) Earned Reinvestment Funds

Earned reinvestment funds represent revenue earned by meeting or exceeding certain performance criteria approved by the GOC. If Children's Cabinet Interagency grant funds remain unexpended and unencumbered at year-end, 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 GOC. Based on the Board's reported performance and the amount of unexpended and unencumbered funds remaining at year-end, it retained estimated earned reinvestment funds totaling \$26,025 and \$15,150 for the years ended June 30, 2005 and 2004, respectively, subject to final authorization by the GOC. In addition, during FYs 2005 and 2004, the GOC allowed the Board to spend accumulated earned reinvestment funds totaling \$190,402 and \$130,000, respectively, from prior years to support program costs. The balance of earned reinvestment funds as of June 30, 2005 and 2004 totaled \$923,846 and \$1,088,223, respectively, as follows:

**Baltimore County, Maryland
Local Management Board
Notes to the Schedules of Revenues and Expenditures – Regulatory Basis
Years Ended June 30, 2005 and 2004**

	FY 2005	FY 2004
Reinvestment Funds Earned	\$ 26,025	\$ 15,150
Reinvestment Funds Expended	(190,402)	(130,000)
Net Change in Reinvestment Funds	(164,377)	(114,850)
Reinvestment Funds, Beginning of Year	1,088,223	1,203,073
Reinvestment Funds, End of Year	<u>\$ 923,846</u>	<u>\$1,088,223</u>

(7) Fund Balance

The Board's fund balance as of June 30, 2005 is comprised entirely of unrestricted funds (earned reinvestment funds as described in Note 6). Fund balance as of June 30, 2004 is comprised of restricted (carryover funds as described in Note 5) and unrestricted (earned reinvestment) funds. The Board's fund balance as of June 30, 2005 and 2004 totaled \$923,846 and \$1,088,223, respectively, as follows:

	FYE June 30, 2005	FYE June 30, 2004		
	Total (Unrest.)	Restricted	Unrest.	Total
Reinvestment Funds Earned	\$ 26,025	\$ 0	\$ 15,150	\$ 15,150
Funds Expended	(190,402)	(21,127)	(130,000)	(151,127)
Net Change	(164,377)	(21,127)	(114,850)	(135,977)
Balance, Beginning of Yr.	1,088,223	21,127	1,203,073	1,224,200
Balance, End of Year	<u>\$ 923,846</u>	<u>\$ 0</u>	<u>\$1,088,223</u>	<u>\$1,088,223</u>

(8) Related Party Transactions

Certain members of the Board's governing body are also employees of the Baltimore County Departments of Health, Social Services, Education, and Recreation and Parks, which received significant payments for services during FY 2005 and 2004 as follows:

Baltimore County, Maryland
Local Management Board
Notes to the Schedules of Revenues and Expenditures – Regulatory Basis
Years Ended June 30, 2005 and 2004

Related Party	Year Ended June 30,	
	2005	2004
Department of Health	\$ 526,353	\$ 590,452
Department of Social Services	\$ 492,791	\$ 668,124
Department of Education	\$ 237,765	\$ 574,729
Department of Recreation & Parks	\$ 121,114	\$ 152,819



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MARY P. ALLEN, CPA
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**Independent Auditor's Report on Internal Control Over Financial Reporting and on
Compliance and Other Matters Based on Audits of the Schedules of Revenues and
Expenditures – Regulatory Basis of the Baltimore County, Maryland
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, 2005 and 2004, and have issued our report thereon dated January 24, 2007. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

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 an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable 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 caused by error or fraud 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. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

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, contracts and grant agreements, 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*.

Contract Monitoring

The State of Maryland, Governor's Office for Children's policy manual for local management boards (LMB) states that "The LMB must monitor all...sub-contractors, sub-grantees and consultants for compliance with program requirements as set forth in the LMB's contracts and grants..." The manual further provides that the LMB is responsible for developing procedures to fulfill its program monitoring requirements. While our review disclosed continued improvement in the Board's monitoring of contractors, our review of the files related to eight contracts also disclosed that the Board did not maintain documentation (e.g., review of contractor invoices, payroll records) to evidence that it monitored six contractors for compliance with program requirements as specified in the agreements. Consequently, there was a lack of assurance that the contractors complied with program requirements or that related contract payments totaling \$1,093,153 were adequately supported based on the actual cost of services or the actual number of clients served. This same condition was commented upon in our prior audit report. In order to assure that contractors comply with program requirements and contract payments are properly supported, we again recommend that the Board monitor contractors' compliance with program requirements and maintain documentation to evidence its monitoring efforts.

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

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, and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Brian J. Rowe". The signature is fluid and cursive, with the first name "Brian" being the most prominent part.

Brian J. Rowe, CPA
County Auditor

January 24, 2007

APPENDIX A

Baltimore County Local Management Board's Response

Local Management Board

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Baltimore County

James T. Smith, Jr., County Executive
Roe Davis, Executive Director

February 1, 2007

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 05 audit of the County's Local Management Board. Following is our reply to the issue raised regarding contract monitoring of LMB vendors.

Contract Monitoring

Notes indicate that the LMB "did not maintain documentation (e.g., review of contractor invoices, payroll records) to evidence that it monitored six contractors for compliance with program requirements as specified in the agreements." This note refers specifically to the four Youth Services Bureaus contracts and contracts with Baltimore County Department of Social Services (DSS) and Baltimore County Public Schools (BCPS).

The LMB agrees that specific documentation was not available in the contractor files for the four Youth Service Bureaus. However, as has been indicated to staff of the Office of the Auditor, monitoring and oversight of the Youth Service Bureaus has been the joint responsibility of the Local Management Board and the Department of Juvenile Services (DJS). Since DJS is the entity designated by State law to "certify" Youth Service Bureaus, that agency conducts monitoring visits and maintains relevant records. Despite many attempts by the LMB, DJS has not partnered with the LMB on this responsibility. The LMB staff did, however, maintain regular contact with the Youth Service Bureaus and receive quarterly and annual reports.

An agreement was reached in September 2005 (FY 2006) between DJS, the Governor's Office for Children, and LMB's, that transferred the monitoring function of the Youth Service Bureaus exclusively to the Local Management Board. This agreement will allow the LMB to solely monitor the Youth Service Bureaus and be in compliance with program requirements from FY 2006 forward.

The LMB also agrees that the monitoring effort of DSS and BCPS did not include review of such items as original invoices and payroll registers. Because both of these "contractors" are also Baltimore County agencies, the LMB monitor (who has sole responsibility of monitoring numerous contracts) relied on the many checks and balances incorporated into the County's financial systems, which include both payroll and disbursements, to satisfy that particular area of the monitoring.

Once again, thank you for this opportunity to respond. Should you have any additional questions or concerns, please feel free to contact me at 410-887-4255.



Sincerely,

A handwritten signature in black ink, appearing to read "Roe Davis". The signature is fluid and cursive, with the first name "Roe" and last name "Davis" clearly distinguishable.

Roe Davis
Executive Director

c: Tim Griffith, LMB Chair
LMB Staff