

Audit Report

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**Baltimore County, Maryland  
Local Management Board**

Independent Auditor's Report, Schedules of  
Revenues and Expenditures – Regulatory Basis  
For the Years Ended June 30, 2004 and 2003

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

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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

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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, 2004 and 2003. 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 (formerly the Office for Children, Youth and Families) 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, 2004 and 2003 on the basis of accounting described in Note 2.

In accordance with *Government Auditing Standards*, we have also issued our report (page 9) dated October 12, 2005 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. That 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 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

October 12, 2005

**Baltimore County, Maryland**  
**Local Management Board**  
**Schedules of Revenues and Expenditures – Regulatory Basis**  
**Years Ended June 30, 2004 and 2003**

	Year Ended June 30,	
	2004	2003
<b><u>Revenues:</u></b>		
Grants from Governor's Office for Children (Note 3)	\$2,294,169	\$3,882,932
Other State Grants	1,192,775	1,137,257
Baltimore County General Funds	119,956	119,956
Interest Income	<u>17,946</u>	<u>19,974</u>
Total Revenues	<u>3,624,846</u>	<u>5,160,119</u>
<b><u>Expenditures:</u></b>		
Contracted Program Costs (Note 4)	3,456,518	4,132,179
Administrative Operating Costs	<u>270,012</u>	<u>263,981</u>
Total Grant Expenditures	<u>3,726,530</u>	<u>4,396,160</u>
Reversion of Children's Cabinet Interagency Funds (Note 5)	<u>241,493</u>	<u>0</u>
Total Program Expenditures	<u>3,968,023</u>	<u>4,396,160</u>
Excess (Deficiency) of Revenues Over Expenditures (Note 7)	<u>(\$343,177)</u>	<u>\$763,959</u>

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, 2004 and 2003**

**(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 primarily supported by a grant from the State of Maryland, Governor's Office for Children and other State grants (e.g., 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, 2004 and 2003**

**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 grants is recognized when awarded, or when expenditures have been made or liability incurred. Interest income is recognized when earned. Expenditures are recorded when the liability is incurred.

**(3) Office for Children Grants**

Grants from the Office for Children totaled \$2,294,169 and \$3,882,932, respectively, for the years ended June 30, 2004 and 2003 as follows:

	<u>Year Ended June 30,</u>	
	<u>2004</u>	<u>2003</u>
Children’s Cabinet Interagency Funds:		
Current Year Grant Funds Received	\$2,263,366	\$3,656,508
Prior Year Advance Applied to Current Year Grant	21,127	128,614
Pass-Through Funds from Baltimore County Public Schools	0	55,724
Non-Cabinet Funds	<u>9,676</u>	<u>42,086</u>
Total Grants Awarded	<u>\$2,294,169</u>	<u>\$3,882,932</u>

**(4) Contracted 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, 2004 and 2003, payments for services provided under the specific programs were made to the following organizations:

**Baltimore County, Maryland**  
**Local Management Board**  
**Notes to the Schedules of Revenues and Expenditures – Regulatory Basis**  
**Years Ended June 30, 2004 and 2003**

	Year Ended June 30,	
	2004	2003
Youth Strategies Initiative (e.g., Juvenile Delinquency Intervention/Prevention Programs)	\$1,189,284	\$1,086,333
Direct Expansion (e.g., After School Programs)	1,126,455	1,686,059
Family Preservation (Home-Based Case Mgmt. Svs.)	650,000	561,551
Home Visiting (Healthy Families Program)	297,247	270,522
Education (e.g., Teen Pregnancy Prevention)	122,400	114,861
Return (from out-of-state placements)	71,132	305,245
Child Care Collaboration (e.g., Study of Child Care Issues)	0	60,845
Healthy Families – Responsible Choices	<u>0</u>	<u>46,763</u>
Total	<u>\$3,456,518</u>	<u>\$4,132,179</u>

**(5) Children’s Cabinet Interagency Funds**

Effective July 1, 2003, the Board is required to revert the balance of funds received from the Children’s Cabinet Interagency Fund (formerly Subcabinet for Children, Youth and Families) that remains unexpended, unencumbered and not retained as earned reinvestment (Note 6). (Prior to July 1, 2003, the Board was allowed to carry over the unexpended, unencumbered and unretained balance of funds as a cash advance toward the next year’s grant award.)

For FY 2004, unexpended and unencumbered funds that must be reverted to the State total an estimated \$451,718 of which \$241,493 was reverted during the year, leaving a balance owed to the State of \$210,225 as follows:

**Baltimore County, Maryland**  
**Local Management Board**  
**Notes to the Schedules of Revenues and Expenditures – Regulatory Basis**  
**Years Ended June 30, 2004 and 2003**

	Children's Cabinet Interagency Funds	
	FY 2004	FY 2003
Funds Received, including Interest	\$2,281,312	\$3,732,206
Funds Expended	(2,287,289)	(3,082,263)
Excess (Deficiency) of Funds Received	(5,977)	649,943
Earned Reinvestment Funds Retained	(15,150)	(305,712)
Funds Reverted During the Year	(241,493)	0
Net Change	(262,620)	344,231
Balance, Beginning of Year	472,845	128,614
Balance, End of Year	\$210,225	\$472,845

**(6) Earned Reinvestment Funds**

Earned reinvestment funds represent revenue earned by meeting or exceeding certain performance criteria approved by the Office. If Children's Cabinet Interagency grant funds awarded 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 Office. 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 \$15,150 and \$305,712 for the years ended June 30, 2004 and 2003, respectively, subject to final authorization by the Office. In addition, during FY 2004, the Office allowed the Board to use \$130,000 of accumulated earned reinvestment funds from prior years to support current program costs. The balance of earned reinvestment funds as of June 30, 2004 and 2003 totaled \$1,088,223 and \$1,203,073, respectively, as follows:

**Baltimore County, Maryland**  
**Local Management Board**  
**Notes to the Schedules of Revenues and Expenditures – Regulatory Basis**  
**Years Ended June 30, 2004 and 2003**

	FY 2004	FY 2003
Reinvestment Funds Earned	\$15,150	\$305,712
Reinvestment Funds Expended	(130,000)	0
Net Reinvestment Funds	(114,850)	305,712
Reinvestment Funds, Beginning of Year	1,203,073	897,361
Reinvestment Funds, End of Year	<u>\$1,088,223</u>	<u>\$1,203,073</u>

**(7) Excess of Expenditures over Revenues**

Expenditures may exceed revenues in a given year due to the reversion of Children’s Cabinet Interagency funds (as described in Note 5) and the Board’s use of prior year accumulated earned reinvestment funds (as described in Note 6). For the year ended June 30, 2004, the Schedule of Revenues and Expenditures includes \$241,493 of funds reverted to the State and \$130,000 of expenditures related to prior year earned reinvestment funds. For the year ended June 30, 2003, no funds were required to be reverted and no earned reinvestment funds were expended.

**(8) Related Party Transactions**

Certain members of the Board’s governing body are also employees of the Baltimore County Departments of Social Services, Health, Education, and Recreation and Parks, which received significant payments for services during FY 2004 and 2003 as follows:

<u>Related Party</u>	<u>Year Ended June 30,</u>	
	<u>2004</u>	<u>2003</u>
Department of Social Services	\$668,124	\$589,358
Department of Health	\$590,452	\$540,428
Department of Education	\$574,729	\$600,913
Department of Recreation & Parks	\$152,819	\$179,015



BALTIMORE COUNTY, MARYLAND  
OFFICE OF THE COUNTY AUDITOR

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MARY P. ALLEN, CPA  
DEPUTY COUNTY AUDITOR

**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, 2004 and 2003, and have issued our report thereon dated October 12, 2005. 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*.

#### **Contractor Audit**

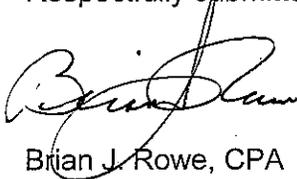
The policies of the State of Maryland, Governor's Office for Children (formerly the Office for Children, Youth and Families), require local management boards to acquire and review an audit of any contractor that receives Children's Cabinet Interagency (formerly Subcabinet for Children, Youth and Families) funds during a fiscal year. During FY 2004, 18 contractors received Children's Cabinet Interagency funds totaling \$2,256,528. Our review of payments to five non-profit contractors who received funds in excess of \$100,000 disclosed that the Board did not obtain the required audits from four contractors that received funds totaling \$662,929. 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, we again recommend that the Board obtain and review the required audits of contractors receiving Children's Cabinet Interagency funds.

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

We also noted an immaterial instance of noncompliance, which we have reported to management in a separate letter dated October 12, 2005.

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 written in a cursive style with a large initial "B".

Brian J. Rowe, CPA  
County Auditor

October 12, 2005

## **APPENDIX A**

Baltimore County Local Management Board's Response

**Local Management Board**

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Baltimore, Maryland 21212  
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**Baltimore County**

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

November 30, 2005

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 04 audit of the County's Local Management Board. Following is our reply to the "instance of noncompliance" included in the Report on Compliance and on Internal Control Over Financial Reporting:

**Compliance and Other Matters****Contractor Audit**

Notes indicate that the LMB did not obtain the required audits from four contractors that received funds totaling \$662,929.

I concur with this finding. Historically, the LMB has been operating in good faith with the understanding that contractor audits had to be secured for awards in excess of \$300,000. It has only been over the past two fiscal years that the Governor's Office for Children has more rigorously interpreted the contractor audit requirement to include all LMB vendors, even those who receive small grant awards from the LMB.

The enforcement of this GOC requirement has proved problematic for the Baltimore County LMB and LMB's across the State. The LMB began the process of obtaining audit waivers for several of our vendors but the waiver requirements were also problematic for vendors, as well. GOC has indicated that there are pending revisions to the Policies and Procedures Manual that may address this issue and hopefully that will be the case in FY 06 or 07. It is simply not reasonable to expect that all contractors, regardless of the amount of their contract, should incur this expense and burden.

Sincerely,

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

Roe Davis  
Executive Director

c: Ellen Clayton, Interim LMB Chair  
LMB Staff

