

Audit Report

Baltimore County Local Management Board

Independent Auditor's Report, Schedules of
Revenues and Expenditures for the Years Ended
June 30, 2001 and 2000

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

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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, 2001 and 2000. 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, 2001 and 2000 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 July 9, 2003 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 9). 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

July 9, 2003

**Baltimore County Local Management Board
Schedules of Revenues and Expenditures
Years Ended June 30, 2001 and 2000**

	Year Ended June 30,	
	2001	2000
<u>Revenues (Note 2):</u>		
Grant from Governor's Office for Children, Youth and Families	\$4,014,653	\$2,259,615
Baltimore County General Funds	119,956	119,956
Interest Income	<u>76,384</u>	<u>77,539</u>
Total Revenues	<u>4,210,993</u>	<u>2,457,110</u>
<u>Expenditures (Note 2):</u>		
Contracted Program Costs (Note 3)	2,896,432	1,720,789
Personnel Costs	252,676	168,529
Administrative Operating Costs and Supplies	<u>27,954</u>	<u>14,991</u>
Total Expenditures	<u>3,177,062</u>	<u>1,904,309</u>
Excess of Revenues Over Expenditures (Note 5)	<u>\$1,033,931</u>	<u>\$552,801</u>

The accompanying notes are an integral part of the schedules.

Baltimore County Local Management Board
Notes to the Schedules of Revenues and Expenditures
Years Ended June 30, 2001 and 2000

(1) Organization and Purpose

The Baltimore County Local Management Board (the Board) is an agency of Baltimore County government and is established pursuant to Article 49(d), Section 11 of the Annotated Code of Maryland, which requires each local jurisdiction to establish 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). Funds received from this grant are deposited and invested along with other County funds until required for eligible operating costs. Investment income is credited to the Board monthly based on the average balance of the grant funds on deposit during the month.

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

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.

**Baltimore County Local Management Board
Notes to the Schedules of Revenues and Expenditures
Years Ended June 30, 2001 and 2000**

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, 2001 and 2000, payments to these organizations for services provided under the specific programs were as follows:

	<u>Year Ended June 30,</u>	
	<u>2001</u>	<u>2000</u>
Direct Expansion	\$1,290,512	\$740,264
Family Preservation	650,000	661,145
Return	483,710	164,395
Home Visiting	281,505	--
Education	114,635	101,663
Diversion	<u>76,070</u>	<u>53,322</u>
Total	<u>\$2,896,432</u>	<u>\$1,720,789</u>

(4) Carryover Funds

The policies of the OCYF require that any grant funds not expended or encumbered 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 with the exception of earned reinvestment funds (Note 6), which may be retained by the Board.

**Baltimore County Local Management Board
Notes to the Schedules of Revenues and Expenditures
Years Ended June 30, 2001 and 2000**

The OCYF authorized the Board to carryover the following unspent funds and utilize them as a cash advance against the subsequent year's grant award:

	<u>FY 2001</u>	<u>FY 2000</u>
Prior Years' Carryover Available at beginning of year	\$560,326	\$1,441,404
Additional Earned Reinvestment Authorized by OCYF applicable to prior years (Note 6)	<u>(125,353)</u>	<u>0</u>
Adjusted Prior Years' Carryover Available	<u>434,973</u>	<u>1,441,404</u>
Prior Years' Carryover Used:		
Grant Funds Awarded	4,014,653	2,259,615
Grant Funds Received	<u>(3,590,723)</u>	<u>(843,321)</u>
Total Prior Years' Carryover Used	<u>423,930</u>	<u>1,416,294</u>
Remaining Carryover From Prior Years	11,043	25,110
Unspent Funds for the year ended June 30 (Note 5)	<u>653,520</u>	<u>535,216</u>
Carryover as of June 30	<u>\$664,563</u>	<u>\$560,326</u>

(5) Unspent Funds

Unspent funds for the years ended June 30, 2001 and 2000 were as follows:

	<u>Year Ended June 30,</u>	
	<u>2001</u>	<u>2000</u>
Grant Revenues and Interest	\$4,091,037	\$2,337,154
Expenditures Paid from Grant Revenues and Interest	<u>(3,057,106)</u>	<u>(1,784,353)</u>
Excess Revenues Over Expenditures	1,033,931	552,801
Estimated Earned Reinvestment (Note 6)	<u>(380,411)</u>	<u>(17,585)</u>
Unspent Funds	<u>\$653,520</u>	<u>\$535,216</u>

**Baltimore County Local Management Board
Notes to the Schedules of Revenues and Expenditures
Years Ended June 30, 2001 and 2000**

6) Earned Reinvestment Funds

Earned reinvestment results 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 OCYF. During FY 2001, the Board's reported performance resulted in estimated earned reinvestment funds totaling \$380,411, subject to final authorization by the OCYF. Since the Board has not submitted a plan to OCYF for using reinvestment funds earned during FY 2001 or prior years, none of the earned reinvestment funds have been used as of June 30, 2001. The balances of unused reinvestment funds as of June 30, 2001 and 2000 total \$555,562 and \$49,798, respectively, as follows:

	<u>FY 2001</u>	<u>FY 2000</u>
Balance of Unused Earned Reinvestment Funds at beginning of year	\$49,798	\$32,213
Additional Earned Reinvestment Funds authorized by OCYF applicable to prior years	<u>125,353</u>	<u>0</u>
Adjusted Balance of Prior Years' Earned Reinvestment Funds	175,151	32,213
Earned Reinvestment Funds for the year ended June 30	<u>380,411</u>	<u>17,585</u>
Balance of Unused Earned Reinvestment Funds as of June 30	<u>\$555,562</u>	<u>\$49,798</u>

**Baltimore County Local Management Board
Notes to the Schedules of Revenues and Expenditures
Years Ended June 30, 2001 and 2000**

(7) 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, and Health, and the Baltimore County Public Schools and Libraries, which are discretely presented component units of Baltimore County government. These organizations provided significant program services to the Board during FY 2001 and 2000. Payments to these organizations for the years ended June 30, 2001 and 2000 were as follows:

<u>Related Party</u>	<u>Program</u>	Year Ended June 30,	
		<u>2001</u>	<u>2000</u>
Department of Social Services	Family Preservation	\$650,000	\$661,145
	Direct Expansion	\$22,259	0
Baltimore County Public Schools	Direct Expansion	\$231,055	0
	Education	\$107,524	\$101,663
Department of Recreation & Parks	Direct Expansion	\$97,224	0
Department of Health, Bureau of Substance Abuse	Direct Expansion	\$95,326	0
Baltimore County Public Libraries	Direct Expansion	\$79,855	0



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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, 2001 and 2000, and have issued our report thereon dated July 9, 2003. 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 instances of noncompliance that are 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 2001, two contractors received Subcabinet funds in excess of \$300,000; however, the Board did not obtain the required audit from one of the contractors which received \$338,579 in Subcabinet funds. To ensure compliance with the policies of the Governor's Office for Children, Youth and Families, we recommend that the Board obtain and review audits of all contractors receiving in excess of \$300,000 during a fiscal year.

Monitoring Sub-Recipients and Contractors

During FY 2001, the Board paid 22 sub-recipients and contractors a total of \$2,896,432. The policies of the State of Maryland, Governor's Office for Children, Youth and Families require local management boards to monitor all sub-contractors, sub-grantees and consultants to ensure compliance with the terms of contracts and grants with these organizations. However, the Board did not adequately monitor all sub-recipients and contractors during FY 2001. For example, the Board did not perform monitoring procedures (e.g., program monitoring) for 20 of the 22 sub-recipients and contractors. To ensure compliance with the policies of the Governor's Office for Children, Youth and Families, we recommend that the Board monitor all sub-recipients and contractors for compliance with grant and contract requirements.

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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. 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. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

A response to our findings 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, 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

July 9, 2003

APPENDIX A

Baltimore County Local Management Board's Response



Baltimore County
Local Management Board

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October 14, 2003

Brian J. Rowe, County Auditor
Office of the County Auditor
400 Washington Avenue, Room 121
Towson, Maryland 21204

Dear Mr. Rowe:

This letter serves as formal response to the audit findings and recommendation included in the *Report on Compliance and on Internal Control Over Financial Reporting* prepared by your office at the request of the Baltimore County Local Management Board (LMB). This report covers Fiscal Year 2001, with FY 00 included for comparison purposes.

Finding 1, Contractor Audit

The report notes that the LMB failed to acquire and review an audit of one contractor who received grants from the LMB in excess of \$300,000 in FY 01, as required by the Governor's Office for Children, Youth and Families.

The LMB subsequently requested, received and reviewed an audit for FY 01 from the identified contractor.

Finding 2, Monitoring Subrecipients and Contractors

The report notes that the LMB did not adequately monitor all sub-recipients and contractors during FY 01.

The LMB agrees that there was insufficient monitoring of subrecipinets and contractors in FY 01. To address this issue, evaluation staff/consultants have been hired, monitoring and evaluation tools have been developed, LMB policies and procedures for program oversight have been put in place, and program monitoring expectations are articulated in all LMB agreements with vendors.

Thank you for the opportunity to respond to the identified issues. As always, we appreciate the thorough job performed by your staff. If you need additional information, please don't hesitate to contact me.

Sincerely,

A handwritten signature in black ink, appearing to read "Roe Davis", is written over the typed name.

Roe Davis
Executive Director

C: Michelle A. Leverett, M.D., LMB Chair
Don Schlimm, LMB
Stephanie Farina, LMB