

CITY OF BALTIMORE

STEPHANIE RAWLINGS-BLAKE, Mayor



DEPARTMENT OF AUDITS

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AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

February 2, 2016

Honorable Joan M. Pratt, Comptroller
And Other Members of the Board of Estimates
Board of Trustees of the
Enoch Pratt Free Library
City of Baltimore, Maryland

We have audited in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major governmental fund and the aggregate remaining fund information of the Enoch Pratt Free Library (Library), a component unit of the City of Baltimore, Maryland, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Library's basic financial statements, and have issued our report thereon dated, February 2, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Library's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Library's internal control. Accordingly, we do not express an opinion on the effectiveness of the Library's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described below, we identified certain deficiencies in internal control that we consider to be a material weakness and a significant deficiency.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described below to be a material weakness.

Finding 2011-1: The Library's Business Office did not timely prepare its annual financial report for submission to the Maryland State Department of Education. An adequate control environment includes the assignment of authority and responsibility such that appropriate numbers of trained staff are available for accounting functions to ensure fiscal year assignments are completed timely and accurately. This material weakness continued throughout fiscal year 2015 when again the Library was unable to meet the December 31st deadline for report preparation.

The Library's accounting software system, MIP Fund Accounting, was not fully utilized in the preparation of the financial statements. Compiling the year-end financial statements is complex and the Library must rely on manual adjustments to properly record transactions, accruals, corrections, and other transactions. As a result, the financial statement preparation process requires compiling worksheets, completing reconciliations, and recording various adjustments. The extent of the necessary modifications to the financial information increases the complexity of the financial statement preparation process, which makes the process more susceptible to errors.

We again recommend that the Library continue to refine the process to prepare and review the financial statements, all significant adjustments including accruals and corrections, and in preparing all necessary reconciliations. The Library should continue to evaluate its accounting software's capability to determine whether the software is capable of preparing complete and accurate financial statements. After completing its evaluation, we would also recommend that staff be trained to fully and properly utilize the Library's accounting software system. We also recommend that the Library evaluate and document the financial statement preparation process. Written procedures would facilitate the timely and accurate preparation of the Library's annual financial statements.

Library's Response: It is the Library's goal every year to submit the report to the State with the Internal Control letter by the December 31 deadline. That is dependent on adequate staffing, availability of information from City Accounting and other City sources, and accuracy of accounting records. All of those things were not in place during the FY 2015 report development. The Library once again experienced unanticipated staffing issues which contributed to delays in report production, however the Library did have a draft report ready in late December when we were asked to modify the report to include an increase in the valuation of art owned by the Library for which we received an appraisal report after the end of the fiscal year. While we agree with the Department of Audits with regard to making better use of the MIP Fund Accounting software to assist with the generation of financial statements, we believe most of our issues relate to the merging of Baltimore City and MIP Accounting System general ledgers and an inadequate internal review process. The Library has hired a new Chief Financial Officer (CFO) who will be tasked with finding a solution to this issue. In addition, the CFO will conduct an analysis of existing processes and recommending improvements which are expected to strengthen the Library's accounting systems and lead to a timely filing of the FY 2016 report.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described below to be a significant deficiency.

Finding 2015-1: As of June 30, 2015, the Library could not determine the amount of money due to the City for fines and fees. As part of the Library budget it is agreed that the Library remit revenues earned for fines and fees (room rentals, photo copying, overdue books, coffee sales, etc.) to the City monthly. In fiscal year 2015, the Library remitted \$222,000 in fines and fees to the City. The

Library's financial statements showed \$42,100 as fines, fees and other revenue in the Special Revenue-Other account, which included \$22,400 that was due to the City at year end.

We recommend that the Library reconcile the fines and fees account at year end and remit all funds due to the City by Fiscal year end.

Library's Response: This finding is the result of minor posting and other management oversight errors that were not discovered prior to finalization of the report. We have completed journal entries and submitted the amount due to the City. The Library agrees with this recommendation and has implemented new monthly procedures to analyze this and other accounts in an attempt to identify posting errors. It is also expected that the new CFO will provide additional improvements to further strengthen internal controls.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Library's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The Library's responses to the findings identified in our audit are described above. We did not audit the Library's responses and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,



Robert L. McCarty, Jr., CPA
City Auditor