Department of Health

Biennial Financial Audit

Fiscal Years Ended June 30, 2017 and 2016

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CITY OF BALTIMORE

JOAN M. PRATT, CPA
Comptroller

DEPARTMENT OF AUDITS
AUDREY ASKEW, CPA
City Auditor
100 N. Holliday Street
Room 321, City Hall
Baltimore, MD 21202
Telephone: 410-396-4783
Telefax: 410-545-3961

INDEPENDENT AUDITOR'S REPORT

Honorable Joan M. Pratt, Comptroller
and Other Members of the
Board of Estimates
City of Baltimore, Maryland

Report on the Financial Statements

We have audited the accompanying cash basis financial statements of the governmental activities, of the Department of Health (the Agency), an agency of the primary government of the City of Baltimore, Maryland, which comprise the Schedule of Revenues, Expenditures and Encumbrances, and Changes in Fund Balance, Budget and Actual, Budgetary Basis, General Fund; and Statement of Revenues, Expenditures and Changes in Grant Cash Balances, for the years ended June 30, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the cash basis of accounting described in Note 3; this includes determining that the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for the auditor's modified audit opinion.

Basis for Qualified Opinion

As a result of the procedures performed in this area, we obtained sufficient appropriate audit evidence to determine that the FY 16 opening Statement of Revenues, Expenditures and Changes in Grant Cash Balance which totaled $52.6M (deficit), includes approximately $17M in deficit expenditure activity dating from 2003 to 2012 that gives the appearance of receivables due from federal, state and private grant sources. The aged activity was not appropriately adjusted, and results in misstatements that materially affect the balances reported in the statements for the periods ending June 30, 2017 and 2016. Refer to Finding 1.

Qualified Opinion

In our opinion, except for the effects of the matter discussed in the Basis for Qualified Opinion paragraph, the financial statements referred to in the first paragraph present fairly, the revenues collected, expenses paid and balances reported for governmental activities, of the Agency, for the years ended June 30, 2017 and 2016 in accordance with the cash basis of accounting described in Note 3.

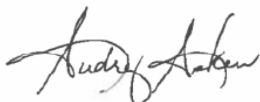
Basis of Accounting

The financial statements are prepared on the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the Unites States of America. Our opinion is not modified with respect to this matter.

Report on Other Legal and Regulatory Requirements

Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the financial statements is not affected by this missing information.

In accordance with Government Auditing Standards, we have also issued our report, dated December 6, 2018, on our consideration of the Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Agency's internal control over financial reporting and compliance.



Audrey Askew, CPA
City Auditor

December 6, 2018

CITY OF BALTIMORE
Department of Health
Schedule of Revenues, Expenditures and Encumbrances, and Changes in Fund Balance
Budget and Actual – Budgetary Basis – General Fund
For Fiscal Year Ended June 30, 2017

	Final Budget	Actual	Variance
Revenues			
Appropriation revenues	$ 34,059,816	$ 25,054,914	$ 9,004,902
Expenditures and Encumbrances			
Clinical services	7,265,397	4,041,440	3,223,957
Healthy homes	1,072,920	836,417	236,503
Substance abuse and mental health	2,041,806	1,519,781	522,025
Maternal and child health	2,486,024	1,030,866	1,455,158
School health services	3,151,695	3,134,414	17,281
Health services for seniors	-	3,414	(3,414)
Emergency services - Health	1,349,578	718,955	630,623
Youth violence prevention	953,584	833,240	120,344
Administration	5,019,169	4,498,881	520,288
Animal services	3,595,888	2,736,493	859,395
Environmental health	3,447,541	2,703,649	743,892
Chronic disease prevention	607,632	262,657	344,975
HIV treatment services for the uninsured	1,409,346	1,126,820	282,526
Senior centers	910,578	482,684	427,894
Administration - CARE	424,763	301,237	123,526
Advocacy for seniors	101,289	105,107	(3,818)
Direct care and support planning	40,360	130,133	(89,773)
Community services for seniors	182,246	588,726	(406,480)
Total Expenditures and Encumbrances	34,059,816	25,054,914	9,004,902
Excess of revenues over expenditures (GAAP)	-	-	-
Beginning budgetary fund balance	-	-	-
Ending budgetary fund balance	$ -	$ -	$ -

The notes to the financial statements are an integral part of this statement.

CITY OF BALTIMORE
Department of Health
Schedule of Revenues, Expenditures and Encumbrances, and Changes in Fund Balance
Budget and Actual – Budgetary Basis – General Fund
For Fiscal Year Ended June 30, 2016

	Final Budget	Actual	Variance
Revenues			
Appropriation revenues	$ 32,423,856	$ 22,785,520	$ 9,638,336
Expenditures and Encumbrances			
Clinical services	7,293,992	3,583,851	3,710,141
Healthy homes	924,568	917,939	6,629
Substance abuse and mental health	2,199,456	1,832,978	366,478
Maternal and child health	1,661,833	280,784	1,381,049
School health services	3,222,315	2,207,215	1,015,100
Health services for seniors	-	2,745	(2,745)
Emergency services - Health	675,326	724,328	(49,002)
Youth violence prevention	762,082	614,993	147,089
Administration	5,027,597	4,038,189	989,408
Animal services	3,870,046	3,146,569	723,477
Environmental health	3,123,837	2,797,278	326,559
Chronic disease prevention	636,219	299,438	336,781
HIV treatment services for the uninsured	1,368,203	1,221,282	146,921
Senior centers	912,555	541,377	371,178
Administration - CARE	447,327	253,545	193,782
Advocacy for seniors	99,956	89,261	10,695
Direct care and support planning	53,368	-	53,368
Community services for seniors	145,176	233,748	(88,572)
Total Expenditures and Encumbrances	32,423,856	22,785,520	9,638,336
Excess of revenues over expenditures (GAAP)	-	-	-
Beginning budgetary fund balance	-	-	-
Ending budgetary fund balance	$ -	$ -	$ -

The notes to the financial statements are an integral part of this statement.

CITY OF BALTIMORE
Department of Health
Statement of Revenues, Expenditures and Changes in Grant Cash Balance
For Fiscal Year Ended June 30, 2017

	Cash Balance 7/1/2016	Revenues	Expenditures	Cash Balance 6/30/2017
Federal Grants				
Clinical services	$ (4,441,703)	$ 4,256,310	$ 4,396,845	$ (4,582,238)
Healthy homes	(1,157,239)	1,370,957	1,458,111	(1,244,392)
Maternal and child health	(7,864,636)	18,500,889	17,186,352	(6,550,099)
School health services	(581,821)	212,047	-	(369,774)
Health services for seniors	5,655,239	1,944,188	2,268,476	5,330,951
Emergency services - Health	(433,223)	845,770	877,268	(464,721)
Youth violence prevention	(892,156)	748,428	1,160,567	(1,304,295)
Administration	322,880	-	45,206	277,674
Environmental health	(117,211)	-	4,073	(121,284)
Chronic disease prevention	4,206,019	82,836	50,019	4,238,836
HIV treatment services for the uninsured	(18,916,550)	47,375,649	30,329,368	(1,870,269)
Senior centers	(6,917,365)	1,119,008	1,594,144	(7,392,501)
Administration - CARE	956,105	-	103,609	852,496
Advocacy for seniors	(177,385)	203,231	185,822	(159,976)
Direct care and support planning	(394,213)	126,149	-	(268,064)
Community services for seniors	(3,447,646)	3,205,951	2,778,158	(3,019,853)
General nursing services	(1,964)	-	1,167	(3,131)
Total revenues, expenditures and change in grant balances - Federal	(34,202,869)	79,991,413	62,439,185	(16,650,640)
State Grants				
Clinical services	39,749	1,069,082	484,891	623,940
Healthy homes	35,465	-	307	35,158
Substance abuse and mental health	22,472	-	99,871	(77,399)
Maternal and child health	(472,997)	1,857,926	1,499,551	(114,622)
School health services	(201,458)	565,382	518,401	(154,477)
Health services for seniors	(54,546)	364,205	660,694	(351,035)
Emergency services - Health	(868,660)	2,926,889	10,934,615	(8,876,386)
Youth violence prevention	(2,292,887)	838,762	89,739	(1,543,864)
Administration	(10,315)	-	-	(10,315)
Chronic disease prevention	(287,877)	526,592	656,518	(417,803)
HIV treatment services for the uninsured	(2,387,801)	6,920,607	2,646,027	1,886,779
Senior centers	(611,646)	156,394	128,444	(583,696)
Administration - CARE	(44,255)	-	-	(44,255)
Advocacy for seniors	(795,253)	1,963,619	1,777,836	(609,470)
Direct care and support planning	(228,614)	1,644,611	1,662,880	(246,883)
Community services for seniors	(1,658,460)	357,639	202,220	(1,503,041)
General nursing services	(2,260,429)	-	51	(2,260,480)
Grant support services	(427,537)	-	-	(427,537)
Total revenues, expenditures and change in grant balances - State	(12,505,049)	19,191,708	21,362,045	(14,675,386)

The notes to the financial statements are an integral part of this statement.

CITY OF BALTIMORE
Department of Health
Statement of Revenues, Expenditures and Changes in Grant Cash Balance
For Fiscal Year Ended June 30, 2017

	Cash Balance 7/1/2016	Revenues	Expenditures	Cash Balance 6/30/2017
Other Grants				
Clinical services	524,147	195,972	131,793	588,326
Healthy homes	1,693,287	1,048,350	971,367	1,770,270
Maternal and child health	1,252,472	1,151,297	768,974	1,634,795
School health services	(6,323,151)	13,552,172	12,549,048	(5,320,027)
Emergency services - Health	213,251	-	76,770	136,481
Youth violence prevention	88,821	195,110	588,496	(304,565)
Administration	(503,519)	475,558	431,656	(459,617)
Animal services	158,502	-	-	158,502
Environmental health	192,458	10,505	21,130	181,833
Chronic disease prevention	(40,684)	-	421	(41,105)
HIV treatment services for the uninsured	(2,198)	-	-	(2,198)
Senior centers	423,037	6,607	42,427	387,217
Advocacy for seniors	262,805	166,887	289,522	140,170
Direct care and support planning	37,711	9,650	114,082	(66,721)
Community services for seniors	907,582	332,985	217,145	1,023,422
General nursing services	(29,342)	-	990	(30,332)
Grant support services	(244,211)	-	-	(244,211)
Total revenues, expenditures and change in grant balances - Other	(1,389,032)	17,145,093	16,203,821	(447,760)
Total Grants	$ (48,096,950)	$ 116,328,214	$ 100,005,051	$ (31,773,786)

The notes to the financial statements are an integral part of this statement.

CITY OF BALTIMORE
Department of Health
Statement of Revenues, Expenditures and Changes in Grant Cash Balance
For Fiscal Year Ended June 30, 2016

	Cash Balance 7/1/2015	Revenues	Expenditures	Cash Balance 6/30/2016
Federal Grants				
Clinical services	$ (6,260,790)	$ 6,076,556	$ 4,257,469	$ (4,441,703)
Healthy homes	(1,503,873)	1,873,321	1,526,687	(1,157,239)
Maternal and child health	(7,888,691)	14,948,282	14,924,227	(7,864,636)
School health services	(595,334)	70,251	56,738	(581,821)
Health services for seniors	4,269,733	4,028,969	2,643,463	5,655,239
Emergency services - Health	(210,500)	426,158	648,881	(433,223)
Youth violence prevention	(212,162)	210,119	890,113	(892,156)
Administration	49,676	273,204	-	322,880
Environmental health	(17,523)	(94,662)	5,026	(117,211)
Chronic disease prevention	3,620,102	720,139	134,222	4,206,019
HIV treatment services for the uninsured	(13,205,601)	20,600,834	26,311,783	(18,916,550)
Senior centers	(7,401,794)	1,675,379	1,190,950	(6,917,365)
Administration - CARE	956,741	-	636	956,105
Advocacy for seniors	-	22,289	199,674	(177,385)
Direct care and support planning	(644,492)	656,565	406,286	(394,213)
Community services for seniors	(2,664,262)	986,218	1,769,602	(3,447,646)
General nursing services	(40,492)	40,491	1,963	(1,964)
Grant support services	69,933	-	69,933	-
Total revenues, expenditures and change in grant balances - Federal	(31,679,329)	52,514,113	55,037,653	(34,202,869)
State Grants				
Clinical services	(677,154)	1,854,756	1,137,853	39,749
Healthy homes	36,744	-	1,279	35,465
Substance abuse and mental health	(176,764)	329,920	130,684	22,472
Maternal and child health	(200,723)	585,025	857,299	(472,997)
School health services	(284,508)	556,974	473,924	(201,458)
Health services for seniors	(195,757)	625,125	483,914	(54,546)
Emergency services - Health	(1,927,683)	10,888,439	9,829,416	(868,660)
Youth violence prevention	(2,376,247)	830,281	746,921	(2,292,887)
Administration	(42,711)	32,396	-	(10,315)
Chronic disease prevention	(537,944)	796,933	546,866	(287,877)
HIV treatment services for the uninsured	(778,302)	3,457,219	5,066,718	(2,387,801)
Senior centers	(369,939)	373,294	615,001	(611,646)
Administration - CARE	(37,165)	-	7,090	(44,255)
Advocacy for seniors	(42,285)	1,489,050	2,242,018	(795,253)
Direct care and support planning	(1,120,340)	1,276,810	385,084	(228,614)
Community services for seniors	(1,131,693)	126,437	653,204	(1,658,460)
General nursing services	129,512	27,060	2,417,001	(2,260,429)
Grant support services	(427,537)	-	-	(427,537)
Total revenues, expenditures and change in grant balances - State	(10,160,496)	23,249,719	25,594,272	(12,505,049)

The notes to the financial statements are an integral part of this statement.

CITY OF BALTIMORE
Department of Health
Statement of Revenues, Expenditures and Changes in Grant Cash Balance
For Fiscal Year Ended June 30, 2016

	Cash Balance 07/01/2015	Revenues	Expenditures	Cash Balance 06/30/2016
Other Grants				
Clinical services	123,308	513,698	112,859	524,147
Healthy homes	1,539,292	269,145	115,150	1,693,287
Maternal and child health	853,545	1,124,807	725,880	1,252,472
School health services	(10,803,691)	17,700,830	13,220,290	(6,323,151)
Emergency services - Health	-	259,516	46,265	213,251
Youth violence prevention	(1,179)	90,000	-	88,821
Administration	(113,178)	44,484	434,825	(503,519)
Animal services	158,502	-	-	158,502
Environmental health	159,527	32,932	1	192,458
Chronic disease prevention	(66,356)	31,698	6,026	(40,684)
HIV treatment services for the uninsured	(2,198)	-	-	(2,198)
Senior centers	458,185	9,181	44,329	423,037
Advocacy for seniors	226,099	60,116	23,410	262,805
Direct care and support planning	(24,569)	284,104	221,824	37,711
Community services for seniors	905,793	1,789	-	907,582
General nursing services	(27,710)	-	1,632	(29,342)
Grant support services	(251,396)	7,185	-	(244,211)
Total revenues, expenditures and change in grant balances - Other	(6,866,026)	20,429,485	14,952,491	(1,389,032)
Total Grants	$ (48,705,851)	$ 96,193,317	$ 95,584,416	$ (48,096,950)

The notes to the financial statements are an integral part of this statement.

CITY OF BALTIMORE
Department of Health
Notes to the Financial Statements
Fiscal Years Ended June 30, 2017 and 2016

1. Description of the Department of Health

The Department of Health is responsible for the enforcement of various City ordinances dealing with public health. The agency is composed of several divisions. Major program areas include environmental health; communicable disease; maternal and infant care; child, adolescent and family health services; school health; mental health with substance abuse and addictions services; health services for seniors; and healthy homes. The Commission on Aging and Retirement Education was merged into the Health Department beginning Fiscal 2011. As the local health authority, the Health Department's mission is to serve Baltimore by promoting health and advocating for every individual's well-being, in order to achieve health equity for all residents, improve the health of the community and address health disparities. The Health Department's work is driven through three principle tenets: to deliver services and public health information directly to community members, to engage the community in setting goals, and to tackle the root causes of poor health within the City.

2. Fund Financial Statements

These financial statement have been prepared on a cash basis of accounting other than accounting principles general accepted in the United States of America. Accordingly, they do not represent the financial position of the City of Baltimore or the Agency. The Agency's services are reported in the City's general and special revenue funds. The Agency annually receives appropriations from both the general and special revenue funds. General fund appropriations expired at year end. The special revenue fund receives grants from the Federal, State and other sources. Appropriations for special revenue funds do not expire at year end and continue until they are used for grant related expenditures. As a result of these differences, the financial statements of the Agency's general fund activities are reported on a budgetary basis in the *Statement of Revenues, Expenditures, and Encumbrances and Changes in Fund Balance*. The financial statement of the special revenue fund is reported in the Statement of Revenues, Expenditures and Changes in Cash Balance.

3. Summary of Significant Accounting Policies

Basis of Accounting

The financial statements of the Agency are prepared on the cash basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than generally accepted accounting principles. This basis of presentation differs from accounting principles generally accepted in the United States of America (GAAP) in that revenues are recognized when received rather than earned and expenses are recognized when paid rather than when the obligation is incurred. Specifically, the variances from GAAP include the omission of receivables and payables of the Agency, and such variances are presumed to be material. The accompanying financial statements are not intended to present the financial position and results of operations in conformity with accounting principles generally accepted in the United States of America.

4. Budget Process

The Agency participates in the City of Baltimore's Outcome Based Budgeting process. Outcome Based Budgeting is a budget process that aligns resources with results produced. This budgeting tool integrates strategic planning, long-range financial planning and performance management, and is a recommended practice of the Government Finance Officers Association.

5. Advance from the City

Advances from the City represent cash advances by the City that have not been reimbursed by the Grantor. Cash advances not reimbursed by the grantor will be the responsibility of the City.

6. Risk Management

The City of Baltimore is exposed to various risks of loss related to torts; theft of; damage to; and destruction of assets; errors and omissions; injuries to employees and members of the public; and natural disasters. The Agency is a chartered agency within the City of Baltimore municipal government. Therefore, its exposure to various risks is managed by the City's Office of Risk Management.

7. Subsequent Events

No subsequent events have occurred that would require recognition or disclosure in the financial statements.

INDEPENDENT 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*

CITY OF BALTIMORE

JOAN M. PRATT, CPA
Comptroller

DEPARTMENT OF AUDITS
AUDREY ASKEW, CPA
City Auditor
100 N. Holliday Street
Room 321, City Hall
Baltimore, MD 21202
Telephone: 410-396-4783
Telefax: 410-545-3961

INDEPENDENT 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*

Honorable Joan M. Pratt, Comptroller
and Other Members of the
Board of Estimates
City of Baltimore, Maryland

We have audited, 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, the cash basis financial statements of the governmental activities of the Department of Health of the City of Baltimore, Maryland, as of and for the years ended June 30, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the Department of Health's financial statements, and have issued our report thereon dated, December 6, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Department of Health'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 Department of Health's internal control. Accordingly, we do not express an opinion on the effectiveness of the Department of Health'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 in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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 in the accompanying schedule of findings to be a material weakness as Finding 1.

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 in the accompany schedule of to be significant deficiency as Finding 2.

Compliance and Other Matters

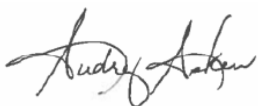
As part of obtaining reasonable assurance about whether the Department of Health's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct 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.*

Department of Finance Response to Findings

Baltimore City, Department of Finance's response to the findings identified in our audit is described in the accompanying schedule of findings. Baltimore City, Department of Finance's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 results 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.



Audrey Askew, CPA
City Auditor

December 6, 2018

CITY OF BALTIMORE
Department of Health
Schedule of Findings
Fiscal Years Ended June 30, 2017 and 2016

Finding #1 – Material Weakness - Incorrect Accounting Treatment and Untimely Expenditure Reimbursement

Criteria
COSO requires entities to maintain a system of internal control that provides reasonable assurance that transactions are properly recorded and accounted for to permit the preparation of reliable financial statements.

Condition
During our audit of general ledger detail that supports the FY 2017 and FY 2016 financial statement balances, we noted the following:

a) During our audit we noted net revenue and expenditure transactions totaling approximately $17M, which date from 2003 – 2012, existed on the Statement of Revenues and Expenditures and Changes in Grant Cash Balance at June 30, 2016. BAPS prepared journal entries to write off approximately $4.5M. However, the remaining $12.5M deficit balance was carried forward into the $52.6M (deficit) FY 16 opening balance. This conservative estimate indicates that net overstated expenditures, which give the appearance of receivables due from federal, state, and private grant sources, are included in the FY 15 through FY 17 grant balances. We also noted grants that were charged to multiple programs. Additionally, journal entries associated with prior period grant revenue and expenditure transactions that date back to FY 2003 (e.g. apply 421116 revenue to 421107 and move salary and fringe from 422709 to 422710) were posted to the general ledger during the audit period and resulted in net aggregate revenue of ($5.1M) and ($3.5M) for FY 17 and FY 16, respectively. The inclusion of prior period journal entries permeated BCHD grant accounting. This issue is heightened because the Agency continues to adjust the general ledger to balance to prior period annual reports. However, during our May 2018 review we noted that there were no entries that charged the aged/closed activity to the general fund.

   We also noted that 513 of 687 (75%) accounts contained in the grant roll forward report were listed as inactive. However, while many transactions were posted through the audit period, information was not available to determine when the accounts were closed or if an account(s) was reopened for transaction posting and subsequently closed.

b) Federal and State grant revenue distributions and adjustments totaling approximately $1.4M and $600K respectively were credited to expense account 600000.

c) During analysis of selected annual reports and grant balances we noted expenditures that exceeded revenue of the period by $3M to $8M. It appears that reimbursements associated with approximately 50% or more of expenditures were not obtained during the period. It also appears that contracts are not always approved timely which result in late expenditure and reimbursement submissions. As a result, City resources were not available to provide additional services.

d) BAPS provided an original Statement of Revenues and Expenditures and Changes in Grant Cash Balance with an original FY 16 opening deficit balance of $52.5M for federal, state, and private grants. After BAPS completed JEs to write off aged activity from the statement audits noted a change in the opening balance of $47.1M (deficit) which we deem as an error because the write off was $4.4M which should have resulted in an opening surplus balance of $48.1M (net deficit). DOA advised BAPS of the out of balance condition and received revised statements on 11/28/2018 that reflected the write offs in the FY 16 balances.

Finding #1 – Material Weakness - Incorrect Accounting Treatment and Untimely Expenditure Reimbursement (Continued)

Cause

Incorrect accounting treatment for prior period activity and untimely reconciliation of grant activity. Incomplete review of general ledger detail. Late contract finalization and/or untimely submission of reimbursement requests impact general fund resources.

Effect

Inaccurate financial statements will be produced that misstate grant balances. Also, City resources will not be available to provide additional services.

Recommendation

We recommend that:

a) Aged grant activity be appropriately charged to the general fund and that accounts be permanently closed to preclude continued posting to prior period grants. Also, grant reconciliations and the corresponding journal entries be completed on a timelier basis.
b) The agency review the general ledger detail monthly and investigate questionable journal entries.
c) Contracts and reimbursement requests be issued more timely to further reduce the use of general funds.
d) Due to the pervasiveness of JE errors noted on several other audits, we recommend that grant reconciliations and the resulting JEs be completed timely to show an accurate accounting of anticipated receipts or close out and that activity associated with aged/closed grant accounts be appropriately recorded in the general fund.

Management Response

BCHD

We thank BCDA and its staff for assisting in identifying potential weaknesses in BCHD's financial management processes. We agree that these are all important issues to consider. While BCHD acknowledges that lags in the routing of contracts often delays the time in which financial activities are recorded, the Department disagrees with these conditions because they are products of broader city-wide issues as noted by BCDA.

As cited by BCDA, many of the financial records maintained by the Bureau of Accounting and Payroll Services (BAPS) include numerous miscoded transactions; BCHD fiscal staff has observed deposits posted to incorrect budget account numbers, current transactions posted to prior year grant accounts, and expenses pushed onto closed or frozen accounts. Further compounding these issues, timing variances between when grant revenue is received and when expenses are incurred oftentimes create the appearance that grant accounts are out of balance. Despite timely identification of issues, many of these errors are beyond the control of BCHD fiscal staff because BAPS is the entity ultimately responsible for controlling activity on the City's general ledger. Despite these challenges, BCHD will continue to work closely with BAPS to ensure that transactions are properly recorded by reconciling the general ledger and fiscal reports, monitoring BCHD's coding of revenues and expenses, and reviewing the proper classification of revenues and expenses.

BCHD looks forward to working closely with BCDA and other agencies to resolve any problems and to prevent them from reoccurring.

Finding #1 – Incorrect Accounting Treatment and Untimely Expenditure Reimbursement (Continued)

Management Response (Continued)

Department of Finance

The Department of Finance agrees with the finding d) with explanation. The error in the statements referenced above occurred after a late demand by the DOA to change the previously agreed upon report format.

Finance delivered to the DOA seven financial statements in February and March and one in April. These financial statements represented all the Group B departmental audits. The format for these financial statements was the same as the Group A reports that previously received a clean unmodified opinion from the City Auditor. In late August approximately 7 months after the first financial statements were issued, the DOA informed us that the statement format was now suddenly unacceptable. From September forward we worked with DOA to amend the format in short order to accommodate their concerns. In our haste to accommodate the DOA format request and meet their deadline, Finance made a mistake in the above JE that changed the opening cash balance. This entry was subsequently corrected and the DOA received the updated statements with the revised format in time to meet their delivery deadline.

Department of Audit's Updated Response to Management

DOA did not change the format from what was agreed upon by the BAOC. DOA was going to issue an Adverse opinion based on the grant totals in the original report submitted by BAPS, due to the amount of material old balances as early as 2003 still reflected in the general ledger. Finance did not want an Adverse audit opinion and wanted to do whatever was necessary to avoid such opinion, so they sought external advice. The Department of Finance had communication with another external audit firm, which recommended changing data to prevent an Adverse audit opinion. As a result of these communications, DOA sent communication to governance on October 12th stating Finance had communication with another audit firm. BAPS failed to record prior years audit adjustments related to agencies grant accounts in FY 2015, 2016, and 2017. When DOA realized that BAPS 'soft booked' these JE's, we stated that the CAFR audits adjustments were never posted in the general ledger, which is a problem. BAPS was never told to change the format of a report by DOA.

The DOA conducted the Agency audits according to Generally Accepted Auditing Standards (GAAS) as required. BAPS journal entry error postings have been noted in other findings for other audits. The errors in posting was corrected only after DOA disclosed this information to BAPS. DOA recommend BAPS need to implement controls and training in understanding accounting operations.

Finally, Note 5 was inserted into the Notes to the Financial Statements after DOA requested a note be added to address the issue related to the appearance of a receivable due from federal, state and private grantors.

Finding #2 – Inadequate Control over Revenue Receipts

Criteria

The Committee of Sponsoring Organizations (COSO) and standard business practice requires entities to maintain a system of internal control that provides reasonable assurance that transactions are properly recorded and accounted for to permit the preparation of reliable financial statements.

Finding #2 – Inadequate Control over Revenue Receipts (Continued)

Condition
The Department of Audits' internal control review of the Baltimore City Health Department (BCHD) grant and program income collection processes disclosed the following:

a) During FY 2017 and 2016, the BCHD fiscal office received approximately $19M and $26M, respectively in grant reimbursement checks directly from grantors. For receipt of funds, the responsible employee will coordinate identification of the corresponding grant revenue account(s) and prepare the deposit slip. The employee then carries the remittances to the Bureau of Revenue Collections (BRC) for bank deposit. Further review disclosed that there are no controls to ensure that all checks are subsequently deposited. A check log is not prepared prior to fiscal office check submission, nor is a review performed by an independent employee to validate the status of checks not deposited (e.g. checks held in safe awaiting account number update) and ensure all checks are subsequently deposited.
b) The BCHD fiscal office receives approximately $400K annually in cash and checks from clinics and the Childhood Lead Paint Prevention Program (CLPPP). The responsible employee prepares the deposit slip, carries the remittance to BRC and notifies sender(s) of deposit. However, there are no controls to ensure that all cash and checks are subsequently deposited. A copy of the daily
c) collection sheet, which accompanies the remittance, is not forwarded directly to an independent employee to validate the deposit.
d) The Childhood Lead Paint Prevention Program (CLPPP) receives approximately $180K annually in fees associated with lead paint document requests. Review of the collection procedures disclosed that there are no controls to ensure that all checks are forwarded to the BCHD fiscal office for deposit. A check log is not prepared prior to custodian of record check submission, nor is a review performed by an independent employee to ensure all checks are subsequently deposited. We also noted that CLPPP continued to use the 2011 "per page" and administrative overhead rates. The rates were not increased as permitted by the Code of Maryland Regulations (COMAR).
e) Collection procedures utilized by the BCHD clinics, which receive approximately $200K annually, disclosed that collections are accumulated and submitted to the BCHD fiscal office on a weekly, bi-weekly or monthly basis for subsequent deposit. Cash receipts should be deposited within 24 hours of receipt.
f) Controls over dental and immunization clinic collections require strengthening. Specifically, there are no controls to ensure that all cash and checks are remitted to the BCHD fiscal office for deposit.

As a result of the aforementioned, assets may be lost or stolen and not detected by management.

Cause
Adequate controls were not established over cash/revenue receipts.

Effect
Needed funds received by BCHD could be unaccounted for and result in resources that are not available for City use.

Finding #2 – Inadequate Control over Revenue Receipts (Continued)

Recommendation
We recommend that:

a) A check log be prepared prior to fiscal office check submission. Additionally, the log should be forwarded to an independent employee to validate the status of checks not deposited (e.g. checks retained in safe awaiting account number update) and ensure all checks are subsequently deposited. BAPS receives all other collections (i.e. wire transfers) but not checks which poses and internal control concern because like transactions are handled differently by other City agencies.
b) The BCHD clinics and CLPPP forward daily cash logs to an independent BCHD fiscal office employee to validate the deposit of all cash and checks.
c) A check log be prepared prior to custodian of record check submission. A copy of the log should be forwarded to an independent employee to ensure all checks are subsequently deposited. Additionally, the "per page" and administrative overhead rates should be increased to comply with COMAR.
d) BCHD develop a policy that results in timelier submission and deposit of cash and checks.
e) A process be developed (e.g. realign staff duties) to ensure all cash and checks are subsequently deposited.

Management Response
BCHD appreciates the importance of ensuring that revenue received by BCHD is properly handled. However, BCHD disagrees with multiple areas of this finding, but will assess its capacity to implement additional reasonable oversight to strengthen controls over departmental revenue.

BCHD disagrees with the amounts cited by BCDA in condition a. Nearly all grant reimbursements are transmitted directly to the Bureau of Treasury Management within the Department of Finance, at which point they are credited to the corresponding BCHD budget account numbers. Revenue received directly by BCHD consists mainly of billing revenue, administrative fees and small, private grants. Internal review of BCHD's records indicates significantly lower amounts of grant revenue are received by and handled directly by the Department.

Moreover, the processes outlined in conditions a, b, c, d, and e do not fully detail the controls in place to ensure proper handling of departmental receipts. BCHD has established and adheres to a process that provides reasonable verification, by multiple parties, that Department receipts are properly handled. The actual process for receipt and deposit of revenue is summarized as follows:

1. Funds are submitted by either an internal or external entity to the accounting assistant (AA) in BCHD's Fiscal Office.

2. The AA scans the paperwork related to the funds to the program accountant and requests a budget account number from the accountant.

3. The program accountant supplies a budget account number to the AA in order to deposit the funds to the correct account.

4. The AA prepares a deposit ticket, delivers the funds and ticket to the Bureau of Revenue Collections.

Finding #2 – Inadequate Control over Revenue Receipts (Continued)

Management Response (continued)

5. The AA prepares a validated deposit ticket, and forwards copies of all paperwork to the program accountant and program personnel.

6. The program accountant matches the paperwork against the general ledger as a part of the reconciliation process.

7. Any discrepancies are investigated and resolved along the way.

Finally, BCHD is granted authority through COMAR to levy various administrative fees for the Childhood Lead Paint Prevention Program. BCHD is granted similar latitude through other areas of state law and the City Health Code to levy fees for various services provided by the Department. While these laws indeed grant BCHD flexibility in adjusting rates as necessary, BCHD believes that rates set forth in state law constitute rate ceiling that the Department is not permitted to exceed. As such, BCHD maintains that it ultimately reserves the authority to adjust rates in a manner consistent with prevailing economic conditions in the city while not exceeding limits set forth in state and local law.

Department of Audit's Updated Response to Management

BCHD receives approximately $100M annually in grant revenue. The reported agency receipts, which represent approximately 25% of all collections, were acquired directly from the accounting assistant (AA) that performs the daily collection activity. Additionally, the AA receives collections directly from grantors and BCHD offices, records the receipts and subsequently deposits the receipts. Again, there are no controls to prevent or detect and correct the intentional or unintentional lost or theft of cash and checks received by the AA. This issue was also noted across the BCHD offices that receive revenue.

Finding #3 – Inadequate Controls over Non-Emergency Transportation

Criteria
COSO requires entities to maintain a system of internal control that provides reasonable assurance that transactions are properly recorded and accounted for to permit the preparation of reliable financial statements.

Condition
The BCHD non-emergency transportation program spends approximately $8M annually in grant revenue to provide last resort health related transportation services to Baltimore City residents with full Medicaid coverage. Our audit of the respective grant disclosed that documentation is not available to determine whether individuals enrolled in the program, during the audit period, had full Medicaid coverage. This issue is heightened because the division is not established as a Medicaid authorizing official or provider to permit use of the Medicaid website and obtain and retain supporting documentation. An automated telephone system is currently used by designated staff to determine whether new applicants have the required coverage. However, the information obtained is not validated by a second employee, nor is it available in subsequent periods. Additionally, we noted that the monthly transportation invoices, which range from $550K to $800K, are not reviewed against the supporting detail files to ensure the accuracy and validity of the related invoice amounts. An analysis of invoice trends is currently performed.

Finding #3 – Inadequate Controls over Non-Emergency Transportation (Continued)

Cause
Adequate controls were not established over the non-emergency transportation program and vendor invoicing.

Effect
Assets may be lost or stolen and not detected by management and funds may have to be returned due to non-compliance issues. Also, the City may be exposed to financial and reputation risk.

Recommendation
We recommend the appropriate research and actions be taken to obtain Medicaid website access and permit acquisition of supporting documentation. In the interim, the Medicaid status should be verified by a second employee and evidence of the initial and secondary verification should be retained in the permanent records. Additionally, we recommend that the invoices be reviewed/reconciled against the supporting detail file. At a minimum, a detailed review of a sample of clients should be performed monthly. Evidence of the monthly review should be retained in the permanent records of the agency.

Management Response
The Non-Emergency Medical Transportation Program provides a critical service to the residents of the City of Baltimore. Accurate accounting for the state and federal funds received to administer this program is a top priority and BCHD works diligently, internally and externally, to ensure that reporting requirements are met. BCHD acknowledges some weaknesses in the administration of the program, but has already begun to rectify any deficiencies in the management of the program.

BCHD is actively working to prepare and submit the necessary paperwork with CMS to establish a Medicaid authorizing official at BCHD and gain access to the online EVS system. We anticipate having access to this system by late September. In the interim, the program has begun recording the confirmation number received when using the telephonic version of the EVS system in the notes section of Trapeze (the program's online scheduling system as of July 1, 2018). The confirmation number serves as proof that the client has active Medicaid coverage on the date that eligibility was checked.

The program will develop a formal billing and invoice review process that will include comparing a random sample of 25 trips each month reported by the transportation vendor with the scheduling system. The scheduling documentation will be printed out and stapled to the billing detail and invoice documents and filed for audit purposes. As of late August, 2018, the new invoice review process has been instituted and the program anticipates few billing irregularities as a result.