



**Mayor's Office of Employment Development
Biennial Financial Audit
Fiscal Years Ended June 30, 2017 and 2016**

Table of Contents

Independent Auditor’s Report.....	1
Basic Financial Statements	
Schedules of Revenues, Expenditures and Encumbrances and Changes in Fund Balance - Budget and Actual - Budgetary Basis - General Fund	3
Statement of Revenues, Expenditures and Changes in Grant Cash Balance	4
Notes to the Financial Statements..	6
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.....	8
Schedule of Findings.....	10



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 Mayor's Office of Employment Development (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 \$1.5M (net deficit), includes approximately \$3.4M in deficit grant 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 United 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 XX, 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
Mayor's Office of Employment Development
Schedules of Revenues, Expenditures and Encumbrances, and Changes in Fund Balance
Budget and Actual – Budgetary Basis – General Fund
For Fiscal Years Ended June 30, 2017 and 2016

	Final	2017 Actual	Variance
Revenues			
Appropriations revenues	\$ 7,055,191	\$ 7,061,139	\$ (5,948)
Expenditures and Encumbrances			
Employment enhancement services for city residents	1,447,154	1,468,240	(21,086)
Administration	653,941	680,771	(26,830)
Workforce services for ex-offenders	140,253	107,837	32,416
Workforce services for out of school youth	3,000,696	2,795,950	204,746
Youth works summer job program	1,813,147	2,008,341	(195,194)
Workforce services for WIA funded youth	-	-	-
Total expenditures and encumbrances	<u>7,055,191</u>	<u>7,061,139</u>	<u>(5,948)</u>
Excess of Revenues over Expenditures and Encumbrances (GAAP)	-	-	-
Beginning Budgetary Fund Balance	-	-	-
Ending Budgetary Fund Balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

	Final	2016 Actual	Variance
Revenues			
Appropriations revenues	\$ 7,636,960	\$ 6,984,416	\$ 652,544
Expenditures and Encumbrances			
Employment enhancement services for city residents	1,353,872	843,077	510,795
Administration	1,508,639	1,294,329	214,310
Workforce services for ex-offenders	88,085	94,844	(6,759)
Workforce services for out of school youth	2,914,263	3,005,257	(90,994)
Youth works summer job program	1,772,101	1,746,695	25,406
Workforce services for WIA funded youth	-	214	(214)
Total Expenditures and Encumbrances	<u>7,636,960</u>	<u>6,984,416</u>	<u>652,544</u>
Excess of Revenues over Expenditures and Encumbrances (GAAP)	-	-	-
Beginning Budgetary Fund Balance	-	-	-
Ending Budgetary Fund Balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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

CITY OF BALTIMORE
Mayor's Office of Employment Development
Statement of Revenues, Expenditures, and Changes in Grant Cash Balance
For Fiscal Year Ended June 30, 2017

	<u>Cash Balance</u> <u>7/1/2016</u>	<u>Revenues</u>	<u>Expenditures</u>	<u>Cash Balance</u> <u>6/30/2017</u>
Federal Grants				
Workforce services for TANF recipients	\$ (990,762)	\$ 3,294,932	\$ 2,781,303	\$ (477,133)
Employment enhancement service for city residents	65,895	-	644	65,251
Administration	(550,459)	384,048	-	(166,411)
Workforce services for Baltimore residents	(1,154,088)	6,644,779	5,607,575	(116,884)
Workforce services for ex-offenders	(142,091)	270,514	262,853	(134,430)
Workforce services for out of school youth	840,190	368,893	530,349	678,734
Youth works summer job program	(622,341)	199,584	1,184,878	(1,607,635)
Workforce services for WIA funded youth	(464,528)	2,341,312	1,988,246	(111,462)
Total revenues, expenditures and change in grant balances - Federal	<u>(3,018,184)</u>	<u>13,504,062</u>	<u>12,355,848</u>	<u>(1,869,970)</u>
State Grants				
BCPS alternative options academy for youth	(107,350)	232,231	235,655	(110,774)
Workforce services for TANF recipients	61,573	2,528	-	64,101
Employment enhancement service for city residents	470,504	34,320	-	504,824
Administration	(585,506)	-	461	(585,967)
Workforce services for ex-offenders	42,562	391,729	514,333	(80,042)
Workforce services for out of school youth	249	-	-	249
Youth works summer job program	(22,087)	1,215,514	1,045,372	148,055
Total revenues, expenditures and change in grant balances - State	<u>(140,055)</u>	<u>1,876,322</u>	<u>1,795,821</u>	<u>(59,554)</u>
Other Grants				
Employment enhancement service for city residents	94,514	-	-	94,514
Administration	334,533	24,196	66,138	292,591
Workforce services for out of school youth	143,921	-	-	143,921
Youth works summer job program	-	10,000	-	10,000
Total revenues, expenditures and change in grant balances - Other	<u>572,968</u>	<u>34,196</u>	<u>66,138</u>	<u>541,026</u>
Total Grants	<u><u>\$ (2,585,271)</u></u>	<u><u>\$ 15,414,580</u></u>	<u><u>\$ 14,217,807</u></u>	<u><u>\$ (1,388,498)</u></u>

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

CITY OF BALTIMORE
Mayor's Office of Employment Development
Statement of Revenues, Expenditures, and Changes in Grant Cash Balance
For Fiscal Year Ended June 30, 2016

	Cash Balance 7/1/2015	Revenue	Expenditures	Cash Balance 6/30/2016
Federal Grants				
Workforce services for TANF recipients	\$ 50,314	\$ 1,934,288	\$ 2,975,364	\$ (990,762)
Employment enhancement service for city residents	32,648	33,247	-	65,895
Administration	(626,960)	76,771	270	(550,459)
Workforce services for Baltimore residents	(783,951)	4,611,954	4,982,091	(1,154,088)
Workforce services for ex-offenders	(93,547)	198,283	246,827	(142,091)
Workforce services for out of school youth	(3,918)	1,419,159	575,051	840,190
Youth works summer job program	63,035	230,496	915,872	(622,341)
Workforce services for WIA funded youth	(325,256)	2,028,215	2,167,487	(464,528)
Total revenues, expenditures and change in grant balances - Federal	<u>(1,687,635)</u>	<u>10,532,413</u>	<u>11,862,962</u>	<u>(3,018,184)</u>
State Grants				
BCPS alternative options academy for youth	(44,573)	164,720	227,497	(107,350)
Workforce services for TANF recipients	44,284	122,763	105,474	61,573
Employment enhancement service for city residents	498,970	52,002	80,468	470,504
Administration	(588,079)	3,448	875	(585,506)
Workforce services for ex-offenders	(66,245)	540,479	431,672	42,562
Workforce services for out of school youth	-	249	-	249
Youth works summer job program	(67,728)	2,161,518	2,115,877	(22,087)
Total revenues, expenditures and change in grant balances - State	<u>(223,371)</u>	<u>3,045,179</u>	<u>2,961,863</u>	<u>(140,055)</u>
Other Grants				
Employment enhancement service for city residents	94,514	-	-	94,514
Administration	369,248	16,200	50,915	334,533
Workforce services for out of school youth	143,921	-	-	143,921
Total revenues, expenditures and change in grant balances - Other	<u>607,683</u>	<u>16,200</u>	<u>50,915</u>	<u>572,968</u>
Total Grants	<u>\$ (1,303,323)</u>	<u>\$ 13,593,792</u>	<u>\$ 14,875,740</u>	<u>\$ (2,585,271)</u>

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

CITY OF BALTIMORE
Mayor's Office of Employment Development
Notes to the Financial Statements
Fiscal Years Ended June 30, 2017 and 2016

1. Description of the Mayor's Office of Employment Development

The Mayor's Office of Employment Development 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 mission 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.

CITY OF BALTIMORE
Mayor's Office of Employment Development
Notes to the Financial Statements
Fiscal Years Ended June 30, 2017 and 2016

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



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 Mayor's Office of Employment Development 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 Mayor's Office of Employment Development'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 Mayor's Office of Employment Development'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 Mayor's Office of Employment Development's internal control. Accordingly, we do not express an opinion on the effectiveness of the Mayor's Office of Employment Development'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

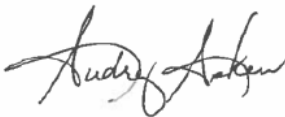
As part of obtaining reasonable assurance about whether the Mayor's Office of Employment Development's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings as Findings 1 and 2.

Department of Finance Response to Findings

Baltimore City, Department of Finance 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
Mayor's Office of Employment Development
Schedule of Findings
Fiscal Years Ended June 30, 2017 and 2016

Finding #1 – Material Weakness over Grant Cash Balance

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, we noted revenue and expenditure transactions for fiscal years 2003 through 2012 existed on the Statement of Revenues and Expenditures and Changes in Grant Cash Balance at June 30, 2016. The City's records indicate a deficit of \$3.3M that carried forward into the \$1.5M deficit FY 16 opening balance of the above statement which materially impacts the FY 17 and FY 16 balances. Additionally, this amount gives the appearance of receivables due from federal, state and private grant sources.

Cause

Untimely reconciliation of grant activity and incorrect accounting treatment for prior period activity.

Effect

Inaccurate financial statements will be produced that misstate grant balances.

Recommendation

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. Internal controls over the review and approval of journal entries should also be strengthened to ensure the accuracy and completeness of transactions posted to the general ledger. We also recommend the review of the five JEs totaling \$54M at 6/30/2017 because of the issues noted above.

Management Response

The Department of Finance disagrees with the auditor's finding. Finance does not agree with the auditor's conclusion that the deficit balance gives the "appearance of receivables" due from federal, state or private sources.

In our view the reported deficits represent the difference between the cash received and the expenses paid. Nothing more – nothing less. Nowhere do the statements imply or suggest the deficit shall be reimbursed from an outside agency. In fact note 5 states that cash advances not reimbursed by the grantor are the responsibility of the City. The timing of grant receipts and disbursements does not necessarily cause a deficit. Finance also disagrees with change in the report format.

The Department of Finance was disappointed the DOA decided to unilaterally change the previous format agreed to by the former City Auditor and the City Council Biennial Audit Commission. We believe this format presented clearer annual grant cash activity as was the intent of these statements.

CITY OF BALTIMORE
Mayor's Office of Employment Development
Schedule of Findings
Fiscal Years Ended June 30, 2017 and 2016

Finding #1 – Material Weakness over Grant Cash Balance (Continued)

Management Response (continued)

In regard to the recommendation, the Department of Finance on several occasions publicly discussed the City's issues regarding the grant revenue fund. Most of the grant related findings can be traced back to the inability of City grantee agencies to reconcile their grant activity to the general ledger – as they are required to do. The Department of Finance and City agencies continue to reconcile grant accounts and have made significant progress – evidenced by clean unmodified audit opinions on the 2016 and 2017 Comprehensive Annual Financial Reports. In addition, we have implemented the following corrective actions: (1) established Grants Management Office; (2) deployed a grant reporting and documentation CRM module and; (3) implemented nine grant administrative manual policies that require City agencies adhere to specific grant processes from award through close out.

Finance and all grant agencies continue to evaluate and reconcile our grant accounts and where appropriate write off un-reimbursable charges.

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.

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 – Significant Deficiency over General Accounting Controls

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 review of the FY 2017 and FY 2016 Statement of Revenues and Expenditures and Changes in Grant Fund Balance and related general ledger detail disclosed the following:

- a) During our audit, BAPS submitted journal entries (JEs) to support write offs of prior period grants. Our assessment of the JEs noted \$1.2M in errors posted by BAPS to CityDynamics on 06/30/2017 for MOED. To correct this issue a reversing JE of \$2.4M must be prepared. DOA advised BAPS of the accounting errors and received notification of the JE correction on 11/30/2018. Additionally, BAPS recorded write offs for MOED at 06/30/2017 amounting to \$212K. This amount was far below the DOA assessment of deficits that should be written off in the amount of \$3.3M for the period 2003 through 2012.

CITY OF BALTIMORE
Mayor's Office of Employment Development
Schedule of Findings
Fiscal Years Ended June 30, 2017 and 2016

Finding #2 – Significant Deficiency over General Accounting Controls (Continued)

Condition (continued)

- b) BAPS provided an original Statement of Revenues and Expenditures and Changes in Grant Fund Balance with an original FY 16 opening balance deficit of \$1.5M for federal, state, and private grants. After BAPS completed JE's to write off aged activity from the statement audits noted a change in the opening deficit balance to \$3.7K which we deem as an error because the write off was \$212K which should have resulted in an opening deficit balance of \$1.3M. 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 opening balances.

Cause

Inadequate controls over posting of journal entries and preparation of financial statements.

Effect

Inaccurate financial statements will be produced that misstate grant balances.

Recommendation

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. Internal controls over the review and approval of journal entries should also be strengthened to ensure the accuracy and completeness of transactions posted to the general ledger. We also recommend the review of the five JEs totaling \$54M at 6/30/2017 because of the issues noted above.

Management Response

The Department of Finance agrees with the finding 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

The DOA conducted the Agency audits according to Generally Accepted Auditing Standards (GAAS) as required. Regarding format change, please refer to DOA response above in Finding #1. 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.