



**Department of Housing and Community Development
Biennial Financial Audit
Fiscal Years Ended June 30, 2018 and 2017**

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CITY OF BALTIMORE

JOAN M. PRATT, CPA
Comptroller



DEPARTMENT OF AUDITS JOSH PASCH, CPA

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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 Housing and Community Development (Agency), an agency of the primary government of the City of Baltimore (City), Maryland, which comprise the *Schedule of Revenues, Expenditures and Encumbrances, and Changes in Fund Balance, Budget and Actual, Budgetary Basis, General Fund; Statement of Revenues, Expenditures, and Changes in Community Development Block Grant Fund Balance; Statement of Revenues, Expenditures, and Changes in Capital Projects Fund Balance; and Statement of Revenues, Expenditures, and Changes in Grant Cash Balances*, for the years ended June 30, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements.

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, except for peer review requirements. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

Biennial Financial Audit Report on Department of Housing and Community Development

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 Agency'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 Agency'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 our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the revenues collected and expenditures paid for governmental activities, of the Agency, for the years ended June 30, 2018 and 2017 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 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.

Biennial Financial Audit Report on Department of Housing and Community Development

In accordance with *Government Auditing Standards*, we have also issued our report, dated December 27, 2019, 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 (see page 12). 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.

Respectfully,



Josh Pasch, CPA
City Auditor
Baltimore, MD
December 27, 2019

CITY OF BALTIMORE
Department of Housing and Community Development
Schedule of Revenues, Expenditures and Encumbrances, and Changes in Fund
Balance – Budget and Actual – Budgetary Basis – General Fund
For Fiscal Year Ended June 30, 2018

Fiscal Year 2018	Final Budget	Actual	Variance
Revenues			
Appropriation revenues	<u>\$35,852,493</u>	<u>\$33,917,687</u>	<u>\$1,934,806</u>
Expenditures and Encumbrances			
Before and after care	178,329	150,627	27,702
Administration	2,277,233	1,856,821	420,412
Weatherization	114,956	112,923	2,033
Dawson Center	41,249	69,345	(28,096)
Promote homeownership	216,169	177,005	39,164
Housing code enforcement	15,233,943	13,875,383	1,358,560
Register and license properties and contractors	563,298	506,886	56,412
Housing development finance and project management	-	174,131	(174,131)
Blight elimination	3,252,791	3,562,255	(309,464)
Housing rehabilitation loans	6,594		6,594
Building and zoning inspections and permits	5,988,038	5,981,270	6,768
Community outreach services	1,460,450	1,121,351	339,099
BDC ¹ - Retention, expansion, and attraction of business	1,049,195	1,049,195	-
BDC- Real estate development	1,868,357	1,868,357	-
BDC- Inner harbor coordination	364,510	364,510	-
BDC- Emerging Technology Center	849,751	849,751	-
BDC- Improve and promote retail districts beyond downtown	1,627,610	1,627,610	-
Live Baltimore	<u>760,020</u>	<u>570,267</u>	<u>189,753</u>
Total Expenditures and Encumbrances	<u>35,852,493</u>	<u>33,917,687</u>	<u>1,934,806</u>
Excess of Revenues over Expenditures	-	-	-
Opening Fund Balance	-	-	-
Ending Fund Balance	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

Note: ¹Baltimore Development Corporation (BDC)

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

CITY OF BALTIMORE
Department of Housing and Community Development
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

Fiscal Year 2017	Final Budget	Actual	Variance
Revenues			
Appropriation revenues	<u>\$36,412,369</u>	<u>\$34,749,858</u>	<u>\$1,662,511</u>
Expenditures and Encumbrances			
Before and after care	175,321	93,609	81,712
Administration	2,424,153	2,965,593	(541,440)
Weatherization	28,631	-	28,631
Dawson Center	41,035	51,976	(10,941)
Promote homeownership	239,382	132,026	107,356
Housing code enforcement	14,937,469	14,184,929	752,540
Register and license properties and contractors	647,448	401,034	246,414
Housing development finance and project management	-	94,842	(94,842)
Blight elimination	3,530,222	3,011,748	518,474
Housing rehabilitation loans	7,294	234	7,060
Building and zoning inspections and permits	6,118,627	5,967,943	150,684
Community outreach services	1,381,821	1,213,872	167,949
BDC- Retention, expansion, and attraction of business	1,023,849	1,023,849	-
BDC- Real estate development	1,823,220	1,823,220	-
BDC- Inner Harbor coordination	356,663	356,663	-
BDC- Small Business Resource Center	476,185	476,185	-
BDC- Emerging Technology Center	831,459	831,459	-
BDC- Improve and promote retail districts beyond downtown	1,588,288	1,588,288	-
Live Baltimore	<u>781,302</u>	<u>532,388</u>	<u>248,914</u>
Total Expenditures and Encumbrances	<u>36,412,369</u>	<u>34,749,858</u>	<u>1,662,511</u>
Excess of Revenues over Expenditures	-	-	-
Opening Fund Balance	-	-	-
Ending Fund Balance	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

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

CITY OF BALTIMORE
Department of Housing and Community Development
Statement of Revenues, Expenditures, and Changes in
Community Development Block Grant Fund Balance
For Fiscal Years Ended June 30, 2018 and 2017

	Fiscal Year 2018	Fiscal Year 2017
Revenues		
Federal grants	\$ 14,188,703	\$ 15,466,659
Less: Transfer to capital projects	(5,724,025)	(8,922,749)
Total Revenues	<u>8,464,678</u>	<u>6,543,910</u>
Expenditures		
Community support projects	6,570,641	6,525,912
Before and after care	1,633	13,544
Administration	1,127,079	1,054,493
Dawson Center	308,114	280,003
Promote homeownership	80,955	96,088
Housing development finance and project management	(1,909)	62,710
Housing rehabilitation loans	1,484,441	1,363,947
Building and zoning inspections and permits	(595)	595
Total Expenditures	<u>9,570,359</u>	<u>9,397,292</u>
Deficit of Revenues over Expenditures	<u><u>\$ (1,105,681)</u></u>	<u><u>\$ (2,853,382)</u></u>

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

CITY OF BALTIMORE
Department of Housing and Community Development
Statement of Revenues, Expenditures, and Changes in Capital Projects Fund Balance
For Fiscal Years Ended June 30, 2018 and 2017

	Fiscal Year 2018	Fiscal Year 2017
Revenues		
General funds	\$ 9,625,000	\$ 3,720,000
Federal grants	4,597,108	4,466,077
State grants	2,626,994	5,860,995
General Obligation Bonds	26,220,241	1,472,436
Community Development Block Grant (CDBG) (Transfer in)	5,724,025	8,922,749
Other	17,426,898	19,111,618
Total Revenues	<u>66,220,266</u>	<u>43,553,875</u>
Expenditures		
Economic Development	<u>57,419,560</u>	<u>57,030,545</u>
Excess (Deficit) of Revenues over Expenditures	8,800,706	(13,476,670)
Beginning Fund Balance	<u>(9,656,302)</u>	3,820,368
Ending Fund Balance	<u><u>\$ (855,596)</u></u>	<u><u>\$(9,656,302)</u></u>

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

CITY OF BALTIMORE
Department of Housing and Community Development
Statement of Revenues, Expenditures, and Changes in Grant Cash Balances
For Fiscal Year Ended June 30, 2018

	Cash Balance July 1, 2017	Revenue	Expenditures	Cash Balance June 29, 2018
Federal Grants				
Housing code enforcement	\$ 140,268	\$ -	\$ 280,536	\$ (140,268)
Housing development finance and project management	(92,205)	639,423	478,188	69,030
Housing rehabilitation loans	(96,360)	1,174,034	1,429,233	(351,559)
Community outreach services	-	-	126	(126)
Total revenues, expenditures and change in grant balances - Federal	(48,297)	1,813,457	2,188,083	(422,923)
State Grants				
Community support projects	-	595,170	296,840	298,330
Administration	(2,175)	-	-	(2,175)
Weatherization	(2,479,691)	2,083,504	2,011,887	(2,408,074)
Housing code enforcement	52,091	-	52,091	-
Housing rehabilitation loans	265,452	201,623	476,437	(9,362)
Summer food service program	654,938	-	2,228,931	(1,573,993)
Total revenues, expenditures and change in grant balances - State	(1,509,385)	2,880,297	5,066,186	(3,695,274)
Other Grants				
Community support projects	25,003	-	-	25,003
Before and after care	(82,957)	102,328	-	19,371
Administration	17	-	-	17
Weatherization	(79,919)	15,000	1,427,451	(1,492,370)
Housing code enforcement	463,299	91,557	-	554,856
Housing development finance and project management	(5,385)	-	-	(5,385)
Housing rehabilitation loans	27,485	-	-	27,485
Community outreach services	542,491	2,700	-	545,191
BDC - Retention, expansion, and attraction of business	(381,605)	205,714	106,440	(282,330)
BDC - Real estate development	1,085,097	238,547	208,906	1,114,738
BDC - Improve and promote retail districts beyond downtown	(233,329)	-	104,040	(337,369)
Total revenues, expenditures and change in grant balances - Other	1,360,197	655,847	1,846,837	169,206
Total Grant Revenue	\$ (197,485)	\$ 5,349,600	\$ 9,101,106	\$ (3,948,991)

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

CITY OF BALTIMORE
Department of Housing and Community Development
Statement of Revenues, Expenditures, and Changes in Grant Cash Balances
For Fiscal Year Ended June 30, 2017

	Cash Balance July 1, 2016	Revenues	Expenditures	Cash Balance June 29, 2017
Federal Grants				
Housing code enforcement	\$ (19,839)	\$ 160,107	\$ -	\$ 140,268
Housing development finance and project management	(77,592)	403,235	417,848	(92,205)
Housing rehabilitation loans	(45,542)	982,853	1,033,671	(96,360)
Total revenues, expenditures and change in grant balances - Federal	(142,973)	1,546,195	1,451,519	(48,297)
State Grants				
Administration	(2,175)	-	-	(2,175)
Weatherization	29,749	2,207,998	4,717,438	(2,479,691)
Housing code enforcement	52,091	-	-	52,091
Housing rehabilitation loans	330,252	616,220	681,020	265,452
Summer food service program	163,489	2,333,724	1,842,275	654,938
Total revenues, expenditures and change in grant balances - State	573,406	5,157,942	7,240,733	(1,509,385)
Other Grants				
Community support projects	25,003	-	-	25,003
Before and after care	125,256	-	208,213	(82,957)
Administration	17	-	-	17
Weatherization	(33,951)	-	45,968	(79,919)
Housing code enforcement	365,400	97,899	-	463,299
Housing development finance and project management	(5,385)	-	-	(5,385)
Housing rehabilitation loans	19,745	10,370	2,630	27,485
Community outreach services	317,154	225,337	-	542,491
BDC - Retention, expansion, and attraction of business	(354,799)	75,194	102,000	(381,605)
BDC - Real estate development	937,618	351,565	204,086	1,085,097
BDC - Improve and promote retail districts beyond downtown	(134,547)	3,218	102,000	(233,329)
Total revenues, expenditures and change in grant balances - Other	1,261,511	763,583	664,897	1,360,197
Total Grant Revenue	\$ 1,691,944	\$ 7,467,720	\$ 9,357,149	\$ (197,485)

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

CITY OF BALTIMORE
Department of Housing and Community Development
Notes to the Financial Statements

1. Description of the Department of Housing and Community Development

The mission of the Agency is to ensure that all citizens of Baltimore City have access to adequate and affordable housing opportunities in safe, livable and decent neighborhoods. The Agency is committed to expanding housing choices and promoting healthy neighborhoods for all the citizens of Baltimore. The Agency also oversees the BDC.

Major responsibilities of the Agency include: (1) increasing the availability of new housing for low and moderate income families; (2) providing financing to rehabilitate older housing stock; (3) recycling land and buildings to maximize community stability, thereby creating jobs and increasing the assessable tax base; (4) proposing and expediting the funding of community projects; (5) ensuring the safety and structural integrity of all buildings; and (6) enforcing the City's housing code. Other responsibilities include: (1) increasing homeownership opportunities for Baltimore's residents; (2) assisting the indigent with housing and emergency services; (3) preserving the historic integrity of older neighborhoods and buildings; and (4) providing technical assistance and operating support to non-profit organizations that support the City's housing mission.

The BDC is a quasi-government corporation under contract with the City to act as its economic development agency. The corporation has responsibility for city-wide economic and downtown development which includes business retention; spurring minority and women participation in business; creating a coordinated marketing effort to promote the development of downtown; promoting urban tourism; neighborhood commercial revitalization; and expanding Baltimore's role as an international gateway.

2. Fund Financial Statement

These financial statements were prepared on the cash basis of accounting which is a basis other than accounting principles generally accepted in the United States of America. Accordingly, they do not represent the financial position of the City or the Agency. The Agency's services are reported in the City's general, special revenue, CDBG and capital projects funds. The Agency receives appropriations annually from the general, special revenue, CDBG and capital projects funds. General fund appropriations expire at year end. The special revenue and CDBG funds receive grants from Federal, State and other sources. Appropriations for special revenue, CDBG and capital projects funds do not expire at year end and continue until they are used for grant / capital related expenditures. Because of these differences, the financial statements of the Agency's general fund activity are reported on a budgetary basis in the *Schedule of Revenues, Expenditures and Encumbrances, and Changes in Fund Balance*. The financial statement of the CDBG and capital projects funds are reported in the *Statement of Revenues, Expenditures and Changes in Fund Balance*. The financial statement of the special revenue is reported in the *Statement of Revenues, Expenditures, and Changes in Grant Cash Balances*.

3. Summary of Significant Accounting Policies

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* (GAAP). This basis of presentation differs from GAAP in that revenues are recognized when received rather than earned and expenditures are recognized when paid rather than when the obligation is incurred. The accompanying financial statements are not intended to present the financial position and results of operations in conformity with GAAP.

4. Budget Process

The Agency participates in the City'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(s). Cash advances not reimbursed by the grantor(s) will be the responsibility of the City.

6. Risk Management

The City 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 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 as of December 31, 2019.

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

In planning and performing our audit of the financial statements of the Department of Housing and Community Development (Agency) as of and for the years ended June 30, 2018 and 2017 in accordance with auditing standards generally accepted in the United States of America, we considered the Agency's internal control over financial reporting (internal control) as a basis for designing 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 Agency's internal control. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control.

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. 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.

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. We did identify a certain deficiency in internal control, described in the accompanying *Schedule of Findings*, that we consider to be a significant deficiency. (See Finding 1)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Agency'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*.

Biennial Financial Audit Report on Department of Housing and Community Development

Department of Finance and the Agency's Response to Finding

The Agency's response to the finding identified in our audit is described in *Appendix 1 – Management's Response*. The Agency'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 Agency'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,



Josh Pasch, CPA
City Auditor
Baltimore, Maryland
December 27, 2019

CITY OF BALTIMORE
Department of Housing and Community Development
Schedule of Findings

Finding # 1: Significant Deficiency - Revenues were incorrectly credited to a BDC grant revenue account.

During August 2017, two journal entries totaling \$353,000 were incorrectly posted by the Bureau of Accounting and Payroll Services (BAPS) to the Baltimore Development Corporation's (BDC)¹, Private Grants – Property Management and Administration revenue account (overstatement), in lieu of the Private Grants – Employee Retirement System (ERS) Administration and Fire and Police ERS revenue account which manages the activity (understatement).

Although the overstated amount is not material at the City's level, it is material at the agency level for effectively managing revenues and expenditures. Commitments to expend funds are based on the availability of revenue. The overstated revenue is 8.2 percent of the Agency's FY 2018 grant revenue excluding Community Development Blocked Grants.

The causes for the overstated / understated entries are due to the following reasons:

- The City is on the cash basis at an agency level and modified accrual basis for the Comprehensive Annual Financial Report, which recognizes revenue when cash is received, not earned or billed. The BAPS receives cash directly from payees. There are times, which is not uncommon, that BAPS has cash receipts and does not know which agency it is for. The BAPS uses ad hoc measures to identify the intended recipient of the cash and does not always get a clear answer;
- Although BAPS has a practice of reviewing and approving journal entries (preventive control) before posting in the CityDynamics, which is the City's general ledger system, this control is not working effectively as intended. The BAPS does not have formal (written, approved, dated) policies and procedures; therefore, BAPS personnel may not consistently review and approve the journal entries; and
- The City does not have formal policies and procedures that require agencies to periodically (e.g. monthly or quarterly) review the general ledger details for errors and omissions (detective control). Formal policies and procedures promote compliance, accountability, consistency and sustainability.

¹ The BDC is a non-profit organization, which serves as the economic development agency for the City. The Agency acts as a liaison between the City and BDC and provides limited budget, procurement, accounts payable and accounting support.

Biennial Financial Audit Report on Department of Housing and Community Development

According to the *Standards for Internal Control in the Federal Government* issued by the *United States Government Accountability Office* by the Comptroller General of the United States, management should:

- Implement control activities through policies;
- Document in policies the internal control responsibilities of the organization;
- Communicate to personnel the policies and procedures so that personnel can implement the control activities for their assigned responsibilities; and
- Periodically review policies, procedures, and related control activities for continued relevance and effectiveness in achieving the entity's objectives or addressing related risks.

Recommendations:

- We recommend the Director of DOF and Commissioner of the Agency work together to correct the revenue transactions posted to BDC.
- We recommend the Director of DOF develop and implement formal (written, approved, dated) policies and procedures that require:
 - BAPS to effectively review and approve journal entries; and
 - Agency accounting personnel to periodically (e.g. monthly or quarterly) review the general ledger activities to identify and correct accounting errors and omissions.
- We recommend the Commissioner of the Agency follow these policies and procedures, when implemented.

Implementation Status of Prior Audit Findings and Recommendations

Table I

Summary of Implementation Status of Audit Findings and Recommendations from the Biennial Financial Audit Report for Fiscal Years Ending 2016 and 2015

No.	Finding Summary	Recommendation	Management’s Self-reported Implementation Status	Auditor’s Assessment
1.	<p>The Agency has not established a process to validate the accuracy and completeness of inventory additions and deletions. The Department of Public Works (DPW) Property Location Office (Office) records inventory transactions on behalf of the State Department of Assessments and Taxation and other City agencies / offices (e.g. collections, taxes, and water) and provides an itemized inventory record at a specific period of time. However, the Agency does not obtain periodic reports of inventory additions and deletions from the Office to validate the accuracy and completeness of the inventory. A comparison analysis of the FY 16 and FY 15 inventories was performed to identify acquisitions and sales that occurred during the period. The results were compared to the automated acquisition and sales files maintained by the agency to determine accuracy and completeness. The review disclosed approximately 424 acquisition (inventory additions) and 413 sale (inventory reductions) transactions that were not recorded in the Agency’s files.</p>	<ul style="list-style-type: none"> • Obtain reports that detail the inventory adjustments prepared by the Office on behalf of other entities that affect their inventory. • Perform analysis to determine the accuracy and appropriateness of the inventory updates. • Retain evidence of the analysis in the permanent records. 	<p>The Division has reached out to Baltimore City Information Technology to determine if it’s possible to generate a monthly change report in a Microsoft Excel format. If it is possible, the Agency will reconcile the information on a monthly basis to ensure accuracy.</p>	<p>N/A</p> <p>Auditors did not evaluate the implementation status of this prior finding and recommendations because the Agency has not fully implemented the recommendations. Auditors will follow-up on the recommendations after the recommendations are fully implemented.</p>

Biennial Financial Audit Report on Department of Housing and Community Development

No.	Finding Summary	Recommendation	Management's Self-reported Implementation Status	Auditor's Assessment
2.	<p>Controls are not in place to ensure that checks that result from the sale of City property and the related settlement are subsequently deposited and recorded.</p> <p>Additionally, checks are handled by as many as four people before deposit.</p> <p>As a result, assets may be intentionally or unintentionally lost or stolen and not detected by management.</p>	<ul style="list-style-type: none"> • Establish a process to ensure that all checks that result from the sale of City property are subsequently deposited. • Submit the checks to one employee for deposit preparation and submission. • Forward check copies to the appropriate management for review. 	<p>Beginning January 2020, the Division will generate a monthly report of the prior month's settlements that will be reconciled against the City's general ledger and reviewed by the Fiscal Capital Manager or assigned designee.</p> <p>This action will ensure that all monies received by the Division are deposited in the correct amount within a reasonable time frame.</p>	<p>N/A</p> <p>Auditors did not evaluate the implementation status of this prior finding and recommendations because the Agency has not fully implemented the recommendations. Auditors will follow-up on the recommendations after the recommendations are fully implemented in FY 2020.</p>

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No.	Finding Summary	Recommendation	Management's Self-reported Implementation Status	Auditor's Assessment
3.	<p>All purchases of City property require Board of Estimate (BOE) approval and encumbrance of the corresponding funds. The finalization of the purchase(s) may not occur until a subsequent period; therefore, the encumbrances may remain open for an extended period of time. To obtain the respective payment / check and relieve the encumbrance, administrative staff will enter the purchase information into CityDynamics. The transaction is processed through Accounts Payable (AP) to generate the respective check. However, the same administrative staff person may also acquire the respective check from AP.</p>	<p>Segregate responsibility for check generation and subsequent AP pickup.</p>	<p>Implemented.</p> <p>The Agency CFO has implemented a process whereby all checks created at the division level are picked up and distributed by one person in the fiscal office. The fiscal staff maintains a log of all checks distributed. This ensures that the responsibility for check generation and subsequent AP pick up are appropriately segregated.</p>	<p>Partially Implemented</p> <p>The Agency has assigned two fiscal staff to pick up checks from the DOF. However, the risk of intentional or unintentional loss of assets have not been significantly reduced because of the following reasons:</p> <ul style="list-style-type: none"> • The administrative staff that initiated the payment can still acquire the check(s) from the Agency's two fiscal staff; • Although the logbook was used to record the checks picked up from the DOF, no independent person was reviewing the logbook to identify outstanding checks; and • The practice of using logbooks was terminated after May 2019. <p>According to Agency management, copies of checks as well as signatures of personnel who picked up the checks were maintained although the logbooks are no longer used.</p>

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No.	Finding Summary	Recommendation	Management's Self-reported Implementation Status	Auditor's Assessment
4.	The Agency was not able to provide documentation for selected FY 2016 and FY 2015 payroll timesheets for testing.	Refine Agency process (e.g. training and procedure development) for the recording and reporting of employee time that ensures the accuracy and completeness of the data and the resulting employee pay.	<p>Not implemented</p> <p>The Agency has developed a Standard Operating Procedure for processing, recording, and retaining Payroll related items. The Standard Operating Procedure document is in the final draft stage and is scheduled to be implemented in the first quarter of calendar year 2020.</p>	<p>Not implemented</p> <p>As shown in Table II on the following page, documentation including employee's signoffs and management's approvals were not always available to support the selected payroll transactions for audit. As a result, the Agency was not able to demonstrate whether selected payroll timesheets were accurately recorded, which may result in financial losses including inaccurate payments, accruals and final payouts to Agency employees.</p> <p>Missing documentation is due to lack of a retention schedule required by the Baltimore City Code, Article I, § 11-6, <i>Disposal of records. (b) Agencies.</i></p> <p>We further recommend the Commissioner of the Agency:</p> <ul style="list-style-type: none"> • Develop and implement formal (written, approved and dated) policies and procedures for payroll processing and records retention schedules; • File the retention schedule with the City Archivist; and • Require Agency payroll personnel keep payroll documentation as required by the record retention schedule.

Table II

Summary of Payroll Testing Results for Selected Payroll Expenses Incurred in FY 2018 and FY 2017

Description	FY 2018		FY 2017	
	Occurrence	Percent	Occurrence	Percent
Agency could not locate timesheet	5 of 60	8	5 of 60	8
Missing employee signature on timesheet ¹	3 of 55	6	7 of 55	13
Missing supervisor signature / approval on timesheet ¹	5 of 55	9	3 of 55	6
Missing compensatory time or overtime approval ¹	6 of 26	23	3 of 32	9
Missing leave (vacation, sick, personal, bereavement) request / approval ¹	8 of 48	17	13 of 44	30
Timesheet did not agree with E-Time ¹	5 of 55	9	2 of 55	4
Calculated gross pay based on timesheet does not agree to gross pay from HRIS ²	5 of 55	9	3 of 55	6

Notes: ¹ Population excludes timesheets which were not found. E-Time is a time and attendance program.

² HRIS is Human Resource Information System, which is the City's payroll processing system.

APPENDIX I

Management’s Response – Department of Housing and Community Development

Date: December 27, 2019

To: Josh Pasch, City Auditor

Subject: Management Response to Audit Report:
Biennial Financial Audit Report on Department of Housing and Community Development

Our responses to the audit report findings and recommendations are as follows:

Recommendation # 1

- We recommend the Director of DOF and Commissioner of the Agency work together to correct the revenue transactions posted to BDC.
- We recommend the Director of DOF develop and implement formal (written, approved, dated) policies and procedures that require:
 - BAPS to effectively review and approve journal entries; and
 - Agency accounting personnel to periodically (e.g. monthly or quarterly) review the general ledger activities to identify and correct accounting errors and omissions.
- We recommend the Commissioner of the Agency follow these policies and procedures, when implemented.

Management Response/Corrective Action Plan

Agree **Disagree**

Based on the established segregation of duties for General Ledger posting within the City of Baltimore’s Accounting System, DHCD does not have direct access to or ability to post transactional information directly into the City’s system of record for accounting records. DHCD does recognize their fiduciary duty to review the general ledger accounts assigned to the agency on a periodic basis and to bring questionable transactions to the attention of the originating agency for clarification or correction in a timely manner. The agency currently reviews transactions in the general ledger accounts assigned to the agency on a quarterly basis with an emphasis on expenditures only.

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DHCD Fiscal Operations will seek out opportunities to increase our knowledge of the transactional processes executed by the Bureau of Accounting and Payroll Services (BAPS) to fully understand the presentation of the financial information housed in the general ledger in order to recognize questionable transactions. The Agency will implement this by requesting more in-depth and recurring training opportunities from BAPS.

DHCD Fiscal Operations will implement an agency level robust schedule and comprehensive general ledger review process, to include expenditures, revenue recordings, and journal entries.

Implementation Date

The DHCD CFO will establish a monthly general ledger review routine for the Fiscal Operations staff within the third quarter of Fiscal Year 2020 to include a feedback function for questionable transactions and recommended corrections.

The DHCD CFO will also request additional periodic training from BAPS for the DHCD Fiscal Staff on CityDynamics Smart list functions and any other reporting functionalities of the System of Record on a quarterly basis beginning in the third quarter of Fiscal Year 2020.

Responsible Personnel

Elaine Harder, Chief Fiscal Officer for DHCD 410-396-1770