



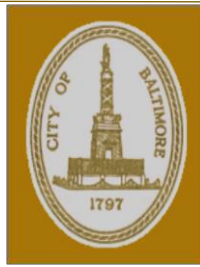
**Mayor's Office of Human Services
Biennial Financial Audit
Fiscal Years Ended June 30, 2018 and 2017**

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CITY OF BALTIMORE

JOAN M. PRATT, CPA
Comptroller



DEPARTMENT OF AUDITS JOSH PASCH, CPA

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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 Human Services (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, 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.

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 the auditor's qualified 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 Fiscal Year 2018 Statement of Revenues, Expenditures and Changes in Grant Cash Balance included adjusting journals entries which resulted in cash balances totaling approximately \$42M for four grant accounts that are administered on an expenditure reimbursement basis. The adjustment activity was not appropriately reconciled at the agency level and results in misstatements that materially affect the balances reported in the statements for the periods ending June 30, 2018 and 2017. (See 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, 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.

In accordance with *Government Auditing Standards*, we have also issued our report, dated July 31, 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 8). 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, Maryland
July 31, 2019

CITY OF BALTIMORE
Mayor's Office of Human Services
Schedule of Revenues, Expenditures and Encumbrances, and Changes in Fund Balance
Budget and Actual – Budgetary Basis – General Fund
For Fiscal Years Ended June 30, 2018 and 2017

| | 2018 | | |
|--|---------------------|-------------------|------------------|
| | <u>Final Budget</u> | <u>Actual</u> | <u>Variance</u> |
| Revenues | | | |
| Appropriations revenue | \$ 15,307,352 | \$ 10,460,852 | \$ 4,846,500 |
| Expenditures and Encumbrances | | | |
| Administration | 1,150,463 | 699,811 | 450,652 |
| Head start | 699,713 | 346,862 | 352,851 |
| Community action centers | 717,310 | 809,364 | (92,054) |
| Homeless prevention | 66,823 | 164,798 | (97,975) |
| Outreach to the homeless | 399,727 | 650,274 | (250,547) |
| Temporary housing for the homeless | 11,537,056 | 7,053,483 | 4,483,573 |
| Permanent housing for the homeless | 736,260 | 736,260 | - |
| Total Expenditures and Encumbrances | <u>15,307,352</u> | <u>10,460,852</u> | <u>4,846,500</u> |
| Excess of Revenues over Expenditures (GAAP) | - | - | - |
| Opening Fund Balance | - | - | - |
| Ending Fund Balance | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |

| | 2017 | | |
|--|---------------------|-------------------|------------------|
| | <u>Final Budget</u> | <u>Actual</u> | <u>Variance</u> |
| Revenues | | | |
| Appropriations revenue | \$ 16,463,970 | \$ 10,523,976 | \$ 5,939,994 |
| Expenditures and Encumbrances | | | |
| Administration | 1,207,269 | 262,280 | 944,989 |
| Head start | 568,657 | 478,265 | 90,392 |
| Community action centers | 782,550 | 859,443 | (76,893) |
| Homeless prevention | 120,542 | 497,494 | (376,952) |
| Outreach to the homeless | 174,286 | - | 174,286 |
| Temporary housing for the homeless | 12,701,104 | 8,104,882 | 4,596,222 |
| Permanent housing for the homeless | 909,562 | 321,612 | 587,950 |
| Total Expenditures and Encumbrances | <u>16,463,970</u> | <u>10,523,976</u> | <u>5,939,994</u> |
| Excess of Revenues over Expenditures (GAAP) | - | - | - |
| Opening Fund Balance | - | - | - |
| Ending 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 Human Services
Statement of Revenues, Expenditures, and Changes in Grant Cash Balance
For Fiscal Year Ended June 30, 2018

| | Cash Balance 7/1/2017 | Revenues | Expenditures | Cash Balance 6/30/2018 |
|---|--------------------------------------|-----------------------------|-----------------------------|---------------------------------------|
| Federal Grants | | | | |
| Administration | \$ 793,487 | \$ - | \$ 1,227,534 | \$ (434,047) |
| Head start | 21,031,858 | 7,387,141 | 7,957,330 | 20,461,669 |
| Continuum of care | 1,615,751 | 44,240,431 | 27,403,130 | 18,453,052 |
| Total revenues, expenditures and changes in grant balances - Federal | <u>23,441,096</u> | <u>51,627,572</u> | <u>36,587,994</u> | <u>38,480,674</u> |
| State Grants | | | | |
| Administration | 142,601 | - | 217,634 | (75,033) |
| Head start | 316,080 | - | 316,080 | - |
| Community centers | 6,941,749 | 4,300,255 | 4,380,720 | 6,861,284 |
| Continuum of care | 10,088 | 2,066,363 | 2,049,447 | 27,004 |
| Total revenues, expenditures and changes in grant balances - State | <u>7,410,518</u> | <u>6,366,618</u> | <u>6,963,881</u> | <u>6,813,255</u> |
| Other Grants | | | | |
| Administration | (1,416,913) | 1,403,001 | 39,741 | (53,653) |
| Community centers | 22,378 | - | 35,786 | (13,408) |
| Continuum of care | (3,413,014) | 22,778 | - | (3,390,236) |
| Total revenues, expenditures and changes in grant balances - Other | <u>(4,807,549)</u> | <u>1,425,779</u> | <u>75,527</u> | <u>(3,457,297)</u> |
| Total Grants | <u><u>\$ 26,044,065</u></u> | <u><u>\$ 59,419,969</u></u> | <u><u>\$ 43,627,402</u></u> | <u><u>\$ 41,836,632</u></u> |

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

CITY OF BALTIMORE
Mayor's Office of Human Services
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 | | | | |
| Administration | \$ 1,002,393 | \$ - | \$ 208,906 | \$ 793,487 |
| Head start | 21,151,494 | 7,591,107 | 7,710,743 | 21,031,858 |
| Continuum of care | (1,162,582) | 30,942,497 | 28,164,164 | 1,615,751 |
| Total revenues, expenditures and changes in grant balances - Federal | <u>20,991,305</u> | <u>38,533,604</u> | <u>36,083,813</u> | <u>23,441,096</u> |
| State Grants | | | | |
| Administration | 253,104 | - | 110,503 | 142,601 |
| Head start | 225,400 | 225,424 | 134,744 | 316,080 |
| Community centers | 3,879,713 | 7,725,235 | 4,663,199 | 6,941,749 |
| Continuum of care | (1,099,280) | 4,082,859 | 2,973,491 | 10,088 |
| Total revenues, expenditures and changes in grant balances - State | <u>3,258,937</u> | <u>12,033,518</u> | <u>7,881,937</u> | <u>7,410,518</u> |
| Other Grants | | | | |
| Administration | (1,403,776) | - | 13,137 | (1,416,913) |
| Community centers | 22,779 | - | 401 | 22,378 |
| Continuum of care | (3,469,762) | 56,748 | - | (3,413,014) |
| Total revenues, expenditures and changes in grant balances - Other | <u>(4,850,759)</u> | <u>56,748</u> | <u>13,538</u> | <u>(4,807,549)</u> |
| Total Grants | <u><u>\$ 19,399,483</u></u> | <u><u>\$ 50,623,870</u></u> | <u><u>\$ 43,979,288</u></u> | <u><u>\$ 26,044,065</u></u> |

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

CITY OF BALTIMORE
Mayor's Office of Human Services
Notes to the Financial Statements
Fiscal Years Ended June 30, 2018 and 2017

1. Description of the Mayor's Office of Human Services

The mission of the Mayor's Office of Human Services (Agency) is to prevent homelessness and provide outreach services to low and moderate income families. The Agency was created to develop and implement an integrated system of support for vulnerable populations through four focus areas – Community Action Partnership, Head Start, Homeless Service, and Reentry. The critical missions of the Agency are to oversee the development of:

- A continuum of housing services for individuals experiencing homelessness or at risk of experiencing homelessness.
- A comprehensive service delivery model for Community Action Program Centers throughout Baltimore City (City).
- Early intervention services for child development and school readiness.
- A collaborative strategy to support those transitioning from jail and prison to their communities and families.

2. Fund Financial Statements

These financial statements were 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 (GAAP). 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 and special revenue funds. The Agency annually receives appropriations from both the general and special revenue funds. General fund appropriations expire at year end. The special revenue fund receives grants from 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 Policy

The financial statements of the Agency are prepared on the cash basis of accounting, which is a comprehensive basis of accounting other than GAAP. This basis of presentation differs from 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 GAAP.

CITY OF BALTIMORE
Mayor's Office of Human Services
Notes to the Financial Statements
Fiscal Years Ended June 30, 2018 and 2017

4. Budget Process

The Agency participates in the City's Outcome Based Budgeting process. The 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.

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 JOSH PASCH, CPA

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

In planning and performing our audit of the financial statements of the Mayor's Office of Human Services (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.

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, we identified certain deficiencies in internal control that we consider to be a material weakness and a significant deficiency.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency described 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 accompanying schedule of findings to be a significant deficiency as Finding 2.

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*.

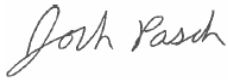
Department of Finance's and Agency's Responses to Findings

The Department of Finance's and the Agency's responses to the findings identified in our audit are described in the accompanying schedule of findings. The Department of Finance's and the Agency's responses were 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 Agency's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully,

A handwritten signature in cursive script that reads "Josh Pasch".

Josh Pasch, CPA
City Auditor
Baltimore, Maryland

CITY OF BALTIMORE
Mayor's Office of Human Services
Schedule of Findings
Fiscal Years Ended June 30, 2018 and 2017

Finding #1: Material Weakness – Overstated Account Balances

The Agency did not appropriately reconcile the *Comprehensive Annual Financial Reporting* (CAFR) related adjustments to the agency's financial statements. As a result, inaccurate financial statements will be produced that misstate grant balances. For example, the audit of the *Statement of Revenues, Expenditures, and Changes in Grant Cash Balance* for the periods ending June 30, 2018 and 2017 disclosed grants that receive funding/revenue on an expenditure reimbursement basis¹ that reported material cash balances as of June 30, 2018. Specifically,

- The federally funded Head Start and Continuum of Care grant programs reported cash balances of \$20M and \$18M, respectively for FY 2018.
- The state funded Community Centers grant program reported a cash balance of \$6.9M and other grants Continuum of Care reported a credit balance of \$3.4M². The latter includes aged expenditures that date back to 2006.

Similar balances were also reported for FY 2017. These balances result from account analysis and journal entries prepared by the Bureau of Accounting and Payroll Services to correct grant balances and write-off aged activity from FY 2014 to FY 2016 for CAFR purposes. However, CAFR related adjustments were not appropriately reconciled at the agency level financial statements.

The Office of Management and Budget (OMB) Circular No. A-123 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.

Recommendation

We recommend the Department of Finance perform additional analysis to appropriately identify and record grant adjustments at the agency level to permit the preparation of complete and accurate financial statements.

Management Response

The Department of Finance agrees with the finding. Finance has on several occasions publicly discussed the City's grant issues and 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 continues to adjust grant accounts and have made significant progress – evidenced by clean unmodified audit opinions on the 2016, 2017 and 2018 Comprehensive Annual Financial Reports. In addition, we have established Grants Management Office and implemented nine grant administrative manual policies that require City agencies to adhere to specific grant processes from award through close out. But more work needs to be done.

Certain inactive grant accounts remain unreconciled which includes the MOHS accounts cited in this finding. We expect this year to adjust these balances (after confirmation is received from the grantor that no amounts are due) and others like this that agencies have not properly managed and remain out of balance.

¹ An expenditure reimbursement basis means reimbursements occur after the expenditures are paid.

² A credit balance represents expenditures in excess of revenue.

CITY OF BALTIMORE
Mayor's Office of Human Services
Schedule of Findings
Fiscal Years Ended June 30, 2018 and 2017

Finding #2: Significant Deficiency – Service Organization Control Reports Are Not Obtained

Audit follow up on an issue previously reported as a 2017 management comment disclosed that corrective action associated with acquisition of Service Organization Control (SOC) Reports did not occur. Specifically, although the Agency used the following software that stores personally identifiable information (PII), the Agency did not ensure the security of these software: (1) Housing Pro³; (2) Child Outcome Planning and Assessment; (3) Work Sampling System; and, (4) e-Devereux Early Childhood Assessment. While the procurements were not controlled by the Baltimore City Office of Information and Technology (BCIT), these software are housed on BCIT's servers which permit periodic penetration testing. However, discussions regarding the results of penetration testing were not held between the Agency and BCIT. Additionally, SOC 2 reports, which are prepared by CPA firms, were not obtained to evidence the adequacy and effectiveness of controls over software, including safeguarding PII and preventing unauthorized access to the software. As a result, there is an increased risk that PII may be accessed by unauthorized users.

The OMB Circular No. A-123 requires management to oversee service organizations including services that involve personally identifiable information (PII).

Recommendation

We recommend that Agency obtain: (1) SOC 2 reports from the vendors annually; and, (2). hold and document periodic discussions with BCIT regarding the results of penetration testing.

Management Response

MOHS recognizes the importance of controls and safeguarding Personally Identifiable Information (PII). Since meeting with Audits in late May, MOHS has been contacting HAPPY Software on an almost a daily basis in an effort to obtain the SOC 2 report. MOHS was not notified until July 2, 2019, that due to the purchase of HAPPY Software by MIR Software in 2017, the SOC 2 report is no longer available. The 2016 SOC 2 Report, which MOHS has received and has previously submitted to audits, is the last report available.

In late June, the Program Compliance Supervisor began to reach out to HAPPY Software. Each time the representative reported that HAPPY Software is unable to provide the report; however, their developer was still working to provide a comparable report.

Despite these failed efforts to obtain the SOC 2 report, MOHS will continue to pursue efforts to obtain the report on an annual basis as well as document HAPPY's inability to provide the 2017 and 2018 reports.

Service Organization Control Reports are only applicable for the Child Outcome Planning and Assessment database and the e-Devereux Early Childhood Assessment database for Head Start. During the audit, Head Start was able to quickly provide these documents to the auditor when asked. In the future, Head Start has added a task on the Head Start Administrative Calendar for the Fiscal Officer to request SOC to be on file at the start of the contract year.

³ Housing Pro is accessible by sub-recipients, external housing inspectors, and internal staff to administer the various housing programs and grant activity.