



**Baltimore City
Law Department**

**Biennial Financial Audit
Fiscal Years Ended June 30, 2017 and 2016**

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CITY OF BALTIMORE

JOAN M. PRATT, CPA
Comptroller



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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

We have audited the accompanying cash basis financial statements of the Baltimore City Law Department (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, 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 judgment, including the assessment of the 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 our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the revenues collected and expenses paid 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 4, 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 4, 2018

Baltimore City Law Department
Schedule of Revenues, Expenditures and Encumbrances and Changes in Fund Balance
Budget to Actual, Budgetary Basis
General Fund
Fiscal Years Ended June 30, 2017 and 2016

	Final Budget	2017 Actual	Variance
Revenues			
Appropriations revenues	\$ 8,702,344	\$ 7,020,842	\$ 1,681,502
Expenditures and Encumbrances			
Administration	917,733	815,766	101,967
Controversies	4,463,822	3,724,327	739,495
Transactions	2,591,182	2,210,133	381,049
Minority and women's business opportunity office	727,201	767,892	(40,691)
Representation and advice for law enforcement	2,406	(497,276)	499,682
Total expenditures and encumbrances	<u>8,702,344</u>	<u>7,020,842</u>	<u>1,681,502</u>
Excess of Revenues over Expenditures and Encumbrances (GAAP)	-	-	-
Beginning Budgetary Fund Balance	-	-	-
Ending Budgetary Fund Balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

	Final Budget	2016 Actual	Variance
Revenues			
Appropriations revenues	\$ 8,038,657	\$ 7,382,915	\$ 655,742
Expenditures and Encumbrances			
Administration	1,048,519	978,661	69,858
Controversies	3,839,811	3,539,071	300,740
Transactions	2,462,596	2,148,585	314,011
Minority and women's business opportunity office	683,902	721,223	(37,321)
Representation and advice for law enforcement	3,829	(4,625)	8,454
Total expenditures and encumbrances	<u>8,038,657</u>	<u>7,382,915</u>	<u>655,742</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.

Baltimore City Law Department
Statement of Revenues, Expenditures and Changes in Grant Cash Balances
Fiscal Years Ended June 30, 2017 and 2016

	<u>Cash Balance</u> <u>7/1/2016</u>	<u>Revenue</u>	<u>Expenditures</u>	<u>Cash Balance</u> <u>6/30/2017</u>
Other Grants				
Administration	\$ (177,965)	\$ -	\$ -	\$ (177,965)
Controversies	(887,776)	-	-	(887,776)
Transactions	1,056,230	-	1,109	1,055,121
Total revenues, expenditures and change in grant balances - Other	<u>\$ (9,511)</u>	<u>\$ -</u>	<u>\$ 1,109</u>	<u>\$ (10,620)</u>

	<u>Cash Balance</u> <u>7/1/2015</u>	<u>Revenue</u>	<u>Expenditures</u>	<u>Cash Balance</u> <u>6/30/2016</u>
Other Grants				
Administration	\$ (177,965)	\$ -	\$ -	\$ (177,965)
Controversies	(887,776)	-	-	(887,776)
Transactions	1,056,230	-	-	1,056,230
Total revenues, expenditures and change in grant balances - Other	<u>\$ (9,511)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (9,511)</u>

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

Baltimore City Law Department
Notes to the Financial Statements
Fiscal Years Ended June 30, 2017 and 2016

1. Description of the Baltimore City Law Department

The mission of the Law Department is to represent the interests of the City in litigation matters; protect the corporate and financial interests of the City in the negotiation and consummation of contractual, financial, and real estate transactions; aggressively defend the City in liability cases; enhance and expand a collections effort; and provide sound legal advice and counsel to the Mayor, City Council and City departments, boards and commissions.

In performing these duties, attorneys are mindful of the City's specific financial and operational needs. Thus, Law Department attorneys focus upon innovation, as well as revenue collection, generation, and preservation. They engage in preventive lawyering designed to anticipate and limit the City's liability, and in creative problem solving designed to avoid disputes that impede the City's work. These approaches have recovered hundreds of millions of dollars for the City, and have prevented massive losses of funds, while advancing the City's goals.

The Department of Law is an agency of the City established by the City Charter. The head of the Department is the City Solicitor, who is appointed by the Mayor and confirmed by the City Council. Under the City Charter, the City Solicitor is the legal adviser and representative of the City and its departments, officers, commissions, boards and authorities and has general supervision and direction of the legal business of the City. In addition to overseeing the Department of Law, the City Solicitor is a member of the Board of Estimates.

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 expire at year end. The special revenue funds receive 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. Because of these differences, the financial statements of the Agency's general fund activities are reported on a budgetary basis in the *Schedule of Revenues, Expenditures and Encumbrances, and Changes in Fund Balance*. The financial statements of the special revenue funds are reported in the *Statement of Revenues, Expenditures, and Changes in Fund Balance*.

Baltimore City Law Department
Notes to the Financial Statements
Fiscal Years Ended June 30, 2017 and 2016

3. Summary of Significant Accounting Policies

The financial statements of the Agency are prepared on a 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. The accompanying financial statements are not intended to present the financial position and results of operations in conformity with accounting principles generally accepted in the United States of America.

4. Budget Process

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

5. Advance from the City

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

6. Risk Management

The City of Baltimore is exposed to various risks of loss related to torts; theft of; damage to; and destruction of assets; errors and omissions; injuries to employees and members of the public; and natural disasters. The Department of Health 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

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 Law Department 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 Law Department's financial statements, and have issued our report thereon dated, December 4, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Law Department'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 Law Department's internal control. Accordingly, we do not express an opinion on the effectiveness of the Law Department'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. We consider the deficiency described in the accompanying schedule of findings to be a significant deficiency.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be a material weakness. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

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.

A handwritten signature in black ink, appearing to read "Audrey Askew". The signature is fluid and cursive, with the first name being more prominent.

Audrey Askew, CPA
City Auditor
December 4, 2018

**Baltimore City Law Department
Schedule of Findings
Fiscal Years Ended June 30, 2017 and 2016**

Finding #1 – Significant Deficiency over Aged Accounting Balances

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 other grant revenue totaling (\$1.056M) and expenditures totaling \$1.066M that were carried forward from FY 15 through FY 17 without activity. Further review disclosed that the respective fund (6055XX) was closed from a budgetary standpoint in FY 15. However, the accounts and balances were not appropriately closed in the general ledger and cleared against the general fund.

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:

We recommend that the other grant accounts be closed and that the residual amount be cleared against the general fund.

Management Response:

The Department of Finance concurs with the finding. In this case the Law Department did not close out the grant account at the conclusion of the grant term or activity. The Department of Finance will write off the remaining \$10,000 balance and close the account.