



**BALTIMORE DEVELOPMENT CORPORATION**

**BIENNIAL PERFORMANCE AUDIT REPORT**

**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

City Auditor  
100 N. Holliday Street Room 321, City Hall Baltimore,  
MD 21202  
Telephone: 410-396-4783  
Telefax: 410-545-3961

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

## Executive Summary

We conducted a Biennial Performance Audit of selected performance measures within the Baltimore Development Corporation (BDC) for the Fiscal Years (FYs) ended June 30, 2018 and 2017. The objectives of our performance audit were to determine whether BDC: (1) met its performance measure targets; and (2) has adequately designed internal controls related to the selected performance measures.

According to the FYs 2017, 2018, 2019, 2020 Agency Detail Board of Estimates Recommendations (Budget Books) and data provided by BDC, except for the FY 2018 performance measure for “jobs retained in or added to City per Full -Time Employee,” BDC met the targets of selected performance measures. This FY 2018 performance measure was not met due to a change in methodology for tracking the number of jobs retained. However, a disclosure for the change in methodology was missing in the FY 2020 Budget Book. Without a proper disclosure, the information included in the Budget Book could be misleading to users. This finding has been previously reported in multiple Biennial Performance Audit Reports.

Additionally, we observed:

- BDC’s performance measures reporting and monitoring processes for Service 809 need improvement. Ineffective reporting and monitoring processes could result in reporting inaccurate actual results.
- The Service 814’s underlying methodology to calculate actuals is not reasonable and Fiscal Year 2017 actual was not supported, resulting in a risk of overstatement.

To improve the reliability and reasonableness of the performance measures, the Director of Finance and the President / Chief Executive Officer (CEO) of BDC should implement the recommendations included in this report.

We wish to acknowledge BDC’s and the Department of Finance’s cooperation extended to us during our audit.

Respectfully,

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

Josh Pasch, CPA  
City Auditor  
Baltimore, Maryland  
September 26, 2019

## Background Information

### I. Selected Performance Measures

We judgmentally selected the three performance measures of BDC, which are summarized as follows:

Table I

Summary of Selected Performance Measures' Targets and Actuals as Reported in the Budget Books for Fiscal Years 2018 and 2017

Service	Performance Measure	2018		2017	
		Target	Actual	Target	Actual
809 <sup>1</sup>	Companies BDC assisted in staying in Baltimore City (City)	153	241	149	217
	Jobs retained in or added to City per Full - Time Employee (FTE)	768	320	292	895
814 <sup>2</sup>	Number of jobs created	780	1,287 <sup>3</sup>	468	1,051

Notes: <sup>1</sup> Retention, Expansion, and Attraction of Business

<sup>2</sup> Improve and Promote Retail Districts Beyond Downtown. This performance measure is discontinued starting in FY 2020. It is combined with Services 809 and 810 (Real Estate Development) to avoid service duplication.

<sup>3</sup> FY2018 actual for this performance measure was not included in FY 2020 Budget Book; however, the FY 2018 actual is presented in this table because BDC maintained its records and provided auditors with the actual result and its supporting documentation.

Source: FY 2017, 2018, 2019, 2020 Budget Books

### II. Baltimore Development Corporation

The BDC is a non-profit organization, which serves as the economic development agency for the City. As reported in the Comprehensive Annual Financial Report, BDC is classified as a related organization of the City and is contracted and funded by the Department of Housing and Community Development. The BDC's mission is to: (1) retain and expand existing businesses; (2) support cultural resources; and (3) attract new opportunities that spur economic growth and help create jobs.

### **III. Services**

The following services centers are responsible for the performance measures discussed above:

- **Retention, Expansion, and Attraction of Business (Service 809):** This service focuses on increasing jobs in the City’s key growth sectors, expanding companies located in the City, investing in the City, providing significant financial benefit to the City and the State of Maryland, and fostering opportunities for Minority Business Enterprise and Women Business Enterprise participation. This service seeks to increase private investment, including in Enterprise Zones.
- **Improve and Promote Retail Districts Beyond Downtown (Service 814):** This service provides economic development functions and engages community members in the economic revitalization process. The core components of this service include: retention and attraction of new neighborhood-oriented retailers, oversight of the Main Streets program, administering the Shop Baltimore Loan program and Façade Improvement Grant, and administration of the Retail Business District License. Starting from FY2020, duties and funds of Service 814 will be absorbed by Services 809 and 810 to reduce service duplication.

### **IV. Objectives, Scope, and Methodology**

We conducted our performance audit in accordance with *Generally Accepted Government Auditing Standards*, except for peer review requirements. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The objectives of our performance audit were to determine whether BDC: (1) met its performance measure targets; and (2) has adequately designed internal controls related to the selected performance measures.

The scope of our audit includes three performance measures (see Background Information) reported in the periods of FY 2018 and FY 2017.

To accomplish our objectives, we interviewed key individuals and evaluated the efficiency and effectiveness of certain: (1) internal controls such as recording, reporting, documenting, and segregation of duties; (2) processes; and (3) procedures of the selected performance measures. Additionally, we judgmentally selected samples and reviewed applicable records and reports to test reasonableness of the methodologies and actual results of the performance measures. Also, we reviewed whether BDC met its performance measure targets.

Management responses are included in Appendix I.

## Findings and Recommendations

### Finding #1: A disclosure for FY 2018 actual for Service 809 was missing in the FY 2020 Budget Book

The BDC did not meet its performance measure target for jobs retained in or added to City per FTE for FY 2018 due to a change in methodology for calculating the actual (see textbox). The target and actual for FY 2018 were 768 and 320, respectively. In FY 2016, the FY 2018 target was established based on the expected jobs at the inception of the project or business. In FY 2020, the FY 2018 actual was measured based on the actual jobs created. However, BDC and the Department of Finance did not disclose the change in methodology in the FY 2020 Budget Book<sup>1</sup>. Without a proper disclosure of the change in methodology, the information included in the Budget Book could be misleading to users.

#### Reasons for the Methodology Change

The creation of the Harbor Point Tax Increment Funding, which is expected to generate 17,000 plus jobs, caused BDC to reevaluate their methodology regarding the calculation of actuals for the Service 809 performance measure (jobs retained in or added to City per FTE). The BDC determined that it was reasonable to allocate jobs created from large projects as they became available rather than allocating all expected jobs at the inception of the project or business.

Source: BDC

According to the *Standards for Internal Control in the Federal Government* issued by the Comptroller General of the United States (Green Book), management should:

- Use quality information to achieve the entity's objectives.
- Internally communicate the necessary quality information to achieve the entity's objectives.
- Externally communicate the necessary quality information to achieve the entity's objectives.

### Recommendation #1

We recommend the Director of Finance include a disclosure in the City's Budget Book to address any changes in the performance data that would affect the result of an established target.

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<sup>1</sup>This is a repetitive finding which was previously reported in the following Biennial Performance Audit Reports:

- FYs 2018 and 2017 - Department of Planning
- FYs 2017 and 2016 - Department of Human Resources and Department of Health
- FY 2016 and 2015 – Mayor's Office of Human Services and Department of Finance

**Finding #2: The BDC's performance measures reporting and monitoring processes for Service 809 need improvement**

The BDC's performance measures reporting and monitoring processes are complex, manual, and require analysis of data from the following three electronic reports which are derived from three sources: (1) Results Report; (2) Enterprise Zone (EZ) Property Credit; and (3) EZ Employment Credit. The BDC has review processes to ensure two performance measures under Service 809 are accurately reported; however, the BDC's performance reporting and monitoring processes for Service 809 are not efficient and effective. Specifically,

- **Efficiency:** The initial Results Report that BDC provided was missing some relevant data to support the actual number of jobs created or retained, which resulted in BDC providing multiple sets of data to agree to the reported actuals. This is due to a lack of maintaining electronic files of the formatted reports that were used to calculate the actual results of the performance measures reported in the Budget Books. Verifiable documentation is important for succession planning especially at the time of staff transition.
- **Effectiveness:** Three<sup>2</sup> of sixty businesses selected for testing, or five percent, were counted twice for the outcome budget reporting. This is due to a lack of reconciliation between three electronic reports, which is a recommended methodology to identify discrepancies.

According to the Green Book,

- “Management performs ongoing monitoring of the design and operating effectiveness of the internal control system as part of the normal course of operations. Ongoing monitoring includes regular management and supervisory activities, comparisons, reconciliations, and other routine actions. Ongoing monitoring may include automated tools, which can increase objectivity and efficiency by electronically compiling evaluations of controls and transactions.”
- “Management clearly documents internal control and all transactions and other significant events in a manner that allows the documentation to be readily available for examination. The documentation may appear in management directives, administrative policies, or operating manuals, in either paper or electronic form. Documentation and records are properly managed and maintained.”

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<sup>2</sup>Three businesses include two from FY 2018 and one from FY 2017.

## Recommendation #2

We recommend the President / CEO of BDC:

- Document and retain electronic files of the formatted reports used to calculate the actual results of the performance measures reported in the Budget Books. These electronic files should detail any necessary calculations to agree to the reported actuals.
- Improve the review process by reconciling three electronic reports.

### **Finding #3: The Service 814's underlying methodology to calculate actuals is not reasonable and calculations for FY 2017 actuals were not supported**

The actuals for Service 814 were based on the number of jobs created by the Main Street program and / or the Retail Business District License Program (RBDL) (See textbox). In FY 2017, the calculation for the number of jobs created was based on both Main Street program and RBDL. However, in FY 2018, the Main Street program was transferred to the Mayor's Office; as a result, only RBDL was used in the calculation of FY 2018 actual.

#### Multiplier used in RBDL is not reasonable

The multiplier used in RBDL is based on the retail trade establishments throughout the entire City including commercial zones where larger retailers would tend to be located. However, RBDL's are commercial corridors found within residential areas. The type of businesses located in these areas are more likely to be start-ups and smaller retailers. As a result, using an estimate based on the City as a whole to calculate Service 814 could lead to actual results being overstated. For example, as shown in Table II below, FY 2017 actual was overstated by 43 jobs for six businesses. These six businesses were identified as both Main Street and RBDL. However, BDC used the RBDL methodology, which resulted in higher number of jobs created.

#### **Background Information of Two Methodologies**

**Main Street program:** The number of jobs created is based on the actual count of new jobs created, as reported by the Main Street administrators.

**The RBDL program:** The number of jobs created is computed by the number of new businesses in the RBDL times a multiplier obtained from US census data. For example, the multiplier to calculate the FY 2017 actual was 9.02.

**Source:** BDC



## Biennial Performance Audit Report on Baltimore Development Corporation

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Table II

Comparison of the Number of Jobs Created for Six Identified Businesses as Main Street and Retail Business District License (FY 2017)

Business Number	Main Streets	RBDL
1	1.5	9.02
2	3	9.02
3	1.5	9.02
4	1.5	9.02
5	1.5	9.02
6	2	9.02
<b>Total</b>	<b>11</b>	<b>54.12</b>

Source: BDC

FY 2017 actual was not supported

The BDC relies on the quarterly reports submitted by Main Street rather than independently verifying the number of jobs actually created in the Main Street Program. The jobs created attributable to the Main Street program are reported to BDC on a quarterly basis by the Main Street organizations. BDC relies on the quarterly reports submitted by Main Street and does not obtain and review supporting documents to substantiate these reports submitted by the Main Street. As a result, BDC cannot ensure the accuracy of the actual reported results.

According to the Association of Government Accountants' Corporate Partner Advisory Group Research Series: Report No. 29, *Using Performance Information to Drive Performance Improvement*, one of the three purposes of performance measures are to drive performance improvement, that is, provide the impetus and insight for monitoring the delivery of services and making adjustments, if necessary, to assure programs achieve the desired results. The relevant information<sup>3</sup>:

- Needs to have a close logical relationship to the performance goals.
- Provides a basis for determining the levels of accomplishment and can make a difference in the assessment of a problem, condition or event.

The *Guide to Performance Measure Management* 2012 Edition Report No. 12-333, *Report Actual Performance and Retain Adequate Documentation* states that "Adequate documentation of primary data related to performance measures should be retained to support the reported performance period. Additional documentation should be kept if the data base does not contain an appropriate audit trail. These documents can be electronic or hard copy form, but they should be accessible for review whether stored on site or off site."

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<sup>3</sup>This is based on an attribute "relevant", which is drawn from the pronouncements of the *Government Accounting Standards Board*.

**Recommendation #3**

We recommend the President / CEO of BDC:

- Evaluate whether the census multiplier is a reasonable multiplier for the number of jobs created for Service 814 actual performance measure. To effectively evaluate, select a sample of RBDL businesses, obtain the associated actual number of jobs created, calculate an average, and compare it to the census multiplier.
- Validate the accuracy of actual results reported by obtaining and reviewing supporting documentation for all reports / data provided by a third party if BDC decides to have a third party like the Main Street in the future.

**Management's Response - Finance**

Date: September 18, 2019

To: Josh Pasch, City Auditor

Subject: Management Response to the Baltimore Development Corporation Biennial Performance Audit Report for Fiscal Years Ended June 30, 2018 and 2017

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

**Recommendation #1**

We recommend the Director of Finance include a disclosure in the City's Budget Book to address any changes in the performance data that would affect the result of an established target.

**Management Response / Corrective Action Plan**

Agree   Disagree

The Department of Finance agrees with the finding. In this case the budget analyst did not foot note the change in methodology in the City's Budget Book as required by budget policy. The analyst is a new hire and was retrained as to the policy and importance of noting such changes in future budget documents.

**Implementation Date**

Sept. 18, 2019

**Responsible Personnel**

Steve Kraus

## Management's Response - BDC

Date: September 24, 2019

To: Josh Pasch, City Auditor

Subject: Management Response to the Baltimore Development Corporation Biennial Performance for Fiscal Years Ended June 30, 2018 and 2017

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

### **Recommendation #2**

We recommend the President / CEO of BDC:

- Document and retain electronic files of the formatted reports used to calculate the actual results of the performance measures reported in the Budget Books. These electronic files should detail any necessary calculations to agree to the reported actuals.
- Improve the review process by reconciling three electronic reports.

### **Management Response / Corrective Action Plan**

Agree  Disagree

The BDC is currently working to improve the electronic filing system, that includes the three reports referenced, for the retention of data which should make reporting and auditing of said information more efficient and accurate. It is the goal that by combining the reports, reconciliation will be streamlined as reporting will be by business and not by the action (business name versus EZ tax credit for example)

### **Implementation Date**

The new system will be implemented by December 31, 2019 and an example provided to Audits.

### **Responsible Personnel**

Kimberly Clark EVP 410 779 3868

**Recommendations #3**

We recommend the President / CEO of BDC:

- Evaluate whether the census multiplier is a reasonable multiplier for the number of jobs created for Service 814 actual performance measure. To effectively evaluate, select a sample of RBDL businesses, obtain the associated actual number of jobs created, calculate an average, and compare it to the census multiplier.
- Validate the accuracy of actual results reported by obtaining and reviewing supporting documentation for all reports / data provided by a third party if BDC decides to have a third party like the Main Street in the future.

**Management Response / Corrective Action Plan**

**Agree**

**Disagree**

Management has discussed the need for accuracy with the respective parties at BDC and will review all submissions carefully before submitting to BBMR. The census multiplier will not be used in the future, BDC will rely on its internal reporting system so as to not rely on reporting from 3<sup>rd</sup> parties. Also, beginning in 2020 the Service 814 has been eliminated and the outcomes assigned to other services.

**Implementation Date**

July 2019

**Responsible Personnel**

Kimberly Clark EVP 410 779 3868