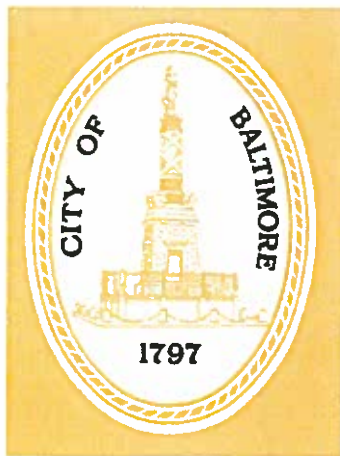


PERFORMANCE AUDIT REPORT

**DEPARTMENT OF FINANCE
BUREAU OF REVENUE COLLECTIONS
INSPECTION UNIT**

**FOR THE PERIOD FROM
JULY 1, 2013 THROUGH JUNE 30, 2014**

December 2015



**City of Baltimore
Department of Audits**



December 8, 2015

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

We conducted a performance audit of the Department of Finance, Bureau of Revenue Collections' Inspection Unit (Inspection Unit). The purpose of our audit was to assess the internal controls and the related policies and procedures currently in place to monitor, control, and report activities related to the Inspection Unit.

As a result of our audit, we noted certain areas where the effectiveness of the control procedures could be improved and we recommend that:

- Changes be made to the methodology in which daily inspection visits are scheduled and assigned to the inspectors in order to increase the efficiency and effectiveness of the Inspection Unit by reducing the number of "non-inspections", i.e., *No License Required, Closed, Out of Business, Residential, etc.*
- The Inspection Unit adopt alternative procedures to determine whether any of those businesses or establishments noted as *No License Required, Closed, Out of Business, Residential, etc.* are actually operating without a valid license.
- The work hours for at least one of the inspectors be modified, possibly on a rotating basis, so that inspections can be done for businesses or establishments operating after the inspectors' normal hours or on the weekends.
- In accordance with the Inspection Unit's policies and procedures, all inspection tickets must include the owner/representative's signature, title and telephone number to be counted as part of the daily inspections.
- The Department of Finance continue efforts to upgrade its computer system so that, among other things, it could readily identify the number of businesses or establishments with each type of license, whether those licenses are current, and the number of times each business or establishment was actually inspected during the year.



- The Daily Attendance Record (DAR) be modified to include a space to record supervisory reviews and approvals. Also, the time and attendance information recorded on the DARs should be reconciled by someone, other than the inspectors, to the applicable information recorded on eTIME, the City's automated time-keeping system used as a basis to generate employees' pay checks.
- The information regarding the number of inspections recorded on the DARs and supported by the inspection tickets be reconciled to the applicable information recorded on the Monthly Statistical Summary Reports.
- Duties be adequately segregated to prevent the inspectors from accessing and entering inspection information into the data entry system.
- The Inspection Unit review the summary of payroll discrepancies included on Exhibit I of this report and make the appropriate adjustments as required.
- In accordance with Baltimore City's Administrative Manual (Section AM-502-1), the Inspection Unit establish procedures to adequately maintain records, especially the documentation that supports the inspectors' daily attendance and the number of daily inspections performed.

Sincerely,



Robert L. McCarty, Jr., CPA
City Auditor

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Background Information

According to the information contained in the Executive Summary of the Board of Estimates Budget Recommendations (fiscal years 2015, 2014, 2013, and 2012), the Inspection Unit performs inspections of businesses required to maintain current City licenses, and also manages the collection of self-reported City taxes. Also, according to the information contained in the Executive Summary of the Board of Estimates Budget Recommendations (fiscal years 2015, 2014, 2013, and 2012), the Inspection Unit has been made self-supporting through a Special Fund initiative to increase City revenues.

Businesses or establishments remit the applicable fees for the various types of licenses to the City. The amount of applicable taxes collected by the businesses are self-reported by the businesses or establishments and remitted to the City.

During fiscal year 2014, the Inspection Unit included five (5) full-time and two (2) part-time inspectors. Each full-time inspector is assigned approximately 50 inspection visits daily (Monday through Friday) from a database containing more than 17,000 addresses for possible license inspections. Part-time inspectors are usually assigned approximately 25 inspection visits on the days they work. Each inspector initials the Daily Attendance Record (DAR) and enters the sign-in/sign-out times and the number of inspection visits in the applicable spaces provided. The inspector also enters the number of inspection visits on the Daily Mileage and Time Logs, which are wrapped around the inspection tickets for each inspector for that day. An Office Assistant utilizes the inspection tickets and any violation tickets to input the information into the system on the next business day. Monthly Statistical Summary Reports are generated that, in addition to other information, include the number of inspections performed. The inspection and violation tickets, along with the Daily Mileage and Time Logs, are subsequently stored in boxes by month.

Audit Scope, Objectives and Methodology

We conducted a performance audit of the Department of Finance, Bureau of Revenue Collections' Inspection Unit (Inspection Unit). The purpose of our audit was to assess the internal controls and the related policies and procedures currently in place to monitor, control, and report activities related to the Inspection Unit. We conducted our audit in accordance with *Generally Accepted Government Auditing Standards*. 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 audit were to assess whether the internal controls and related policies, processes, and procedures of the Inspection Unit are effectively designed and placed in operation to monitor businesses' adherence to City licensing requirements and to manage the collection and remittance of the related self-reported City taxes.

To accomplish our objectives, we conducted inquiries of key individuals in order to obtain an understanding of the internal controls and related policies, processes and procedures, and systems, established for the Inspection Unit. Where possible, we also utilized the systems' documentation obtained as part of our audit of the City's Comprehensive Annual Financial Report (CAFR). We also performed tests, as necessary, to verify our understanding of the applicable policies and procedures; reviewed applicable records and reports utilized to process, record, monitor, and control the Inspection Unit's functions; and assessed the efficiency and effectiveness of those policies and procedures. Except as stated below, we performed tests of the available inspection records and the related attendance reports for the period from July 1, 2013 through June 30, 2014. Our audit also identified other areas that we believe should be brought to management's attention as a result of observations and information obtained during the course of the audit.

We could not review and test certain inspection information, especially where there were several large differences between the number of monthly inspections recorded by the inspectors on the DARs and the number of inspections included on the Monthly Statistical Summary Reports. The DARs, used to record the sign-in and sign-out times and the number of inspections performed, could not be located for the weeks of September 2 through September 6, 2013 and September 9 through September 13, 2013. Also, the Inspection Unit could not locate any of the inspection tickets (normally stored with the Daily Mileage and Time Logs) that we requested for August, September, and October 2013.

Our findings and recommendations are detailed in the Findings and Recommendations section of this report. The responses of the Department of Finance and the Department of Audits' comments to the Department of Finance's responses are included as an appendix to this report.

Findings and Recommendations

Policies and Procedures for Scheduling and Assigning Inspections

Finding #1

The daily inspection visits are not scheduled and assigned to the inspectors in an efficient and effective manner.

Analysis

The daily inspection visits are not scheduled and assigned to the inspectors in an efficient and effective manner. Each full-time inspector is assigned approximately 50 inspection visits daily (Monday through Friday) from a database containing more than 17,000 addresses for possible license inspections. Part-time inspectors are usually assigned approximately 25 inspection visits on the days they work. The Inspection Unit, however, estimates that there are approximately 2,500 businesses with active licenses subject to inspections. This represents only 15% of the listings contained in the data for possible inspections. Also, we were told that the current system does not readily identify the number of businesses or establishments with each type of license and the number of times each business or establishment was actually inspected during the year. It is our understanding that the Department of Finance is in the process of upgrading its computer system in order to provide such information.

We reviewed the inspection tickets for March 2014 and November 2014 and found that a very small percentage of those visits actually resulted in what we refer to as “completed inspections”. The majority of the inspection tickets that we reviewed contained comments such as *No License Required, Closed, Out of Business, Residential*, etc. All visits were counted as part of the assigned inspections. According to the inspection tickets, the majority of the visits (whether for a “completed inspection” or not) took about three minutes each.

We selected five (5) days during March 2014 for our review of the inspection tickets and, according to those inspection tickets, there were 967 inspection visits conducted during those five days. We categorized 94 of those visits, or about 10%, as “completed inspections” since those inspection tickets contained handwritten inspector’s notes for such items as Type of License and/or Device, Number of Devices, applicable License Numbers and the Number of Violations noted during those inspections. According to the Inspection Unit’s policies and procedures, all tickets must have the owner/representative’s signature, title and telephone number to be counted as part of the daily inspections. However, less than half of those “completed inspection” tickets (45 out of 94) were signed by the owner/representative of the business.

The remaining 873 visits during March 2014 are summarized as follows:

- 409 of those inspection tickets (tickets) contained the comments *NLR* (No License Required);
- 115 tickets were marked *OOB* (Out of Business);
- 84 tickets were marked *Closed*;
- 95 tickets were either pre-printed or marked as *Residential Only*; and,
- 170 tickets were either blank; i.e., the tickets contained no written inspection notes or comments, *Unknown* was pre-printed on the inspection tickets in the section for Type of Business, or the inspection tickets represented visits to vacant properties or lots.

We also selected five (5) days in November 2014 for our further review of inspection tickets and found similar results. The inspection visits for those five days totaled 1,001. We categorized 53 of those visits, or about 5%, as “completed inspections” since those inspection tickets contained handwritten inspector’s notes for such items as Type of License and/or Device, Number of Devices, applicable License Numbers and the Number of Violations noted during those inspections. Again, according to the Inspection Unit’s policies and procedures, all tickets must have the owner/representative’s signature, title and telephone number to be counted as part of the daily inspections. However, only 11 of the 53 “completed inspection” tickets were signed by the owner/representative of the business.

The remaining 948 visits during November 2014 are summarized as follows:

- 510 of the tickets contained the comments *NLR* (No License Required);
- 92 tickets were marked *OOB* (Out of Business);
- 98 tickets were marked *Closed*;
- 82 tickets were either pre-printed or marked as *Residential Only*; and,
- 166 tickets were either blank; i.e., the tickets contained no written inspection notes or comments, *Unknown* was pre-printed on the inspection tickets in the section for Type of Business, or the tickets represented visits to vacant properties or lots.

As part of our review of the inspection tickets for the ten days referred to above and the available Daily Attendance Records (DARs) for fiscal year 2014, we also noted the following:

- Several of the inspection tickets that were marked *Closed* represented visits to Churches that were closed at the time of the visits or to bars or other establishments that operated in the evening or on the weekends; and therefore, were not available for inspection during the inspectors’ regular hours.
- In at least one case, the inspector noted that an address assigned for inspection was not located within Baltimore City;

- According to the DARs, one of the full-time inspectors performed inspection visits on only 81 out of 251 days during fiscal year 2014. That same inspector also signed in and out, but no inspections were noted on 78 days during fiscal year 2014. The DARs also included 27 days for that inspector as data entry and office work and 51 days as on leave or absent.
- According to the DARs for one of the part-time inspectors (usually working two to three days per week), that inspector performed inspection visits on only 27 days during fiscal year 2014. That same inspector also signed in and out, but no inspections were noted on 46 days during fiscal year 2014.

Recommendation #1

We recommend that changes be made to the methodology in which daily inspection visits are scheduled and assigned to the inspectors in order to increase the efficiency and effectiveness of the Inspection Unit by reducing the number of “non-inspections”, i.e., *No License Required, Closed, Out of Business, Residential, etc.* The Inspection Unit should adopt alternative procedures to determine whether any of those establishments noted as *No License Required, Closed, Out of Business, Residential, etc.* are actually operating without a valid license. We also recommend that the work hours for at least one of the inspectors be modified, possibly on a rotating basis, so that inspections can be done for businesses or establishments operating after the inspectors’ normal hours or on the weekends. We further recommend that in accordance with the Inspection Unit’s policies and procedures, all inspection tickets must include the owner/representative’s signature, title and telephone number to be counted as part of the daily inspections. We also recommend that the Department of Finance continue efforts to upgrade its computer system so that, among other things, it could readily identify the number of businesses or establishments with each type of license, whether those licenses are current, and the number of times each business or establishment was actually inspected during the year.

Internal Controls and Related Policies and Procedures for Monitoring Time and Attendance and Inspection Information

Finding #2

There were numerous discrepancies between the inspectors’ time and attendance information included on the Daily Attendance Records (DARs) and the time and attendance information recorded on eTIME, the City’s automated time-keeping system used as a basis to generate employees’ pay checks.

Analysis

There were numerous discrepancies between the inspectors’ time and attendance information included on the Daily Attendance Records (DARs) and the time and attendance information recorded on eTIME, the City’s automated time-keeping system used as the basis to generate employees’ pay checks. For example, there were several days during the six-month period that we selected for testing and analyses (January 1, 2014 through June 30, 2014) where the

inspectors were marked present on eTIME, but the DARs for those days were either blank (no sign-in or sign-out times and no inspections noted) or showed that the inspectors were on leave. We also noted that several times, inspectors were present according to the DARs, but no time was recorded on eTIME. We did not see any Historical Edits (subsequent corrections) recorded on eTIME for any of the discrepancies noted above. Consequently, some inspectors may have been over or under paid, and some inspectors' leave balances may be incorrect. (See Exhibit I of this report for a Summary of Payroll Differences for the period from January 1, 2014 through June 30, 2014.)

We believe that the above discrepancies occurred because the DARs do not contain any evidence of supervisory reviews and approvals, and apparently, there are no reconciliations performed between the information on the DARs and the information recorded on eTIME.

Recommendation #2

We recommend that the DARs be modified to include a space to record supervisory reviews and approvals. We also recommend that the time and attendance information recorded on the DARs be reconciled to the applicable information recorded on eTIME, the City's automated time-keeping system used as the basis to generate employees' pay checks. We further recommend that the Inspection Unit review the summary of payroll discrepancies included on Exhibit I of this report and make the appropriate adjustments as required. Also, see Recommendation #5 for maintaining adequate supporting documentation.

Finding #3

There were several discrepancies between the total number of monthly inspections recorded by the inspectors on the DARs and the total number of inspections included on the Monthly Statistical Summary Reports.

Analysis

There were several large discrepancies between the total number of monthly inspections recorded by the inspectors on the DARs and the total number of inspections included on the Monthly Statistical Summary Reports for the six-month period we selected for testing and analyses (July 1, 2013 through December 31, 2013.) (See Exhibit II of this report for a summary of these differences.)

In addition to the sign-in and sign-out times, the DARs provide spaces for the daily number of inspections completed by each inspector. Although we were told that each full-time inspector is generally assigned 50 inspection visits each day, according to the DARs, one of the inspectors greatly exceeded that amount on 15 occasions during July and August 2013. On many of those 15 days, the number of inspections recorded on the DARs exceeded 150; and on one day (August 14, 2013), the reported number of inspections was 245. We planned to review the corresponding inspection tickets, which are included with the Daily Mileage and Time Logs for each inspector and stored in boxes by month. We made several requests for this information; however, the Inspection Unit could not locate any of the boxes containing the inspection tickets for the months with the largest discrepancies (August, September, and October 2013).

Again, the DARs do not contain any evidence of supervisory reviews and approvals, and apparently, there are no reconciliations performed between the number of inspections recorded on the DARs and the number of inspections included on the Monthly Statistical Summary Reports.

Recommendation #3

As recommended under Finding #2, the DARs should be modified to include a space to record supervisory reviews and approvals. We also recommend that the information regarding the number of inspections recorded on the DARs and supported by the inspection tickets be reconciled to the applicable information recorded on the Monthly Statistical Summary Reports. Also, see Recommendation #5 for maintaining adequate supporting documentation.

Finding #4

Duties in the Inspection Unit were not adequately segregated.

Analysis

Duties in the Inspection Unit were not adequately segregated. Segregation of duty controls are designed to reduce the opportunities for someone to both perpetrate and conceal errors and irregularities in the normal course of duties. We were originally told that the inspectors did not have access to the data entry system for inspection information. Apparently, however, at least five of the inspectors had such access. According to the DARs, those five inspectors worked a combined total of 43 days during fiscal year 2014 entering data into the system. As a result, any errors or irregularities could possibly remain undetected since, as reported under Finding #3, the DARs do not contain any evidence of supervisory reviews and approvals, and apparently, there are no reconciliations performed between the number of inspections recorded on the DARs and the number of inspections included on the Monthly Statistical Summary Reports.

Recommendation #4

We recommend that duties be adequately segregated to prevent the inspectors from accessing and entering inspection information into the data entry system.

Finding #5

Records were not adequately maintained to support all of the inspectors' time and attendance information and number of daily inspections performed.

Records were not adequately maintained to support all of the inspectors' time and attendance information (sign-in and sign-out times) and the number of daily inspections performed. Consequently, we could not review and test certain inspection information, especially where there were several large differences between the number of monthly inspections recorded by the inspectors on the DARs and the number of inspections included on the Monthly Statistical Summary Reports.

Specifically, the DARs, used to record the sign-in and sign-out times and the number of inspections performed, could not be located for the weeks of September 2 through September 6,

2013 and September 9 through September 13, 2013. Also, the Inspection Unit could not locate any of the inspection tickets (normally stored with the Daily Mileage Logs) for the period of August 1, 2013 through October 31, 2013. (See Findings #2 and #3.)

Recommendation #5

We recommend that, in accordance with Baltimore City's Administrative Manual (Section AM-502-1), the Inspection Unit establish procedures to adequately maintain records, especially the documentation that supports the inspectors' daily attendance records and the number of daily inspections performed.

Exhibit I

**SUMMARY OF PAYROLL DIFFERENCES BETWEEN
DAILY ATTENDANCE RECORDS AND eTIME RECORDINGS
FOR THE PERIOD FROM JANUARY 1, 2014 THROUGH JUNE 30, 2014**

Differences Noted	Number of Differences for Each Inspector								6-Month Totals
	#1	#3	#4	#5	#6	#7	#8		
Inspector was marked present on eTIME, but the Daily Attendance Record was blank (No sign-in and sign-out and no inspections noted),		4	5	2		4	1		16
Inspector was marked present on eTIME, but Daily Attendance Record shows Leave Time.			2	8		4			14
Inspector was shown as present on the Daily Attendance Record, but no time was recorded on eTIME.		9					2		11
No time was recorded on eTIME; Inspector did not sign-in and sign-out on Daily Attendance Record, but included number of inspections.		2							2
Totals	-	15	7	10	-	8	3		43

Note: We did not see any Historical Edits (subsequent corrections) for the discrepancies cited above.

**SUMMARY COMPARISON OF NUMBER OF REPORTED INSPECTIONS
PER DAILY ATTENDANCE RECORDS AND MONTHLY STATISTICAL SUMMARY REPORTS
FOR THE PERIOD FROM JULY 1, 2013 THROUGH DECEMBER 31, 2013**

	Monthly Totals					6-Month Totals	
	7/13	8/13	9/13	10/13	11/13		12/13
Total number of inspections per Daily Attendance Records.	4,338	4,684	1,428	B 2,882	3,749	3,320	20,401
Total number of inspections per Monthly Statistical Summary Report.	4,620	3,543	3,082	3,740	4,287	3,560	22,832
Differences in the Reported Number of Inspections	<u>(282) 1,141 A (1,654) A, B (858) A (538) (240)</u>						<u>(2,431)</u>

A We requested the inspection tickets for the months with the largest differences (August, September, and October 2013); however, the Inspection Unit could not locate the boxes containing the inspection tickets and Daily Mileage Logs for those months.

B The Daily Attendance Records for September 2, 2013 through September 13, 2013 could not be located by the Inspection Unit.

Appendix I

**The Department of Finance's Response
To the Performance Audit of
The Bureau of Revenue Collections
Inspection Unit**



December 3, 2015

Robert L. McCarty, Jr., City Auditor
Department of Audits
City Hall, 100 N. Holliday Street
Baltimore, MD 21202

The Department of Finance (Finance) acknowledges the performance audit prepared by the Department of Audits in its audit of the Licensing Inspections Unit (Licensing Unit) in Finance's Bureau of Revenue Collections. We view this audit as an opportunity to improve processes and to strengthen internal controls. Finance has the following responses to each of the individual findings contained in the audit report:

Policies and Procedures for Scheduling and Assigning Inspections

Finding #1 - The daily inspection visits are not scheduled and assigned to inspectors in an efficient and effective manner.

Recommendation #1 - *We recommend that changes be made to the methodology in which daily inspection visits are scheduled and assigned to the inspectors in order to increase the efficiency and effectiveness of the Inspection Unit by reducing the number of "non-inspections", i.e., No License Required, Closed, Out of Business, Residential, etc. The Inspection Unit should adopt alternative procedures to determine whether any of those establishments noted as No License Required, Closed, Out of Business, Residential, etc. are actually operating without a valid license We also recommend that the Department of Finance continue efforts to upgrade its computer system so that, among other things, it could readily identify the number of businesses or establishments with each type of license, whether those licenses are current, and the number of times each business or establishment was actually inspected during the year.*

Finance Response

Finance generally agrees with the recommendations. However, we disagree with the auditor's claim that 10% or less of the sampled inspections are considered "complete".

In regard to the database finding, Finance has begun discussions with the Mayor's Office of Information Technology (MOIT) to enhance or to replace our present system. Currently, the only reliable data available to the Licensing Unit is a business' address dataset derived from the water utility billing system. This dataset, while imperfect, is our best source of business information arranged by address and geographical zones. Inspectors are scheduled by geographical zones to reduce time traveled between businesses locations.

In light of this finding, the Bureau of Revenue Collections has met with MOIT to determine whether the current system can be enhanced or whether a new system must be developed. We agree that the new system should be able to identify the number of businesses with each type of license, provide the number of times each business was inspected during a specified period of time, remove businesses that do not need licenses from the inspection schedule, and add new businesses that need licenses.

We anticipate finalizing a work plan in the first quarter of calendar 2016, with implementation by the end of the fiscal year. It is our expectation that the new data system will result in an improved allocation of inspection resources.

We disagree with the auditor's claim that only a small percentage of inspections are considered complete. In addition to inspecting businesses with active licenses, it is important that the Licensing Unit inspect all locations where a business could operate. While the inspection tickets may have stated *No License Required, Closed, Out of Business, or Residential*, we consider this a significant part of the inspection process as this status is noted on the ticket. For operational purposes, such notations represent completed inspections. The only exception would be if the inspection occurred when the business was closed or the ticket contained no inspection information. If the business was closed, the inspector should make a note on the ticket and return to the business during hours when it is open. Based on the first and second audit samplings totaling 1,968 visits, our position is that 1,450 or 74% were complete. Of that total 182 or 9% were marked as 'business closed' and would be re-visited during the hours the businesses are open. Finance agrees that the remaining 336 or 17% contained no information and would not be considered complete. Our policy is for all tickets and inspections to be completed and we have retrained the inspectors. Effective immediately the office administrative staff responsible for data entry will notify the Licensing supervisor of all incomplete/erroneous tickets. The supervisor will in-turn contact the inspector and ensure the tickets are corrected.

In regard to the alleged low level of inspection activity cited in this finding, our review shows that the two inspectors failed to accurately record their attendance and the number of inspections they conducted on the Daily Attendance Records (DARs). The auditor relied solely on the DAR in their determination that these two inspectors were not present or did not perform any inspections. Bureau of Revenue Collections conducted a small sampling of inspection tickets during this period and it shows these two individuals were present and completed a normal number of inspections. We agree that both employees failed to follow the proper procedure in recording their activity on the DARs. We do not agree that little or no inspection activity occurred during this time. All of the inspectors have been directed to record their total inspections on the DARs and going forward a supervisor or lead worker will monitor and sign the DARs.

In regard to the failure to obtain an owner's signature on certain inspection tickets, we have determined in certain instances owners or employees simply refuse to sign. Our revised policy will require the inspector obtain the owner's name, signature, and telephone number and note on the ticket that the owner or employee refused to sign; abbreviated as "RTS." Effective immediately the office administrative staff responsible for data entry will provide the Licensing supervisor with all tickets that do not include either a signature or "RST". The supervisor will in-turn contact the inspector and ensure the tickets are corrected.

Recommendation #1 (continued) - *We also recommend that the work hours for at least one of the inspectors be modified, possibly on a rotating basis, so that inspections can be done for businesses or establishments operating after the inspectors' normal hours or on the weekends. We further recommend that in accordance with the Inspection Unit's policies and procedures, all inspection tickets must include the owner/representative's signature, title and telephone number to be counted as part of the daily inspections.*

Finance Response (continued)

Finance agrees with this recommendation and has implemented a new schedule and re-trained the inspectors.

Current regular work hours for our inspectors are 8:30 a.m. – 4:30 p.m. These hours are later during the spring and summer (daylight savings time) from 10 a.m. to 6:00 p.m. As described above, our policy states that when an inspector reaches a business and learns the hours of operation are outside our work schedule, the inspector will note the hours of operation and the need to re-schedule the inspection. The Inspections Unit will then schedule an inspector to perform special inspections in the evening or on weekends as needed.

In response to this finding we have implemented modifications to the inspection work hours to further address businesses that are open evenings and weekends. The Inspections Unit will permanently schedule one inspector to work a 10:30 a.m. to 6:30 p.m. shift. The Bureau of Revenue Collections does not believe it is necessary to schedule a full-time inspector for evenings and weekends only. The current policy is to perform such inspections only as required. The above shift change will be evaluated for effectiveness by the Inspections Unit supervisor next month and then again in 90 days.

**Internal Controls and Related Policies and Procedures for
Monitoring Time and Attendance and Inspection Information**

Finding #2 - There were numerous discrepancies between the inspectors' time and attendance information included in the Daily Attendance Records (DAR) and the time and attendance recorded on e-Time.

Recommendation #2 - *We recommend that the DARs be modified to include a space to record supervisory reviews and approvals. We also recommend that the time and attendance information recorded on the DARs be reconciled to the applicable information recorded on eTIME, the City's automated time-keeping system used as the basis to generate employees' pay checks. We further recommend that the Inspection Unit review the summary of payroll discrepancies included on Exhibit I of this report and make the appropriate adjustments as required. Also, see Recommendation #5 for maintaining adequate supporting documentation.*

Finance Response

Finance agrees with this recommendation, and has modified the DAR form to include supervisory review and approval and shall reconcile the DAR with eTIME.

We understand the auditor cited a total of 46 payroll discrepancies. Our review determined that 12 of the 46 did not require adjustments as either they were recorded correctly or were previously adjusted. Of the remaining, 16 required adjustments because the inspector was paid but did not work. There were 12 instances where the employee was not paid for time worked. In these instances the employee failed to properly sign in and out on the DAR. The remaining 6 adjustments were clerical errors where the inspector's time was recorded on the wrong day, for the time actually worked.

To prevent clerical errors in the future, the DAR form has been revised to require review and approval by a supervisor prior to the data being entered into the e-TIME. In addition, all Licensing Unit employees will be retrained on the sign-in and sign-out procedure. Finally, we are in the process of making all the required payroll corrections identified by the auditor, and they are expected to be completed by month end.

Finding # 3 - There were several discrepancies between the total number of monthly inspections recorded by inspectors on the DARs and the number of inspections included on the Monthly Statistical Reports.

Recommendation #3 - *As recommended under finding #2, the DARs should be modified to include a space to record supervisory reviews and approvals. We also recommend that the information regarding the number of inspections recorded on the DARs and supported by the inspection tickets be reconciled to the applicable information recorded on the Monthly Statistical Summary Reports. Also, see Recommendation #5 for maintaining adequate supporting documentation.*

Finance Response

Finance agrees with this recommendation and has modified the DAR form. However there is an explanation for the increased level of recorded inspection activity during July and August of 2013.

During certain periods of the year inspectors are not able to conduct inspections (vehicle availability, weather conditions, medical restrictions) and must either take leave or remain on duty in the office to assist with clerical tasks. These tasks include entering information into our inspection database. None of the inspectors have direct access to the data inspection system; they are given permission and logged in by administrative staff. When entering inspection data, the inspector is not allowed to enter his/her own activity.

In reference to the increased inspection activity cited by the audit, one inspection employee was assigned office duty during the 15 days in question. The employee was given access to the database by an authorized staff member. The employee was given a number of inspection tickets for data entry. The employee incorrectly listed on the DAR, for each of the 15 days, the

number of tickets the employee entered into the database (rather than actual onsite inspections). This error did not affect the inspection database which correctly recorded inspection activity on those days.

In regard to our inability to locate certain documents requested by the auditor, the Inspections Unit misplaced three months of 2013 information. As background, when the DARs are completed and inspection tickets are turned in, our office assistant tallies the number of inspections from the DAR and inputs the data into the Monthly Statistical Summary Report. If an inspector fails to record the total number of inspections on the DAR, the office assistant retrieves the total from the inspection tickets. Each month, the tickets are put into boxes and approximately every 12 months (or sooner as the volume requires), the boxes are filed along with other documents in the long-term storage area in the basement of the municipal building. Due to space constraints, and the sharing of the storage area with another bureau, locating boxes from two years prior proved challenging (for corrective action see response to Finding #5).

In response to this finding, the Licensing Unit has retrained inspectors to reinforce the requirement that inspection totals are to be recorded accurately on the DAR. The office assistant will now be required only to take the number of inspections from the DAR. If the DAR fails to include that number, then the office assistant will flag that DAR and refer it to the inspector for review and update.

Finding #4 - Duties in the Inspection Unit were not adequately segregated.

Recommendation #4 - *We recommend that duties be adequately segregated to prevent the inspectors from accessing and entering inspection information into the data entry system.*

Finance Response

Finance believes segregation of duties controls are in place, but agree to enhance our current practice.

The auditor states they were told inspectors do not have access to the inspection data entry system. We believe there may have been a misunderstanding as inspectors do not have direct access, but are allowed under pre-approved circumstances to input certain data. This finding relates to five inspectors who worked a combined total of 43 days during fiscal year 2014 entering data into our system. Typically, (as mentioned above) inspectors are in the field, however, on certain occasions they provide in-office administrative support.

The ability to assign clerical tasks to inspectors is critical to allowing the Licensing Unit to make appropriate use of staff on days where inspectors cannot conduct field work. None of the inspectors has direct access to the data base system. Inspector's access must first be pre-approved by administrative staff and are provided access to the data system by the same administrative staff. In addition an inspector is never allowed to input his/her own data. In response to this finding, the Licensing Unit supervisor will now review all inspector data. The supervisor will then sign an inspector data input form confirming the review. The form will include the date, inspector, tickets assigned for data entry and the supervisor's signature.

Finding # 5 - Records were not adequately maintained to support all of the inspectors' time and attendance information and number of daily inspections performed.

Recommendation #5 - *We recommend that, in accordance with Baltimore City's Administrative Manual (Section AM-502-1), the Inspection Unit establish procedures to adequately maintain records, especially the documentation that supports the inspectors' daily attendance records and the number of daily inspections performed.*

Finance Response

Finance agrees with this recommendation and has created a new process for records handling.

As described above, approximately every 12 months, the monthly boxes are filed in the long-term storage area in the basement of the municipal building. Due to space constraints, the location of boxes, and the sharing of the storage area with another bureau, locating boxes from a time period two years prior was difficult.

In spite of multiple searches by different staff members we were unable to locate the inspection tickets for August through October 2013 or the DARs for September 2 through 13, 2013.

We have discussed our current records retention practices with the City Archivist and he is assisting us to improve our policy. We have created sign-in and sign-out sheets, to manage newly archived material or when material is removed from storage. To standardize the process, all requests for records searches or copies will be handled by a single employee. The new procedures will be implemented on January 2, 2016.

In closing, the Department of Finance appreciates this opportunity to address the audit findings and to implement changes to enhance the efficiency and effectiveness of operations.

Sincerely,



Henry J. Raymond
Director

Appendix II

Auditor's Comments on Agency's Response

**AUDITOR'S COMMENTS ON
THE DEPARTMENT OF FINANCE'S RESPONSE
TO THE PERFORMANCE AUDIT OF
THE BUREAU OF REVENUE COLECTIONS
INSPECTION UNIT**

The response of the Department of Finance (Finance) to our performance audit is included in this Appendix. According to its response, Finance concurs with the audit recommendations, except where otherwise noted. The corrective actions included in Finance's response address most of our findings and recommendations. However, there are several statements in Finance's response that we believe require further comments or clarification.

Policies and Procedures for Scheduling and Assigning Inspections

In response to Finding #1, Finance generally agreed with our recommendations; however, it disagreed with our comment that only a small percentage of the inspection tickets that we reviewed represented what we referred to as "completed inspections." We are not suggesting that Finance's definition of "completed inspections" is incorrect. In our audit report, we used the term "completed inspections" to refer to those inspections where the inspection tickets contained handwritten inspectors' notes for such items as Type of License and or Device, Number of Devices, applicable License Numbers, and the Number of Violations noted during those inspections. We are, however, recommending that changes be made to the methodology in which daily inspection visits are scheduled and assigned to the inspectors. This should include adopting alternative procedures to determine whether any of those establishments noted as *No License Required, Closed, Out of Business, Residential*, etc. are actually operating without a valid license. We believe this could result in a more efficient and effective use of the inspectors' time. For example, on March 7, 2014, one of the inspectors visited 49 sites. According to the records, only one visit represented what we referred to for audit purposes as a "completed inspection," while 31 visits were to locations where no license was required, eight visits were to businesses that were closed, two visits were to residential addresses, and seven visits were to such places as vacant lots. Similarly, on March, 27, 2014, another inspector visited 39 sites. According to the records, however, only one visit represented what we referred to for audit purposes as a "completed inspection," while two visits were to locations where no license was required, and 36 visits were to locations that were out of business. Many similar examples were noted as part of our audit tests.

Finance's response included a comment that currently, the only reliable data available to the Licensing Unit is a business address dataset derived from the water utility billing system. As part of our tests of inspection information for 10 days, however, we noted that 177 inspection tickets were pre-printed or marked as *Residential Only*.

As part of Finance's corrective action plan, the office administrative staff responsible for data entry will notify the Licensing Supervisor of all incomplete/erroneous tickets. This control can be circumvented, however, if the inspectors are allowed to enter data into the system. (See Audit Finding #4 regarding segregation of duties.)

As part of its response, Finance included a comment that the auditor relied solely on the Daily Attendance Record (DAR) in determining that two inspectors were not present or did not

perform any inspections. Also according to its response, the Bureau of Revenue Collections conducted a small sampling of inspection tickets and it showed that the two individuals were present and completed a normal number of inspections. We request that the Bureau of Revenue Collections provide us with the supporting documentation so we can verify such information.

Furthermore, according to Finance's response, its revised policy will now require the inspectors to obtain the owner's name, signature, telephone number, and note on the ticket that the owner refused to sign. This documentation had already been included in the procedures that the Bureau of Revenue Collections furnished to us during the audit. Apparently, those procedures had not been consistently followed. Finance also responded that effective immediately, the office administrative staff responsible for data entry will provide the Licensing Supervisor with all tickets that do not include either an owner's signature or a notation that the owner refused to sign. This control procedure can be compromised, however, if duties are not adequately segregated. (See Audit Finding #4 regarding segregation of duties.)

Internal Controls and Related Policies and Procedures for Monitoring Time and Attendance and Inspection Information

In response to Finding #2 and our related recommendations regarding numerous discrepancies between the inspectors' time and attendance information included in the DARs and the time and attendance recorded on e-Time, Finance stated that 12 of the discrepancies did not require adjustments because they were recorded correctly or were previously adjusted. We request that the Bureau of Revenue Collections provide us with the supporting documentation so we can verify such information.

In response to Finding #3, Finance stated that during certain periods of the year, inspectors are not able to conduct inspections and must either take leave or remain on duty in the office to assist with clerical tasks, including entering information into the inspection database. It also responded that none of the inspectors have direct access to the inspection system; they are given permission and logged in by administrative staff. As previously mentioned, under this procedure, however, controls can be compromised if duties are not adequately segregated. Also, sharing passwords or logging in by the administrative staff for the inspectors could circumvent any established controls that would identify the staff member entering the inspection information. (See Finding #4 regarding segregation of duties.)

In response to Finding #4, Finance stated that it is establishing additional controls that the Department of Audits believes will adequately address our concerns regarding segregation duties. We will review those additional controls as part of a follow-up review.