



CITY OF BALTIMORE

DEPARTMENT OF HUMAN RESOURCES

BIENNIAL FINANCIAL AUDIT

Fiscal Years Ended June 30, 2019 and 2018

Table of Contents

Independent Auditor's Report	1
Basic Financial Statements	
Schedule of Budgetary Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – Budgetary Basis – General Fund	4
Schedule of Budgetary Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – Budgetary Basis –Benefits Administration	6
Notes to the Financial Statements	8
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 <i>Government Auditing Standards</i>	10
Schedule of Finding	12
Implementation Status of Prior Audit Findings and Recommendations	14
APPENDIX I – Management's Response to the Audit Report	16

CITY OF BALTIMORE

BILL HENRY
Comptroller



DEPARTMENT OF AUDITS JOSH PASCH, CPA

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INDEPENDENT AUDITOR'S REPORT

Honorable Bill Henry, Comptroller
and Other Members of the
Board of Estimates
City of Baltimore, Maryland

Report on the Financial Statements

We have audited the accompanying cash basis financial statements of the governmental activities, of the Department of Human Resources (Agency), an agency of the primary government of the City of Baltimore (City), Maryland, which comprise the *Schedule of Budgetary Revenues, Expenditures and Changes in Fund Balance, Budget and Actual, Budgetary Basis, General Fund; Schedule of Budgetary Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – Budgetary Basis – Benefits Administration*, for the years ended June 30, 2019 and 2018, 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 unmodified audit opinion for all financial statements.

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, 2019 and 2018 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 31, 2020, 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 10).

Biennial Financial Audit Report on Department of Human Resources

The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Agency's internal control over financial reporting and compliance.

Respectfully,



Josh Pasch, CPA
City Auditor
Baltimore, MD
December 31, 2020

CITY OF BALTIMORE
Department of Human Resources
Schedule of Budgetary Revenues, Expenditures and Changes in Fund Balance
Budget and Actual – Budgetary Basis - General Fund
For the Fiscal Year Ended June 30, 2019 and 2018

Fiscal Year 2019	Final Budget	Actual	Variance
Revenues:			
Appropriations revenues	\$12,270,033	\$9,939,498	\$ (2,330,535)
Total revenues	12,270,033	9,939,498	(2,330,535)
Expenditures and Encumbrances:			
Administration	4,001,752	2,203,707	1,798,045
Benefits Administration	5,185,606	4,553,342	632,264
Civil Service Management	3,056,118	3,067,891	(11,773)
City of Baltimore (COB) University	26,557	114,558	(88,001)
Total expenditures and encumbrances	12,270,033	9,939,498	2,330,535
Excess (deficiency) of revenues over expenditures	-	-	
Beginning Budgetary Fund Balance	-	-	
Ending Budgetary fund Balance	\$ -	\$ -	

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

CITY OF BALTIMORE
Department of Human Resources
Schedule of Budgetary Revenues, Expenditures and Changes in Fund Balance
Budget and Actual – Budgetary Basis - General Fund
For the Fiscal Year Ended June 30, 2019 and 2018

Fiscal Year 2018	Final Budget	Actual	Variance
Revenues:			
Appropriations revenues	\$14,366,290	\$6,102,975	\$ (8,263,315)
Total revenues	14,366,290	6,102,975	(8,263,315)
Expenditures and Encumbrances:			
Administration	4,080,303	2,699,673	1,380,630
Benefits Administration	7,517,878	541,489	6,976,389
Civil Service Management	2,746,939	2,848,741	(101,802)
COB University	21,170	13,072	8,098
Total expenditures and encumbrances	14,366,290	6,102,975	8,263,315
Excess (deficiency) of revenues over expenditures	-	-	
Beginning Budgetary Fund Balance	-	-	
Ending Budgetary fund Balance	\$ -	\$ -	

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

CITY OF BALTIMORE
Department of Human Resources
Schedule of Budgetary Revenues, Expenditures and Changes in Fund Balance
Budget and Actual – Budgetary Basis – Benefits Administration
For the Fiscal Year Ended June 30, 2019 and 2018

Fiscal Year 2019	Final Budget	Actual	Variance
Revenues:			
Appropriations revenues	\$ 2,341,054	\$ 1,630,386	\$ (710,668)
Total revenues	2,341,054	1,630,386	(710,668)
Expenditures and Encumbrances:			
Salaries and Wages	154,524	60,267	94,257
Other Personnel Cost	61,940	49,071	12,869
Contractual Services	2,122,498	824,186	1,298,312
Material and Supplies	481		481
Minor Equipment	1,068	1,068	-
Other	543	543	-
Total expenditures and encumbrances	2,341,054	935,135	1,405,919
Excess (deficiency) of revenues over expenditures	\$ -	\$ 695,251	

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

CITY OF BALTIMORE
Department of Human Resources
Schedule of Budgetary Revenues, Expenditures and Changes in Fund Balance
Budget and Actual – Budgetary Basis – Benefits Administration
For the Fiscal Year Ended June 30, 2019 and 2018

Fiscal Year 2018	Final Budget	Actual	<i>Variance with Final Budget Positive (Negative)</i>
Revenues:			
Appropriations revenues	\$ 2,334,949	\$1,032,408	\$ (1,302,541)
Total revenues	2,334,949	1,032,408	(1,302,541)
Expenditures:			
Salaries and Wages	150,854	58,253	92,601
Other Personnel Cost	60,216	47,286	12,930
Contractual Services	2,121,833	951,454	1,170,379
Material and Supplies	470		470
Minor Equipment	1,044	1,044	-
Other	532	532	-
Total expenditures and encumbrances	2,334,949	1,058,569	1,276,380
Excess (deficiency) of revenues over expenditures	\$ -	\$ (26,161)	

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

CITY OF BALTIMORE
Department of Human Resources
Notes to the Financial Statements
Fiscal Years Ended June 30, 2019 and 2018

1. Description of the Department of Human Resources

The Agency is responsible for attracting, developing, and retaining a diverse and quality workforce. In order to accomplish its mission, the Agency develops, implement and administers the City's human resource policies, regulations, programs and related special projects. The Agency is comprised of nine divisions through which it operates and delivers its services. The divisions are Classification and Compensation, Employee Benefits, Learning and Development, Employee Assistance, Recruitment and Talent Acquisition, Policy and Compliance, Shared Services, and Human Resources Information Systems. The Director's Office provides leadership management, technical and administrative oversight for the Agency, ensuring that the staff has the tools, skills, and support to perform their jobs as strategic business partners to City agencies.

In addition, the Agency serves as support to the Civil Service Commission (Commission). Established by the City Charter, the Commission advises the Mayor on personnel issues and investigates and rules on appeals of termination, suspensions over 30 days and demotions of civil service employees. While the Commission is responsible for the final determination of personnel rules and regulations, the Agency's span the daily operations of the City.

2. Fund Financial Statements

These financial statement have been prepared on a cash basis of accounting other than accounting principles generally accepted in the United States of America. Accordingly, they do not represent the financial position of the City or the Agency. The Agency's services are reported in the City's general and internal service funds. The Agency annually receives appropriations from both the general and internal service funds. General fund and internal service fund appropriations expire at year end. Therefore, the financial statements of the Agency's general and internal service fund activities are reported on a budgetary basis in the *Schedule of Revenues, Expenditures, Encumbrances and Changes in Fund Balance*.

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.

CITY OF BALTIMORE
Department of Human Resources
Notes to the Financial Statements
Fiscal Years Ended June 30, 2019 and 2018

4. Budget Process

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

5. Advance from the City

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

BILL HENRY
Comptroller



DEPARTMENT OF AUDITS JOSH PASCH, CPA

City Auditor
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Honorable Bill Henry, 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 Baltimore City (City) Department of Human Resources (the Agency) as of and for the years ended June 30, 2019 and 2018 in accordance with auditing standards generally accepted in the United States of America, except for peer review requirements, 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 Finding, we identified certain deficiencies in internal control that we consider to be control deficiencies.

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 Agency'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 deficiencies described in the accompanying schedule of findings to be control deficiencies.

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 Human Resources Response to Findings

The Agency's response to the finding identified in our audit are described in *Appendix 1 – Management's Response*. Their response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Agency's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully,



Josh Pasch, CPA
City Auditor
Baltimore, Maryland
December 31, 2020

CITY OF BALTIMORE
Department of Human Resources
Schedule of Finding
Fiscal Years Ended June 30, 2019 and 2018

Finding #1: Control Deficiency - The Agency needs to improve certain payroll controls to demonstrate it is in compliance with certain City policies and procedures.

The Agency is not compliant with the Administrative Manual (AM) 204 -17, *Attendance Records*; AM 205-10, *Payroll Systems*; and AM 502-1, *Records Management*. Specifically, as shown in Table I, the supervisory review and approval controls on time and attendance records, sign in/out sheets and leave documents were missing for certain payroll transactions tested. Also, the Agency was unable to provide documentation to support certain FY 2019 and 2018 payroll expenditures. As a result, Management was not able to demonstrate whether selected payroll activities were accurately recorded, which may result in financial losses including inaccurate payments, accruals, and final payouts to employees.

Table I
Summary of Payroll Testing Results for Selected Payroll Expenses

Type of Document	FY 2019		FY 2018	
	Occurrences ¹		Occurrences ¹	
	Number	Percent	Number	Percent
Missing supervisor approval on attendance sheets	2	8	22	88
Missing sign in/out sheets	N/A ³	N/A ³	6	24
Missing leave documents ²	5	38	9	47

Notes: ¹The denominator is based on testing of 25 employees for each fiscal year.

²The review is based on the number of individuals who took leave during the pay periods under review. There were 13 employees and 19 employees who took leave for FY 2019 and FY 2018, respectively.

³There were no occurrences for this attribute in FY 2019.

A reason for lack of supporting documentation is due to lack of a retention schedule, which is required by the Baltimore City’s Code, the agency did not secure or keep track of payroll records. Also, missing documentation was due to the following reasons:

- Lack of supervisory review;
- Attendance records were lost during the Agency’s move to a new location.

CITY OF BALTIMORE
Department of Human Resources
Schedule of Finding
Fiscal Years Ended June 30, 2019 and 2018

According to:

- AM 204 -17, *Attendance Records*, all agencies are required to keep a detailed record of each employee's attendance on an attendance record.
- AM 205-10, *Payroll Systems*, each agency / bureau head is to establish internal controls in administering payroll systems to provide reasonable protection against various payroll errors and fraud schemes. The policy requires using a positive documented system to determine the presence or absence of employees. In addition, supervisors are responsible for assuring the accuracy of time and attendance of individuals under their immediate supervision.
- AM 502-1, *Records Management*, all agencies are required to maintain records of all proceedings, financial transactions and official acts.
- The Baltimore City Code, Article I, § 11-6, *Disposal of records*, (b) *Agencies to prepare retention schedules*,
 - "It shall be the duty of each department to prepare records retention schedules to assure the orderly retention of records required for the operation of the department, as well as the prompt disposal of records having no further value."
 - "Such schedules shall be prepared and submitted in the manner prescribed and will become effective when approved by the Records Committee."

Recommendation: Although FY 2019 shows improvement, we recommend the Director of DHR continue improving the documentation of payroll activities by implementing the following recommendations:

- Develop and implement a record retention schedule for the Agency and file with City Archivist; and
- Enforce all divisions to comply with the retention policy and the applicable AMs.

Implementation Status of Prior Audit Findings and Recommendations

Table II

Summary of implementation Status of Audit Findings and Recommendation from the Financial Audit Report for Fiscal Year Ended June 30, 2017 and 2016

Finding #	Summary of Findings	Prior Recommendations	Management's Self-reported Implementation Status	Auditor's Assessment
1	<p>The Human Resources Information System (HRIS) System Administrators (SA) are responsible for importing drug and alcohol test results into HRIS for all agencies and the transfer of completed personnel actions which result in payroll activity. SA also perform task to assist agencies with the completion and / or correction of personnel transactions. Adequate controls were not established over HRIS system administrator capabilities.</p>	<p>Create an independent report / log of employee additions, changes and deletions to be reviewed by an independent Human Resources staff person to ensure the accuracy and reliability of the information put into HRIS.</p>	<p>Prior to 2016 and Chief Tonya Brinkley's arrival to the DHR HRIS Division; HRIS was controlled in large part by two former City employees—the prior Chief of HRIS and the prior Chief of Payroll. The two did not provide cross-training or share information and / or knowledge with their teams; and their teams were not aware of applicable system applications and functionality. Their departures highlighted, in part, the need for multiple users with a varying range of expertise and access to ensure adequate oversight, continuity of operations and maintenance of quality controls.</p> <p>Current State - SA for the HRIS Systems are currently responsible for exporting the hiring information into an Excel Spreadsheet from the NeoGOV system (recruitment system of record). This report includes some employee demographic information which is imported into the ADP HRIS system. This import creates a hiring profile in HRIS, which enables agencies to complete the hiring process. To complete the hiring process, Drug and Alcohol test results and Criminal Background Investigation clearances must also be imported in to the HRIS System. SA presently export Drug and Alcohol test results from Wufoo (a secure third-party tool) and imports them into the ADP HRIS system; SA DO NOT have the ability to record Criminal Background Investigation clearances. This step in the process is completed by</p>	<p>Due to the new accounting system to be implemented in calendar year 2021, this finding will be evaluated after the new system implementation.</p>

Biennial Financial Audit Report on Department of Transportation

Finding #	Summary of Findings	Prior Recommendations	Management's Self-reported Implementation Status	Auditor's Assessment
			<p>members of the Recruitment and Talent Acquisition Division.</p> <p>Resolve - SA have administrative rights in NEOGOV and HRIS. In order for the hiring process to continue in a manner that ensures adequate oversight, quality controls and continuity of operations. DHR will limit the number of SA who have access to both NeoGov and HRIS.</p>	

Management's Response

Date: December 22, 2020

To: Josh Pasch, City Auditor

Subject: Management Response to Audit Report:
Biennial Financial Audit Report on Department of Human Resources

Our responses to the audit report finding and recommendation are as follows:

Recommendation # 1

Although FY 2019 shows improvement, we recommend the Director of DHR continue improving the documentation of payroll activities by implementing the following recommendations:

- Develop and implement a record retention schedule for the Agency and file with City Archivist; and
- Enforce all divisions to comply with the retention policy and the applicable AMs.

Agree **Disagree**

The DHR generally agrees with the finding of the audit. The prior leadership of the Department allowed each office to maintain their own processes related to time and attendance for their employees. Upon his arrival, Director Herbert required all offices to standardize their attendance tracking so that it was consistent across the department. The DHR continues to work to improve internal processes and procedures. The following outlines the action plan related to Payroll.

- Internal Audits: Since February 2020, DHR has begun performing internal audits for its performance measures and other internal procedures including time and attendance.
 - Implementation Date: Ongoing
- New Time tracking System: Effective December 28, 2020, DHR will shift to Workday for its time and attendance. All leave requests will be made through Workday and approved or denied by the employee's supervisor within the system. Employees will also enter their time and attendance within Workday for supervisory review and approval.
 - Implementation Date: December 28, 2020

Biennial Financial Audit Report on Department of Human Resources

- Record Retention: In accordance with City Code ART. 1, § 10-1 (updated November 2020) DHR will appoint an Agency Records Officer to serve as a liaison to the City Records Management Officer (when appointed). The Agency Records Officer will assist the City Records Management Officer will have the task of helping to prepare a records inventory of all the records in DHR. That individual will then work with the appointed City Records Officer to craft an agency record retention schedule.
 - Implementation Date:
 - DHR will appoint an Agency Records Officer by January 31, 2021.
 - Remaining tasks contingent upon appointment of City Records Management Officer in accordance with City Code ART. 1, § 10-1.
- Time tracking Standard Operating Procedure: In coordination with the launch of Workday for time and attendance, DHR has drafted an internal Standard Operating Procedures for time tracking related processes that will be disseminated to employees.
 - Implementation Date: December 28, 2020

Implementation Date:

June 30, 2021 (final date dependent upon appointment of City Records Management Officer). Please see above for specific action plan milestone dates.

Responsible Personnel:

Lindsay Wines, Asst. Deputy Director, Administration