



BALTIMORE CITY LAW DEPARTMENT

BIENNIAL FINANCIAL AUDIT

Fiscal Years Ended June 30, 2019 and 2018

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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 Baltimore City Law Department (Agency), an agency of the primary government of the City of Baltimore (City), Maryland, which comprise the *Schedule of Revenues, Expenditures and Encumbrances, and Changes in Fund Balance, Budget and Actual, Budgetary Basis, General Fund; Statement of Revenues, Expenditures and Changes in Grant Cash Balances; Schedule of Budgetary and Expenditures-Budget and Actual – Risk Management – Fund; Statement of Revenue, Expenditures and Changes in Fund Balance – Risk Management – ISF Fund Budget* for the fiscal 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.

Opinion

In our opinion, the financial statements referred to in the first paragraph present fairly, the revenues collected, expenses paid and balances reported for governmental activities, of the Agency, for the years ended June 30, 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 12).

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,

A handwritten signature in black ink that reads "Josh Pasch". The signature is written in a cursive, slightly slanted style.

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

Baltimore City Law Department
Schedule of Revenues, Expenditures and Encumbrances, and Changes in Fund Balance
Budget and Actual – Budgetary Basis – General Fund
Fiscal Year Ended June 30, 2019

	Final Budget	Actual	Variance
Revenues:			
Appropriations revenues	\$ 8,780,096	\$ 8,290,536	\$ (489,560)
Expenditures and Encumbrances:			
Administration	1,268,320	1,419,503	151,183
Controversies	4,322,212	4,318,936	(3,276)
Transactions	2,441,169	2,017,326	(423,843)
Minority and Women's Business Opportunity Office	748,395	534,771	(213,624)
Total expenditures and encumbrances	<u>8,780,096</u>	<u>8,290,536</u>	<u>(489,560)</u>
Excess (deficiency) of revenues over expenditures (GAAP)	-	-	-
Beginning Budgetary Fund Balance	-	-	-
Ending Budgetary fund Balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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

Baltimore City Law Department
Schedule of Revenues, Expenditures and Encumbrances, and Changes in Fund Balance
Budget and Actual – Budgetary Basis – General Fund
Fiscal Year Ended June 30, 2018

	Final Budget	Actual	Variance
Revenues:			
Appropriations revenues	<u>\$ 8,960,566</u>	<u>\$ 8,079,776</u>	<u>\$ (880,790)</u>
Expenditures and Encumbrances:			
Administration	1,154,406	1,300,749	146,343
Controversies	4,579,663	3,876,234	(703,429)
Transactions	2,445,775	2,050,621	(395,154)
Minority and Women's Business Opportunity Office	768,790	844,931	76,141
Representation and Advice for Law Enforcement	11,932	7,241	(4,691)
Total expenditures and encumbrances	<u>8,960,566</u>	<u>8,079,776</u>	<u>(880,790)</u>
Excess (deficiency) of revenues over expenditures (GAAP)	-	-	-
Beginning Budgetary Fund Balance	-	-	-
Ending Budgetary fund Balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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

Baltimore City Law Department
Statement of Receipts, Disbursement and Changes Grant Cash Balances
Cash Basis
Fiscal Year Ended June 30, 2019

	Cash Balance Fiscal Year 2017 (Deficit)	Receipts	Disbursements	Cash Balance Fiscal Year 2018 (Deficit)
Other Grants				
Administration	\$ (177,965)	\$ -	\$ -	\$ (177,965)
Controversies	(887,776)	-	-	(887,776)
Transactions	1,055,121	-	1,881	1,053,240
Total revenues, expenditures and change in grant balances - Other	<u>\$ (10,620)</u>	<u>\$ -</u>	<u>\$ 1,881</u>	<u>\$ (12,501)</u>

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

Baltimore City Law Department
Statement of Receipts, Disbursement and Changes Grant Cash Balances
Cash Basis
Fiscal Year Ended June 30, 2018

	Cash Balance Fiscal Year 2017 (Deficit)	Receipts	Disbursements	Cash Balance Fiscal Year 2018 (Deficit)
Other Grants				
Administration	\$ (177,965)	\$ -	\$ -	\$ (177,965)
Controversies	(887,776)	-	-	(887,776)
Transactions	1,055,121	-	1,880	1,053,241
Total revenues, expenditures and change in grant balances - Other	<u>\$ (10,620)</u>	<u>\$ -</u>	<u>\$ 1,880</u>	<u>\$ (12,500)</u>

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

Baltimore City Law Department
Schedule of Budgetary Revenues, and Expenditures Budget and Actual
Risk Management Fund – Budgetary Basis
Fiscal Year Ended June 30, 2019

	Final Budget	Actual	Variance
Revenues:			
Appropriations revenues	\$ 3,745,470	\$ 5,146,310	\$ 1,400,840
Expenditures and Encumbrances:			
Salaries and Wages	2,670,420	1,848,404	(822,016)
Other Personnel Cost	972,124	660,840	(311,284)
Contractual Services	59,618	2,234,914	2,175,296
Material and Supplies	2,000	-	(2,000)
Minor Equipment	13,344	12,276	(1,068)
Major Equipment	19,000	-	(19,000)
Other	8,964	6,248	(2,716)
Total expenditures and encumbrances	<u>3,745,470</u>	<u>4,762,682</u>	<u>1,017,212</u>
Excess (deficiency) of revenues over expenditures (GAAP)	<u>\$ -</u>	<u>\$ 383,628</u>	<u>\$ 383,628</u>

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

**Baltimore City Law Department
Schedule of Budgetary Revenues, and Expenditures Budget and Actual
Risk Management Fund – Budgetary Basis
Fiscal Year Ended June 30, 2018**

	Final Budget	Actual	Variance
Revenues:			
Appropriations revenues	\$ 2,909,434	\$ 5,024,648	\$ 2,115,214
Expenditures:			
Salaries and Wages	2,036,544	1,988,997	47,547
Other Personnel Cost	792,778	687,978	104,800
Contractual Services	59,854	1,915,843	(1,855,989)
Minor Equipment	13,604	11,440	2,164
Other	6,654	6,122	532
Total expenditures and encumbrances	<u>2,909,434</u>	<u>4,610,380</u>	<u>(1,700,946)</u>
Excess (deficiency) of revenues over expenditures (GAAP)	<u>\$ -</u>	<u>\$ 414,268</u>	<u>\$ 3,816,160</u>

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

**Baltimore City Law Department
Note to the Financial Statements
Fiscal Years Ended June 30, 2019 and 2018**

1. Description of the Department of the Department of Law

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

Under the City Solicitor's leadership, the Law Department functions as the City's full-service law firm. Its core Charter-mandated duties include: (1) representing the City in litigation matters, (2) protecting the City's corporate and financial interests in contractual, financial and real estate transactions, (3) collecting debts owed to the City, and (4) providing legal advice and counsel to the Mayor, City Council, and City agencies.

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

2. Fund Financial Statements

These financial statements 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 of Baltimore or the Agency. The Agency's services are reported in the City's general, internal service, and special revenue funds. The Agency annually receives appropriations from both the general, internal service, and special revenue funds. General fund and internal service fund appropriations expire at year end. The special revenue funds receive grants from the Federal, State and other sources. Appropriations for special revenue funds do not expire at year end and continue until they are used for grant related expenditures. Because of these differences, the financial statements of the Agency's general and internal service fund activities are reported on a budgetary basis in the *Schedule of Revenues, Expenditures, Encumbrances and Changes in Fund Balance*. The financial statements of the special revenue funds are reported in the *Statement of Revenues, Expenditures and Changes in Fund Balance*.

**Baltimore City Law Department
Note to the Financial Statements
Fiscal Years Ended June 30, 2019 and 2018**

3. Summary of Significant Accounting Policies

The financial statements of the Agency are prepared on a cash basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than generally accepted accounting principles. This basis of presentation differs from accounting principles generally accepted in the United States of America (GAAP) in that revenues are recognized when received rather than earned and expenses are recognized when paid rather than when the obligation is incurred. The accompanying financial statements are not intended to present the financial position and results of operations in conformity with accounting principles generally accepted in the United States of America.

4. Budget Process

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

5. Advance from the City

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

6. Risk Management

The City of Baltimore is exposed to various risks of loss related to torts; theft of; damage to; and destruction of assets; errors and omissions; injuries to employees and members of the public; and natural disasters. The Department of Law is a chartered agency within the City of Baltimore 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 as of December 31, 2020

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS



Honorable 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 Law (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, we considered the Agency's internal control over financial reporting (internal control) as a basis for designing the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings, we identified certain deficiencies in internal control that we consider to be 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 Law Response to Findings

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

Purpose of this Report

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

**Baltimore City Law Department
Schedule of Findings
Fiscal Years Ended June 30, 2019 and 2018**

Finding #1: Control Deficiency- The Agency needs to improve certain monitoring controls to demonstrate it is in compliant with the Standards for Internal Control.

The Agency is not in compliant with the Standards for Internal Control in the Federal Government. Specifically, as shown in Table I, the supervisory review and approval function in the accounting systems; Core Integrator and City Dynamics were missing for certain transactions tested. Upon entering journal entries in the City of Baltimore’s accounting software, there are inadequate records, i.e., invoices, source documents, to support the transaction Also, the Agency was unable to provide documentation to support certain FY 2019 and 2018 expenditures selected.

Table I

Summary of Occurrence Noted for Selected Activity Tested				
Type of Document	FY 2019		FY 2018	
	Occurrences¹		Occurrences¹	
	Number	Percent		
Missing support for expenditures	6	24%	5	20%
Missing support for encumbrances	-	-	4	16%

Notes: ¹Occurrences are based on the selected 25 journal entry transactions in FY 2019 and FY 2018.

Missing documentation was due to the following reasons:

- Lack of supervisory review;
- Lack of monitoring and
- Inadequate records, i.e., invoices, source documents to support transaction.

According to:

- *Standards for Internal Control in the Federal Government*, by the Comptroller General of the United States, 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 DOL is responsible for maintaining detailed records over their revenue transactions in accordance with accounting principles generally accepted in the United States of America.

**Baltimore City Law Department
Schedule of Findings
Fiscal Years Ended June 30, 2019 and 2018**

Recommendation # 1: We recommend the Director of Agency:

- Develops a process for keeping adequate records over its financial transactions. We suggest that in addition to relying on the Bureau of Accounting and Payroll Services (BAPS), the DOL maintain its own database to support its cash receipts/revenue entries.

Finding #2: Control Deficiency- The Agency's financial shows significant deficiency over Aged Accounting Balances for FY 2019 and 2018.

As shown in Table II below, the Agency has significant expenditures that were not appropriately closed in the general ledger and cleared against the general fund for FY 2019 and 2018.

Table II

Summary of Occurrences Noted for Selected Activity Tested

Description	FY 2019		FY 2018	
	Occurrences ¹		Occurrences ¹	
	Number	Percent		
Cut-Off-Period	17	68%	8	32%

Notes: ¹Occurrences are based on the selected 25 journal entry transactions in FY 2019 and FY 2018

- Incorrect accounting treatment for prior year period activity will produce inaccurate financial statement that misstate funds balances.
- COSO requires entities to maintain a system of internal control that provides reasonable assurance that transactions are properly recorded and accounted for to permit the preparation of reliable financial statements.

Recommendation # 2: We recommend the Director of Agency:

- To appropriately close prior years expenditures and that the residual amount be cleared against the general fund

Implementation Status of Prior Audit Findings and Recommendations

Table III

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

No.	Finding	Prior Recommendation	Management's Self-reported Implementation Status	Auditor's Assessment
1	The Department of Audits (DOA) noted other grant revenue totaling (\$1.056M) and expenditures totaling \$1.066M that were carried forward from FY 15 through FY 17 without activity. Further review disclosed that the respective fund (6055XX) was closed from a budgetary standpoint in FY 15. However, the account and balances were not appropriately closed in the general ledger and cleared against the general fund.	The Agency should close other grant accounts and the residual amount should be cleared against the general fund.	The Department of Finance concurs with the finding. In this case the Law Department did not close out the grant account at the conclusion of the grant term or activity. The Department of Finance will write off the remaining \$10,000 balance and close the account.	Not Implemented

APPENDIX I

Management's Response

Date: January 8, 2021

To: Josh Pasch, City Auditor

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

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

Recommendation # 1

We recommend the Director of Agency:

- Develop a process for keeping adequate records over its financial transactions. We suggest that in addition to relying on the Bureau of Accounting and Payroll Services (BAPS), the BCLD maintain its own database to support its cash receipts/revenue entries.

Management Response / Corrective Action Plan

Agree **Disagree**

The Agency agrees with the recommendation; however, would like to point out that of the 15 transactions that were identified by the audit team, only 5 transactions did not have supporting documentation (reference BCLD response to FY17, FY18, FY19 Expenditure Testing report).

We have developed the following action plan to ensure that supporting documentation are included with all transactions:

- Excel spreadsheet – input all transactions and cross reference to ensure supporting documentation is attached in system (note: this is temporary as we will work with BCIT to find an advanced software system to track expenditures and supporting documentation
- Policy and procedures – develop and implement internal policy (and outline procedures) for processing of any invoices. Policy will also outline that no invoices will be processed unless appropriate supporting documentation is received in advance or with the request for payment. Policy will be disseminated to all contractors and vendors and will be strictly enforced internally.

Implementation Date:

- June 30, 2021 – The agency noted that the plan to work with BCIT may take longer due to budgetary reasons (funding for any new software) but the agency will work to identify existing software currently owned by the City that may meet its needs.

Responsible Personnel:

- Onica Barnes, Chief of Operations
- Akeem Kirk, Accountant I

Recommendation #2

We recommend the Director of Agency:

- Appropriately close prior years expenditures and that the residual amount be cleared against the general fund.

Management Response / Corrective Action Plan

Agree Disagree

The Agency will develop and implement policy with control measures (and detailed procedure to close out prior year expenditures) to include:

- Reminders to vendors/contractors to submit invoices immediately after services have been rendered;
- Enforcement of strict cut off period (30 days prior to the end of the fiscal year)
- Follow up with A/P if outstanding invoices exist to ensure they are cleared against the general fund.

Implementation Date:

- June 30, 2021

Responsible Personnel:

- Onica Barnes, Chief of Operations
- Akeem Kirk, Accountant I