



CITY OF BALTIMORE

DEPARTMENT OF TRANSPORTATION

BIENNIAL FINANCIAL AUDIT

Fiscal Years Ended June 30, 2019 and 2018

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CITY OF BALTIMORE

JOAN M. PRATT, CPA
Comptroller



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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying cash basis financial statements of the governmental activities, of the Department of Transportation (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, Parking Management Fund; Statement of Receipts, Disbursements and Changes Grant Cash Balances, Cash Basis; Schedule of Budgetary Revenues and Expenditures, Budget and Actual, Budgetary Basis, Conduit Fund; Statement of Revenues, Expenditures and Changes in Fund Balances, Cash Basis, Capital Projects; Statement of Revenues, Expenditures and Changes in Fund Balances, Cash Basis, Capital Projects - Conduit; ; Schedule of Budgetary Revenues and Expenditures, Budget and Actual, Budgetary Basis, Baltimore Casino* 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 except for Capital Projects Fund, which is given a qualified opinion.

Basis for Opinions

- **Unmodified Opinion:** In our opinion, except for Capital Projects Fund, 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.
- **Qualified Opinion:** Management overspent capital projects, failed to close out capital projects timely and over-budgeted capital project awards received. Accordingly, DOT has significant negative cash balances in its Capital Project Funds for FYs 2019 and 2018 (see page 12).

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 November 19, 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 17).

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
November 19, 2020

CITY OF BALTIMORE
Department of Transportation
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

Fiscal Year 2019	Final Budget	Actual	Variance
Revenues:			
Appropriations revenues	\$ 142,058,984	\$128,406,130	\$(13,652,854)
Expenditures and Encumbrances:			
Street Lighting	23,737,485	19,138,913	4,598,572
Administration	10,804,649	9,615,572	1,189,078
Street Management	43,724,386	35,185,860	8,538,526
Traffic Management	11,759,071	11,464,592	294,479
Special Events	1,494,661	1,523,871	(29,210)
Inner Harbor Services	1,614,290	824,231	790,059
Snow and Ice Control	7,257,248	8,307,094	(1,049,847)
Vehicle Impounding and Disposal	8,608,054	8,787,756	(179,702)
Sustainable Transportation	7,385,136	7,461,980	(76,845)
Public Rights-of-Way Landscape Management	4,253,611	5,572,204	(1,318,593)
Bridge and Culvert Management	2,703,524	3,621,399	(917,876)
Survey Control	358,729	663,664	(304,935)
Dock Master	600	-	600
Street Cuts Management	1,146,511	478,666	667,844
Traffic Safety	14,528,669	12,840,446	1,688,223
Real Property Management	2,682,360	2,919,881	(237,521)
Total expenditures and encumbrances	142,058,984	128,406,130	13,652,854
Excess of Revenues over Expenditures	-	-	
Beginning Budgetary Fund Balance	-	-	
Ending Budgetary Fund Balance	\$ -	\$ -	

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

Fiscal Year 2018	Final Budget	Actual	Variance
Revenues:			
Appropriations revenues	\$ 128,001,642	\$ 113,461,251	\$ (14,540,391)
Expenditures and Encumbrances:			
Street Lighting	22,987,814	19,283,931	3,703,883
Administration	10,734,087	7,573,358	3,160,730
Street Management	33,777,762	32,727,630	1,050,132
Traffic Management	11,648,890	11,651,313	(2,423)
Special Events	1,390,414	998,758	391,656
Inner Harbor Services	1,723,882	774,853	949,030
Snow and Ice Control	8,935,277	6,712,206	2,223,071
Vehicle Impounding and Disposal	8,793,554	7,355,066	1,438,488
Sustainable Transportation	7,210,743	6,983,796	226,946
Public Rights-of-Way Landscape Management	4,165,158	5,467,709	(1,302,551)
Bridge and Culvert Management	3,420,365	3,318,236	102,128
Survey Control	520,467	523,254	(2,787)
Dock Master	-	600	(600)
Street Cuts Management	1,182,337	105,982	1,076,354
Traffic Safety	8,958,262	7,427,047	1,531,214
Real Property Management	2,552,630	2,557,512	(4,882)
Total Expenditures and Encumbrances	128,001,642	113,461,251	14,540,391
Excess of Revenues over Expenditures	-	-	-
Beginning Budgetary Fund Balance	-	-	-
Ending Budgetary fund Balance	\$ -	\$ -	\$ -

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

FISCAL YEAR 2019	Final Budget	Actual	Variance
Revenues:			
Appropriations revenues	\$ 26,478,187	\$ 25,479,017	\$ (999,170)
Expenditures and Encumbrances:			
Parking Enforcement	15,842,188	14,053,794	1,788,394
Parking Management	10,635,998	11,678,251	(1,042,053)
Total expenditures and encumbrances	26,478,187	25,732,045	746,141
Excess (deficiency) of revenues over expenditures	-	(253,028)	-
Beginning Budgetary Fund Balance	-	-	-
Ending Budgetary Fund Balance	\$ -	\$ (253,028)	\$ -

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

FISCAL YEAR 2018	Final Budget	Actual	Variance
Revenues:			
Appropriations revenues	\$ 27,660,477	\$ 26,371,514	\$ (1,288,963)
Total revenues	27,660,477	26,371,514	(1,288,963)
Expenditures and Encumbrances:			
Parking Enforcement	15,849,694	14,201,245	1,648,448
Parking Management	11,810,783	11,285,554	525,229
Total expenditures and encumbrances	27,660,477	25,486,799	2,173,677
Excess (deficiency) of revenues over expenditures	-	884,715	
Beginning Budgetary Fund Balance	-	-	
Ending Budgetary fund Balance	\$ -	\$ 884,715	-

CITY OF BALTIMORE
Department of Transportation
Statement of Receipts, Disbursements and Changes Grant Cash Balances
Cash Basis
For the Year Ended June 30, 2019

	Cash Balance Fiscal Year 2018 (Deficit)	Receipts	Disbursements	Transfers to/from Other Funds	Cash Balance Fiscal Year 2019 (Deficit)
Federal Grants					
Administration	(143,596)	32,471	17,159		(128,284)
Street Management	58,228				58,228
Traffic Safety	(2,047,934)		180,709	1,632,748	(595,895)
Dock Master	-				-
Total revenues, expenditures and change in grant balances - Federal	(2,133,303)	32,471	197,868	1,632,748	(665,952)
State Grants					
Inner Harbor Services	-				-
Sustainable Transportation	3,494,902		3,147,156	(21,596)	326,150
Total revenues, expenditures and change in grant balances - State	3,494,902	-	3,147,156	(21,596)	326,150
Other Grants					
Administration	(30,365)				(30,365)
Traffic Management	210,462		427	(301,592)	(91,556)
Inner Harbor Services	9,236,250				9,236,250
Sustainable Transportation	(15,822,685)	18,709,142	(5,338,974)	(745,920)	7,479,511
Traffic Safety	(4,100,905)				(4,100,905)
Dock Master	(140,364)	14,311	235,785		(361,838)
Total revenues, expenditures and change in grant balances - Other	(10,647,606)	18,723,453	(5,102,763)	(1,047,512)	12,131,097

CITY OF BALTIMORE
Department of Transportation
Statement of Receipts, Disbursement and Changes Grant Cash Balances
Cash Basis
For the Year Ended June 30, 2018

	Cash Balance Fiscal Year 2017 (Deficit)	Receipts	Disbursements	Transfers to/from Other Funds	Cash Balance Fiscal Year 2018 (Deficit)
Federal Grants					
Administration	(435,360)	412,032	134,148	13,879	(143,596)
Parking Management	(38,974)			38,974	-
Street Management	67,363		9,136		58,228
Traffic Safety	(492,215)		184,750	(1,370,970)	(2,047,934)
Total revenues, expenditures and change in grant balances - Federal	(899,186)	412,032	328,033	(1,318,116)	(2,133,303)
State Grants					
Administration	(26,135)			26,135	-
Sustainable Transportation	2,996,520	3,753,475	3,380,561	125,468	3,494,902
Total revenues, expenditures and change in grant balances - State	2,970,384	3,753,475	3,380,561	151,603	3,494,902
Other Grants					
Administration	(371,600)			341,235	(30,365)
Traffic Management	224,036	110,129	185,906	62,202	210,462
Inner Harbor Services	9,236,250				9,236,250
Sustainable Transportation	(25,694,416)	6,550,189	(3,366,542)	(45,000)	(15,822,685)
Traffic Safety	(4,100,905)				(4,100,905)
Dock Master	6,212	23,075	169,652		(140,364)
Total revenues, expenditures and change in grant balances - Other	(20,700,422)	6,683,394	(3,010,985)	358,437	(10,647,606)

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

CITY OF BALTIMORE
Department of Transportation
Schedule of Budgetary Revenues and Expenditures
Budget and Actual – Budgetary Basis - Conduit Fund
For the Fiscal Year Ended June 30, 2019

	Final Budget	Actual	Variance
Revenues:			
Appropriations revenues	\$ 12,574,357	\$ 34,403,895	\$ 21,829,538
Total revenues	12,574,357	34,403,895	21,829,538
Expenditures and Encumbrances:			
Transfers	2,522,196	642,389	1,879,807
Salaries and Wages	5,544,576	4,482,256	1,062,319
Other Personnel Cost	1,896,388	2,341,634	(445,246)
Contractual Services	1,847,461	3,498,518	(1,651,057)
Material and Supplies	454,569	145,573	308,996
Minor Equipment	44,086	137,579	(93,493)
Major Equipment	-	53,978	(53,978)
Other	265,082	265,082	-
Total expenditures and encumbrances	12,574,357	11,567,009	1,007,348
Excess (deficiency) of revenues over expenditures	\$ -	\$ 22,836,886	-

CITY OF BALTIMORE
Department of Transportation
Schedule of Budgetary Revenues and Expenditures
Budget and Actual – Budgetary Basis - Conduit Fund
For the Fiscal Year Ended June 30, 2018

	Final Budget	Actual	Variance
Revenues:			
Appropriations revenues	\$ 14,442,309	\$ 28,551,174	\$ 14,108,866
Total revenues	14,442,309	28,551,174	14,108,866
Expenditures:			
Transfers	2,479,932	660,684	1,819,248
Salaries and Wages	5,017,859	3,668,329	1,349,530
Other Personnel Cost	1,958,610	2,141,697	(183,087)
Contractual Services	4,265,760	(34,700)	4,300,459
Material and Supplies	410,757	160,858	249,900
Minor Equipment	50,716	234,288	(183,572)
Major Equipment	-	-	-
Other	258,674	1,792,348	(1,533,674)
Total expenditures and encumbrances	14,442,309	8,623,504	5,818,805
Excess (deficiency) of revenues over expenditures	\$ -	\$ 19,927,670	

CITY OF BALTIMORE
Department of Transportation
Statement of Revenues, Expenditures and Changes in Fund Balances
Cash Basis - Capital Project Fund
For the Fiscal Years Ended June 30, 2019 and 2018

	Fiscal Year 2019	Fiscal Year 2018
Revenues		
General Fund	\$ 6,125,000	\$ 4,915,364
Motor Vehicle Revenue	(495)	(384)
Mayor and City Council Revenue	1,903,755	114,936
Federal Grant Revenue	44,468,088	32,103,908
State Grant Revenue	5,979,850	
State Construction Revenue	18,663,950	11,904,668
Other Fund Revenue	10,260,379	2,278,247
Total Revenues	97,400,526	51,316,739
Expenditures		
Capital Outlay	72,707,291	61,902,314
Total Expenditures	72,707,291	61,902,314
Excess (Deficit) of Revenues over Expenditures	14,693,235	(10,585,575)
Beginning Fund Balance	(57,618,045)	(47,032,470)
Ending Fund Balance	\$ (42,924,810)	\$ (57,618,045)

CITY OF BALTIMORE
Department of Transportation
Statement of Revenues, Expenditures and Changes in Fund Balances
Cash Basis - Capital Project - Conduit
For the Fiscal Years Ended June 30, 2019 and 2018

	Fiscal Year 2019	Fiscal Year 2018
Revenues		
Other Fund Revenue	\$ 20,000,000	\$ 20,000,000
Expenditures		
Capital Outlay	29,822,378	18,817,257
Total Expenditures	29,822,378	18,817,257
Excess (Deficit) of Revenues over Expenditures	(9,822,378)	1,182,743
Beginning Cash	52,884,018	51,701,275
Ending Cash	\$ 43,061,640	\$ 52,884,018

CITY OF BALTIMORE
Department of Transportation
Schedule of Budgetary Revenues and Expenditures
Budget and Actual – Budgetary Basis – Baltimore Casino
For the Fiscal Year Ended June 30, 2019 and 2018

Fiscal Year 2019	Final Budget	Actual	Variance
Revenues:			
Appropriations revenues	\$ 25,000		\$ (25,000)
Total revenues	25,000	-	(25,000)
Expenditures and Encumbrances:			
Salaries and Wages	25,000		25,000
Other Personnel Cost			-
Contractual Services			-
Other			-
Total expenditures and encumbrances	25,000	-	25,000
Excess (deficiency) of revenues over expenditures	\$ -	\$ -	

Fiscal Year 2018	Final Budget	Actual	Variance
Revenues:			
Appropriations revenues	\$ 34,290	\$ 19,782	\$ (14,508)
Total revenues	34,290	19,782	(14,508)
Expenditures:			
Salaries and Wages		10,103	(10,103)
Other Personnel Cost			-
Contractual Services	34,290	9,680	24,611
Material and Supplies			
Total expenditures and encumbrances	34,290	19,782	14,508
Excess (deficiency) of revenues over expenditures	\$ -	\$ -	

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

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

1. Description of the Department of Transportation

The Agency is responsible for building and repairing public streets, bridges and highways, as well as maintaining streetlights, alleys, footways and the conduit system. Other duties include: managing traffic movement; inspecting City construction projects; and developing sustainable transportation solutions. Capital and federal funds are allocated for engineering, design, construction and inspection of streets and bridges.

The Agency maintains nearly 4,300 lane miles of roadways, including 305 bridges and culverts. The City's road network is composed of 540 miles of collector streets and 1,460 miles of local streets. About 8.1 percent of statewide vehicle miles traveled occur on City roadways. This amounts to 3.5 billion vehicle miles per year. The Agency maintains 3,600 miles of sidewalks, 1,100 miles of alleys and 80,000 roadway and pedestrian lights throughout the City.

The Agency is responsible for maintenance of the orderly and safe flow of traffic; conducting studies affecting pedestrian and vehicular safety; and providing and maintaining traffic signals, signs and pavement markings. The Agency maintains about 1,300 signalized intersections, over 250,000 traffic and informational signs and over 4.5 million linear feet of lane markings.

The Agency maintains and repairs all open air malls across the City; operates a vehicle storage facility; conducts the sale of abandoned and / or unclaimed vehicles at public auctions; and is responsible for the removal and impounding of illegally parked abandoned or disabled vehicles.

The City's Red Light Camera operation is a public safety initiative designed to reduce the number of motorists who run red lights; currently, the red light and speed camera programs are on hold while the Agency evaluates potential new vendors for operation. A program is expected to be operational again in the upcoming FY. The Agency conducts safety education and training programs such as Safety City and related bicycle programs. The Agency deploys more than 300 crossing guards at elementary and middle schools. The Agency also operates the Charm City Circulator and water taxi "Harbor Connector" commuter service, and plans to launch a bike share program in the upcoming FY.

The Parking Authority is responsible for: on-street and off-street parking including the management of the metered parking system and maintenance of 6,000 single-space parking meters; administration of special parking programs such as residential permit parking and ridesharing; enforcement of parking regulations; and management and development of off-street parking facilities.

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 or the Agency. The Agency's services are reported in the City's general, internal service, special revenue and capital projects funds. The Agency annually receives appropriations from both the general, internal service and special revenue funds. The general fund and internal service fund appropriation expire at year end

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

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*.

3. Summary of Significant Accounting Policies

The financial statements of the Agency are prepared on the cash basis of accounting, which is a comprehensive basis of accounting other than *Generally Accepted Accounting Principles* (GAAP). This basis of presentation differs from GAAP in the United States of America in that revenues are recognized when received rather than earned and expenses are recognized when paid rather than when the obligation is incurred. Specifically, the variances from GAAP include the omission of receivables and payables of the Agency, and such variances are presumed to be material. The accompanying financial statements are not intended to present the financial position and results of operations in conformity with GAAP.

4. Budget Process

The Agency participates in the City's Outcome Based Budgeting process. The 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. Cash Deficits

Cash deficits 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. During the year, the City evaluates the cash surplus and deficits in the various grants to determine the actions needed to correct mis-postings and where necessary to transfer cash between grants and the general fund. This activity is reported in as transfers in the financial statements.

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 by the City's Office of Risk Management.

7. Subsequent Events

No subsequent events have occurred that would require recognition or disclosure in the financial statements as of November 2, 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

CITY OF BALTIMORE

JOAN M. PRATT, CPA
Comptroller



DEPARTMENT OF AUDITS JOSH PASCH, CPA

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Honorable Joan M. Pratt, 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 Transportation (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 Finance and Department of Transportation Response to Findings

The Department of Finance (DOF) and 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
November 19, 2020

CITY OF BALTIMORE
Department of Transportation
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 compliant with certain City’s policies and procedures.

The Agency is not in compliant with the Administrative Manual (AM) 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 were missing for certain payroll transactions tested. Also, the Agency was unable to provide documentation to support certain FY 2019 and 2018 payroll expenditures.

Table I

Summary of Missing Approvals				
Type of Document	FY 2019		FY 2018	
	Occurrences¹		Occurrences¹	
	Number	Percent	Number	Percent
Missing supervisor approval on attendance sheets	33	55	21	35
Missing attendance sheets	7	12	9	15
Missing leave approval ²	3	10	1	3

Notes: ¹Occurrences are based on the selected 120 employee payroll attendance sheets for the four quarters in FY 2019 and FY 2018.

²The review is based on the number of individuals who took leave during the pay periods under review. There were 31 employees and 30 employees who took leave for FY 2019 and FY 2018, respectively.

Missing documentation was due to the following reasons:

- Lack of supervisory review;
- Attendance records were destroyed in a flooding incident in FY2018; and
- In two instances, no time and attendance records were prepared for Youth Works employees hired for snow removal.

Also, the Agency did not secure or keep track of payroll records due to lack of a retention schedule, which is required by the Baltimore City’s Code.

CITY OF BALTIMORE
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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 # 1: We recommend the Director of Agency:

- 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.

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

Finding #2: Control Deficiency- The Agency's Capital Project Fund carries significant negative cash balances for FY 2019 and 2018.

As shown in Table II below, the Agency has significant negative cash balances for FYs 2019 and 2018. This has resulted in the fund showing an amount that the City general fund has to cover (see Note 5 on page 16); however, Agency shows a negative cash balance (see the schedule on page 12), which gives the impression that the City is owed money from outside sources.

Table II

The Change in Opening Cash Balances for the Capital Project Fund

Fiscal Years	2019	2018	Change
Opening Balance	\$ (57,618,045)	\$ (47,032,470)	N/A
Ending Balance	\$ (42,924, 810)	\$ (57,618,045)	N/A
Change in Amount	N/A	N/A	\$ 10,585,575
Change in Percentage	N/A	N/A	18

The Bureau of Accounting and Payroll Services (BAPS) prepared the *Statements of Revenues, Expenditures, and Changes in Fund Balance – Capital Projects*. According to BAPS, major causes of the significant cash deficits are because of:

- The Agency overspent the capital projects;
- The Agency did not close out capital projects timely so that the Agency was not able to send the final bills to funders; and
- The Agency over budgeted the actual award received; specifically, the City's practice of estimating budgets two years in advance. The second-year budget was estimated based on the Agency's best knowledge at the time of budget preparation for the first year. Although the estimate for the second year was more than the actual amount awarded from funders, the budget for the second year was not adjusted accordingly in the subsequent budget cycle.

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

Recommendation # 2: We recommend the Director of Agency:

- Track expenditures to have balanced budget;
- Close out projects and, with BAPS' assistance, send final bills to funders;
- Update project budgets to reflect the final awarded amount approved by funders;
and
- Have periodic communication with BAPS Capital Budget Group for timely billing throughout projects.

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

Finding #	Summary of Findings	Prior Recommendations	Management's Self-reported Implementation Status	Auditor's Assessment
1	<p>The Department of Audits (DOA) could not vouch amounts arising from expense, revenue, & encumbrance transactions to supporting documentation. The Agency noted through its testing that documentation for the transactions was either unavailable or did not agree to amount in City's general ledger (GL).</p> <p>Upon entering transactions into City's GL, accounting staff is not adequately backing up those entries with corresponding support in the CityDynamics operating system.</p>	<p>The Agency should develop a process for keeping adequate records over its financial transactions. In addition to relying on the BAPS, the Agency should maintain its own database to support its revenue, expense and encumbrance entries.</p>	<p>The major revenues of the Department of Transportation like ATVES, Towing, and Parking Citations etc. are combined effort of the Department, Baltimore City Information Technology and Finance Department with automated system which ensured the correctness of the numbers recorded in the City's Accounting System.</p> <p>The encumbrance numbers come from the financial system maintained by the BAPS and it's an effect of the payment made from the original orders with resultant effect of leaving the balance as the encumbrance amount. It's a centralized function of the DOF and the encumbrance amount is updated after each payment. So again stating that there was no supporting document to vouch is not correct.</p> <p>The City has appropriate system in place for all these activities and are part of the control to ensure that all the procurements, payments and encumbrances are reflected and recorded correctly in the accounting system of the City.</p>	<p>Implemented</p>

Biennial Financial Audit Report on Department of Transportation

Finding #	Summary of Findings	Prior Recommendations	Management's Self-reported Implementation Status	Auditor's Assessment
2	<p>The DOA noted through our testing of internal controls that many of the Agency's expense, revenue, and encumbrance transactions do not have evidence of approval by authorized personnel.</p> <p>Before processing expense, revenue, and / or encumbrance transactions, Agency is not documenting evidence of approval.</p>	<p>The Agency should develop a process to ensure financial transactions are approved. In addition to relying on the BAPS, Agency should maintain its own database to show its transactions were authorized.</p>	<p>As stated in the response against the finding # 2017-001 the City as well as the Agency has pre-determined approval paths and without obtaining those approvals in the Expenditure Authorization and City Buy system (Centralized procurement system of the City) none of the procurement of material or services will move forward.</p> <p>The procurements of higher value not only require approvals within the Agency but also requires approval from Budget Office as well as from Bureau of Procurements and in some cases approval is needed from the Board of Estimates before the procurement orders are placed with the Vendor. Similarly, the encumbrance system is also centralized with the BAPS so stating that there is no documentation of approval is not correct as all the approval of procurements can be seen in the City Buy System.</p>	<p>Implemented</p>

Management's Response

Date: November 16, 2020

To: Josh Pasch, City Auditor

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

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

Recommendation # 1

We recommend the Director of Agency:

- 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.

Management Response / Corrective Action Plan

Agree **Disagree**

The Agency's Human Resources (HR) Division will host a refresher training for all of its employees on October 6, 8, 13, and 15 to those responsible for handling attendance related documents. The training will ensure that the appropriate staff are familiar with the Agency's Payroll Standard Operating Procedures and both AM 205-10 and AM 204-17. The payroll policies will be implemented two weeks after the training, no later than November 30, 2020. The Agency will also develop a Record Retention Schedule file with the City Archivist.

Implementation Date:

- November 30, 2020 - Implementation of Payroll Protocol.
- January 30, 2021 - Implementation date for a Records Retention Schedule

Responsible Personnel:

Nick Fontanez, HR Chief

Recommendation #2

We recommend the Director of Agency:

- Track expenditures to have balanced budget;
- Close out projects and, with BAPS' assistance, send final bills to funders;
- Update project budgets to reflect the final awarded amount approved by funders; and
- Have periodic communication with BAPS Capital Budget Group for timely billing throughout projects.

Management Response / Corrective Action Plan

Agree Disagree

- DOF: Finance agrees with the recommendations contained in this finding. Finance would point out that implementation of these recommendations is the primary responsibility of the Agency. Finance will work with Agency to fully implement all of the recommendations.
- Agency: While the Agency agrees that a negative capital cash balance exists, we disagree as to the amount as expressed in the finding.
 - The consolidated billing is done monthly by the BAPS and they send original the billing to State Highway Administration (SHA), with copy Agency and the Department of Audits. The consolidated bill has a separate line for each project so as to identify the billing amount against each project which reflects the expenditure recorded in the City's Accounting System.
 - The Agency receives SHA and Federal Highway Administration (FHWA) approval prior to awarding all federally funded projects which makes all eligible cost entitled to reimbursement, once funding is added to the project. Only expenses incurred from SHA / FHWA's approval date are entitled to reimbursement. The SHA always send a copy of the project approval or any modification thereof to BAPS directly with a copy to Agency. In addition to sending the approvals directly to the project Managers in Agency's Engineering and Construction Division, so that the projects are added in the consolidated billing by BAPS and are correctly reflected in the monthly bill.

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- The Agency has also submitted a copy of the consolidated bill for the month of July 2020 in which the additional billing of \$12,941,442 has been reflected and explained that the bill contains a column labeled "Amount over agreement" with amount of \$(23,931,632) which indicates that there is a Federal Eligible expense through July 2020 in the same amount and Agency is working with SHA / FHWA to satisfy some of the requirements so that they will add the funds in the appropriate projects to enable a request for reimbursement in future billing. Once we will receive the funds then it will mitigate the negative amount of \$ (16,875,124). This process may take some time.
- Other contributing factors which impact the Agency's cash balance are the Footways projects. The funding of footway projects includes cost shared by Agency and property owners. Agency's Footway Section prepares the billing for property owners and enters the bill in the City's finance system for forwarding to the property owner. There are many projects which could not be closed since approximately FY 1980 because the City was not able to collect payments from the property owners. The total of uncollected amounts are as follows:

Uncollected amounts on projects completed prior to FY 2009	\$ 15,008,280.75
Uncollected amounts on projects between the period FY 2009 thru FY 2014	\$ 4,117,449.07
Uncollected amounts on projects from FY 2015 onwards	\$ 3,503,086.34

Property owners are afforded a five-year payment plan, which provides the City an opportunity to collect the unpaid amount for project completed after FY 2015. The Agency has increased the local funding on Alleys & Footways projects from FY 2020 to cover additional 25 percent of property owners share presuming that City will get reimbursed 75 percent from the Property Owners so that it will reduce the chances of deficit on those projects.

As a practice, the Agency is required and does collaborate with BAPs regarding all capital projects at every stage of the project including closing out projects and the monthly consolidated billing. This continued collaboration is reflected in Agency's cash position after FY 2018.

The procurement of construction includes the practice of recording the award amount as an encumbrance on an EAR (Expenditure Authorization Report) with various levels of approvals. The fund transfer used to support the funding of the award is recorded post approval from Planning Commission and Board of Estimates, and often times overlaps two FYs.

Implementation Date:

- DOF: FY 2021
- Agency: The Agency is also expecting that the implementation of Workday will definitely improve the process of billing. However, the actual go - live date is unknown at this time, therefore Agency is unable to provide an implementation date.

Responsible Personnel:

- Henry Raymond, Director, DOF
- Dharendra K Sinha (DK), Chief - Fiscal Division, Agency