



**Baltimore City
Department of Planning**

**Biennial Financial Audit
Fiscal Years Ended June 30, 2017 and 2016**

Table of Contents

Independent Auditor’s Report	1
Basic Financial Statements	
Schedule of Revenues, Expenditures and Encumbrances, and Changes in Fund Balance - Budget and Actual - Budgetary Basis - General Fund	3
Statement of Revenues, Expenditures and Changes in Cash Balance - Capital Projects.....	4
Statement of Revenues, Expenditures and Changes in Grant Cash Balances.....	5
Notes to the Financial Statements ..	7
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>	9
Schedule of Findings.....	11

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

We have audited the accompanying cash basis financial statements of the Baltimore City Department of Planning (the Agency), an agency of the primary government of the City of Baltimore, 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 Cash Balance - Capital Projects and Statement of Revenues, Expenditures and Changes in Grant Cash Balances, for the years ended June 30, 2017 and 2016, and the related notes to the 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. 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 judgment, including the assessment of the 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 entity'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 entity'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 our audit opinion.

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, 2017 and 2016 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 13, 2018, 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. 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.



Audrey Askew, CPA
City Auditor
December 13, 2018

Baltimore City Department of Planning
Schedule of Revenues, Expenditures and Encumbrances, and Changes in Fund Balance
Budget and Actual – Budgetary Basis – General Fund
Fiscal Years Ended June 30, 2017 and 2016

	<u>Final Budget</u>	<u>2017 Actual</u>	<u>Variance</u>
Revenues			
Appropriations revenues	\$ 5,713,124	\$ 5,294,095	\$ 419,029
Expenditures and Encumbrances			
Development oversight and project support	1,224,783	1,135,747	89,036
Historic preservation	631,130	624,526	6,604
Community planning and resource management	1,346,437	1,380,734	(34,297)
Planning for a sustainable Baltimore	1,556,217	1,313,173	243,044
Administration	954,557	839,915	114,642
Total Expenditures and Encumbrances	<u>5,713,124</u>	<u>5,294,095</u>	<u>419,029</u>
Excess of Revenues over Expenditures and Encumbrances (GAAP)	-	-	-
Beginning Budgetary Fund Balance	-	-	-
Ending Budgetary Fund Balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

	<u>Final Budget</u>	<u>2016 Actual</u>	<u>Variance</u>
Revenues			
Appropriations revenues	\$ 5,491,667	\$ 4,586,303	\$ 905,364
Expenditures and Encumbrances			
Development oversight and project support	1,236,103	1,056,446	179,657
Historic preservation	593,367	524,926	68,441
Community planning and resource management	1,378,379	1,180,349	198,030
Planning for a sustainable Baltimore	1,381,820	921,476	460,344
Administration	901,998	903,106	(1,108)
Total Expenditures and Encumbrances	<u>5,491,667</u>	<u>4,586,303</u>	<u>905,364</u>
Excess of Revenues over Expenditures and Encumbrances (GAAP)	-	-	-
Beginning Budgetary Fund Balance	-	-	-
Ending Budgetary Fund Balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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

Baltimore City Department of Planning
Statement of Revenues, Expenditures and Changes in Cash Balance
Capital Projects
Fiscal Years Ended June 30, 2017 and 2016

	2017	2016
Revenues		
General fund	\$ 250,000	\$ 250,000
Other funds	27,779	488,686
Total Revenues	277,779	738,686
Expenditures		
Transfers to other agencies capital projects	252,750	1,403,646
Capital outlay	550,897	308,654
Total Expenditures	803,647	1,712,300
Deficit of Revenues over Expenditures	(525,868)	(973,614)
Beginning Capital Projects Fund Balance	3,165,182	4,138,796
Ending Capital Projects Fund Balance	\$ 2,639,314	\$ 3,165,182

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

Baltimore City Department of Planning
Statement of Revenues, Expenditures and Changes in Grant Cash Balances
Fiscal Year Ended June 30, 2017

	<u>Cash Balance 7/1/2016</u>	<u>Revenues</u>	<u>Expenditures</u>	<u>Cash Balance 6/30/2017</u>
Federal Grants				
Development oversight and project support	\$ 268,708	\$ -	\$ -	\$ 268,708
Community planning and resource management	(19,791)	67,000	54,264	(7,055)
Planning for a sustainable Baltimore	11,734	-	47,830	(36,096)
Administration	(89,879)	-	-	(89,879)
Total revenues, expenditures and change in grant balances - Federal	<u>170,772</u>	<u>67,000</u>	<u>102,094</u>	<u>135,678</u>
State Grants				
Development oversight and project support	39,875	-	-	39,875
Planning for a sustainable Baltimore	(1,867,291)	918,597	1,379,093	(2,327,787)
Total revenues, expenditures and change in grant balances - State	<u>(1,827,416)</u>	<u>918,597</u>	<u>1,379,093</u>	<u>(2,287,912)</u>
Other Grants				
Community planning and resource management	(30,220)	30,220	-	-
Planning for a sustainable Baltimore	23,977	5,000	3,362	25,615
Total revenues, expenditures and change in grant balances - Other	<u>(6,243)</u>	<u>35,220</u>	<u>3,362</u>	<u>25,615</u>
Total Grants	<u><u>\$ (1,662,887)</u></u>	<u><u>\$ 1,020,817</u></u>	<u><u>\$ 1,484,549</u></u>	<u><u>\$ (2,126,619)</u></u>

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

Baltimore City Department of Planning
Statement of Revenues, Expenditures and Changes in Grant Cash Balances
Fiscal Year Ended June 30, 2016

	Cash Balance 7/1/2015	Revenues	Expenditures	Cash Balance 6/30/2016
Federal Grants				
Development oversight and project support	\$ 268,708	\$ -	\$ -	\$ 268,708
Community planning and resource management	(20,597)	39,000	38,194	(19,791)
Planning for a sustainable Baltimore	(3,998)	51,743	36,011	11,734
Administration	(76,879)	-	13,000	(89,879)
Total revenues, expenditures and change in grant balances - Federal	<u>167,234</u>	<u>90,743</u>	<u>87,205</u>	<u>170,772</u>
State Grants				
Development oversight and project support	39,884	-	9	39,875
Planning for a sustainable Baltimore	1,058,333	109,294	3,034,918	(1,867,291)
Total revenues, expenditures and change in grant balances - State	<u>1,098,217</u>	<u>109,294</u>	<u>3,034,927</u>	<u>(1,827,416)</u>
Other Grants				
Community planning and resource management	(30,563)	343	-	(30,220)
Planning for a sustainable Baltimore	(7,047)	62,000	30,976	23,977
Total revenues, expenditures and change in grant balances - Other	<u>(37,610)</u>	<u>62,343</u>	<u>30,976</u>	<u>(6,243)</u>
Total Grants	<u><u>\$ 1,227,841</u></u>	<u><u>\$ 262,380</u></u>	<u><u>\$ 3,153,108</u></u>	<u><u>\$(1,662,887)</u></u>

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

Baltimore City Department of Planning
Notes to the Financial Statements
Fiscal Years Ended June 30, 2017 and 2016

1. Description of the Baltimore City Department of Planning

The Department of Planning (the Agency) provides services and leadership in urban and strategic planning, historical and architectural preservation, zoning, design, development, and capital budgeting to promote the sustained economic, social, and community development of the City of Baltimore. The services provided by the Agency are mandated by Articles VI and VII of the Baltimore City Charter and the Zoning Code. The Planning Commission is the policymaking authority for the Department and consists of the Mayor or designee, the Director of Public Works, a member of the City Council, and six City residents appointed by the Mayor and confirmed by the City Council.

The Charter authorizes the Agency to develop and update plans for the physical development of the City, review proposals for the subdivision of land, submit an annual capital budget and six-year Capital Improvement Program and make recommendations on proposed amendments to the City's Zoning Ordinance. The Comprehensive Master Plan guides future development and the capital budget.

The Planning Commission relies on department staff to develop plans, conduct permit reviews, conduct studies and make policy and zoning recommendations related to land use, economic development, housing, transportation, environmental and other planning issues. The department monitors the capital budget, serves as community liaisons and works closely with the Mayor's Office and other agencies.

The Agency also provides historical and architectural preservation services as mandated by Article VI of the City Code. The Commission on Historical and Architectural Preservation is the policymaking authority for these services and consists of eleven City residents appointed by the Mayor and confirmed by the City Council. The Commission on Historical and Architectural Preservation designates historic districts and landmarks, reviews all proposed alterations to properties in historic districts and landmarks, and generally undertakes efforts to support and provide incentives for historic preservation. The Commission relies on department staff to make recommendations, conduct surveys, implement incentive programs and make policies and other recommendations related to historical and architectural preservation.

The Office of Sustainability, within the Agency, was created by ordinance in 2007 to develop and implement the City of Baltimore Sustainability Plan. The Office of Sustainability also manages environmental planning and regulatory functions, as well as staffing the Sustainability Commission.

2. Fund Financial Statements

These financial statement have been prepared on a cash basis of accounting other than accounting principles general 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, special revenue and capital projects funds. The Agency annually receives appropriations from the general, special revenue and capital projects funds. General 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 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 and capital project funds are reported in the *Statement of Revenues, Expenditures and Changes in Fund Balance*.

Baltimore City Department of Planning
Notes to the Financial Statements
Fiscal Years Ended June 30, 2017 and 2016

2. 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.

3. Budget Process

The Agency 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.

4. 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.

5. 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 Health is a chartered agency within the City of Baltimore municipal government. Therefore, its exposure to various risks is managed by the City's Office of Risk Management.

6. 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

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the cash basis financial statements of the governmental activities of the Department of Planning of the City of Baltimore, Maryland, as of and for the years ended June 30, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the Department of Planning's financial statements, and have issued our report thereon dated, December 13, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Department of Planning's internal control over financial reporting (internal control) to determine 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 Department of Planning's internal control. Accordingly, we do not express an opinion on the effectiveness of the Department of Planning's internal control.

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 entity'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 significant deficiencies.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be a material weakness. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Department of Planning'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*.

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 entity'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.

A handwritten signature in black ink, appearing to read "Audrey Askew". The signature is fluid and cursive, with the first name being more prominent than the last.

Audrey Askew, CPA
City Auditor
December 13, 2018

**Baltimore City Department of Planning
Schedule of Findings
Fiscal Years Ended June 30, 2017 and 2016**

Finding #1 – Significant Deficiency – Opening Grant Balances (Statement of Revenues, Expenditures and Changes in Grant Cash Balance)

Criteria:

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.

Condition:

During our audit, we performed an analysis of the grant accounts for federal, state, and other grants within the above named report. We determined that BAPS (Bureau of Accounting and Payroll Services) continued to show inaccurate balances on the books of the Department of Planning. These balances were recorded on the books for past periods dating from 2003 through 2012 and never cleared/corrected. Our audit noted a net revenue in excess of expenditures for fiscal years 2003 through 2012 totaled \$232K (surplus), which continued to appear on the books of the City through our audit period. As a result of communicating with BAPS about a surplus identified on the books, BAPS prepared journal entries to write off approximately \$115K of the surplus. However, the remaining \$117K surplus balance carried forward into the \$1.2M (surplus) total in FY 16 opening balance on page 6 of this report. Uncorrected items within an agency of this size significantly impacts the statements. Additionally, a surplus identified on a statement related to grants, gives the appearance of unspent funding that should be returned to federal, state and/or private grant sources.

Cause:

Untimely reconciliation of grant activity and incorrect accounting treatment for prior period activity. Inadequate controls over the preparation and posting of journal entries. BAPS accounting staff lack the knowledge needed to maintain accurate accounting records.

Effect:

Inaccurate financial statements will be produced that misstate grant balances if an audit was not performed on the financial statements.

Recommendation:

We recommend that grant reconciliations and the resulting journal entries be completed timely to show an accurate accounting of anticipated receipts or close out and that activity associated with aged/closed grant accounts be appropriately recorded in the general fund. In addition, we recommend training on accounting processes within the Department of Finance BAPS division.

**Baltimore City Department of Planning
Schedule of Findings
Fiscal Years Ended June 30, 2017 and 2016**

Finding #1 – Significant Deficiency – Opening Grant Balances (Statement of Revenues, Expenditures and Changes in Grant Cash Balance) (Continued)

Management Response:

The Department of Finance disagrees with the auditor’s finding. Finance does not agree with the auditor’s conclusion that the surplus balance gives the “appearance” of amounts due to federal, state and/or private grant sources.

In our view the reported surplus represent the difference between the cash received and the expenses paid. Nothing more – nothing less. Nowhere do the statements imply or suggest the surplus is due to an outside agency. Finance also disagrees with change in the report format.

The Department of Finance was disappointed the DOA decided to unilaterally change the previous format agreed to by the former City Auditor and the City Biennial Audit Commission. We believe this format presented clearer annual grant cash activity as was the intent of these statements.

In regard to the recommendation, the Department of Finance on several occasions publicly discussed the City’s issues regarding the grant revenue fund. Most of the grant related findings can be traced back to the inability of City grantee agencies to reconcile their grant activity to the general ledger – as they are required to do. The Department of Finance and City agencies continue to reconcile grant accounts and have made significant progress – evidenced by clean unmodified audit opinions on the 2016 and 2017 Comprehensive Annual Financial Reports. In addition, we have implemented the following corrective actions: (1) established Grants Management Office; (2) deployed a grant reporting and documentation CRM module and; (3) implemented nine grant administrative manual policies that require City agencies adhere to specific grant processes from award through close out. Finance continues to assist grant agencies in their reconciliations of their grant accounts.

Audit’s Updated Response:

The above finding stands as stated. The grant balances identified in accounts within the Agency should not appear on statements under a heading indicating the position of the grant in relation to the heading (i.e. Federal). In addition, we contacted the American Institute of Certified Public Accountants (AICPA) and communicated the above issue with the City’s accounting records (along with the other six Agencies audited this year), and was informed that the account balances does give the appearance of monies due back to the various federal and state agencies, and other private grantors. The AICPA monitors and enforces member compliance in practice. As stated in the recommendation above, we recommend BAPS accountants, under the direction of the Director of Finance, obtain training on proper accounting of transactions and accounts.

**Baltimore City Department of Planning
Schedule of Findings
Fiscal Years Ended June 30, 2017 and 2016**

Finding #2 – Significant Deficiency – Grant Management

Criteria:

The Committee of Sponsoring Organizations (COSO) and standard business practice 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.

Condition:

As a condition of Constellation Energy Group’s merger with Exelon Corporation, the Planning Department was awarded \$13.7M of the \$52.9M Customer Investment Fund issued to the City of Baltimore through the Maryland Public Service Commission for the Coordinating Resources to Effectively Align and Transform Energy Services program (CREATES). To carry out the objectives of the program, an agreement was established with The Baltimore Community Foundation, Inc. to provide services under program 1875 over a 42 month period.

During our audit, we noted that the grant carried an annual deficit of approximately \$2M for FY 2017 and 2016 which resulted in resources that were not available to provide City services. Further review disclosed that a deficit of \$618K remains in the account to date.

Cause:

Untimely reconciliation of grant activity.

Effect:

Resources to provide services to city residents are not available for use. The City may be exposed to reputation risk resulting from contract administration.

Recommendation:

We recommend that grant reconciliations be completed timely to minimize the use of City resources. Also, the \$618K account deficit from January 2018 should be cleared.

Management Response:

There have been multiple attempts to work with BBMR to reconcile the revenue for the accounts associated with this grant. BBMR must confirm where these funds are currently retained and take the proper actions to reconcile these funds by journalizing them to the proper grant fund account at Planning. The Department of Planning will work with the Department of Finance to get the fund correctly appropriated to Planning’s grant fund accounts.