

CITY OF BALTIMORE

STEPHANIE RAWLINGS-BLAKE, Mayor



DEPARTMENT OF AUDITS

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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*

January 27, 2015

Honorable Joan M. Pratt, Comptroller  
And Other Members of the Board of Estimates  
Board of Trustees of the  
Enoch Pratt Free Library  
City of Baltimore, Maryland

We have audited 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, the financial statements of the governmental activities, each major governmental fund and the aggregate remaining fund information of the Enoch Pratt Free Library (Library), a component unit of the City of Baltimore, Maryland, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Library's basic financial statements, and have issued our report thereon dated, January 27, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Library'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 Library's internal control. Accordingly, we do not express an opinion on the effectiveness of the Library'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 below, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant 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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described below to be material weaknesses.

**Finding 2011-1:** The Library's Business Office did not timely prepare its annual financial report for submission to the Maryland State Department of Education. An adequate control environment includes the assignment of authority and responsibility such that appropriate numbers of trained staff are available for accounting functions to ensure fiscal year assignments are completed timely and accurately. This material weakness continued throughout fiscal year 2014 when again the Library was unable to meet the December 31<sup>st</sup> deadline for report preparation.

The Library's accounting software system, MIP Fund Accounting, was not fully utilized in the preparation of the financial statements. Compiling the year-end financial statements is complex and the Library must rely on manual adjustments to properly record transactions, accruals, corrections, and other transactions. As a result of this, the financial statement preparation process requires compiling worksheets, completing reconciliations, and recording various adjustments. The extent of the necessary modifications to the financial information increases the complexity of the financial statement preparation process, which makes the process more susceptible to errors.

We recommend that the Library continue to refine the process to prepare the financial statements, all significant adjustments including accruals and corrections, and in preparing all necessary reconciliations. The Library should evaluate its accounting software's capability to determine whether the software is capable of preparing complete and accurate financial statements. After completing its evaluation, we would also recommend that staff be trained to fully and properly utilize the Library's accounting software system. We also recommend that the Library evaluate and document the financial statement preparation process. Written procedures would facilitate the timely and accurate preparation of the Library's annual financial statements.

**Library's Response:** It is the Library's goal every year to submit the report to the State with the Internal Control letter by the December 31 deadline. That is dependent on adequate staffing, availability of information from City Accounting and other City sources, and accuracy of accounting records. All of those things were not in place during the FY 2014 report development. Newly hired staff required significant training and orientation and information needed for the report from the City was not available. Additionally, we utilized an external accounting firm to assist with review of accounting work papers and this caused delays due to orientation on how City and Trustee accounting information are merged in the statements. We agree with the Department of Audits with regard to making better use of the MIP Fund Accounting software to assist with the generation of financial statements and are sending accounting staff for training to that end. We continue to refine our process and will make every effort to implement procedures to ensure timely reporting in the future.

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 deficiency described below to be a significant deficiency.

**Finding 2011-3:** As of June 30, 2014, the Library had not performed a proper analysis of the Book Imprest Fund to determine why the reconciled balance of the fund was \$332,573 rather than its maximum balance of \$300,000. Additionally, the reconciled balance of \$332,573 consisted of a cash book balance of \$345,841, a negative “accounts receivable” of \$1,925, and a negative “due from disbursements” of \$11,343. The negative “due from disbursements” of \$11,343 was caused by: a book purchase reimbursement of \$29,095, which was recorded by the Library, but was not billed to the City, and a book purchase reimbursement of \$17,752, which was billed to the City in fiscal year 2009, but never received by the Library.

Our analysis in attempting to reconcile to the \$300,000 balance for the Book Imprest Fund, as of June 30, 2014, is as follows:

- Starting with the \$332,573 reconciled balance by the Library, we subtracted a \$79,757 voided check not reissued during fiscal year 2014, and added the reimbursement of a book purchase of \$29,095 which was recorded by the Library, but not billed to the City, which leaves an actual balance of \$281,911.
- There is an additional \$10,000 due from the Endowment Fund for postage purchased using the Book Imprest Fund, which brings the balance to \$291,911.
- The difference between the \$300,000 Book Imprest Fund and the above adjusted \$291,911 balance is \$8,089. This \$8,089 difference could not be further analyzed by us.

We again recommend that the Library develop written reconciliation procedures that include investigating and resolving unexplained differences in a timely manner. All reconciling adjustments and corrections should be approved by the employee’s supervisor and/or management. In addition to reconciling to the Imprest Fund bank account balance, the Library should also perform a reconciliation to the Book Imprest Fund \$300,000 balance.

**Library’s Response:** After last year’s audit, the Library made adjustments and contracted an accounting firm to assist us with reconciling remaining unexplained differences. That effort resulted in a number of correcting and adjusting entries. Unfortunately the items referenced here were not corrected and the Library will resolve all items as part of its January 2015 bank reconciliation. Thus far we have completed a journal entry to correct the \$1,925 negative accounts receivable and reimbursed the fund \$27,752 for the \$10,000 postage and the \$17,752 for the bad accounts receivable from 2009. The remaining \$8,089 is being investigated and will be corrected as part of the current bank reconciliation.

The Library did develop written reconciliation procedures and since the June 2014 bank reconciliation, have investigated and corrected any issues, and as of this date have no additional unexplained differences. The activities of accounting personnel not involved in the bank reconciliation but who nonetheless are active in the accounting for the Book Imprest Fund, will have their procedures reviewed and revised as well. It is expected that this will help avoid some of the problems encountered this year.

Compliance and Other Matters

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

The Library's responses to the findings identified in our audit are described above. We did not audit the Library's responses and, accordingly, we express no opinion on them.

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 result 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.

Respectfully submitted,

Robert L. McCarty, Jr., CPA  
City Auditor