



BALTIMORE CITY OFFICE of INFORMATION & TECHNOLOGY

Biennial Financial Audit
for Fiscal Years Ended
June 30, 2020 and 2019
City Auditor, Josh Pasch
December 31, 2021



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Office of the Comptroller

Josh Pasch, City Auditor

100 N. Holliday St., Room 321
Baltimore, Maryland 21202

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying cash basis financial statements of the governmental activities of the Office of Information & Technology (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; Schedule of Budgetary Revenues and Expenditures - Budget and Actual – Modified Accrual Basis – Municipal Communication & Hardware and Software Replacement Fund; Statement of Revenues, Expenditures and Changes in Fund Balance - Capital Projects; and Statement of Revenues, Expenditures and Changes in Grant Cash Balance*, for the years ended June 30, 2020 and 2019, 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 basis of accounting described in Note 3. This includes determining that the 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.

Biennial Financial Audit Report on the Office of Information & Technology

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 insufficient to allow us to state an opinion on the financial statements; therefore, we disclaim an opinion on the statements as presented.

Basis of Accounting

The financial statements are prepared using the general ledger activity posted for the given Fiscal Year excluding the adjustments made for purposes of the Annual Comprehensive Financial Report (ACFR). Postings to the general ledger include certain year end accruals, expenses which were not yet paid and revenues which were not yet received at year end making them non-compliant with the cash basis of accounting. Additionally, expenses and revenues posted in the two months after fiscal year end which are attributable to the prior Fiscal Year are not accrued as would be required for the modified accrual basis of accounting. Additionally, 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. We therefore are disclaiming an opinion on the statements as they were not prepared in compliance with any basis of accounting.

Note: The biennial financial statements are requested by the Biennial Audits Oversight Commission to monitor expenditures of the agencies on an annual basis. Therefore, they are not required to comply with Generally Accepted Accounting Principles (GAAP).

Report on Other Legal and Regulatory Requirements

In accordance with *Government Auditing Standards*, we have also issued our report, dated December 31, 2021, 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 11). 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

Biennial Financial Audit Report on the Office of Information & Technology

performed in accordance with *Government Auditing Standards* in considering the Agency's internal control over financial reporting and compliance.

Respectfully,

Josh Pasch

Josh Pasch, CPA
City Auditor
Baltimore, MD
December 31, 2021

CITY OF BALTIMORE
Office of Information & Technology
Schedule of Revenues, Expenditures and Encumbrances, and Changes in Fund Balance
Budget and Actual – Budgetary Basis – General Fund
For Fiscal Years Ended June 30, 2020 and 2019

Fiscal Year 2020	Final Budget	Actual	Variance
Revenues:			
Appropriated Revenues	\$ 43,373,718	\$ 26,773,470	\$(16,600,248)
Expenditures and Encumbrances:			
Administration	3,337,106	2,400,467	936,639
Enterprise Innovation and Application Services	12,860,310	4,317,073	8,543,237
Enterprise Unified Call Center	6,575,185	3,829,189	2,745,996
Enterprise IT Delivery Services	20,601,117	16,226,741	4,374,376
Total Expenditures and Encumbrances	43,373,718	26,773,470	16,600,248
Excess of Revenues over Expenditures	-	-	-
Opening Fund Balance	-	-	-
Ending Fund Balance	\$ -	\$ -	\$ -

Fiscal Year 2019	Final Budget	Actual	Variance
Revenues:			
Appropriated Revenues	\$ 31,809,481	\$ 33,609,719	\$ 1,800,238
Expenditures and Encumbrances:			
Administration	2,107,600	2,181,020	(73,420)
Enterprise Innovation and Application Services	11,429,402	7,856,741	3,572,661
Enterprise Unified Call Center	7,725,332	6,292,428	1,432,904
Enterprise IT Delivery Services	10,547,147	17,279,530	(6,732,383)
Total Expenditures and Encumbrances	31,809,481	33,609,719	(1,800,238)
Excess of Revenues over Expenditures	-	-	-
Opening Fund Balance	-	-	-
Ending Fund Balance	\$ -	\$ -	\$ -

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

CITY OF BALTIMORE
Office of Information & Technology
Schedule of Budgetary Revenues and Expenditures
Budget and Actual – Modified Accrual Basis – Municipal Communication & Hardware and
Software Replacement Funds
For Fiscal Years Ended June 30, 2020 and 2019

Fiscal Year 2020	Final Budget	Actual	Variance
Revenues:			
Appropriated Revenues	\$ 9,719,328	\$ 10,893,852	\$ 1,174,524
Expenditures and Encumbrances:			
Salaries and Wages	2	477,940	(477,938)
Other Personnel Cost	-	154,627	(154,627)
Contractual Services	934,456	685,993	248,463
Material and Supplies	-	-	-
Minor Equipment	8,784,870	18,912,768	(10,127,898)
Other	-	1,816	(1,816)
Total Expenditures and Encumbrances	9,719,328	20,233,144	(10,513,816)
Excess of Revenues over Expenditures	\$ -	\$ (9,339,292)	\$ (9,339,292)

Fiscal Year 2019	Final Budget	Actual	Variance
Revenues:			
Appropriated Revenues	\$ 16,028,744	\$ 8,537,492	\$ (7,491,252)
Expenditures and Encumbrances:			
Salaries and Wages	986,760	531,834	454,926
Other Personnel Cost	188,988	194,524	(5,536)
Contractual Services	2,121,085	1,321,349	799,736
Minor Equipment	12,730,553	14,356,000	(1,625,447)
Other	1,358	1,358	-
Total Expenditures and Encumbrances	16,028,744	16,405,065	(376,321)
Excess of Revenues over Expenditures	\$ -	\$(7,867,573)	\$(7,867,573)

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

CITY OF BALTIMORE
Office of Information & Technology
Statement of Revenues, Expenditures and Changes in Fund Balance
Capital Projects
For Fiscal Years Ended June 30, 2020 and 2019

	Fiscal Year 2020	Fiscal Year 2019
Revenues		
General Fund	\$ 6,000,000	\$ 2,050,000
Other Fund Revenue	850,139	1,562,095
Total Revenues	6,850,139	3,612,095
Expenditures		
Capital Outlay	5,710,085	4,363,514
Total Expenditures	5,710,085	4,363,514
(Deficit) Excess of Revenues over Expenditures	1,140,054	(751,419)
Beginning Fund Balance	2,505,265	3,256,684
Ending Fund Balance	\$ 3,645,319	\$ 2,505,265

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

CITY OF BALTIMORE
Office of Information & Technology
Statement of Revenues, Expenditures and Changes in Grant Cash Balance
For Fiscal Years Ended June 30, 2020 and 2019

	Cash Balance July 1, 2019 (Deficit)	Revenues	Expenditures	Transfers to/from Other Funds	Cash Balance June 30, 2020 (Deficit)
Other Grants					
Administration	\$ (36,054)	\$ -	\$ -	\$ -	\$ (36,054)
IT Infrastructure Support Services	10,710	-	-	-	10,710
Call Center Services	(12,236,810)	-	-	-	(12,236,810)
Total revenues, expenditures and change in grant balances - Other	\$ (12,262,154)	\$ -	\$ -	\$ -	\$ (12,262,154)

	Cash Balance July 1, 2018 (Deficit)	Revenues	Expenditures	Transfers to/from Other Funds	Cash Balance June 30, 2019 (Deficit)
Other Grants					
Administration	\$ (36,054)	\$-	\$ -	\$ -	\$ (36,054)
IT Infrastructure Support Services	(63,090)	-	-	73,800	10,710
Call Center Services	(12,236,810)	-	-	-	(12,236,810)
Total revenues, expenditures and change in grant balances - Other	\$ (12,335,954)	\$ -	\$ -	\$ 73,800	\$ (12,262,154)

Note: There was no activity and balances in the Federal and State Grants for FY 2020 and FY 2019.

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

CITY OF BALTIMORE
Office of Information & Technology
Notes to the Financial Statements
For Fiscal Years Ended June 30, 2020 and 2019

1. Description of the Baltimore's Office of Information & Technology

The Agency is responsible for providing Information Technology (IT) leadership to the entire City, utilizing and leveraging information technology to enhance productivity, broaden the capabilities, and reduce the operating costs of City government, thereby improving the quality and timeliness of services delivered to the citizenry.

The Agency is responsible for IT policy, standards, inter-agency synergy, and providing City government with an ample return on its IT investments, while delivering a robust, secure, metropolitan wide networked computing environment which supports both the internal needs of approximately 9,000 computer users as well as external parties. The Agency is also responsible for the development, implementation and continuing support of the CitiTrack Customer Service Request System which provides a universal, standardized, inter-agency call-intake and work order management methodology with a direct linkage to the CitiStat system and process. The CitiTrack system is the Customer Relations Management tool for the City's One Call Center which is also directly supported and managed by the Agency. In July 2012, the Agency took over 911 and Police Dispatch under the first phase of moving toward a Unified Communications Center to improve efficiency.

2. Fund Financial Statements

These financial statements have been prepared on a 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. 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 and the capital project funds do not expire at year end and continue until they are used. 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 activities of the internal service and capital project funds are reported in the Schedule of Revenue and Expenditures. The financial statements of the special revenue funds are reported in the *Statement of Receipts, Disbursements, and Changes in Cash Balance*.

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Notes to the Financial Statements
For Fiscal Years Ended June 30, 2020 and 2019

3. Summary of Significant Accounting Policies

The financial statements of the Agency are prepared on the following basis

- **General, Internal Service and Capital Projects Funds - *Modified Accrual Basis*:** Revenues are recognized when they become available and measurable. Availability arises when the revenue is available to finance current expenditures to be made within 60 days. Measurability occurs when the cash flow from the revenue can be reasonably estimates. Expenditures are recognized when liabilities are incurred.
- **Grants Fund – *Cash Basis*** - The cash receipts and disbursement basis of accounting which is a comprehensive basis of accounting other than GAAP. This basis of presentation differs from accounting principles generally accepted 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.

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

5. Advance from the City

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 various grants to determine the actions needed to correct mis-postings and where necessary to transfers cash between grants and the general fund to reduce deficits. This activity reported 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 of Baltimore

CITY OF BALTIMORE
Office of Information & Technology
Notes to the Financial Statements
For Fiscal Years Ended June 30, 2020 and 2019

municipal government. Therefore, its exposure to various risks is managed the City's Office of Risk Management.

7. Subsequent Events

No subsequent events have occurred that would require recognition or disclosure in the financial statements.

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



Office of the Comptroller

Josh Pasch, City Auditor

100 N. Holliday St., Room 321
Baltimore, Maryland 21202

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's Office of Information & Technology (Agency) as of and for the years ended June 30, 2020 and 2019 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, significant deficiencies, or control deficiencies and therefore, material weaknesses, significant deficiencies, or control deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Finding, we identified two material weaknesses, one significant discrepancy, one control deficiency and one other observation..

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 Finding to be as described above for Findings 1 through 5.

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

Biennial Financial Audit Report on the Office of Information & Technology

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*.

Agency and the Department of Finance's Responses to Findings

The Agency's and the Department of Finance's (DOF) responses to the findings (see Schedule of Finding) identified in our audit are described in Appendix I. The 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, 2021

CITY OF BALTIMORE
Office of Information & Technology
Schedule of Finding
Fiscal Years Ended June 30, 2020 and 2019

Finding # I – Material Weakness – The Agency’s General Fund Schedule of Budgetary Expenditures was not accurately presented.

In Fiscal Year (FY) 2019, a Supplemental Appropriation (AAO) of \$10 million was approved to cover additional expenditures incurred by the Agency due to the ransomware attack. The General Fund Schedule of Budgetary Expenditures (see Page 4) provided by Bureau of Accounts Payable Services (BAPS) for audit did not reflect the AAO which was approved. As a result, the General Fund Budgetary Schedule was not materially accurate. Without accurate General Fund Budgetary Schedule, the City cannot be certain whether expenditures are within the budget.

The cause of the issue is the City did not record the AAO in the budgetary accounting system. The credit was to fund balance and the City does not have a fund balance account in its budgetary accounting.

Recommendation I: We recommend that the Director of DOF establish a policy to ensure that all Supplemental Appropriations are recorded in the budgetary accounting system.

CITY OF BALTIMORE
Office of Information & Technology
Schedule of Finding
Fiscal Years Ended June 30, 2020 and 2019

Finding # II – Material Weakness – Improper accounting treatments and a lack of full allocation to respective agencies attributed deficits of Agency’s Internal Service Fund.

The BCIT is responsible for the following operation of two Internal Service Funds (ISF): (1) the Municipal Communication Fund; and (2) the Hardware and Software Replacement Fund. The Agency’s Internal Service Fund (ISF) was not properly recorded resulting in deficits and spending variances in Fiscal Year 2020 (see page 5). Specifically,

- **Inappropriate accounting treatments:** In FY 2020, the budgeted expenses in the Communication Fund for minor equipment were \$5 million more than the previous year with the justification given that \$5 million was being allocated to the police budget to purchase new radios in the fiscal year. When expenses were recorded in the Communication Fund, the \$5 million was first recorded as an expense in GJ # 40615427 on January 23, 2020. On February 11, 2020, GJ # 4082619 initiated and approved by Bureau of Budget and Management Research (BBMR) reversed the expense and charged it to the police. The proper accounting for this entry should have been to recognize revenue in the Communication Fund with the debit to police expense.

An additional \$13.1 million in debt financing, Master Lease # 38, was taken out to finance the purchase. The allocation of expenditures in the ISF fund was equal to all the budgeted expenses less the 5 million, which was included in the police budget. Additionally, on March 31, 2020 when a \$9.1 million expense was incurred to pay for the radios, GJ # 41358261 was recorded expensing the ISF. Since this money came from debt financing, it should not have been expensed in the ISF. The entry should have been to recognize an asset because the ISF is recorded on a full accrual basis. This amount was not included in the ISF budget resulting in a statement, which shows actual expenditures greater than the budget. This overage is somewhat negated by the 5 million budgeted expense which ended up not being recorded.

Internal Service Fund

An internal service fund is used in governmental accounting to track goods or services provided to other city agencies on a cost-reimbursement basis, with the goal to ‘break-even’ rather than make a profit. An example of an internal service fund is a maintenance department that provides equipment maintenance services to other agencies.

The internal service fund records costs incurred (e.g. payroll, supplies, etc.) as expenditures. The internal service fund will bill the “customer” agency and will record the billed amount as revenue. These revenues and expenditures should equal resulting in the breakeven. The “customer” agency will record the billed amount as an expenditure on their financial statements (e.g. maintenance).

CITY OF BALTIMORE
Office of Information & Technology
Schedule of Finding

Fiscal Years Ended June 30, 2020 and 2019

In FY 2019, the Baltimore City Fire Department (BCFD) incurred an expense to update some of their communication systems. Additional money was needed to fund the upgrade; therefore, a \$5.2 million AAO was processed. The \$5.2 million fund was appropriated to the ISF to pay the expense. This amount was added to the ISF's Budgeted Revenue and not the Actual Revenue creating a variance between the budgeted and actual revenues in the statement. Additionally, per accounting principles, this AAO should have been applied to BCFD, which would then increase their expense to reimburse the ISF for the cost of the consul.

- **Incomplete allocation of ISF expenditures to agencies:** In FY 2020, the expenditures that the Hardware and Software Fund allocated to the City agencies included the projected costs associated with the acquisition of hardware and software only, and did not include the costs of overhead associated with the fund.

ISF are set up to centralize a function, which is required throughout the City. The ISF budget is set up in such a way that all expenses are consolidated into one fund and then the individual agency budgets include funding to reimburse the fund for their share of the ISF funds expenses. The budgets should be set in such a way that the projected expenses of the fund be allocated in full to the agencies.

Recommendation II: We recommend the Director of DOF establish formal (written, approved, dated) policies and procedures that should address the following:

- Define ISF as a proprietary fund which must be accounted for accordingly;
- Require training accounting personnel on proper ISF accounting periodically;
- Direct supplemental appropriations to agencies incurring expenses rather than recording them in ISF;
- Allocate all ISF expenditures to respective agencies; and
- Evaluate ISF annually to identify surpluses or deficits and re-evaluate charge backs to agencies.

CITY OF BALTIMORE
Office of Information & Technology
Schedule of Finding
Fiscal Years Ended June 30, 2020 and 2019

Finding # III – Control Deficiency – The Agency did not electronically sign off on all time sheets selected for testing.

BCIT managers did not sign off on employees' timesheets in E-time, which is the City's previous time tracking system, for 57 of 60 employees tested for FY 2020, or 95 percent.

Lack of approval of employees' time can potentially lead to incorrect time entries and overpayment of employees for time not worked.

Per the payroll manager, time was approved on the manual timesheets and not in the system.

E-time was set up with levels of approval which must be completed in order for employees to be paid. A manager is supposed to approve all time in the system to ensure that the employee is paid correctly for the time they work.

Recommendation III: The City implemented Workday in late CY 2020. The system includes electronic timesheet submissions and requires managers' and Agency time approvers to approve employees' timesheets for each pay period closing. We recommend that Agency managers and Agency time approver(s) follow Workday policy and approve employees' time sheets timely.

CITY OF BALTIMORE
Office of Information & Technology
Schedule of Finding
Fiscal Years Ended June 30, 2020 and 2019

Finding IV: Significant Deficiency - Outstanding encumbrances impact the Agency's budgetary statements.

There are open Purchase Orders (POs) that should have been closed as of June 30, 2020. These POs were encumbered in FY 2019 and FY 2020. Of 35 encumbrances¹ selected for testing, there are 23 open encumbrances totaling \$4.1 million that should no longer be encumbered. Specifically,

- Two purchase orders (POs) did not have any invoices although the funds were encumbered for more than a year;
- Eleven POs have remaining encumbrances after all billed invoices were paid; and
- Ten POs incurred prior to FY 2019 had no payments made on them after June 2019.

These outstanding encumbrances are rolled over to future periods resulting in inaccurate Agency's budgetary statements.

The overall cause of this finding is the City's procurement and accounting systems do not have controls over encumbrances including the automatic liquidation of encumbrances when POs are closed or inactive. The current

process, which is a mitigating control, requires agencies to review open encumbrance files at year end and report to BAPS which are to be liquidated. Although the Director of Finance's Office reviews agencies' feedback on open encumbrances, the process of liquidating open encumbrances was not completed. According to Department of Finance's informal policy and procedures, BAPS is responsible for liquidating open encumbrances in the City accounting system (Dynamics) and the Procurement is responsible for liquidating open encumbrances in the City's procurement system.

Budgetary accounting requires that encumbrances be liquidated when a purchase order is closed.

Encumbrances
Encumbrance accounting (commitment accounting) tracks anticipated spending to budgeted amounts. It is a two-step process. The first step encumbers newly entered purchase order (PO) line items into the general ledger to help prevent overspending. After that, the line items are unencumbered once they go into an Accounts Payable invoice for payment. PO encumbrances are most used in government accounting. Open encumbrances record the amount to be reserved from the unencumbered balance that is remaining to honor the commitments. They are closed (reserved) when the money is paid out.
The PO encumbrances approach allows financial statements to reflect the allocation of budget resources when they are committed, rather than when the expense is recorded. This gives organizations information earlier than relying on "budget to actual" bookkeeping reports.

¹ 35 encumbrances were tested in total. 25 related to POs issued in FY19 and later; 10 related to POs issued prior to FY 19. This division was made to reflect the DOF procedure to review encumbrances older than 18 months.

CITY OF BALTIMORE
Office of Information & Technology
Schedule of Finding
Fiscal Years Ended June 30, 2020 and 2019

Recommendation IV: We recommend the Director of DOF establish formal (written, approved, dated) policies and procedures to:

- Formally assign liquidating responsibility on BAPS (Dynamics) and Procurement (Citibuy) for operating expenditures;
- Review open encumbrances more frequently than the current annual requirement (e.g. quarterly or monthly);
- Generate and review reports of encumbrances which are for: (1) POs where period performance has expired; (2) POs for which no payments were made in a determined period;
- Follow-up with agencies as reports are generated and make necessary adjustments to close encumbrances related to POs which are no longer active.

CITY OF BALTIMORE
Office of Information & Technology
Schedule of Finding
Fiscal Years Ended June 30, 2020 and 2019

Finding # V – Other Observation - An incorrect account description in the General Ledger was observed.

Revenues totaling \$5.5 million annually to the Communication Fund are credited to account 400340 which is labeled as Payment in Lieu of Taxes Revenue (PILOT). We noted that only Communications Fund revenue is recorded in this account. The revenue recording the reimbursement received from City agencies to run the Communications Fund is not a PILOT revenue.

Mislabeled revenue accounts in the general ledger can potentially lead to incorrect financial reporting.

The Pilot Revenues were initially divided into many different accounts and then consolidated into one account 400320. The account 400340 is now used for communications revenue but is still labeled as PILOT revenue in the General ledger.

Governmental Accounting Standards requires a disclosure of PILOT revenues in the City's ACFR. Mislabeled revenues in the General Ledger could potentially lead to a misstatement of PILOT revenues in reporting.

Recommendation V: We recommend the Director of DOF verify, when migrating the financial recording to Workday, that all general accounts are accurately labeled. Additionally, whenever an account number is repurposed, we recommend the Director of DOF review and approve the account label for relevance and accuracy.

CITY OF BALTIMORE
Office of Information & Technology
Summary of Implementation Status of Audit Finding and Recommendation from the Financial Audit Report
For Fiscal Years Ended June 30, 2016 and 2015

No.	Finding Summary	Prior Recommendation	Management Self-Reported Implementation Status	Auditor's Assessment
1.	<p>The review of other grants activity associated with Call Center Services (911) disclosed that expenditures totaling approximately \$12M were appropriately charged to BCIT from FY 2014 through FY 2016. However, it appears the corresponding revenue was incorrectly submitted to the Baltimore Police Department (BPD) by the State of Maryland and never remitted to BCIT. The Chief Financial Officer (CFO) has issued communications to no avail to obtain the corresponding funds and clear the related accounts receivable.</p>	<p>This issue be escalated and that a journal entry be prepared to transfer the revenue from BPD to the Agency.</p>	<p>The BCIT defers to DOF as to whether the recommended action of having the DOF's Bureau of Accounting and Payroll Services present the Grant Cash Balance as zero was completed</p>	<p>Not Implemented</p> <p>The negative \$12 million cash Balance is presented in the Statement of Revenues, Expenditures and Changes in Grant Cash Balances for FYs 2020 and 2019 (see page 7).</p> <p>We understand that the DOF has opted not to adjust the balances in Dynamics and to not bring these balances forward into Workday as they resulted from prior mis-postings in the accounting system. The ACFR reflects a zero-fund balance in the grant funds.</p>

APPENDIX I

Management’s Response to the Audit Report

Date: December 31, 2021

To: Josh Pasch, City Auditor

Subject: Management Response to Audit Report:
Biennial Financial Audit Report on Baltimore’s Office of
Information & Technology for the Fiscal Years Ended June 30,
2020 and 2019

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

Recommendation # I

We recommend that the Director of DOF establish a policy to ensure that all Supplemental Appropriations are recorded in the budgetary accounting system.

Management Response/Corrective Action Plan

Agree **Disagree**

DOF’s Response: Management concurs. As recommended, the Director of DOF will establish a policy to ensure that all Supplemental Appropriations are recorded in the budgetary accounting system.

Implementation Date: The Department of Audits recommendation will be implemented prior to March 31, 2022.

Responsible Personnel: Karen Tolley, BAPS Bureau Chief

Recommendation # II

We recommend the Director of DOF establish formal (written, approved, dated) policies and procedures that should address the following:

- Define ISF as a proprietary fund which must be accounted for accordingly;
- Require training accounting personnel on proper ISF accounting periodically;
- Direct supplemental appropriations to agencies incurring expenses rather than recording them in ISF;
- Allocate all ISF expenditures to respective agencies; and
- Evaluate ISF annually to identify surpluses or deficits and re-evaluate charge backs to agencies.

Management Response/Corrective Action Plan

Agree **Disagree**

DOF's Response:

- Management concurs. Revenue should have been recognized in the amount of \$5m, for the Police radios, rather than reducing the expense in the ISF fund. However, this transaction did not affect the operating income when BBMR JE # 4082619 was posted.
- Management does not concur. All assets / equipment are expensed within the existing accounting system. This allows the City to track all expenditures throughout the City if the fund is an Internal Service Fund or a Proprietary Fund, which is on a full accrual basis. Journal entries are made at the end of the year to reclass capitalizable items from expense to an asset account. The biennial financial audit report correctly notes that GJ # 41358261 expensed \$9.1m of radio equipment. However, GJ #42749889 done by BAPS on June 30, 2020, reclassified the same \$9.1m from expense to an asset account. Management does not believe that there was an overstatement of expense related to the \$9.1m, since this amount was capitalized ultimately.
- Management concurs. The ISF Fund reflected the revenue on a budgetary basis, but there was no revenue on an actual basis. The BCFD should have paid for these funds out of the general fund. This would have resulted in the ISF fund reflected revenue for the expenditure.

- Management does not concur. The allocation is based on headcount of the agencies, and it does appear that the allocation includes an allocation of salary costs.

Implementation Date: The Department of Audit recommendations will be implemented no later than June 30, 2022 and will coincide with the Workday implementation.

Responsible Personnel: Karen Tolley, BAPS Bureau Chief

Auditor Response:

- Regarding the assets / equipment, the radios should have been shown as a police expense and the budget for police should have shown the debt financing as the source of funds appropriated.
- Regarding the allocation of ISF expenses, all costs to the ISF should be allocated including BCIT personnel costs. The audit finding was that these personnel costs were not allocated to agencies, not the allocation method (agency headcount).

Recommendation # III

The City implemented Workday in late CY 2020. The system includes electronic timesheet submissions and requires managers' and Agency time-approvers to approve employees' timesheets for each pay period closing. We recommend that Agency managers and Agency time approver(s) follow Workday policy and approve employees' time sheets timely.

Management Response/Corrective Action Plan

Agree **Disagree**

Agency's Response: While BCIT agrees with the finding that the timesheets in E-time did not have a manager sign off, the agency did have a supervisory review and approval process in place. It should also be noted that BCIT disagrees with the numbers being presented. Of the 60 samples requested, 4 were for another agency. Seven of the 56 paper timesheets had wet signatures of supervisors. Four timesheets were approved via email because BCIT had transitioned to remote work due to the COVID-19 pandemic and had not yet implemented an e-signature tool. The remaining 45 are for employees in our 311 unit. 311 supervisors reviewed the Mitel Telephone system, which automatically records an employee's time actively logged in, daily to ensure the start and end times matched the information in the E-time record.

This finding has been resolved with the implementation of Workday for the pay period starting December 26, 2020.

Implementation Date: December 26, 2020

Responsible Personnel:

- Kursten Jackson, Chief of Human Capital
- Lisa Allen, Director of 311

Recommendation # IV

We recommend the Director of DOF establish formal (written, approved, date) policies and procedures to:

- Formally assign liquidating responsibility on BAPS (Dynamics) and Procurement (Citibuy) for operating expenditures;
- Review open encumbrances more frequently than the current annual requirement (e.g. quarterly or monthly);
- Generate and review reports of encumbrances which are for: (1) POs where period performance has expired; (2) POs for which no payments were made in a determined period;
- Follow-up with agencies as reports are generated and make necessary adjustments to close encumbrances related to POs which are no longer active

Management Response/Corrective Action Plan

Agree **Disagree**

DOF's Response: Management concurs. With the implementation of Workday, auditor recommendations will be addressed with many automated procedural processes. Currently with the Workday configuration many systemic issues are being reviewed. Standard Operating Procedures and City Policies are under revision. This finding is city-wide and will be implemented on an entity-wide basis.

Implementation Date: July 1, 2022

Responsible Personnel: Karen Tolley, BAPS Bureau Chief

Recommendation # V

We recommend that the Director of DOF verify, when migrating the financial recording to Workday, that all general accounts are accurately labeled. Additionally, whenever an account number is repurposed, we recommend the Director of DOF review and approve the account label for relevance and accuracy.

Management Response/Corrective Action Plan

Agree **Disagree**

DOF's Response: Management concurs. Dynamics allows one description per segment, regardless of which fund it is in. Due to system space limitations, the natural account 400340 will be relabeled as PILOT/Comm Revenue. All PILOTS are accounted for in the general fund.

Implementation Date: February 1, 2022

Responsible Personnel: Karen Tolley, BAPS Bureau Chief