



CITY OF BALTIMORE
BALTIMORE POLICE DEPARTMENT
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 Baltimore Police Department (Agency), an Agency of the primary government of the City of Baltimore (City), Maryland, which comprise the *Schedule of Revenues, Expenditures and Encumbrances, and Changes in Fund Balance, Budget and Actual, Budgetary Basis, General Fund; Schedule of Revenues, Expenditures and Encumbrances, and Changes in Fund Balance, Budget and Actual, Budgetary Basis, Casino 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, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the cash basis of accounting described in Note 3. This includes determining that the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, except for peer review requirements. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free

from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Agency's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for the auditor's unmodified audit opinion.

Opinion

In our opinion, the financial statements referred to in the first paragraph present fairly, the revenues collected, expenses paid and balances reported for governmental activities, of the Agency, for the years ended June 30, 2019 and 2018 in accordance with the cash basis of accounting described in Note 3.

Basis of Accounting

The financial statements are prepared on the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Report on Other Legal and Regulatory Requirements

Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the financial statements is not affected by this missing information.

Biennial Financial Audit Report on Baltimore Police Department

In accordance with *Government Auditing Standards*, we have also issued our report, dated August 18, 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 16). 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
August 18, 2020

CITY OF BALTIMORE
Baltimore Police Department
Schedule of Revenues, Expenditures and Encumbrances, and Changes in Fund Balance
Budget and Actual – Budgetary Basis – General Fund
For Fiscal Years Ended June 30, 2019 and 2018

Fiscal Year 2019	Final Budget	Actual	Variance
Revenues:			
Appropriations Revenues	\$ 502,549,652	\$ 502,208,204	\$ (341,448)
Expenditures and Encumbrances:			
Administration	59,438,710	43,274,983	16,163,727
Police Patrol	272,525,009	288,965,219	(16,440,210)
Crime Investigation	34,008,713	40,302,993	(6,294,280)
Target Violent Criminals	38,074,268	35,595,839	2,478,429
Special Operations - SWAT/ESU ¹	9,744,081	10,107,958	(363,877)
Homeland Security - Intelligence	8,382,910	7,363,162	1,019,748
Emergency Communications	8,102,877	12,338,090	(4,235,213)
Police Internal Affairs	9,226,303	9,071,352	154,951
Manage Police Records	6,952,434	8,008,878	(1,056,444)
Crowd, Traffic and Special Events Management	10,104,239	9,481,170	623,069
Police Recruiting and Training	14,389,947	12,632,977	1,756,970
Special Operations - K-9 and Mounted Unit	4,312,352	4,719,443	(407,091)
Special Operations - Marine Unit	2,077,764	13,987	2,063,777
Special Operations - Aviation	6,719,503	4,841,856	1,877,647
Crime Laboratory	18,490,542	15,490,297	3,000,245
Total Expenditures and Encumbrances	502,549,652	502,208,204	341,448
Excess of Revenues over Expenditures	-	-	-
Opening Fund Balance	-	-	-
Ending Fund Balance	\$ -	\$ -	\$ -

Note: ¹ SWAT stands for Special Weapons and Tactics; ESU stands for Emergency Service Unit

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

CITY OF BALTIMORE
Baltimore Police Department
Schedule of Revenues, Expenditures and Encumbrances, and Changes in Fund Balance
Budget and Actual – Budgetary Basis – General Fund
For Fiscal Years Ended June 30, 2019 and 2018

Fiscal Year 2018	Final Budget	Actual	Variance
Revenues:			
Appropriations Revenues	\$ 481,813,624	\$ 481,912,686	\$ 99,062
Expenditures and Encumbrances:			
Administration	58,310,178	39,668,421	18,641,757
Police Patrol	252,917,443	275,525,650	(22,608,207)
Crime Investigation	34,392,997	40,226,815	(5,833,818)
Target Violent Criminals	38,000,803	34,121,070	3,879,733
Special Operations - SWAT/ESU	9,813,445	11,416,683	(1,603,238)
Homeland Security - Intelligence	7,437,982	7,114,406	323,576
Emergency Communications	7,717,323	12,584,804	(4,867,481)
Police Internal Affairs	9,506,709	9,506,195	514
Manage Police Records	7,587,925	7,151,487	436,438
Crowd, Traffic and Special Events Management	10,832,718	10,272,238	560,480
Police Recruiting and Training	15,945,481	11,493,497	4,451,984
Special Operations - K-9 and Mounted Unit	4,681,969	4,541,149	140,820
Special Operations - Marine Unit	2,087,204	6	2,087,198
Special Operations - Aviation	5,358,347	4,678,497	679,850
Crime Laboratory	17,223,100	13,611,768	3,611,332
Total Expenditures and Encumbrances	481,813,624	481,912,686	(99,062)
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
Baltimore Police Department
Schedule of Revenues, Expenditures and Encumbrances, and Changes in Fund Balance
Budget and Actual – Budgetary Basis – Casino Fund
For Fiscal Years Ended June 30, 2019 and 2018

Fiscal Year 2019	Final Budget	Actual	Variance
Revenues:			
Appropriations Revenues	\$ 1,255,000	\$ 1,799,161	\$ 544,161
Expenditures and Encumbrances:			
Salaries and Wages	601,076	1,137,518	(536,442)
Other Personnel Cost	554,613	562,755	(8,142)
Contractual Services	5,000	4,577	423
Minor Equipment	1,601	1,601	-
Other	92,710	92,710	-
Total Expenditures and Encumbrances	1,255,000	1,799,161	(544,161)
Excess of Revenues over Expenditures	\$ -	\$ -	\$ -

Fiscal Year 2018	Final Budget	Actual	Variance
Revenues:			
Appropriations Revenues	\$ -	\$ 1,351,224	\$ 1,351,224
Expenditures and Encumbrances:			
Salaries and Wages	-	1,126,412	(1,126,412)
Other Personnel Cost	-	132,453	(132,453)
Contractual Services	-	1,343	(1,343)
Minor Equipment	-	1,565	(1,565)
Other	-	89,451	(89,451)
Total Expenditures and Encumbrances		1,351,224	(1,351,224)
Excess of Revenues over Expenditures	\$ -	\$ -	\$ -

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

CITY OF BALTIMORE
Baltimore Police Department
Statement of Revenues, Expenditures and Changes in Fund Balance
Capital Projects
For Fiscal Years Ended June 30, 2019 and 2018

	Fiscal Year 2019	Fiscal Year 2018
Revenues		
General Fund	\$ -	\$ 4,400,000
Other Fund Revenue	8,668	-
Total Revenues	8,668	4,400,000
Expenditures		
Capital Outlay	701,026	549,663
Total Expenditures	701,026	549,663
(Deficit) Excess of Revenues over Expenditures	(692,358)	3,850,337
Beginning Fund Balance	6,462,739	2,612,402
Ending Fund Balance	\$ 5,770,381	\$ 6,462,739

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

CITY OF BALTIMORE
Baltimore Police Department
Statement of Revenues, Expenditures and Changes in Grant Cash Balance
For Fiscal Years Ended June 30, 2019 and 2018

	Cash Balance July 1, 2018 (Deficit)	Revenues	Expenditures	Transfers (To) / From Other Funds	Cash Balance June 30, 2019 (Deficit)
Federal Grants					
Administration and Information Technology	\$ (75,945)	\$ -	\$ 6,180	\$ -	\$ (82,125)
Police Patrol	(26,781)	-	44,570	-	(71,351)
Crime Investigation	(74,401)	249,393	288,693	-	(113,701)
Target Violent Criminals	-	-	11,091	-	(11,091)
Operational and Analytical Intelligence	(588,816)	913,000	1,508,673	-	(1,184,489)
Crowd, Traffic and Special Events Management	93,412	-	7,037	-	86,375
Recruiting and Training	-	19,800	19,800	-	-
Special Operations - K-9 and Mounted Unit	-	5,000	5,000	-	-
Crime Laboratory and Evidence Control	(591,831)	180,544	77,616	-	(488,903)
Total revenues, expenditures and change in grant balances - Federal	\$ (1,264,362)	\$ 1,367,737	\$ 1,968,660	\$ -	\$ (1,865,285)

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

CITY OF BALTIMORE
Baltimore Police Department
Statement of Revenues, Expenditures and Changes in Grant Cash Balance
For Fiscal Years Ended June 30, 2019 and 2018

	Cash Balance July 1, 2018 (Deficit)	Revenues	Expenditures	Transfers (To) / From Other Funds	Cash Balance June 30, 2019 (Deficit)
State Grants					
Administration and Information Technology	\$ 2,215,604	\$ 7,768,028	\$ 2,913,215	\$ (105,601)	\$ 6,964,816
Police Patrol	(2,660,392)	-	1,393,458	(2,924,320)	(6,978,170)
Crime Investigation	174,685	306,963	314,947	-	166,701
Target Violent Criminals	(3,367,620)	326,517	2,629,186	657,685	(5,012,604)
Operational and Analytical Intelligence	-	235,665	342,812	-	(107,147)
Special Operations - K-9 and Mounted Unit	-	-	7,726	-	(7,726)
Total revenues, expenditures and change in grant balances-State	\$ (3,637,723)	\$ 8,637,173	\$ 7,601,344	\$ (2,372,236)	\$ (4,974,130)
Other Grants					
Administration and Information Technology	\$ 300,000	\$ -	\$ 300,000	\$ -	\$ -
Crime Investigation	4,629,483	-	7,150	-	4,622,333
Target Violent Criminals	(24,315)	1,813,860	-	-	1,789,545
Total revenues, expenditures and change in grant balances - Other	\$ 4,905,168	\$ 1,813,860	\$ 307,150	\$ -	\$ 6,411,878

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

CITY OF BALTIMORE
Baltimore Police Department
Statement of Revenues, Expenditures and Changes in Grant Cash Balance
For Fiscal Years Ended June 30, 2019 and 2018

	Cash Balance July 1, 2017 (Deficit)	Revenues	Expenditures	Transfers (To) / From Other Funds	Cash Balance June 30, 2018 (Deficit)
Federal Grants					
Administration and Information Technology	\$ (9,639)	\$ 503,865	\$ 712,880	\$ 142,709	\$ (75,945)
Police Patrol	1,679,828	264,273	291,059	(1,679,823)	(26,781)
Crime Investigation	53,572	137,737	225,387	(40,323)	(74,401)
Target Violent Criminals	15,886	-	-	(15,886)	-
Operational and Analytical Intelligence	(786,922)	1,363,484	1,313,556	148,178	(588,816)
Crowd, Traffic and Special Events Management	55,590	61,737	23,915	-	93,412
Crime Laboratory and Evidence Control	(470,583)	137,023	311,170	52,899	(591,831)
Total revenues, expenditures and change in grant balances - Federal	\$ 537,732	\$ 2,468,119	\$ 2,877,967	\$ (1,392,246)	\$ (1,264,362)

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

CITY OF BALTIMORE
Baltimore Police Department
Statement of Revenues, Expenditures and Changes in Grant Cash Balance
For Fiscal Years Ended June 30, 2019 and 2018

	Cash Balance July 1, 2017 (Deficit)	Revenues	Expenditures	Transfer (To) / From Other Funds	Cash Balance June 30, 2018 (Deficit)
State Grants					
Administration and Information Technology	\$ (818,698)	\$ 3,708,824	\$ 674,522	\$ -	\$ 2,215,604
Police Patrol	(223,424)	2,163,554	4,823,946	223,424	(2,660,392)
Crime Investigation	132,821	293,762	220,055	(31,843)	174,685
Target Violent Criminals	(2,886,736)	3,186,441	3,692,882	25,557	(3,367,620)
Crowd, Traffic and Special Events Management	-	11,000	11,000	-	-
Total revenues, expenditures and change in grant balances-State	\$ (3,796,037)	\$ 9,363,581	\$ 9,422,405	\$ 217,138	\$ (3,637,723)
Other Grants					
Administration and Information Technology	\$ 272,465	\$ -	\$ -	\$ 27,535	\$ 300,000
Police Patrol	(255,484)	-	-	255,484	-
Crime Investigation	4,571,742	39,658	-	18,083	4,629,483
Target Violent Criminals	(1,848,875)	2,092,024	267,464	-	(24,315)
Emergency Communications	109,772	-	-	(109,772)	-
Crowd, Traffic and Special Events Management	(2,890)	-	-	2,890	-
Total revenues, expenditures and change in grant balances -Other	\$ 2,846,730	\$ 2,131,682	\$ 267,464	\$ 194,220	\$ 4,905,168

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

CITY OF BALTIMORE
Baltimore Police Department
Notes to the Financial Statements
For Fiscal Years Ended June 30, 2019 and 2018

1. Description of the Baltimore Police Department

The mission of the Agency is to protect and preserve life and property; to understand and serve the needs of the City's neighborhoods; and to improve the quality of life by maintaining order, recognizing and resolving community problems, and apprehending criminals.

The Agency is an instrumentality of the State established under Article 4 - Section 16 of the Code of Public Local Laws of Maryland. The Agency's purpose is to safeguard the lives and properties of persons within the areas under the control of the City, and to assist in securing for all persons, protection under the law. The authority to appoint the Police Commissioner was transferred from the Governor of the State of Maryland to the Mayor of Baltimore, effective July 1, 1978. The Police Commissioner has the full authority and responsibility for directing and supervising the operations and affairs of the Agency.

Despite its multiple focuses, the Agency's chief concern is the protection of public safety through patrol activity and response to calls for service. Most significantly, the Agency endeavors to reduce violent crime and strengthen public trust. The Agency subscribes to three broad strategies to accomplish this goal: targeted enforcement, community engagement, and partnership building.

The Agency's first objective is to reduce violent crime through targeted enforcement. This is accomplished by focusing on identifying and apprehending the most violent offenders in the City, and by concentrating resources within selected zones with the most crime.

The second objective is to engage the community to assist in crime fighting efforts. Collectively, the goal is to prevent crimes before they occur through increased neighborhood foot patrols, Operation Crime Watch, Citizens on Patrol, Neighborhood Watch, Public Safety Forums, Impartial and Biased Based Police training, and increased Field Training Officer training. In some of these programs, police officers provide support to citizens, therefore they are able to assume an active role in preventing crime and provide activities for children in a crime free environment.

The third objective is to build strong partnerships with fellow law enforcement agencies along with other City agencies to reduce the conditions which underlie crime. In this respect, police officers act as advocates for the neighborhoods to which they are assigned, working with other City agencies to address problems such as drug abuse, inadequate housing and trash removal. Collectively new strategies are formed to attack the catalysts of gang and gun violence.

Together, these three objectives are intended to create environments that discourage crime.

CITY OF BALTIMORE
Baltimore Police Department
Notes to the Financial Statements
For Fiscal Years Ended June 30, 2019 and 2018

2. Fund Financial Statements

These financial statements have been prepared on a cash basis of accounting other than accounting principles generally accepted in the United States of America. Accordingly, they do not represent the financial position of the City of Baltimore or the Agency. The Agency's services are reported in the City's general, special revenue, casino, and capital projects funds. The Agency annually receives appropriations from the general, casino, and special revenue funds. General fund and casino fund appropriations expire at year end. The special revenue funds receive grants from the Federal, State and other sources. Appropriations for special revenue funds do not expire at year end and continue until they are used for grant related expenditures. Because of these differences, the financial statements of the Agency's general and casino 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 Grant Cash Balance.

The City receives casino related revenues to support local neighborhoods impacted by the Pimlico Racetrack and the Horseshoe Casino, as well as to support city-wide school construction, parks and recreation and the general fund at large. The Agency uses funds from casino revenue to cover costs of officers assigned to the Casino Sub-District, a post that encompasses Horseshoe Casino and the surrounding neighborhood.

3. Summary of Significant Accounting Policies

The financial statements of the Agency are prepared on a cash basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than generally accepted accounting principles (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.

CITY OF BALTIMORE
Baltimore Police Department
Notes to the Financial Statements
For Fiscal Years Ended June 30, 2019 and 2018

5. Beginning Grant Balance Adjustment

The FY 2017 beginning grant balances for federal, state, and other were adjusted because certain financial activities were moved to the Mayor’s Office of Criminal Justice and the City’s 911 call center. The effect to the Agency’s beginning grant cash balance as of July 1, 2017 as follows:

Table I

Summary of FY 2017 Grant Opening Adjustments

Type	Previously Reported Balance	Adjustment	Adjusted Cash Balance
Federal	\$ 1,469,627	\$ (931,895)	\$ 537,732
State	(3,732,477)	(63,560)	(3,796,037)
Other	4,198,127	(1,351,397)	2,846,730

6. 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 various grants to determine the actions needed to correct mis-postings and where necessary to transfer cash between grants and the general fund to reduce deficits. This activity is reported as transfers in the financial statements.

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

8. Subsequent Events

No subsequent events have occurred that would require recognition or disclosure in the financial statements as of July 24, 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
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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 Police Department (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, 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 a deficiency in internal control that we consider to be a control deficiency.

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 control deficiencies for Findings 1 through 4.

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*.


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
August 18, 2020

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

Finding #1: Control Deficiency –The Agency does not retain documentation to demonstrate it is compliant with the City’s payroll and the Agency’s overtime policies.

The Agency is not compliant with the Administrative Manual (AM) 205-10, *Payroll Systems* and the Police Commissioner’s Memorandum 18-01 related to overtime (Memorandum), which was effective during the audit period. Specifically,

- The Agency was not able to provide the pre-authorization, authorization and certification¹ for seven of 30, or 23 percent of judgmentally selected FY 2019 samples for secondary overtime events. As a result, the Agency was not able to demonstrate whether secondary overtime jobs were properly approved and actually performed, which may result in financial losses to the City².
- The Fiscal Unit does not document the daily time worked by their employees in a positive documented system. Lack of proper time keeping may result in pay for time not worked as well over accruing vacation and / or sick days.

The documents were not retained due to lack of a retention schedule, which is required by the Baltimore City’s Code. The Agency did not secure or keep track of their employees’ secondary overtime payroll records. According to the Fiscal Unit, due to the small size of the unit and the fact that they work in close proximity to one another, the Unit considered the positive documentation to be unnecessary.

The AM 205-10 requires each agency / bureau head 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.

According to the Memorandum, all daily overtime must be pre-authorized.

¹ Pre-authorization means approval by their parent command to work the secondary overtime, then authorization by the command where the work is being performed and finally, certification completed by the command in which the secondary overtime employment was performed.

² As discussed in Finding 2, the Agency is absorbing certain overtime costs.

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

According to the Baltimore City Code, Article I, § 11-6, *Disposal of records, (b) Agencies to prepare retention schedules,*

- (1) “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.”
- (2) “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 Police Commissioner:

- Develop and implement a record retention schedule for the Agency and file with City Archivist;
- Enforce all units to comply with the Memorandum, the retention policy and the AM; and
- Develop and implement procedure guidelines to comply with the timekeeping requirements set by the AM 205-10 for all units not currently tracking time.

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

Finding #2: Control Deficiency – Secondary overtime billing is not monitored, and the secondary overtime activities are not properly recorded.

Neither the Agency nor the Bureau of Accounting and Payroll Services (BAPS) monitors billing and reimbursement of secondary overtime work performed such as sports overtime. Also, the recording practices of recognizing payroll expenses and revenue for the work performed by the officers are not in accordance with GAAP. As a result, there are the risks of potential financial loss and incorrect financial statement presentation. Specifically,

- **Lack of monitoring on unpaid bills:** Once the Agency prepares a summary of billings to be sent out, they do not monitor what happens from that point forward nor does BAPS follow-up on unpaid bills.
- **Contrary to GAAP:** Secondary overtime, for services other than the sports overtime, and reimbursements received for these services are not properly recorded. Specifically,

Background Information

Secondary Overtime Events: The Agency provides secondary overtime services at Orioles and Ravens games (sports overtime), organized races, festivals, pageants, church processions, concerts, parades, fairs or similar events occurring in, on or utilizing Public Space or impacts

Sports Overtime: The Baltimore Stadium Authority reimburses the City for a portion of the cost associated with this service.

The following agencies involve in billing and recording activities of secondary overtime events.

- The Agency prepares a summary of billings and forwards it to BAPS.
- The BAPS bills business including the Maryland Stadium Authority for sports overtime.
- The Bureau of Revenue Control (BRC) records the receipt when payment is received.

Source: Baltimore Police Personnel

- **Recording Payroll Expenses:** When services are provided, charges are debited in an asset account, and a cash account is credited (reduced).
- **Billing:** When services are billed, at an amount which is lower than the actual overtime paid³, the bill is not recorded as revenue earned with an outstanding receivable amount. Instead, the bill is recorded as a debit and credit to the same account – having no effect on the general ledger.
- **Recording Payment from Vendors:** When payment is received; a cash account is debited (increased), and the asset account is credited (decreased) resulting in the net of payroll paid and reimbursement received remaining as the asset value recorded.

³ The Agency follows an approved tiered flat rate cost calculation of police coverage during special events, the rates are as follows: Lieutenant, \$59; Sergeant, \$52; and Officer, \$45 while the actual hourly rates were \$62.72 - \$89.15 for a Lieutenant; \$55.17 - \$78.54 for a Sergeant and \$38.64 - \$68.45 for an Officer.

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

Capitalizing overtime salaries incorrectly results in under reporting the amount of overtime salaries being paid to officers within the proper period. The assets on the Statement of Net Position will be overstated but the revenues and expenses on the Schedule of Revenues, Expenditures and Changes in Fund Balance will be understated resulting in a higher change in net position. In FY 2019 and FY 2018, the Agency recorded approximately \$5.9 million and \$5.8 million in the asset account. (See Table I below).

Table I

Summary of Secondary Overtime Activities

Fiscal Years	Amount Charged to Asset (A)	Amount Billed to Vendors ¹ (B)	Amount Reimbursed by Vendors (C) Decrease assets	Net Effect D = A-C
2019	\$5,941,538	\$906,423	\$1,549,431	\$4,392,107
2018	\$5,845,575	\$ -	\$907,824	\$4,937,751

Note: ¹ Amount billed to Vendors is recorded in the same asset account (A).

Additionally, the Agency did not recognize payment receipts in the current program. Specifically, in FY 2019, \$1.5 million was charged to sports overtime and all was billed to and paid by the Maryland Stadium Authority. However, \$180.5 thousand of the receipts were credited to overtime salaries in a program which is no longer used by the police. The salaries, however, were charged to the new program. This is because, when the program account number was changed for police foot patrol, the account number used for the billings was not updated to reflect that change.

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

Table II

Example of Recording Activities for Secondary Overtime Events Excluding Sport Overtime

Description	How the Agency Currently Records Activities		How Activities Should Have Been Recorded		
		Debit	Credit	Debit	Credit
1. Recording of payroll expenditures	Cash		\$ 100,000	Cash	\$ 100,000
	Asset account	\$ 100,000		Payroll expense	\$ 100,000
2. Recording billing being sent to vendor	Asset account	\$ 95,000		Accounts Receivable	\$ 95,000
	Asset account		\$ 95,000	Revenue account	\$ 95,000
3. Recording money received from vendors	Cash	\$ 95,000		Cash	\$ 95,000
	Asset Account		\$ 95,000	Accounts Receivable	\$ 95,000
Effect on General Ledger					
Asset Account		\$ 100,000			
Vendor billing		\$ 95,000			
Vendor billing			\$ 95,000		
Money received from billing			\$ 95,000		
Net		\$ 5,000			

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

Recommendation #2: We recommend:

- The DOF revise its policies and eliminates the process of netting revenues against expenditures as it is contrary to GAAP;
- The BAPS incorporate a review process to make sure the proper accounts are being used to record payroll transactions;
- The Agency update the billing codes in the event when account numbers are updated; and
- The Agency coordinate with DOF to monitor payments received from special event organizers, as well as delinquent accounts.

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

Finding #3: Control Deficiency – Certain encumbrances on the books at FY end were not for future expenditures.

The Agency was not able to provide invoices for \$1.5 M of \$2.7 M, or 56 percent and \$1.1 M of \$2.6 M, or 42 percent in encumbrances (see textbox) for FY 2019 and FY 2018, respectively⁴. Amounts encumbered effect the budgetary statements for the general fund and may cause the statements to be materially misstated if amounts recorded are inaccurate.

The cause of the finding is because a Blanket PO is encumbered at the maximum allowable amount of the contract and when the purchase is complete the excess amount which was not spent remains as an encumbrance on the books. Additionally, Expenditure

Authorizations (EA) are encumbered at the point in time when they are created and will remain on the books even if the EA is never approved and invoiced. The City policy is to have the Agency review open encumbrances at year end and report to the DOF whether they are valid. This will often include a listing of tens of thousands of transactions.

Financial Reporting requires that current year budgets be adjusted for prior year encumbrances and end of year encumbrances so that information is reported on a budgetary basis for the current year activity.

Recommendation #3: We recommend the DOF consider implementing procedures that would include, but are not limited to the following:

- System generated 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; and (3) EAs which never went past the creation flow in workflows for a determined period; and
- Follow-up with agencies as reports are generated and make necessary adjustments to close encumbrances related to POs and EAs which are no longer active.

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.

⁴ Total encumbrances for FY's 2019 and 2018 were \$8.3M and \$5.6M, respectively.

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

Finding #4: Control Deficiency – Receipts and Disbursement in State Grants are misclassified.

The Statement of Revenues, Expenditures and Changes in Grant Cash Balance for the State Administration and Information Technology and State Police Patrol showed a cash surplus and a cash deficit of \$7.0 million, respectively, as of the end of FY 2019.

Table III

Grant Activity in Financial Statements				
Grants	FY 2018 Ending Cash Balance (Deficit)	Revenues	Expenditures	FY 2019 Ending Cash Balance (Deficit)
Administration	\$ 2,215,604	\$ 7,816,310	\$ 3,067,097	\$ 6,964,817
Police Patrol	(2,660,392)	-	4,317,778	(6,978,170)
Total	\$ (444,788)	\$ 7,816,310	\$ 7,384,875	\$ (13,353)

There are three state grants which provide funding for multiple programs in the Agency. When the City reimburses the grants, the revenue is being recognized primarily in the Administrative Programs of the City. This is causing the Administrative grants to show a surplus and the Police Patrol Grants to have a deficit.

In order for the Statement of Revenues, Expenditures and Changes in Grant Cash Balance to reflect operations in a materially correct manner, revenues and expenditures must be correctly categorized so that cash balances represent receivables and / or payables from the grantee.

Recommendation #4: We recommend the Agency:

- Post adjustments to the general ledger to transfer the revenue into appropriate programs to bring the grants into balance, and
- Properly classify future grant revenues and expenditures so that reimbursements appear in the same program as the expenses occurred.

APPENDIX I

Management's Response to the Audit Report

Date: August 14, 2020

To: Josh Pasch, City Auditor

Subject: Management Response to Audit Report:
Biennial Financial Audit Report on Baltimore Police Department
for the Fiscal Years Ended June 30, 2019 and 2018

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

Recommendation # 1

We recommend the Police Commissioner:

- Develop and implement a record retention schedule for the Agency and file with City Archivist;
- Enforce all units to comply with the Memorandum, the retention policy and the AM; and
- Develop and implement procedure guidelines to comply with the timekeeping requirements set by the AM 205-10 for all units not currently tracking time.

Management Response/Corrective Action Plan

Agree **Disagree**

The Agency agrees with the finding for the date range sampled; as seven secondary overtime slips were not produced upon the audits request. The Agency Fiscal made requests to the units and the Secondary Employment Unit (SEU) in May 2020 and the associated slips were not retrieved. The Agency Fiscal discovered that there was inconsistency in the flow of overtime slips. During the timeframe audited, the Agency Fiscal sent the slips back to the SEU, and then the slips were sent back to the home unit of the employee. Then the home timekeeper was to file the overtime slips. We do believe there is probably backup slips in the field, but due to the current climate of COVID 19 (with civilian staff primarily working from home), the backups have not been able to be located.

In July 2020 corrective action was put in place to resolve this finding. The Fiscal Sections Standard Operating Procedures (SOP) for Secondary Overtime state that “Once received from SEU, the payroll division of Fiscal enters the overtime slip information into the payroll system. Scanned copies of these overtime slips are then stored in Fiscal’s shared drive. It is the responsibility of the Fiscal payroll personnel inputting these overtime slips to keep this file updated.”

The Agency’s time and attendance is exception-based time reporting where an employee’s schedule is used to facilitate time worked. Exceptions to the schedule are documented through leave and overtime slips. The Agency Fiscal employees are required to work their schedule and any deviation is through a request for time off (requested by the employee given to the supervisor and approved by Director). In January 2020 and May 2020, the Agency stressed the importance of moving away from exception-based time reporting, and requested to Workday Leadership that the Agency be on a punch in and out system to be compliant with the AM 205-10.

Implementation Date

Action Plan Milestone(s): Completed – July 2020:

Agency Fiscal SOP for secondary overtime states that “Once received from SEU, the payroll division of Fiscal enters the overtime slip information into the payroll system. Scanned copies of these overtime slips are then stored in Fiscal’s shared drive. It is the responsibility of the Fiscal payroll personnel inputting these overtime slips to keep this file updated.”

Action Plan Milestone(s): Dependent upon Workday – Est. January 5, 2020:

With the implementation of Workday, the Agency will replace exception-based time reporting with punch in and out.

Responsible Personnel

Paula Williams, Director of Fiscal Services

Recommendation # 2

We recommend:

- The DOF revise its policies and eliminates the process of netting revenues against expenditures as it is contrary to GAAP;
- The BAPS incorporate a review process to make sure the proper accounts are being used to record payroll transactions;
- The Agency update the billing codes in the event when account numbers are updated; and
- The Agency coordinate with DOF to monitor payments received from special event organizers, as well as delinquent accounts.

Management Response/Corrective Action Plan

Agree Disagree

Agency's Response

Background

In January 2020, the Agency began conversations around compensated work and the need for control and oversight over the process. The Fiscal Department has been engaged with the SEU, which handles compensated work, to understand the entire process, including the roles of BAPS and Fiscal. Unfortunately, due to the onset of COVID and protests, the momentum slowed. However, the team never lost sight of wanting to fix this problem.

The Agency's executive committee met on May 20, 2020. On the agenda was an action plan slated for July 2020 deployment. Discussions centered on rate changes, communication strategies, Memorandum of Understanding or blanket contracts for one-time requests, strengthen internal controls, better coordination with SEU, BAPS and Fiscal. It was determined that we would rebill for any FY19 missing billings, and that protocols to monitor the billing process would be implemented.

In early June 2020, Fiscal met with Bureau of the Budget and Management Research and BAPS and requested that GAAP be followed in the recording of revenues and receivables for secondary employment activity. Fiscal established new and unique revenue and expenditure account numbers for each current customer requesting secondary employment services. In addition, we have established a SOP that documents workflows and internal controls for the monitoring of billings and receivables, including a monthly review process.

Conclusions

Corrective action was put in place on July 1, 2020 and before that date. We agree with the findings. Additionally, we would like to point out the following:

- The Fiscal management team (CFO, Director of Fiscal Services, Chief of Fiscal Services) is relatively new with all members being hired within the last couple of years, therefore these issues pre-date them.
- As narrated in the Background section, these issues were self-identified by Agency through our own audit of internal operations, and corrective actions were implemented beginning July 1, 2020, the start of the new FY.
- While it is true that secondary employment billing was not **actively** monitored by Agency, our internal investigation has found that structures and procedures were in place that assured proper billing and collection of secondary employment services.
- Fiscal's ongoing investigation of secondary employment transactions for FY18 to FY20 has to date shown no evidence of any substantive lack of billing or collection.

DOF's Response

The DOF agrees the record keeping was not properly documented, but we disagree that DOF is not monitoring the reimbursement of this activity.

The DOF concurs that our past practices of recording certain expenditures as assets caused immaterial departures from GAAP in our Citywide financial statements. Prior to this audit, DOF and Agency established a new Special Revenue Fund and SOP, where transactions relating to police secondary employment will be accounted for in accordance with GAAP. This new process was implemented on July 1, 2020 and we believe that it corrects this finding.

In regard to the lack of monitoring of overtime billing - the DOF disagrees with this finding. We do in fact monitor this activity through the BRC. Our collections unit monitors special events activity monthly and a recent review of these accounts showed no overdue bills relating secondary overtime events.

Implementation Date

July 1, 2020

Responsible Personnel

Karen Toller, Chief of Bureau of Accounting and Payrolls Services

Paula Williams, Director of Fiscal Services

Rijin Lee, Chief of Fiscal Services

Recommendation # 3

We recommend the DOF consider implementing procedures that would include, but are not limited to the following:

- System generated 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; and (3) EAs which never went past the creation flow in workflows for a determined period; and
- Follow-up with agencies as reports are generated and make necessary adjustments to close encumbrances related to POs and EAs which are no longer active.

Management Response/Corrective Action Plan

Agree **Disagree**

The DOF agrees with the finding.

As part of the City’s annual financial close out, the DOF does review citywide outstanding encumbrances and has implemented a policy that liquidates line items aged greater than or equal to 18 months. We agree there may certain encumbrances outside this definition that also require consideration – such as PO balances that have expired contracts or have been issued new PO numbers.

The DOF shall review our encumbrance policy and determine how we might expand the parameters to capture items cited by the auditor. In addition, our new Enterprise Resource Planning System Workday will have additional controls and functionality to further assist us in addressing this finding.

Implementation Date

August 31, 2021

Responsible Personnel

Henry J. Raymond, Director of Finance, DOF

Stephen M. Kraus, Deputy Director, DOF

Recommendation # 4

We recommend the Agency:

- Post adjustments to the general ledger to transfer the revenue into appropriate programs to bring the grants into balance, and
- Properly classify future grant revenues and expenditures so that reimbursements appear in the same program as the expenses occurred.

Management Response/Corrective Action Plan

Agree

Disagree

Agency's Response

In researching these prior years, the Agency agrees that revenues are inaccurately recorded in the referenced state grant accounts. The reason for this is because the colloquially termed "block grant" awarded to the Agency from the State was previously separated into three distinct awards with three different program affiliations. FY 2017 marked the first year when the State decided to combine all three awards. At an accounting level, the activity was still tracked with separate detailed fund numbers and program numbers. When reimbursements were made, the revenue was posted to only one account number in a lump sum entry. An analysis needs to take place to determine which accounts need adjustments to the revenue to properly align revenue and expenditures for each detailed fund / program, etc.

DOF's Response

The DOF agrees with the finding.

Finance has on several occasions publicly discussed the City's grant issues and the grant revenue fund. Most of the grant related findings, including this one, 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.

In this case, it is likely the Agency did not record the revenue properly in the City's financial management system that in-turn created a surplus in the Administration account and a deficit in Patrol. We have asked the Agency Fiscal Officer to research their historical records to verify the error. Once verified, a correcting entry can be made. The DOF is ready to assist the Agency as needed.

Implementation Date

October 2020

Action Plan Milestone

An analysis needs to take place to determine which accounts need adjustments to the revenue to properly align revenue and expenditures for each detailed fund/program, etc.

Responsible Personnel

Jacob Knapp, Fiscal Administrator – Grants