

CITY OF BALTIMORE

JOAN M. PRATT, CPA  
Comptroller



DEPARTMENT OF AUDITS

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

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the cash basis financial statements of the governmental activities of the Department of Housing and Community Development of the City of Baltimore, Maryland, as of and for the years ended June 30, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the Department of Housing and Community Development' financial statements, and have issued our report thereon dated, February 12, 2018.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Department of Housing and Community Development' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Department of Housing and Community Development' internal control. Accordingly, we do not express an opinion on the effectiveness of the Department of Housing and Community Development' internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings to be significant deficiencies.

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

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Department of Housing and Community Development' financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Audrey Askew, CPA  
Deputy City Auditor  
February 12, 2018

**CITY OF BALTIMORE**  
**Department of Housing and Community Development**  
**Schedule of Findings**  
**For Fiscal Years Ended June 30, 2016 and 2015**

**Finding #1 – Inventory Controls**

A comparison analysis of the FY 15 and FY 16 inventories was performed to identify acquisitions and sales that occurred during the period. The results were compared to the automated acquisition and sales files maintained by the agency to determine accuracy and completeness. The review disclosed approximately 424 acquisition (inventory additions) and 413 sale (inventory reductions) transactions that were not recorded on the Department of Housing and Community Development (DHCD) files. Further review disclosed that DHCD does not obtain reports from the Department of Public Works (DPW) Property Location Office which records inventory transactions on behalf of the State Department of Assessments and Taxation and other City agencies/offices (e.g. collections, taxes, and water). Additionally, documentation supporting 3 of 15 acquisition and 1 of 14 sales transactions could not be provided for audit testing.

***Recommendation***

We recommend that DHCD obtain reports that detail the inventory adjustments prepared by DPW Property Location Office on behalf of other entities that affect their inventory. Analysis should also be performed to determine the accuracy and appropriateness of the inventory updates. Finally, documentation that supports the acquisition and sale of City property should be appropriately retained in the permanent records.

***Management Response***

The HCD Inventory report is a snapshot of our inventory that is automatically populated from the State's Real Property file, which is fed by the Baltimore City Transfer Office. This data is manipulated by any number of City staff while they perform their job function. The Division of Land Resources does not have the ability to edit the real property file. We use the Real Property file as a general guide of our inventory with the understanding that the integrity of the data must be challenged and confirmed. Therefore, some properties may require further research to determine whether or not it is in our purview. The Division manages its work and collects its own data regarding the acquisition and disposition of property. The data is reported monthly to CitiStat and is a more accurate reflection of the property acquired and disposed of by Land Resources Division.

With regard to supporting documentation, the division was not able to provide a file for 3 of the 15 properties identified as inventory additions. Documentation for two of the inventory additions (0452 083D, 1147 033) was not available because the properties were acquired in 1977 and 1979 respectively. We believe the period of retention for those files has passed. The remaining file (4838 Park Heights Ave) was selected for Audit review in 2015 and documentation was provided at that time. Although we are currently unable to locate the file, we ask that your Office review your records and reference the 2015 audit finding.

Documentation was provided for all but 1 (1752 E Preston Street) of the 14 inventory reduction transactions. The City was not a party to the transaction. That transaction was handled by East Baltimore Development, Inc.

**CITY OF BALTIMORE**  
**Department of Housing and Community Development**  
**Schedule of Findings**  
**For Fiscal Years Ended June 30, 2016 and 2015**

**Finding #2 – Controls over Property Sales**

Based on our tests of revenue, we noted that controls are not in place to ensure that checks resulting from the sale of City property and the related settlement are subsequently deposited. Additionally, checks are handled by as many as four people before deposit. As a result, assets may be intentionally or unintentionally lost or stolen and not detected by management.

***Recommendation***

We recommend that a process be established to ensure that all checks resulting from sale of City property are subsequently deposited. We also recommend that checks be submitted to one employee for deposit preparation and submission. Check copies could be forwarded to the appropriate management for review.

***Management Response***

The Land Resources Division believes the current process is in line with the proposed recommendation. Settlement checks are deposited by the Administrative Coordinator. When a settlement check is received, it is given to a manager for review and internal record keeping purposes. The check is then given to the administrative coordinator who prepares the City deposit slip, makes a copy of the check and slip and delivers it to HCD's budget office for processing. It is only when the administrative coordinator is out of the office (i.e. sick or vacation leave) that remaining administrative staff would complete these tasks. All administrative staff members are cross-trained on the process so that they can step in as necessary to ensure checks are deposited timely and that items are not held unnecessarily. The Division would also like to note that all checks and supporting documentation requested by the Audits team were located and provided.

**Finding #3 – Controls over Property**

Based on our testing of expenditures, we noted that all purchases of property require Board of Estimate approval and encumbrance of the corresponding funds. The finalization of the purchase(s) may not occur until a subsequent period; therefore, the encumbrances may remain open for an extended period of time. To obtain the respective payment/check and relieve the encumbrance, administrative staff will enter the purchase information into CityDynamics. The transaction is processed through Accounts Payable (AP) to generate the respective check. However, the same administrative staff person may also acquire the respective check from AP.

***Recommendation***

We recommend that responsibility for check generation and subsequent AP pickup be appropriately segregated.

***Management Response***

The Land Resources Division believes that current day to day operations are in line with the proposed recommendation. There is one administrative staff person responsible for generating check request. In general, that staff person is not responsible for check pick up. Other administrative staff fulfill the task of check retrieval from the Bureau of Accounting and Payroll. However, for operational efficiency, all administrative staff are crossed-trained. In the event the staff member responsible for check pick up is out.

**CITY OF BALTIMORE**  
**Department of Housing and Community Development**  
**Schedule of Findings**  
**For Fiscal Years Ended June 30, 2016 and 2015**

**Finding #4 – Controls over Payroll Records**

During our testing of 40 payroll transactions for the Department of Housing and Community Development (DHCD) for the periods ending June 30, 2016 and June 30, 2015, we noted the following exceptions:

**FY 16**

**Description**

**Occurrences**

• Agency could not locate timesheets	16 of 40
• Employees did not sign-in/out	26 of 40
• Time sheets did not agree with E-time	19 of 40
• Leave verification was not provided	21 of 40

**FY 15**

**Description**

**Occurrences**

• Agency could not locate timesheets	4 of 40
• Employees did not sign-in/out	8 of 40
• Timesheet not approved by supervisor	10 of 40
• Compensatory or overtime not approved	2 of 40
• Time sheets did not agree with E-time	4 of 40
• Unable to verify the hourly rate per time sheet	4 of 40

***Recommendation***

We recommend that DHCD refine its process (e.g. training and procedure development) for the recording and reporting of employee time that ensures the accuracy and completeness of the data and the resulting employee pay.

***Management Response***

Baltimore City launched the electronic payroll system ADP- eTime in 2007 for recording time and processing payroll. When they implemented eTime, Central Payroll lifted the requirement that managers submit payroll sheets to the agency payroll manager. However, they gave no standardized process or other guidance regarding the retention of timesheets, sign-in/out sheets, leave slips, or other related paper documents. The only required process was for staff to enter employee times into eTime, the manager to review and approve them, and the agency payroll manager sign off on the times. The electronic record was considered the official timesheet for the City. During this change, some payroll clerks stopped retaining paper copies as the official timesheet was in the system.

DHCD agrees that there was no standardize process after implementation of eTime, and that not all paper documents were retained. However, the City should standardize the payroll and time keeping process at the City level, rather than requiring managers to create their own processes ad hoc at the agency level.

DHCD has requested information from DHR on required policies; we hereby request the Department of Audits provide documentation on any City’s timekeeping policies. With this information in hand, we will work to standardize our processes, including procedures and training, unless and until DHR provides citywide standards.