

CITY OF BALTIMORE

CATHERINE E. PUGH, Mayor



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 Finance of the City of Baltimore, Maryland, as of and for the years ended June 30, 2015 and 2016, and the related notes to the financial statements, which collectively comprise the Department of Finance's financial statements, and have issued our report thereon dated, January 17, 2018.

**Internal Control over Financial Reporting**

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

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.

*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 noted below to be significant deficiencies.

**Finding #1 – Absence of Journal Entry Support:**

During our audit for fiscal years 2015 and 2016, we noted the Capital Projects Statement of Revenue, Expenditures and Changes in Fund Balance had a \$2 million credit posted to a capital expenditure account that was reported in the statement as Other Revenue. Analysis of the account revealed that these credits were associated with vendor invoices from fiscal year 2008 postings. In 2015, BAPS discovered that there was an error of a duplicate transaction that originated in 2008 and subsequently adjusted the revenue account to prevent an over expenditure in fiscal year 2015.

***Recommendation***

We recommend that the Department of Finance retain all supporting documentation to assist in clarifying the basis for journal entries. Without proper documentation, management cannot ensure that journal entry postings are accurate and complete. In cases where management has not retained original support for journal entries, there should be a memo addressing the purpose of the journal entry, and when applicable, evidence relating to the original transaction. These journal entries should be reviewed and approved by appropriate supervisory level staff. In addition, management can increase controls by requiring supervisory personnel to approve all adjustments in excess of a specified amount. Such a procedure would add value by minimizing posting errors and to assist with understanding journal entry transactions.

***Management Response***

The Department of Finance concurs with the finding and recommendation. The original entry was posted approximately 9 years ago and the original documentation could not be located. The error occurred at a time when the City was transitioning to our current general ledger system Dynamics. Finance discovered and corrected the error in fiscal year 2015. The correction adjusted certain accounts in the capital project fund to properly align life to date expenditures for each of the capital projects effected by the adjustment. Since that time Finance has made several improvements to the Dynamics system and continues to train staff in its use.

**Finding #2 – Controls over Claim Payments Require Strengthening:**

Workers' Compensation claims are processed and paid by Key Risk on behalf of the City of Baltimore. A daily payment file is submitted to Risk Management to fund the respective transactions. However, the daily payment file is not reviewed by management to ensure the accuracy of the individuals listed and the corresponding payments.

***Recommendation***

We recommend that Risk Management review the payment file to determine the accuracy of individuals listed and amounts charged. Documentation evidencing the review should be retained in the permanent records.

***Response:***

We concur with the recommendation. Finance has implemented the following procedures to ensure the accuracy of the individuals (claimants) listed and the corresponding payments:

- Upon receipt of the daily register which includes an individual claim report for the City and the School system, and a Sub Object Summary and a Provider Summary for each, the Workers' Compensation Administrator (WCA) will select 10 names for review.
- The WCA will retrieve the corresponding summary sheet(s) from the Master Key Connects system (Key Risk Claims system) to verify the accuracy of the individual listed on claims summary sheet.
- The WCA will retrieve the invoice and the check summary from the Master Key Connects system and verify the check amount agrees with the invoice submitted.
- The WCA will attach and file all documents retrieved from the Master Key Connects system with the documents required to process the daily wire.
- The Deputy Risk Manager will review the WCA's documentation file monthly to verify that this new procedure is being completed daily.

**Finding #3 – Controls over Insurance Claims Require Strengthening:**

The Director of Risk Management is responsible for preparing claims against the City's property insurance policy and the 23 specific insurance policies (e.g. general liability – Convention Center). Further review disclosed that the Director also receives the corresponding insurance claim checks. As a result, assets may be intentionally or unintentionally lost or stolen and not detected by management.

***Recommendation***

We recommend that the responsibility for preparation of insurance claims and receipt of the corresponding checks be appropriately segregated.

***Management Response:***

We concur with the recommendation. Effective immediately, payments from insurance companies will come directly to the Deputy Risk Manager, who will verify the remittance against the supporting documentation, complete a Cash Deposit Slip and have the check and supporting documentation "Hand Delivered" to the City's Cashier for deposit. Once deposited, the City's Cashier shall provide a receipt showing that the funds have been deposited into the City's Risk Management account. Once the receipt is received, the Risk Manager and Deputy Risk Manager will verify, via City Dynamics, that the funds were deposited into the correct general ledger account number.

**Finding #4 – Controls Over Payroll Records Require Strengthening:**

During our testing of the payroll activity for the Department of Finance (DOF) for the periods ending June 30, 2015 and June 30, 2016, we noted the following repeat audit issue:

**Fiscal Year 2015**

**Description**

- Agency could not locate timesheets

**Occurrences**

12 of 60

• Employees did not sign-in/out	27 of 60
• Timesheet not approved by supervisor	50 of 60
• Compensatory or overtime not approved	6 of 60
• Bi-weekly time sheets did not agree with E-time	13 of 60
• Unable to verify the hourly rate per time sheet	13 of 60
• Leave verification not provided	6 of 60

**Fiscal Year 2016**

<b><u>Description</u></b>	<b><u>Occurrences</u></b>
• Agency could not locate timesheets	14 of 60
• Employees did not sign-in/out	15 of 60
• Timesheet not approved by supervisor	30 of 60
• Compensatory or overtime not approved	15 of 60
• Bi-weekly time sheets did not agree with E-time	16 of 60
• Leave verification not provided	5 of 60

Additionally, testing across six divisions within DOF disclosed that there was no consistency in the preparation and processing of daily and bi-weekly employee time and management approval of time sheets and leave requests.

***Recommendation***

We recommend that DOF 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. Additionally, we recommend that a standard timekeeping and reporting process be established for the Department.

***Management Response***

The Department of Finance concurs with the recommendation. However we note that most of the exceptions do not represent a complete absence of documentation, but rather the documentation was not in a format satisfactory to the Auditor. For example, one unit utilized a weekly sign in and out log that noted sign in and out times, including the employee’s signature. This information was used by the payroll clerk to enter time in the City’s electronic e-Time system that was approved by the supervisor. However, since the supervisor did not sign the daily record an exception was noted. We also wish to note that the official record of time and attendance - eTime – was not cited as being recorded inaccurately.

We do concur that our daily attendance log should be standardized and all staff should utilize a daily sign in and sign out method that requires the individual employee to note their arrival and departure time and that the supervisor should review and approve time recorded in the E-Time system.

Finance has issued standardized guidance to all Bureaus regarding time and attendance tracking to include the following:

- Each Bureau should use a daily or weekly sign in/sign out Daily Log (paper or electronic) and require employees to sign in and out.
- The Sign-In/Sign- Out Daily Log should correspond with an individual’s pay period time sheet (if used) and/or the E-Time entries for the corresponding date for that employee.

- If the Bureau or section is using a Sign In/Sign Out Daily or Weekly Log to enter employees time into E-Time (in other words without requiring a separate timesheet completed by each employee), then the manager or supervisor should sign off on the Sign In/Sign Out Daily Log each pay period acknowledging their review and the Payroll Clerk responsible for E-Time entries should be using those documents, plus any required leave slips to enter time.
- The Sign In/Sign Out Daily Log, Individual Timesheet (if used) and any required leave slips should be retained together, by pay period for four years.

The Finance Department believes these procedures will address the findings and standardize our recording and reporting of employee time.

### **Compliance and Other Matters**

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

### **Purpose of this Report**

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

Respectfully submitted,



Robert L. McCarty, Jr., CPA

City Auditor

January 17, 2018