BALTIMORE CITY DEPARTMENT OF FINANCE

NON-ROUTINE JOURNAL ENTRY PROCEDURES AUDIT

FOR THE YEAR ENDED DECEMBER 31, 2017

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CITY OF BALTIMORE

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

Executive Summary

We conducted a Non-Traditional Engagement audit of non-routine journal entries for the calendar year ending December 31, 2017. Our audit focused on the process to initiate and approve General Journal (GJ) transactions in Baltimore City's (the City's) general ledger.

As a result of our audit, we determined that prior to November 13, 2017 there were no procedures in place to document the GJ initiation and approval process. Effective November 13, 2017 an upgrade was made to CityDynamics (Dynamics) and Core Integrator was added. Core Integrator provides an electronic history for all GJ transactions processed through it. The history shows a trail of individuals involved with the GJ entry from initiation through approval. It documents all phases of an entry. It requires documentation to be attached to all entries as well. GJ transactions which are produced based on files coming from an outside source i.e. revenue and accrual entries are still processed through Dynamics.

We also noted certain areas where the effectiveness of the control procedures could be improved, and we recommend that:

- The Department of Finance request from RSM creation of a code which would differentiate between GJ transactions which are initiated in Core Integrator versus those entered directly into Dynamics. Additionally, it would be beneficial to have manually initiated entries rejected by Dynamics.

- The Department of Finance request that RSM upgrade the Report Manager segment of Dynamics to allow for pulling of data based on transaction source. This would allow easier transaction identification and review.

- The Department of Finance update the administrative manuals journal entry policy to include Core Integrator and a description of documentation that should be included to support specific journal entries.

- The Department of Finance should train all approvers on acceptable documentation for journal entries, how to correctly create a journal entry, and information identifying acceptable accounts to be charged for the more common entries.

Audrey Askew, CPA
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Baltimore, Maryland

April 25, 2018

The Department of Finance, Bureau of Accounting and Payroll Services (BAPS) is responsible for maintaining the City's accounting records. As part of the 2018 Audit Calendar the Department of Audits was tasked to review the process of initiating, approving and posting General Journal (GJ) transactions. The focus of the audit was non-routine GJ transactions. The GJ process starts at the agency level. GJ's are used to correct charges initially posted to an incorrect account. They are also used to allocate procurement card charges to the correct account number. When the City pays a procurement card bill the charge is posted to an account with the natural 607080 (Procurement Credit Cards). The cardholder must prepare a log after receiving a bill which shows what accounts the charges are to be posted. The agency then prepares a journal entry to remove all charges from the procurement card account and charge it to the appropriate expense account.

The City's Administrative Manual (AM) section 406 discusses Journal Entries. It explains that journal entries are used to transfer funds between account numbers and are used primarily for the following:

1) Billing of one agency by another agency for services rendered.
2) Correction of errors.
3) Allocation of cost accumulated in one cost center to other account numbers.
4) Accrual of accounts payable or accounts receivable.
5) Allocation of revenue accumulated in one revenue center to other account numbers.

The AM goes on to discuss how a journal entry is processed through Dynamics. It details how entries must be approved by appropriate agency personnel before forwarding to BAPS. BAPS then verifies approval with appropriate backup attached before the entry is posted.

AM-309-1 Small Purchases Procurement Card Program (SPPCP) requires that the Card Holder prepare an Activity Log and submit it to the Card Holder's Agency Administrator. The cardholder must submit receipts to the Agency Administrator as well. The Agency Administrator must verify and sign the Card Holder's Activity Log and individual procurement card statement. Copies of the Individual Statement, Activity Log (without receipts) and Journal Entry request must be forwarded both to BAPS (for processing) and to the SPPCP Coordinator in the Bureau of Purchases (for oversight) within 15 workdays from the receipt of the Individual Statement. The originals and receipts remain with the Agency Administrator for a retainage period of three years. The policy further states if the Card Holder is not available to submit the reconciled statement to BAPS within the fifteen work days, the Agency Administrator is responsible for reviewing and certifying the Card Holder's statement. Failure to abide by the procedures will result in the cancellation of the SPPC for that card holder and may result in disciplinary action.

Baltimore City Department of Finance
Non-Routine Journal Entry Procedures
Audit Scope, Objectives and Methodology
For the Year Ended December 31, 2017

We conducted a Non-Traditional engagement of non-routine journal entries for the year ending December 31, 2017. We conducted our audit in accordance with G*enerally Accepted Government Auditing Standards*. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The objectives of our audit were to determine whether controls are in place to ensure that non-routine journal entries are initiated, approved and posted as per City Policy.

To accomplish our objectives, we conducted inquiries of key individuals to obtain an understanding of the internal controls and related policies, processes and procedures, and systems, established by the Department of Finance and tested a sample of non-routine journal entries from initiation through approval to ensure that controls were operating as intended and achieving the desired objective.

The findings and recommendations are detailed in the Findings and Recommendations section of this report. The responses of the Department of Finance and, when necessary, the Department of Audits' comments to those responses are included as part of each finding.

Identification of Non-Routine Journals in the City's General Ledger

Background
The City's General Ledger has a field to identify the source of transactions. Report Manager, a segment of Dynamics allows users to extract information from the ledger based on certain criteria. All General Journal transactions, whether routine or non-routine are classified as GJ as the transaction source. Additionally Report Manager does not have a feature to allow retrieval of information by source.

Issue
In order to obtain a population of non-routine Journal Entries, the Department of Audits had to pull all entries entered regardless of type, from the general ledger. Due to the large number of transactions processed by the City, the data was pulled by month. We then segregated those transactions with the source GJ to further segregate, based on the transaction reference and/or description for entries identified as routine versus non-routine. For the month of December 2017, there were 765,696 line items in the general ledger. Of those 97,502 line items related to transactions with the source GJ. There were 803 separate journal entries which made up the 97,512 line items. Based on the description of the transactions, it was judgmentally determined that 318 unique non-routine journals were processed in December consisting of 2,934 line items.

Recommendation
We recommend an added feature to report manager which allows extraction of data by source. We further recommend that a source code be added to the general ledger in order to segregate between routine and non-routine GJ transactions. Now that the system has been upgraded to include the core integrator module, it would appear that a differentiation can be made between those GJ transactions initiated in Dynamics versus those initiated in Core-Integrator. By doing so the City would easily be able to identify and review non-routine GJ transactions, which by their nature are subject to risk of misstatement.

Agency Response
The Department of Finance disagrees with this recommendation.

We agree with the Auditor that there is a benefit to extracting data that segments journal entries as routine and non-routine. However, this capability is now available without the necessity of an expensive upgrade to report manager. Our updated general ledger system includes a SmartLists application. Finance or the Auditor can run a customized SmartLists inquiry that will easily provide this data and down load it into a readable format such as Excel. SmartLists are specifically designed to give users the ability to create advanced customized inquiries resulting in timely access to information stored in our general ledger system.

Issue – Audit's Updated Comment

During the course of the audit, auditors found maneuvering through the system time consuming. Neither volume of transactions nor size of the entity should matter for review of transactions. In addition, users cannot drill down on transactions, which can cause errors or ommissions to not be located.

Documentation of Journal Entry Approval Process

Background
The City upgraded their general ledger software effective November 13, 2017. Prior to the upgrade all General Journal (GJ) transactions were initiated and approved directly in Dynamics. With the upgrade a new module, Core Integrator, was added to the system. This new module provides a history of the processing of GJ transactions. Entries which are processed based on files provided from outside sources are still directly entered into Dynamics. These type of entries tend to be the more routine entries such as the allocation of revenues to specific cost centers and accrual entries.

Finding # 1
Prior to November 13, 2017 BAPS had no formal approval system required for journal entry postings. There was an ability to attach notes or documents to journal entries, however it was not used consistently. Although the AM manual noted approval was required and documentation needed to be attached to transactions prior to posting, there was no way to ensure that this procedure was adhered to. Due to the issue noted above, our audit focused on transactions posted after November 13, 2017.

During our audit we noted journals can still be entered directly into Dynamics by a limited number of BAPS employees. GJ transactions initiated through files produced by MOIT such as cash receipts and accruals as well as reversing entries are still processed through Dynamics, however other entries should not be processed through Dynamics. From a sample of 50 transactions we found one entry which was processed in Dynamics rather than core integrator thereby circumventing the documented approval process.

Recommendation #1
We recommend that Dynamics add a feature to prevent manual journal entries from being initiated directly in Dynamics. This action would prevent journal entry processors from falling back into old routines and avoiding use of the new enhanced system.

Agency Response
The Department of Finance disagrees with the recommendation.

All journal entries cannot be automatically processed through Coreintegrator (CI). Such entries include large manual entries or reversals, accounts payable postings, cash receipts and activity imported from other systems such as MUNIS and UMAX. CI was not designed to handle large scale entries in excess of 3,500 lines. With an organization as large as Baltimore City with approximately 2.5 million journal entries annually, there will always be a need to create, reverse or make manual adjustments. Therefore a back-up manual process is necessary. Finance has established general ledger controls that require manual entries be reviewed by an accounting supervisor before they are posted. Only four Finance accounting managers have permission to approve such entries. No manual entry is made directly through Dynamics unless it is documented, reviewed and approved by a second party supervisor.

Agency Response (continued)
In the exception mentioned above, the manual entry related to a November 2017 month end close initiated by an accounting staff member. This occurred on or about the time of the integrator system upgrade. While the entry should have been processed through CI, the entry was properly documented and reviewed by the accounting supervisor before it was approved and posted to the general ledger. Adequate internal control was in place governing this transaction. Subsequent entries for this item were properly routed through the integrator. With CI and our supervisory approval of manual Dynamics entries - no one person is able to input and post a journal entry.

Finding #1 – Audit's Updated Comment
The agency's response does not coincide to the above noted finding. The Department of Audits was not able to verify that BAPS reviewed transactions in Dynamics as there was no evidence or trail of examination. Therefore, the finding stands based on testing.

Allocation of Procurement Card Charges to Appropriate Expenditure Accounts

Background
The City has a procurement credit card program whereby selected individuals have a credit card issued in their name for use in procuring items for their agency. Anyone having a procurement card must sign an affidavit saying that it will be used only for City purposes and allowing for the City to recover any money spent inappropriately through wage reductions. AM-309-1 addresses the card holder and Agency Administrators obligations and requires that within 15 business days of receipt of a bill, the Agency Administrator send an approved log of expenditures along with the bill and journal entry to both the Bureau of Purchases and BAPS. The journal entry allocates and records expenditures to the correct account. The Agency journal posting should credit 607080 account and debit the expenditure account effected by the transaction. This would allocate the expenditure to the appropriate expenditure category and remove it from the generic account for credit card purchases, which is the account to which the City posts the transaction when paying the credit card bill. The original receipts are required to be maintained by the agency administrator for three years.

Finding # 2
Twenty four of 50 randomly selected journal entries tested were for the allocation of credit card charges. Twenty one of the entries were not submitted within fifteen business days of receipt of the bill, as per AM 309.   Ten of the entries were submitted without an approved log. In most of these instances only the original bill was attached.   A number of bills included tax on items and charges to retail establishments. Without at minimum, the inclusion of an approved log, there is no way of knowing whether charges were appropriate. Additionally there was one entry which did not credit the 607080 account and it was approved by all levels, including BAPS. The initiator later incorrectly prepared an entry debiting and crediting the same account in order to correct the original entry, and that entry was approved as well. One additional entry was for an incorrect amount. There was a credit on the bill for an item which was returned.   Rather than reducing the charge to the expense on the entry, the initiator tried to enter the amount as a negative debit. When the system rejected it, the credit amount was just left out and the journal was processed for $333 more than the billed amount. This too was approved by all levels of approvers, including BAPS.

Recommendation # 2
We recommend the City enforce the policy regarding submission of approved logs within 15 days of credit card receipt. We further recommend that the City amend the policy to require submission of receipt copies, and when appropriate, justification of purchase along with the approved log. Additionally, training should be provided to GJ preparers and approvers on correctly identifying the need for and recording of journal entries, handling credits on bills, and ways to avoid posting incorrect entries.

Core-integrator has improved the process greatly with controls built into the program to reject entries that do not balance or have other technical errors. Core-Integrator will not allow an entry to post without going through the appropriate approval path. All of these controls could improve the accuracy of data, however, the approvers, especially the final approvers in BAPS need to understand the nature of entries as well as their purpose to optimize the new system. Training should also address the issue of unallocated expenditures. We noted one approver rejected an entry stating that BAPS was trying to avoid using unallocated expenditure accounts; however, other entries were posted debiting unallocated expenditure accounts, which contradicts the reasoning for the rejected entry.

Agency Response
The Department of Finance agrees with the recommendation only in regard to enforcement and training.

The Small Purchases Procurement Card (SPPC) program was established under AM309-1 to save time and money by allowing authorized purchasers a convenient alternative process to make inexpensive day-to-day purchases necessary for city operations. Among other things, AM309-1 is clear that it is the responsibility of the agency not the Department of Finance in regard to detailed documentation and record keeping. Each month the policy requires the card statement, activity log (without receipts and without justification) and journal entry be sent to the Department of Finance. Finance reviews the log and statement to ensure they are consistent and signed by the agency administrator. If more detail is required such as a review of the receipts - the request is directed to the agency who is required under the policy to maintain this documentation. We also disagree that the agencies should include a justification of the procurement of goods and services with their monthly documentation. The AM policy sets limits and restrictions on the use of the cards. Each agency makes their own determination on the reasonableness of such purchases and their adherence to the policy. If the auditor finds an item was not purchased according to AM309-1 the agency should be cited and be responsible for the corrective action.

Further, training will be provided by the supervisor in BAPS to assure staff who are reviewing journal entries are more aware of their approval responsibilities.

Finally, we will research the ten entries noted above once we receive the list. With respect to the other entries, one is of no impact and did not correct the issue it originally was intended to correct. The $333 was not a system error, but a data entry problem by the creator. BAPS has contacted all creators to inform them of their errors.

Finding #2 – Audit's Updated Comment

The Agency's Response above states they review the activity log, but per our Finding above, we noted BAPS did not receive or provide evidence of receipt for 10 out of 24 activity logs tested, which was 40% of our sample. Therefore, the finding stands, based on testing.