



CITY OF BALTIMORE
MAYOR'S OFFICE OF EMPLOYMENT DEVELOPMENT
BIENNIAL FINANCIAL AUDIT
Fiscal Years Ended June 30, 2019 and 2018

Table of Contents

Independent Auditor's Report	1
Basic Financial Statements	
Schedule of Revenues, Expenditures and Encumbrances, and Changes in Fund Balance - Budget and Actual - Budgetary Basis – General Fund	4
Schedule of Revenues, Expenditures and Encumbrances, and Changes in Fund Balance - Budget and Actual - Budgetary Basis – Casino Fund	6
Schedule of Revenues, Expenditures and Encumbrances, and Changes in Fund Balance - Budget and Actual - Budgetary Basis – State Video Lottery Fund	8
Statement of Revenues, Expenditures and Changes in Fund Balance – Capital Projects	9
Statement of Revenues, Expenditures and Changes in Grant Cash Balance	10
Notes to the Financial Statements	14
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 <i>Government Auditing Standards</i>	17
Schedule of Findings	19
APPENDIX I – Management's Response to the Audit Report	22

CITY OF BALTIMORE

BILL HENRY
Comptroller



DEPARTMENT OF AUDITS
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INDEPENDENT AUDITOR'S REPORT

Honorable Bill Henry,
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 Mayor's Office of Employment Development (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; Schedule of Revenues, Expenditures and Encumbrances, and Changes in Fund Balance, Budget and Actual, Budgetary Basis, State Video Lottery 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.

Biennial Financial Audit Report on Mayor's Office of Employment Development

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.

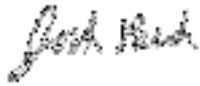
Report on Other Legal and Regulatory Requirements

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 Mayor's Office of Employment Development

In accordance with *Government Auditing Standards*, we have also issued our report, dated December 31, 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 17). 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
December 31, 2020

CITY OF BALTIMORE
Mayor's Office of Employment Development
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	\$ 9,350,445	\$ 8,867,303	\$ (483,142)
Expenditures and Encumbrances:			
Employment Enhancement Service for City Residents	1,389,027	1,038,196	350,831
Administration	635,177	631,520	3,657
Workforce Services for Baltimore Residents	631,622	325,590	306,032
Workforce Services for Ex-Offenders	505,133	156,115	349,018
Workforce Services for Out of School Youth	3,133,381	3,371,009	(237,628)
Youth Works Summer Job Program	2,205,237	2,957,817	(752,580)
Workforce Service for WIOA Funded Youth	345,427	55,083	290,344
Mobile Workforce Center	505,441	331,973	173,468
Total Expenditures and Encumbrances	9,350,445	8,867,303	483,142
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
Mayor's Office of Employment Development
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	\$ 7,597,303	\$ 6,246,958	\$(1,350,345)
Expenditures and Encumbrances:			
Employment Enhancement Service for City Residents	1,653,992	1,116,436	537,556
Administration	666,833	557,265	109,568
Workforce Services for Ex-Offenders	188,598	106,000	82,598
Workforce Services for Out of School Youth	3,141,916	2,488,158	653,758
Youth Works Summer Job Program	1,945,964	1,979,099	(33,135)
Total Expenditures and Encumbrances	7,597,303	6,246,958	1,350,345
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
Mayor's Office of Employment Development
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	\$ 937,097	\$ 969,554	\$ 32,457
Expenditures and Encumbrances:			
Salaries and Wages	537,183	657,181	(119,998)
Other Personnel Cost	272,085	141,864	130,221
Contractual Services	126,786	150,918	(24,132)
Material and Supplies	407	5,018	(4,611)
Minor Equipment	636	(266)	902
Other	-	14,839	(14,839)
Total Expenditures and Encumbrances	937,097	969,554	(32,457)
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
Mayor's Office of Employment Development
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 2018	Final Budget	Actual	Variance
Revenues:			
Appropriations Revenues	\$ 80,717	\$ 930,924	\$ 850,207
Expenditures and Encumbrances:			
Salaries and Wages	-	655,301	(655,301)
Other Personnel Cost	-	104,289	(104,289)
Contractual Services	38,260	163,244	(124,984)
Material and Supplies	11,734	4,183	7,551
Minor Equipment	30,723	2,576	28,147
Other	-	1,331	(1,331)
Total Expenditures and Encumbrances	80,717	930,924	(850,207)
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
Mayor's Office of Employment Development
Schedule of Revenues, Expenditures and Encumbrances, and Changes in Fund Balance
Budget and Actual – Budgetary Basis – State Video Lottery Fund
For Fiscal Years Ended June 30, 2019 and 2018

Fiscal Year 2019	Final Budget	Actual	Variance
Revenues:			
Appropriations Revenues	\$ -	\$ 7,000	\$ 7,000
Expenditures and Encumbrances:			
Contractual Services	-	7,000	(7,000)
Total Expenditures and Encumbrances	-	7,000	(7,000)
Excess of Revenues over Expenditures	-	-	-
Opening Fund Balance	-	-	-
Ending Fund Balance	\$ -	\$ -	\$ -

Fiscal Year 2018	Final Budget	Actual	Variance
Revenues:			
Appropriations Revenues	\$ -	\$ 25,500	\$ 25,500
Expenditures and Encumbrances:			
Contractual Services	-	25,500	(25,500)
Total Expenditures and Encumbrances	-	25,500	(25,500)
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
Mayor's Office of Employment Development
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	\$ 102,567	\$ -
Total Revenues	102,567	-
Expenditures		
Capital Outlay	-	-
Total Expenditures	-	-
(Deficit) Excess of Revenues over Expenditures	102,567	-
Beginning Fund Balance	(102,567)	(102,567)
Ending Fund Balance	\$ -	\$ (102,567)

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

CITY OF BALTIMORE
Mayor's Office of Employment Development
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					
Workforce Services for Temporary Assistance for Needy Families (TANF) Recipients	(262,068)	1,895,290	2,656,630	(387,954)	(1,411,362)
Employment Enhancement Service for City Residents	(21,182)	-	-	-	(21,182)
Administration	(35,723)	-	(25,707) ¹	(90,120)	(100,136)
Workforce Services for Baltimore Residents	(622,592)	4,048,650	3,698,734	66,040	(206,636)
Workforce Services for Ex-Offenders	(129,221)	73,372	-	5,020	(50,829)
Workforce Services for Out of School Youth	(149,306)	154,002	306,072	146,186	(155,190)
Youth Works Summer Job Program	(2,843,245)	4,248,661	2,032,889	-	(627,473)
Workforce Service for Workforce Investment Act (WIA) Funded Youth	(669,850)	2,889,618	2,278,703	347,576	288,641
Total revenues, expenditures and change in grant balances - Federal	\$ (4,733,187)	\$ 13,309,593	\$ 10,947,321	\$ 86,748	\$ (2,284,167)

Note: Negative expenditure is a reversal of payroll accruals from FY 2017.

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

CITY OF BALTIMORE
Mayor's Office of Employment Development
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					
Baltimore City Public Schools - Alternative Options Academy for Youth	(65,735)	127,081	162,600	(72,669)	(173,923)
Employment Enhancement Service for City Residents	5,855	-	-	-	5,855
Workforce Services for Ex- Offenders	(224,431)	244,088	461,138	(12,736)	(454,217)
Workforce Services for Out of School Youth	(17)	-	-	-	(17)
Youth Works Summer Job Program	(147,883)	1,446,052	1,364,512	-	(66,343)
Total revenues, expenditures and change in grant balances - State	(432,211)	1,817,221	1,988,250	(85,405)	(688,645)
Other Grants					
Employment Enhancement Service for City Residents	25,879	-	85,538	\$ -	(59,659)
Administration	316,414	26,549	-	-	342,963
Workforce Services for Out of School Youth	134,217	46,857	-	-	181,074
Youth Works Summer Job Program	50,512	22,539	12,000	-	61,051
Total revenues, expenditures and change in grant balances - Other	\$ 527,022	\$ 95,945	\$ 97,538	\$ -	\$ 525,429

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

CITY OF BALTIMORE
Mayor's Office of Employment Development
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					
Workforce Services for TANF Recipients	(477,131)	2,803,271	2,631,410	43,202	(262,068)
Employment Enhancement Service for City Residents	65,250	-	-	(86,432)	(21,182)
Administration	(166,411)	-	213,691	344,379	(35,723)
Workforce Services for Baltimore Residents	(116,883)	5,417,462	5,423,493	(499,678)	(622,592)
Workforce Services for Ex-Offenders	(134,430)	242,769	267,322	29,761	(129,222)
Workforce Services for Out of School Youth	678,735	224,157	246,852	(805,346)	(149,306)
Youth Works Summer Job Program	(1,607,636)	980,162	2,215,771	-	(2,843,245)
Workforce Service for WIA Funded Youth	(111,463)	1,832,020	2,390,407	-	(669,850)
Total revenues, expenditures and change in grant balances - Federal	\$ (1,869,969)	\$ 11,499,841	\$ 13,388,946	\$ (974,114)	\$ (4,733,188)

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

CITY OF BALTIMORE
Mayor's Office of Employment Development
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					
BCPS Alternative Options Academy for Youth	(110,773)	241,850	196,812	-	(65,735)
Workforce Services for TANF Recipients	64,101	-	-	(64,101)	-
Employment Enhancement Service for City Residents	504,824	-	-	(498,970)	5,854
Administration	(585,967)	-	-	585,967	-
Workforce Services for Ex-Offenders	(80,043)	352,128	496,516	-	(224,431)
Workforce Services for Out of School Youth	249	-	266	-	(17)
Youth Works Summer Job Program	148,055	1,307,687	1,603,265	(360)	(147,883)
Total revenues, expenditures and change in grant balances - State	\$ (59,554)	\$ 1,901,665	\$ 2,296,859	\$ 22,536	\$ (432,212)
Other Grants					
Employment Enhancement Service for City Residents	94,514	-	68,634	-	25,880
Administration	246,054	12,881	201	57,681	316,415
Workforce Services for Out of School Youth	143,921	-	9,704	-	134,217
Youth Works Summer Job Program	10,000	40,512	-	-	50,512
Total revenues, expenditures and change in grant balances - Other	\$494,489	\$ 53,393	\$ 78,539	\$ 57,681	\$ 527,024

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

CITY OF BALTIMORE
Mayor's Office of Employment Development
Notes to the Financial Statements
For Fiscal Years Ended June 30, 2019 and 2018

1. Description of the Mayor's Office of Employment Development

The Agency empowers and assists Baltimore City residents to become successfully employed. It provides all residents with easy access to employment and training services, and targeted populations with intensive services that address multiple barriers to employment. The Agency develops partnerships with businesses, educational institutions, government agencies and community-based organizations to achieve its mission.

The Agency receives about half its funding from the Federal government, including Workforce Innovation and Opportunity Act (WIOA) funds which support services to low-income and other targeted populations. WIOA-funded activities include: job placement, computer literacy, career counseling and skills training services for adults; re-employment training assistance to dislocated workers; career development, remedial education and skills training for in-school and out-of-school youth; and business partnerships that facilitate development of the City's skilled workforce.

Additional local and State funding sources support Career Center Services for ex-offenders, the Youth Works Summer Job Program, and Baltimore City Public Schools' Alternative Options Academy for Youth.

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 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.

CITY OF BALTIMORE
Mayor's Office of Employment Development
Notes to the Financial Statements
For Fiscal Years Ended June 30, 2019 and 2018

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.

5. Beginning Grant Balance Adjustment

The FY 2017 beginning grant balance for other was adjusted because certain cash adjustment related to FY 2017 (See note 6) were not included in the reported ending balances in the FY 2017 financial reports. The effect to the Agency's beginning Other Grant balances as of July 1, 2017 was a decrease of \$46,538.

Table I

Summary of FY 2017 Grant Opening Adjustments

Type	Previously Reported Balance	Adjustment	Adjusted Cash Balance ¹
Other	\$541,026	\$(46,537)	\$494,489

Note: ¹ See page 13

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

CITY OF BALTIMORE
Mayor's Office of Employment Development
Notes to the Financial Statements
For Fiscal Years Ended June 30, 2019 and 2018

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 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 December 31, 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

BILL HENRY
Comptroller



DEPARTMENT OF AUDITS
JOSH PASCH, CPA
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Honorable Bill Henry, Comptroller
and Other Members of the
Board of Estimates
City of Baltimore, Maryland

In planning and performing our audit of the financial statements of the Mayor's Office of Employment Development (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 findings, 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 2.

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,

Biennial Financial Audit Report on Mayor's Office of Employment Development

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*.

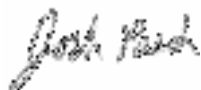
Agency and the Department of Finance's Responses to Findings

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
December 31, 2020

**CITY OF BALTIMORE
Mayor's Office of
Employment Development
Schedule of Findings**

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) AM 204-17, Attendance Records; AM 205-10, Payroll Systems; and AM 502-1, Records Management. As shown in Table I below, supervisory review and approval controls on time and attendance records were missing for some of the payroll transactions tested. Also, the Agency was unable to provide documentation to support certain FY 2019 and 2018 payroll expenditures which may result in financial losses including inaccurate payments, accruals and final payouts to employees.

Table I

Summary of Occurrences Noted for Selected Payroll Activities

Payroll Descriptions	FY 2019		FY 2018	
	Occurrences		Occurrences	
	Number	Percent	Number	Percent
No records provided ¹	8 of 20	40	2 of 20	10
No approval on the timesheet ²	4 of 12	33	10 of 18	56
No leave slips ³	5 of 9	56	2 of 8	25
No approval on leave slip ⁴	3 of 4	75	0 of 6	0
No time and attendance record on E-time ¹	4 of 20	20	2 of 20	10

Notes:

¹ The denominator is based on testing of 20 employees for each FY.

² The denominators are based on timesheet provided for 12 of 20 employees for FY 2019 and 18 of 20 employees for FY 2018.

³The denominators are based on employees leave reported for nine of 12 transactions with available records and eight of 18 transactions with available records for FY 2019 and FY 2018, respectively.

⁴The denominators are based on four of nine transactions and six of eight transactions for FY 2019 and FY 2018, respectively. (see note 3)

Missing documentation was due to the following reasons:

- Management did not maintain detailed attendance records; and
- The Agency used paper-based manual process to track time, attendance, and leave for non-grant employees in FY 2018 and FY 2019. In late FY 2019, the

CITY OF BALTIMORE
Mayor's Office of
Employment Development
Schedule of Findings

Agency implemented Microix System in which timesheets, leave, comp and overtime are electronically approved and maintained in the system.¹

AM 204-17, *Attendance Records* requires all agencies to keep a detailed record of each employee's attendance on an attendance record. AM 205-10, *Payroll Systems* 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. AM 502-1, *Records Management* requires all agencies to maintain records of all proceedings, financial transactions, and official acts.

Recommendation #1: We recommend the Director of the Agency:

- Develop and implement a chain of custody and tracking process to maintain manually processed payroll documents; and
- Confirm the time keeping system has adequate and appropriate controls such as segregation of duties, approval, edit checks such as not entering excessive hours for each day or each pay period.

¹ Since the Microix System was implemented outside of the audit scope, no further work was performed to validate the design and effectiveness of controls in the Microix system.

**CITY OF BALTIMORE
Mayor's Office of
Employment Development
Schedule of Finding**

Finding #2: Control Deficiency – Certain encumbrances on the books at FY end were not for future expenditures.

The Agency was not able to provide invoices for \$35,920 of \$117,381, or 31 percent and \$55,670 of \$136,796, or 41 percent in encumbrances (see textbox) for FY 2019 and FY 2018, respectively⁵. 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.

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.

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 #2: We continue to recommend⁶ the Director of 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.

⁵ Total encumbrances for FY's 2019 and 2018 were \$170,337 and \$147,457, respectively.

⁶ The same finding was reported in the Biennial Financial Audit Report on Baltimore Police Department dated August 18, 2020.

APPENDIX I

Management's Response to the Audit Report

Date: December 31, 2020

To: Josh Pasch, City Auditor

Subject: Management Response to Audit Report:
Biennial Financial Audit Report on Mayor's Office of Employment
Development 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 Director of the Agency:

- Develop and implement a chain of custody and tracking process to maintain manually processed payroll documents; and
- Confirm the time keeping system has adequate and appropriate controls such as segregation of duties, approval, edit checks such as not entering excessive hours for each day or each pay period.

Management Response/Corrective Action Plan

Agree **Disagree**

The Agency agrees with the finding for the date range sampled.

Implementation Date: Immediately

Action Plan Milestone(s):

The Agency's Human Resources will audit payroll records after the FY 2019 audit date and prior to Workday to ensure compliance with City policies and procedures.

Implementation of Workday, effective December 26, 2020, will remedy all documentation issues identified in the finding.

Responsible Personnel

Myisha Dixon-Henry, Human Resources Partner

Recommendation # 2

We continue to recommend the Director of 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