



**Police Department
Biennial Financial Audit
Fiscal Years Ended June 30, 2017 and 2016**

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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 Police Department (the Agency), an agency of the primary government of the City of Baltimore, Maryland, which comprise the Schedule of Revenues, Expenditures and Encumbrances, and Changes in Fund Balance, Budget and Actual, Budgetary Basis, General Fund; Statement of Revenues, Expenditures and Changes in Fund Balance, Capital Projects and Statement of Revenues, Expenditures and Changes in Grant Cash Balances, for the years ended June 30, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements as listed in the table of contents.

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. 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 entity'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 entity'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 modified audit opinion.

Basis for Qualified Opinion

As a result of the procedures performed in this area, we obtained sufficient appropriate audit evidence to determine that the FY 16 opening Statement of Revenues, Expenditures and Changes in Grant Cash Balance, which totaled \$12.7M, includes approximately \$16.7M in grant activity dating from 2003 to 2012. BAPS prepared journal entries to write off approximately \$12.9M. However, a deficit grant balance of \$3.8M remains that gives the appearance of receivables due from federal, state and private grant sources. This balance also represents misstatements that materially affect the balances reported in the statements for the periods ending June 30, 2017 and 2016. Refer to Finding 1.

Qualified Opinion

In our opinion, except for the effects of the matter discussed in the Basis for Qualified Opinion paragraph, 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, 2017 and 2016 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.

In accordance with Government Auditing Standards, we have also issued our report, dated December 6, 2018, 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. 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.



Audrey Askew, CPA
City Auditor

December 6, 2018

CITY OF BALTIMORE
Police Department
Schedule of Revenues, Expenditures and Encumbrances, and Changes in Fund Balance
Budget and Actual – Budgetary Basis – General Fund
For Fiscal Year Ended June 30, 2017

	2017		
	Final Budget	Actual	Variance
Revenues			
Appropriations revenues	\$ 479,576,347	\$ 473,255,279	\$ 6,321,068
Expenditures and Encumbrances			
Administration	43,141,129	34,281,382	8,859,747
Police patrol	268,780,473	267,286,305	1,494,168
Crime investigation	34,021,757	39,311,690	(5,289,933)
Target violent crime	36,720,040	37,036,132	(316,092)
Special operations SWAT	9,954,441	10,123,810	(169,369)
Homeland security intelligence	7,474,899	7,346,524	128,375
Communication center	8,037,580	12,552,548	(4,514,968)
Police internal affairs	9,200,317	9,321,607	(121,290)
Manage police records and ECU	8,488,202	7,952,851	535,351
Crowd, traffic and special events	8,830,338	11,524,358	(2,694,020)
Police recruiting and training	16,131,352	14,322,384	1,808,968
Special operations K-9 and mounted	4,647,993	4,605,226	42,767
Special operations marine unit	2,052,761	1,149	2,051,612
Special operation aviation	6,653,535	4,584,183	2,069,352
Crime laboratory	15,441,528	13,005,130	2,436,398
Total Expenditures and Encumbrances	479,576,345	473,255,279	6,321,066
Excess of Revenues over Expenditures and Encumbrances (GAAP)	-	-	-
Beginning Budgetary Fund Balance	-	-	-
Ending Budgetary Fund Balance	\$ -	\$ -	\$ -

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

CITY OF BALTIMORE
Police Department
Statement of Revenues, Expenditures, and Changes in Fund Balance – Capital Projects
Budget and Actual – Budgetary Basis – General Fund
For Fiscal Year Ended June 30, 2016

	Final Budget	2016 Actual	Variance
Revenues			
Appropriations revenues	\$ 488,993,418	\$ 466,935,575	\$ 22,057,843
Expenditures and Encumbrances			
Administration	40,116,041	91,127,416	(51,011,375)
Police patrol	269,697,206	201,451,663	68,245,543
Crime investigation	54,381,684	57,067,883	(2,686,199)
Target violent crime	40,377,062	38,250,390	2,126,672
Special operations SWAT	8,497,671	11,958,502	(3,460,831)
Homeland security intelligence	8,137,243	8,435,684	(298,441)
Communication center	54,212	3,528,534	(3,474,322)
Police internal affairs	6,424,378	6,372,311	52,067
Manage police records and ECU	9,315,735	9,160,264	155,471
Crowd, traffic and special events	11,070,607	9,533,973	1,536,634
Police recruiting and training	17,669,595	10,154,458	7,515,137
Special operations K-9 and mounted	3,911,786	3,500,971	410,815
Special operations marine unit	307,358	140,078	167,280
Special operation aviation	6,076,855	4,524,478	1,552,377
Crime laboratory	12,955,985	11,728,970	1,227,015
Total expenditures and encumbrances	488,993,418	466,935,575	22,057,843
Excess of Revenues over Expenditures and Encumbrances (GAAP)	-	-	-
Beginning Budgetary Fund Balance	-	-	-
Ending Budgetary Fund Balance	\$ -	\$ -	\$ -

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

CITY OF BALTIMORE
Police Department
Statement of Revenues, Expenditures, and Changes in Fund Balance – Capital Projects
For Fiscal Years Ended June 30, 2017 and 2016

	2017	2016
Revenues	\$ -	\$ -
Expenditures		
Capital outlay	1,003,557	1,252,362
Deficit of Revenues over Expenditures	(1,003,557)	(1,252,362)
Beginning Capital Project Fund Balance	3,615,959	4,868,321
Ending Capital Project Fund Balance	\$ 2,612,402	\$ 3,615,959

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

CITY OF BALTIMORE
Police Department
Statement of Revenues, Expenditures, and Changes in Grant Cash Balance
For Fiscal Year Ended June 30, 2017

	Cash Balance 7/1/2016	Revenue	Expenditures	Cash Balance 6/30/2017
Federal Grants				
Administration	\$ 755,604	\$ 756,254	\$ 589,601	\$ 922,257
Police patrol	1,400,884	283,831	4,888	1,679,827
Crime investigation	81,501	42,450	70,379	53,572
Target violent crime	-	15,886	-	15,886
Homeland security intelligence	(1,613,008)	2,792,167	1,966,081	(786,922)
Crowd, traffic and special events	(24,309)	106,612	26,713	55,590
Crime laboratory	(368,871)	321,176	422,888	(470,583)
Total revenues, expenditures and change in grant balances - Federal	231,801	4,318,376	3,080,550	1,469,627
State Grants				
Administration	(1,550,794)	2,051,505	1,255,850	(755,139)
Police patrol	122,289	1,710,256	2,055,969	(223,424)
Crime investigation	288,763	272,410	428,352	132,821
Target violent crime	(3,326,432)	2,666,321	2,226,624	(2,886,735)
Total revenues, expenditures and change in grant balances - State	(4,466,174)	6,700,492	5,966,795	(3,732,477)
Other Grants				
Administration	(956,185)	1,178,184	3,500	218,499
Police patrol	(255,484)	-	-	(255,484)
Crime investigation	4,571,742	-	-	4,571,742
Target violent crime	(534,539)	619,180	1,933,516	(1,848,875)
Communication center	765,793	749,342	-	1,515,135
Crowd, traffic and special events	(2,890)	-	-	(2,890)
Total revenues, expenditures and change in grant balances - Other	3,588,437	2,546,706	1,937,016	4,198,127
Total Grants	\$ (645,936)	\$ 13,565,574	\$ 10,984,361	\$ 1,935,277

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

CITY OF BALTIMORE
Police Department
Statement of Revenues, Expenditures, and Changes in Grant Cash Balance
For Fiscal Year Ended June 30, 2016

	Cash Balance 7/1/2015	Revenue	Expenditures	Cash Balance 6/30/2016
Federal Grants				
Administration	\$ 681,074	\$ 1,071,076	\$ 996,546	\$ 755,604
Police patrol	1,301,168	116,788	17,072	1,400,884
Crime investigation	(74,756)	221,452	65,195	81,501
Homeland security intelligence	(480,686)	2,229,893	3,362,215	(1,613,008)
Crowd, traffic and special events	-	64,436	88,745	(24,309)
Crime laboratory	(283,452)	603,969	689,388	(368,871)
Total revenues, expenditures and change in grant balances - Federal	<u>1,143,348</u>	<u>4,307,614</u>	<u>5,219,161</u>	<u>231,801</u>
State Grants				
Administration	(2,707,169)	3,217,057	2,060,682	(1,550,794)
Police patrol	1,999,488	1,787,241	3,664,440	122,289
Crime investigation	321,736	285,400	318,373	288,763
Target violent crime	(2,347,416)	2,443,945	3,422,961	(3,326,432)
Total revenues, expenditures and change in grant balances - State	<u>(2,733,361)</u>	<u>7,733,643</u>	<u>9,466,456</u>	<u>(4,466,174)</u>
Other Grants				
Administration	(78,001)	-	878,184	(956,185)
Police patrol	(255,484)	-	-	(255,484)
Crime investigation	4,571,742	-	-	4,571,742
Target violent crime	941,895	765,714	2,242,148	(534,539)
Communication center	(2,631,157)	3,396,950	-	765,793
Crowd, traffic and special events	(2,890)	-	-	(2,890)
Total revenues, expenditures and change in grant balances - Other	<u>2,546,105</u>	<u>4,162,664</u>	<u>3,120,332</u>	<u>3,588,437</u>
Total Grants	<u>\$ 956,092</u>	<u>\$ 16,203,921</u>	<u>\$ 17,805,949</u>	<u>\$ (645,936)</u>

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

CITY OF BALTIMORE
Police Department
Notes to the Financial Statements
For Fiscal Year Ended June 30, 2016

1. Description of the Police Department

The mission of the Police Department 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 Police Department is an agency and 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 of Baltimore, 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 Department.

The department's goal is to reduce violent crime and strengthen public trust. In order to accomplish this goal the following strategies will be utilized:

- (1) Targeted Enforcement
- (2) Community Engagement
- (3) Building Strong Partnerships

Despite its multiple focuses, the first objective of the Department is protection of public safety through patrol activity and response to calls for service.

The Department's strategy is to reduce violent crime through targeted enforcement. This is accomplished by focusing on identifying and apprehending the most violent offenders in the City. In The Department has also focused resources within selected zones with the most crime throughout the City.

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 (COP), 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 so 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 neighborhood environments that discourage crime.

CITY OF BALTIMORE
Police Department
Notes to the Financial Statements
For Fiscal Year Ended June 30, 2016

2. Fund Financial Statements

These financial statement have been prepare on a cash basis of accounting other than accounting principles general 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 and capital projects funds. The Agency annually receives appropriations from both the general, special revenue and capital projects funds. General 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 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 and capital project funds are reported in the Statement of Revenues, Expenditures and Changes in Fund Balance.

3. Summary of Significant Accounting Policies

Basis of Accounting

The financial statements of the Agency are prepared on the cash basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than generally accepted accounting principles. This basis of presentation differs from accounting principles generally accepted in the United States of America (GAAP) in that revenues are recognized when received rather than earned and expenses are recognized when paid rather than when the obligation is incurred. Specifically, the variances from GAAP include the mission of receivables and payables of the Agency, and such variances are presumed to be material. 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 of Baltimore'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. Advance from the City

Advances from the City 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.

6. Risk Management

The City of Baltimore 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 by the City's Office of Risk Management.

7. Subsequent Events

No subsequent events have occurred that would require recognition or disclosure in the financial statements.

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



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 Police Department of the City of Baltimore, Maryland, as of and for the years ended June 30, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the Police Department's financial statements, and have issued our report thereon dated, December 6, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Police Department'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 Police Department's internal control. Accordingly, we do not express an opinion on the effectiveness of the Police Department'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 or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiency described in the accompanying schedule of findings to be a material weakness as Finding 1.

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 deficiency described in the accompany schedule of to be significant deficiency as Finding 2.

Compliance and Other Matters

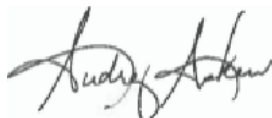
As part of obtaining reasonable assurance about whether the Police Department's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and 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.

Department of Finance Response to Findings

Baltimore City, Department of Finance response to the findings identified in our audit is described in the accompanying schedule of findings. Baltimore City, Department of Finance's response was 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 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
City Auditor

December 6, 2018

CITY OF BALTIMORE
Police Department
Schedule of Findings
Fiscal Years Ended June 30, 2017 and 2016

Finding #1– Material Weakness over Grant Fund Balance

Criteria

COSO requires entities to maintain a system of internal control that provides reasonable assurance that transactions are properly recorded and accounted for to permit the preparation of reliable financial statements.

Condition

During our audit, we noted net revenue and expenditure transactions for fiscal years 2003 through 2012 totaling \$16.7M (deficit) existed on the Statement of Revenues and Expenditures and Changes in Grant Fund Balance at June 30, 2016. BAPS prepared journal entries to write off approximately \$12.9M. However, the remaining \$3.8M deficit balance was carried forward into the \$12.7M (deficit) FY 16 opening balance and materially impacts the FY 17 and FY 16 statements. Additionally, this amount gives the appearance of receivables due from federal, state and private

Cause

Untimely reconciliation of grant activity and incorrect accounting treatment for prior period activity.

Effect

Inaccurate financial statements will be produced that misstate grant balances.

Recommendation

Due to the pervasiveness of JE errors noted on several other audits, we recommend that grant reconciliations and the resulting JEs be completed timely to show an accurate accounting of anticipated receipts or close out and that activity associated with aged/closed grant accounts be appropriately recorded in the general fund. Internal controls over the review and approval of journal entries should also be strengthened to ensure the accuracy and completeness of transactions posted to the general ledger. We also recommend the review of the five JEs totaling \$54M at 6/30/2017 because of the issues noted above.

Management Response

The Department of Finance disagrees with the auditor's finding. Finance does not agree with the auditor's conclusion that the deficit balance gives the "appearance of receivables" due from federal, state or private sources.

In our view the reported deficits represent the difference between the cash received and the expenses paid. Nothing more – nothing less. Nowhere do the statements imply or suggest the deficit shall be reimbursed from an outside agency. In fact note 5 states that cash advances not reimbursed by the grantor are the responsibility of the City. The timing of grant receipts and disbursements does not necessarily cause a deficit.

The Department of Finance was disappointed the DOA decided to unilaterally change the previous format agreed to by the former City Auditor and the City Council Biennial Audit Commission. We believe this format presented clearer annual grant cash activity as was the intent of these statements.

CITY OF BALTIMORE
Police Department
Schedule of Findings
Fiscal Years Ended June 30, 2017 and 2016

Finding #1– Material Weakness over Grant Fund Balance (Continued)

Management Response (continued)

In regard to the recommendation, the Department of Finance on several occasions publicly discussed the City's issues regarding the grant revenue fund. Most of the grant related findings 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. The Department of Finance and City agencies continue to reconcile grant accounts and have made significant progress – evidenced by clean unmodified audit opinions on the 2016 and 2017 Comprehensive Annual Financial Reports. In addition, we have implemented the following corrective actions: (1) established Grants Management Office; (2) deployed a grant reporting and documentation CRM module and; (3) implemented nine grant administrative manual policies that require City agencies adhere to specific grant processes from award through close out.

Finance and all grant agencies continue to evaluate and reconcile our grant accounts and where appropriate write off un-reimbursable charges.

Department of Audit's Updated Response to Management

DOA did not change the format from what was agreed upon by the BAOC. DOA was going to issue an Adverse opinion based on the grant totals in the original report submitted by BAPS, due to the amount of material old balances as early as 2003 still reflected in the general ledger. Finance did not want an Adverse audit opinion and wanted to do whatever was necessary to avoid such opinion, so they sought external advice. The Department of Finance had communication with another external audit firm, which recommended changing data to prevent an Adverse audit opinion. As a result of these communications, DOA sent communication to governance on October 12th stating Finance had communication with another audit firm. BAPS failed to record prior years audit adjustments related to agencies grant accounts in FY 2015, 2016, and 2017. When DOA realized that BAPS 'soft booked' these JE's, we stated that the CAFR audits adjustments were never posted in the general ledger, which is a problem. BAPS was never told to change the format of a report by DOA.

Finally, Note 5 was inserted into the Notes to the Financial Statements after DOA requested a note be added to address the issue related to the appearance of a receivable due from federal, state and private grantors.

Finding #2 – Significant Deficiency over General Accounting Controls

Criteria

COSO requires entities to maintain a system of internal control that provides reasonable assurance that transactions are properly recorded and accounted for to permit the preparation of reliable financial statements.

Condition

The review of the FY 2017 and FY 2016 Statement of Revenues and Expenditures and Changes in Grant Fund Balance and related general ledger detail disclosed the following:

- a) During our audit, BAPS submitted journal entries (JEs) to support write offs of prior period grants. Our assessment of the JEs noted \$180K in errors posted by BAPS to CityDynamics on 6/30/2017 for the Police Department. To correct this issue a reversing JE of \$360K must be prepared. DOA advised BAPS of the accounting errors and received notification of the JE correction on 11/30/2018.

CITY OF BALTIMORE
Police Department
Schedule of Findings
Fiscal Years Ended June 30, 2017 and 2016

Finding #2 – Significant Deficiency over General Accounting Controls (Continued)

Condition (continued)

- b) BAPS provided an original Statement of Revenues and Expenditures and Changes in Grant Fund Balance with an original FY 16 opening deficit balance of \$12.7M for federal, state, and private grants. After BAPS completed JE's to write off aged activity from the statement audits noted a change in the opening balance of \$843K (surplus) which we deem as an error because the write off was \$12.9M which should have resulted in an opening surplus balance of \$179K. DOA advised BAPS of the out of balance condition and received revised statements on 11/28/2018 that reflected the write offs in the FY 16 opening balances.

Cause

Inadequate controls over posting of journal entries and preparation of financial statements.

Effect

Inaccurate financial statements will be produced that misstate grant balances.

Recommendation

Due to the pervasiveness of JE errors noted on several other audits, we recommend that grant reconciliations and the resulting JEs be completed timely to show an accurate accounting of anticipated receipts or close out and that activity associated with aged/closed grant accounts be appropriately recorded in the general fund. Internal controls over the review and approval of journal entries should also be strengthened to ensure the accuracy and completeness of transactions posted to the general ledger. We also recommend the review of the five JEs totaling \$54M at 6/30/2017 because of the issues noted above.

Management Response

The Department of Finance agrees with the finding with explanation. The error in the statements referenced above occurred after a late demand by the DOA to change the previously agreed upon report format.

Finance delivered to the DOA seven financial statements in February and March and one in April. These financial statements represented all the Group B departmental audits. The format for these financial statements was the same as the Group A reports that previously received a clean unmodified opinion from the City Auditor. In late August approximately 7 months after the first financial statements were issued, the DOA informed us that the statement format was now suddenly unacceptable. From September forward we worked with DOA to amend the format in short order to accommodate their concerns. In our haste to accommodate the DOA format request and meet their deadline, Finance made a mistake in the above JE that changed the opening cash balance. This entry was subsequently corrected and the DOA received the updated statements with the revised format in time to meet their delivery deadline.

Department of Audit's Updated Response to Management

The DOA conducted the Agency audits according to Generally Accepted Auditing Standards (GAAS) as required. Regarding format change, please refer to DOA response above in Finding #1. BAPS journal entry error postings have been noted in other findings for other audits. The errors in posting was corrected only after DOA disclosed this information to BAPS. DOA recommend BAPS need to implement controls and training in understanding accounting operations.