



BALTIMORE CITY OFFICE OF INFORMATION & TECHNOLOGY

BIENNIAL FINANCIAL AUDIT

Fiscal Years Ended June 30, 2018 and 2017

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 - Municipal Communication and Software Replacement Fund	5
Statement of Revenues, Expenditures and Changes in Fund Balance - Capital Projects	6
Statement of Revenues, Expenditures and Changes in Grant Cash Balances	7
Notes to the Financial Statements	8
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>	10
Schedule of Finding	13
APPENDIX I – Management's Response to the Audit Report	16



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

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

We have audited the accompanying cash basis financial statements of the governmental activities, of the Baltimore City Office of Information & Technology (the 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, Municipal Communication and Software Replacement 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, 2018 and 2017, 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

Biennial Financial Audit Report on Baltimore City Office of Information & Technology

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 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, 2018 and 2017 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 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 5, 2019, 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 10).

Biennial Financial Audit Report on Baltimore City Office of Information & Technology

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, Maryland
December 5, 2019

CITY OF BALTIMORE
Office of Information & Technology
Schedule of Revenues, Expenditures and Encumbrances, and Changes in Fund Balance
Budget and Actual – Budgetary Basis – General Fund
For Fiscal Years Ended June 30, 2018 and 2017

Fiscal Year 2018	Final Budget	Actual	Variance
Revenues			
Appropriations revenue	<u>\$30,453,825</u>	<u>\$17,625,409</u>	<u>\$12,828,416</u>
Expenditures and Encumbrances			
Administration	2,667,693	1,516,982	1,150,711
Enterprise innovation and application services	12,734,491	4,356,912	8,377,579
Enterprise unified call center	6,036,768	6,586,445	(549,677)
Enterprise IT delivery services	<u>9,014,873</u>	<u>5,165,070</u>	<u>3,849,803</u>
Total Expenditures and Encumbrances	<u>30,453,825</u>	<u>7,625,409</u>	<u>12,828,416</u>
Excess of Revenues over Expenditures	-	-	-
Opening Fund Balance	-	-	-
Ending Fund Balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Fiscal Year 2017	Final Budget	Actual	Variance
Revenues			
Appropriations Revenue	<u>\$28,530,318</u>	<u>\$19,108,411</u>	<u>\$9,421,907</u>
Expenditures and Encumbrances			
Administration	2,562,373	1,432,252	1,130,121
Enterprise innovation and application services	10,977,230	9,239,703	1,737,527
Enterprise unified call center	5,904,584	4,932,291	972,293
Enterprise IT delivery services	<u>9,086,131</u>	<u>3,504,165</u>	<u>5,581,966</u>
Total Expenditures and Encumbrances	<u>28,530,318</u>	<u>19,108,411</u>	<u>9,421,907</u>
Excess of Revenues over Expenditures	-	-	-
Opening Fund Balance	-	-	-
Ending Fund Balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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

CITY OF BALTIMORE
Office of Information & Technology
Schedule of Revenues, Expenditures and Encumbrances, and Changes in Fund Balance
Budget and Actual – Budgetary Basis – Municipal Communication and
Software Replacement Fund
For Fiscal Years Ended June 30, 2018 and 2017

Fiscal Year 2018	Final Budget	Actual	Variance
Revenues			
Appropriations revenue	<u>\$10,064,163</u>	<u>\$8,594,106</u>	<u>\$ 1,470,057</u>
Expenditures and Encumbrances			
Salaries and wages	778,963	670,605	108,358
Other personnel cost	143,706	160,487	(16,781)
Contractual services	2,086,963	806,703	1,280,260
Minor equipment	7,053,200	5,589,304	1,463,896
Other	<u>1,331</u>	<u>1,331</u>	<u>-</u>
Total Expenditures and Encumbrances	<u>10,064,163</u>	<u>7,228,430</u>	<u>2,835,733</u>
Excess of Revenues over Expenditures	<u>\$ -</u>	<u>\$1,365,676</u>	<u>\$(1,365,676)</u>

Fiscal Year 2017	Final Budget	Actual	Variance
Revenues			
Appropriations revenue	<u>\$ 9,774,610</u>	<u>\$8,303,438</u>	<u>\$ 1,471,172</u>
Expenditures and Encumbrances			
Salaries and wages	777,460	439,569	337,891
Other personnel cost	159,492	160,037	(545)
Contractual services	2,567,204	290,283	2,276,921
Minor equipment	6,268,627	5,397,968	870,659
Other	<u>1,827</u>	<u>1,827</u>	<u>-</u>
Total Expenditures and Encumbrances	<u>9,774,610</u>	<u>6,289,684</u>	<u>3,484,926</u>
Excess of Revenues over Expenditures	<u>\$ -</u>	<u>\$2,013,754</u>	<u>\$(2,013,754)</u>

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

CITY OF BALTIMORE
Office of Information & Technology
Statement of Revenues, Expenditures and Changes in Fund Balance -
Capital Projects
For Fiscal Years Ended June 30, 2018 and 2017

	Fiscal Year 2018	Fiscal Year 2017
Revenues		
General fund	\$1,000,000	\$1,750,000
Other fund revenue	<u>-</u>	<u>500,000</u>
Total Revenues	<u>1,000,000</u>	<u>2,250,000</u>
Expenditures		
Capital outlay	<u>2,006,981</u>	<u>1,481,303</u>
Total Expenditures	<u>2,006,981</u>	<u>1,481,303</u>
Excess (Deficit) of Revenues over Expenditures	(1,006,981)	768,697
Beginning fund balance	<u>4,263,665</u>	<u>3,494,968</u>
Ending fund balance	<u>\$3,256,684</u>	<u>\$4,263,665</u>

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

CITY OF BALTIMORE
Office of Information & Technology
Statement of Revenues, Expenditures and Changes in Grant Cash Balances
For Fiscal Years Ended June 30, 2018 and 2017

	Cash Balance July 1, 2017 (Deficit)	Revenues	Expenditures	Cash Balance June 30, 2018 (Deficit)
Other Grants				
Administration	\$ (36,054)	\$ -	\$ -	\$ (36,054)
IT infrastructure support services	(9,890)	(53,200)	-	(63,090)
Call center services	<u>(12,236,810)</u>	<u>-</u>	<u>-</u>	<u>(12,236,810)</u>
Total revenues, expenditures and change in grant balances- Other	<u><u>\$(12,282,754)</u></u>	<u><u>\$(53,200)</u></u>	<u><u>\$ -</u></u>	<u><u>\$(12,335,954)</u></u>

	Cash Balance July 1, 2016 (Deficit)	Receipts	Expenditures	Cash Balance June 30, 2017 (Deficit)
Other Grants				
Administration	\$ (36,054)	\$ -	\$ -	\$ (36,054)
IT infrastructure support services	(9,890)	-	-	(9,890)
Call center services	<u>(12,091,908)</u>	<u>-</u>	<u>144,902</u>	<u>(12,236,810)</u>
Total revenues, expenditures and change in grant balances- Other	<u><u>\$(12,137,852)</u></u>	<u><u>\$ -</u></u>	<u><u>\$144,902</u></u>	<u><u>\$(12,282,754)</u></u>

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

CITY OF BALTIMORE
Office of Information & Technology
Notes to the Financial Statements
For Fiscal Years Ended June 30, 2018 and 2017

1. Description of the City of Baltimore's Office of Information & Technology

The Agency is responsible for providing information technology leadership to the entire City, utilizing and leveraging information technology to enhance productivity, broaden the capabilities, and reduce the operating costs of City government, thereby improving the quality and timeliness of services delivered to the citizenry.

The Agency is responsible for Information Technology (IT) policy, standards, inter-agency synergy, and providing City government with an ample return on its IT investments, while delivering a robust, secure, metropolitan wide networked computing environment which supports both the internal needs of approximately 9,000 computer users as well as external parties. The Agency is also responsible for the development, implementation and continuing support of the CitiTrack Customer Service Request System which provides a universal, standardized, inter-agency call-intake and work order management methodology with a direct linkage to the CitiStat system and process. The CitiTrack system is the Customer Relations Management tool for the City's One Call Center which is also directly supported and managed by the Agency. In July 2012, the Agency took over 911 and Police Dispatch under the first phase of moving toward a Unified Communications Center to improve efficiency.

2. Fund Financial Statements

These financial statement have been prepare on a cash basis of accounting other than generally accepted accounting principles in the United States of America (GAAP). 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, internal service, special revenue and capital projects funds. The Agency annually receives appropriations from both the general, internal service, and special revenue funds. General fund and internal service 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 internal service 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 Fund Balance and Grant Cash Balances*.

3. Summary of Significant Accounting Policies

The financial statements of the Agency are prepared on the cash basis of accounting, which is a comprehensive basis of accounting other than GAAP. This basis of presentation differs from 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 omission of receivables and payables of the Agency, and

CITY OF BALTIMORE
Office of Information & Technology
Notes to the Financial Statements
For Fiscal Years Ended June 30, 2018 and 2017

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 GAAP.

4. Budget Process

The Agency participates in the City's Outcome Based Budgeting process. The 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(s). Cash advances not reimbursed by the grantor(s) will be the responsibility of the City.

6. 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 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 as of December 5, 2019.

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

In planning and performing our audit of the financial statements of the Baltimore City Office of Information & Technology (the Agency) as of and for the years ended June 30, 2018 and 2017 in accordance with auditing standards generally accepted in the United States of America, 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 finding, we identified a deficiency in internal control that we consider to 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 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 deficiency described in the accompanying schedule of finding to be a control deficiency as Finding 1.

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, 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*.

Biennial Financial Audit Report on Baltimore City Office of Information & Technology

City of Baltimore's Office of Information & Technology's Response to Finding

The Agency's response to the finding identified in our audit are described in the accompanying schedule of finding. Their 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 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 5, 2019

CITY OF BALTIMORE
Office of Information & Technology
Schedule of Finding
Fiscal Years Ended June 30, 2018 and 2017

Finding #1: Control Deficiency – Certain payroll documentation were missing to support selected payroll timesheets.

The Agency was not able to provide all documentation for selected FY 2017 and FY 2018 payroll timesheets for testing (see Table I, on page 14). As a result, the Agency was not able to demonstrate whether selected payroll timesheets were accurately recorded, which may result in financial losses including inaccurate payments, accruals and final payouts to agency employees.

In May 2019, the City experienced a ransomware attack that impacted the majority of the City's operations. Several servers were impacted. The Agency did not back up the server that held the timesheet records for 311 Call Center employees. Moreover, the Agency's management has not established adequate internal controls in writing that meet the requirements contained in the various sections of the following City's Administrative Manual (AM) and the City Charter.

- AM 205-10, Payroll Systems effective February 20, 1989 (AM 205-10) 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.
- According to the Baltimore City Code, Article I, § 11-6, Disposal of records, (b) Agencies to prepare retention schedules,
 - "It shall be the duty of each department to prepare records retention schedules to assure the orderly retention of records required for the operation of the department, as well as the prompt disposal of records having no further value."
 - "Such schedules shall be prepared and submitted in the manner prescribed and will become effective when approved by the Records Committee."

Also, Control Objectives for Information Technology (COBIT)¹ Process Reference Guide Contents states management maintain availability of business-critical information by backing up systems, applications, data and documentation according to a defined schedule.

¹ COBIT is a globally recognized framework for the governance and management of enterprise information and technology. COBIT defines the components and design factors to build and sustain a best-fit governance system.

CITY OF BALTIMORE
Office of Information & Technology
Schedule of Finding
Fiscal Years Ended June 30, 2018 and 2017

Table I

**Summary of Payroll Testing Results for Selected Payroll Expenses Incurred in
FY 2018 and FY 2017**

Description	FY 2018		FY 2017	
	Occurrences	Percent	Occurrences	Percent
Missing timesheet due to ransomware	44 of 60	73	31 of 60	52
Missing physical timesheet ¹	3 of 16	19	3 of 29	10
Missing leave approval ²	3 of 8	38	N/A	N/A
Bi-weekly timesheet did not agree with ADP ³	N/A	N/A	3 of 26	12

Notes: ¹ The denominator is based on available timesheets, which were not impacted by ransomware.

² The denominator is based on individuals who took leave during the pay period under review.

³ The denominator is based on available physical timesheet.

ADP is a time and attendance software utilized by each of the agencies within the City to record the amount of hours worked and / or the amount of leave taken.

Recommendation #1:

We recommend the Chief Information Officer (CIO) of the Agency:

- Require that the agency periodically: (1) backup data; and (2) perform tests and recovery of historical and backup data.
- Develop and implement a record retention schedule for the department and file with City Archivist.

CITY OF BALTIMORE
Office of Information & Technology
Summary of Implementation Status of Audit Finding and Recommendation from the Financial Audit Report for
Fiscal Years Ended June 30, 2016 and 2015

No.	Finding Summary	Recommendation	Management's Self-reported Implementation Status	Auditor's Assessment
1	<p>The review of other grants activity associated with Call Center Services (911) disclosed that expenditures totaling approximately \$12M were appropriately charged to Mayor's Office of Information Technology (MOIT)² from FY 14 through FY 16. However, it appears the corresponding revenue was incorrectly submitted to the Baltimore Police Department (BPD) by the State of Maryland and never remitted to MOIT. The Chief Financial Officer (CFO) has issued communications to no avail to obtain the corresponding funds and clear the related accounts receivable.</p>	<p>This issue be escalated and that a journal entry be prepared to transfer the revenue from BPD to the Agency.</p>	<p>Not Implemented.</p> <p>The Agency CFO stated that the beginning balance is a roll-forward of the previous year-end balance and that the \$12M is not recorded in the GL as an asset or liability.</p> <p>The Agency CFO stated cash receipts from the City's general ledger show that funds were paid to the City.</p>	<p>Not Implemented.</p> <p>The negative \$12M Cash Balance is presented in the Statement of Revenues, Expenditures and Changes in Grant Cash Balances for FY 2018 and 2017.</p> <p>We recommend the Bureau of Accounting and Payroll Services present the Grant Cash Balance as zero to clearly represent that the expenditures were absorbed by the City as explained in Notes 5 to the Financial Statements.</p> <p>The Agency concurs with the Auditor's recommendation that the balance be corrected.</p>

² MOIT is the former name of the Agency.

APPENDIX I

Management's Response to the Audit Report

Date: December 5, 2019
To: Josh Pasch, City Auditor

Subject: Management Response to Audit Report:
Biennial Financial Audit Report on Baltimore City Office of Information & Technology for the Fiscal Years Ended June 30, 2018 and 2017

Our responses to the audit report findings and recommendations are as follows:

Recommendation # 1

We recommend the CIO of the Agency:

- Require that the agency periodically: (1) backup data; and (2) perform tests and recovery of historical and backup data.
- Develop and implement a record retention schedule for the department and file with City Archivist.

Management Response/Corrective Action Plan

Agree **Disagree**

- Effective November 1, 2019, BCIT has backups in place for the servers impacted. We will begin testing quarterly by 3/31/2020 and continue to assess the frequency based on the outcomes of testing.
- BCIT will create a retention schedule and file with the City Archivist by 3/31/2020.

Implementation Date

March 31, 2020

Responsible Personnel

Kursten Jackson, Chief IT Human Capital 410-952-1080