



**DEPARTMENT OF GENERAL SERVICES**

**BIENNIAL FINANCIAL AUDIT**

**Fiscal Years Ended June 30, 2018 and 2017**

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# CITY OF BALTIMORE

JOAN M. PRATT, CPA  
Comptroller



## DEPARTMENT OF AUDITS JOSH PASCH, CPA

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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 Department of General Services (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, Mobile Equipment and Leased Vehicle Purchase Fund; Schedule of Budgetary Revenues, Expenditures and Encumbrances, Budget and Actual, Budgetary Basis, Building Maintenance Fund; and Statement of Revenues, Expenditures and Changes in Fund Balance, Cash Basis, Capital Project Fund*, 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*

## **Biennial Financial Audit Report on Department of General Services**

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*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.

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 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 31, 2019, on our consideration of the Agency's internal control over

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financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters (see page 11).

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, 2019

**CITY OF BALTIMORE**  
**Department of General Services**  
**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
<b>Revenues</b>			
Appropriations revenue	<u>\$15,164,466</u>	<u>\$10,329,286</u>	<u>\$4,835,180</u>
<b>Expenditures and Encumbrances</b>			
Administration	2,068,683	1,690,833	377,850
Facilities Management	12,993,314	7,857,535	5,135,779
Design and Construction / Major Projects Division	<u>102,469</u>	<u>780,918</u>	<u>(678,449)</u>
<b>Total Expenditures and Encumbrances</b>	<u>15,164,466</u>	<u>10,329,286</u>	<u>4,835,180</u>
<b>Excess of Revenues over Expenditures</b>	-	-	-
<b>Opening Fund Balance</b>	-	-	-
<b>Ending Fund Balance</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Fiscal Year 2017	Final Budget	Actual	Variance
<b>Revenues</b>			
Appropriations revenue	<u>\$23,259,436</u>	<u>\$15,187,960</u>	<u>\$8,071,476</u>
<b>Expenditures and Encumbrances</b>			
Administration	4,034,009	1,352,125	2,681,884
Facilities Management	18,897,887	13,380,060	5,517,827
Design and Construction / Major Projects Division	<u>327,540</u>	<u>455,775</u>	<u>(128,235)</u>
<b>Total Expenditures and Encumbrances</b>	<u>23,259,436</u>	<u>15,187,960</u>	<u>8,071,476</u>
<b>Excess of Revenues over Expenditures</b>	-	-	-
<b>Opening Fund Balance</b>	-	-	-
<b>Ending Fund Balance</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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

**CITY OF BALTIMORE**  
**Department of General Services**  
**Schedule of Revenues, Expenditures and Encumbrances, and Changes in Fund**  
**Balance – Budget and Actual – Budgetary Basis**  
**Mobile Equipment and Leased Vehicle Purchase Fund**  
**For Fiscal Years Ended June 30, 2018 and 2017**

Fiscal Year 2018	Final Budget	Actual	Variance
<b>Revenues</b>			
Appropriations revenue	<u>\$85,100,779</u>	<u>\$59,055,766</u>	<u>\$26,045,013</u>
<b>Expenditures and Encumbrances</b>			
Transfers	2,055,894	(11,940)	2,067,834
Salaries and wages	14,496,271	12,635,116	1,861,155
Other personnel cost	5,625,301	5,335,642	289,659
Contractual services	21,000,705	17,154,902	3,845,803
Material and supplies	3,254,587	965,726	2,288,861
Minor equipment	282,476	216,278	66,198
Major equipment	20,445,353	12,125,719	8,319,634
Other	<u>17,940,192</u>	<u>18,815,404</u>	<u>(875,212)</u>
<b>Total Expenditures and Encumbrances</b>	<u>85,100,779</u>	<u>67,236,847</u>	<u>17,863,932</u>
<b>Deficiency of Revenues over Expenditures</b>	<u>\$ -</u>	<u>\$(8,181,081)</u>	<u>\$ 8,181,081</u>

Fiscal Year 2017	Final Budget	Actual	Variance
<b>Revenues</b>			
Appropriations revenue	<u>\$79,469,023</u>	<u>\$ 56,390,571</u>	<u>\$23,078,452</u>
<b>Expenditures and Encumbrances</b>			
Transfers	2,011,638	1,720,851	290,787
Salaries and wages	14,295,820	11,786,791	2,509,029
Other personnel cost	5,459,808	5,354,891	104,917
Contractual services	17,551,862	19,154,888	(1,603,026)
Material and supplies	3,110,992	1,110,287	2,000,705
Minor equipment	261,376	222,160	39,216
Major equipment	19,399,426	18,748,490	650,936
Other	<u>17,378,101</u>	<u>15,771,346</u>	<u>1,606,755</u>
<b>Total Expenditures and Encumbrances</b>	<u>79,469,023</u>	<u>73,869,704</u>	<u>5,599,319</u>
<b>Deficiency of Revenues over Expenditures</b>	<u>\$ -</u>	<u>\$(17,479,133)</u>	<u>\$17,479,133</u>

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

**CITY OF BALTIMORE**  
**Department of General Services**  
**Schedule of Budgetary Revenues, Expenditures and Encumbrances**  
**Budget and Actual – Budgetary Basis – Building Maintenance Fund**  
**For Fiscal Years Ended June 30, 2018 and 2017**

Fiscal Year 2018	Final Budget	Actual	Variance
<b>Revenues</b>			
Appropriations revenue	<u>\$27,315,810</u>	<u>\$23,079,818</u>	<u>\$ 4,235,992</u>
<b>Expenditures and Encumbrances</b>			
Salaries and wages	2,703,013	3,141,795	(438,782)
Other personnel cost	1,196,142	1,220,345	(24,203)
Contractual services	17,576,725	15,030,880	2,545,845
Material and supplies	534,090	644,623	(110,533)
Minor equipment	15,600	24,536	(8,936)
Major equipment	-	-	-
Other	<u>5,290,240</u>	<u>2,382,468</u>	<u>2,907,772</u>
<b>Total Expenditures and Encumbrances</b>	<u>27,315,810</u>	<u>22,444,647</u>	<u>4,871,163</u>
<b>Deficiency of Revenues over Expenditures</b>	<u>\$ -</u>	<u>\$ 635,171</u>	<u>\$ (635,171)</u>
Fiscal Year 2017	Final Budget	Actual	Variance
<b>Revenues</b>			
Appropriations revenue	<u>\$19,000,578</u>	<u>\$16,144,339</u>	<u>\$ 2,856,239</u>
<b>Expenditures and Encumbrances</b>			
Salaries and wages	1,587,996	1,209,662	378,334
Other personnel cost	706,748	674,126	32,622
Contractual services	14,119,850	9,086,963	5,032,887
Material and supplies	349,536	324,280	25,256
Minor equipment	15,348	22,092	(6,744)
Major equipment	-	-	-
Other	<u>2,221,100</u>	<u>2,118,150</u>	<u>102,950</u>
<b>Total Expenditures and Encumbrances</b>	<u>19,000,578</u>	<u>13,435,273</u>	<u>5,565,305</u>
<b>Deficiency of Revenues over Expenditures</b>	<u>\$ -</u>	<u>\$ 2,709,066</u>	<u>\$ (2,709,066)</u>

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



**CITY OF BALTIMORE**  
**Department of General Services**  
**Statement of Revenues, Expenditures and Changes in Fund Balance – Cash**  
**Basis – Capital Project Fund**  
**For Fiscal Years Ended June 30, 2018 and 2017**

	Fiscal Year 2018	Fiscal Year 2017
<b>Revenues</b>		
Federal Grant Revenue	\$ -	\$ -
State Grant Revenue	-	\$350,000
Public Building Loans	4,803,081	446,403
Other fund revenue	<u>4,715,000</u>	<u>4,870,000</u>
<b>Total Revenues</b>	<u>9,518,081</u>	<u>5,666,403</u>
<b>Expenditures</b>		
Capital outlay	<u>3,276,151</u>	<u>5,196,680</u>
<b>Total Expenditures</b>	<u>3,276,151</u>	<u>5,196,680</u>
<b>Excess (Deficit) of Revenues over Expenditures</b>	6,241,930	\$469,723
Beginning fund balance	<u>4,226,820</u>	<u>3,757,096</u>
Ending fund balance	<u>\$10,468,750</u>	<u>\$4,226,819</u>

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

**CITY OF BALTIMORE**  
**Department of General Services**  
**Notes to Financial Statements**  
**For Fiscal Years Ended June 30, 2018 and 2017**

**1. Description of the Department of General Services**

The Agency is responsible for providing healthy work environments and safe reliable vehicles for City employees by delivering high quality and cost-effective support services to City agencies who serve Baltimore's citizens and stakeholders. The Agency oversees six major divisions: Fleet Management, Facilities Management, Permits and Municipal Consents, Real Property Database Management, Public and Private Energy Performance, and Building and Energy Improvements. Other duties include: (1) delivering cost effective, high quality, reliable and sustainable services by managing quality facilities; (2) ensuring efficient fleet operations; and (3) maintaining exemplary administrative customer service that supports City agencies in the advancement of their goals. Initiatives also include modernizing and reducing the size of the City's fleet, conducting behavior change programs to reduce energy consumption, installing solar capacity to serve multiple facilities, managing the purchase of energy commodities and maximizing opportunities from renewable energy sources consistent with the City's Sustainability Plan and State mandates to promote a clean environment. At the end of fiscal year 2015, responsibility for issuing Permits and Municipal Consents moved to the Department of Transportation.

**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, internal service, special revenue and capital projects funds. The Agency annually receives appropriations from both the general, internal service, special revenue and capital projects funds. The 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 and capital project funds are reported in the Statement of Revenues, Expenditures and Changes in Fund Balance.

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

### **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 *Generally Accepted Accounting Principles* (GAAP). This basis of presentation differs from GAAP 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. Specifically, the variances from GAAP include the omission 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 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 31, 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 (City) Department of General Services (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 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, we identified certain deficiencies in internal control that we consider to be control 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 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 findings to be control deficiencies.

### **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

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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 General Services Response to Findings**

The Agency's responses to the findings identified in our audit are described in *Appendix 1 – Management's Response*. Their 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, 2019

**CITY OF BALTIMORE**  
**Department of General Services**  
**Schedule of Findings**  
**Fiscal Years Ended June 30, 2018 and 2017**

**Finding #1: Control Deficiency – Supporting documentation was missing for selected payroll activities due to the ineffective controls.**

The Agency’s Facilities Management and Fleet Management Divisions were not able to provide documentation for selected Fiscal Years 2018 and 2017 payroll activities for testing (see Table I and Table II). As a result, Management was not able to demonstrate whether selected payroll activities were accurately recorded, which may result in financial losses including inaccurate payments, accruals and final payouts to employees.

**Table I**

**Summary of Exceptions Noted for Selected Facility Management Division Payroll Activity Testing for Two Pay Periods Ending August 16, 2017 and June 20, 2018**

Payroll Descriptions	Exceptions <sup>1</sup>	
	Number	Percent
Attendance record missing within employee file	1 of 12	8
Leave used, Compensatory time (COMP) / Overtime (OT) earned not approved by a supervisor	2 of 11	18
Time sheet does not agree to time inputted in ADP <sup>2</sup>	2 of 11	18
Recalculated gross pay does not agree to pay per HRIS <sup>3</sup>	2 of 11	18

**Notes:** <sup>1</sup> Exceptions are based on the selected 12 payroll attendance sheets for the two pay periods.  
<sup>2</sup> 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.  
<sup>3</sup> HRIS is an online software used for data entry, data tracking and data information for Human Resources payroll, management and accounting functions within the City.

**Table II**

**Summary of Exceptions Noted for Selected Fleet Management Payroll Activity Testing for Two Pay Periods Ending January 4, 2017 and June 21, 2017**

Payroll Descriptions	Exceptions <sup>1</sup>	
	Number	Percent
OT earned	7 of 34	21
COMP used	1 of 34	3
Leaves used	11 of 34	32
Missing supervisor’s approval signature on attendance sheet	17 of 34	50

**Note:** <sup>1</sup> Exceptions are based on the selected 17 payroll attendance sheets for the two pay periods.

Missing documentation was due to the lack of effective controls including documentation, segregation of duties (see text box below) and upper management review for each respective Division as stated below:

Facilities Management Division

- Payroll processing for employees: The Facilities Management Division uses ADP Biometrics System (System) to record employees' time and attendance. In addition to biometric controls, employees are assigned a card which they swipe at the beginning and end of their regular scheduled work day. The System interfaces with the ADP system, which is a payroll system. OT and COMP time are earned minute by minute for all employees. Employees are required to submit OT, COMP time, and leave slips, which are approved by their supervisors. Approved slips are then submitted to the payroll clerk who inputs leave used and COMP time or OT earned into the ADP system. The System allows employees to swipe in and out outside of their normal schedule hours. The payroll clerk is required to review OT, COMP, and leave slips to adjust employees' time recorded in ADP as necessary.
- Payroll processing for Administration employees: Administration employees within the Managerial and Professional Society of Baltimore, Inc. (MAPS) bargaining unit must submit signed timesheets biweekly to their immediate supervisor despite the Biometrics system. Timesheets are inputted into ADP by the payroll clerk.

For both payroll processing for employees and Administration, the payroll clerk is responsible for maintaining documentation and validating accuracy of payroll records.

Fleet Management Division

Each unit under the Fleet Management Division used an Excel spreadsheet (attendance sheet) to record employees daily time including work hours, vacation, sick, OT, COMP time, etc. The attendance sheet is password protected and is accessible by a supervisor and a backup.

Formal approval forms were not used to support the OT and COMP time earned and leaves used. Instead, employees verbally informed their supervisors and / or backup personnel. These supervisors and backup personnel can record the information in the attendance sheets. Also, they could record and approve their own time without upper management review (see text box).

**Segregation of Duties**

- Segregation of duties helps prevent fraud, waste and abuse in the internal control system.
- If segregation of duties is not practical within an operational process because of limited personnel or other factors, management designs alternative control activities to address the risk of fraud, waste or abuse in the operational process.
- Management considers the need to separate control activities related to authority, custody and accounting of operations to achieve adequate segregation of duties.

**Source:** *The Standards for Internal Control in the Federal Government* issued by the United States Government Accountability Office by the Comptroller General of the United States



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Even if management review was established, the validity of supervisors and backup's payroll activities could not be validated. The Excel spreadsheet lacks the appropriate audit trail; also, formal slips to record exception time were not used. These internal control weaknesses were previously identified in the *Department of General Services, Biennial Financial Audit for Fiscal Years Ended June 30, 2016 and 2015*.

According to the Agency, to address the prior audit finding and recommendations, the following payroll processing controls were implemented in late Calendar Year (CY) 2018<sup>1</sup>.

- All Management personnel, including supervisors, are now required to complete an *Overtime Report*, which is also completed for COMP time, and a *Request for Time Off* form to support all payroll activities.
- Certain upper level management personnel perform daily review of the unit's attendance sheets for which they are responsible (primary review).
- Payroll Clerks review the validity of attendance sheets and input the time in ADP daily. Also, the Payroll Clerks lock attendance sheets every other day to prevent subsequent changes (secondary review).

However, both Facilities and Fleet Management Divisions have not documented the above payroll processes. Also, the Agency does not have formal (written, approved, dated) retention policy for its operations including payroll processing.

Administrative Manual 205-10, *Payroll Systems* (effective February 20, 1989) 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."

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<sup>1</sup> The Department of Audit will review the implementation of these prior year recommendations in the next biennial audit, which will be performed in CY 2021.

**Recommendation #1:**

We recommend the Agency Director develop and implement formal (written, approved and dated):

- Policies and procedures for payroll processing; and
- Record retention schedule for the Agency and file with City Archivist

**Finding #2: Control Deficiency – Certain revenues were incorrectly recorded in an expenditure account.**

The Agency is an internal service fund (see text box); however, it did not properly record the internal service revenues (see Table III on the following page), as identified during the expenditure testing. The Agency recorded the revenues as a credit in an expenditure account rather than crediting them in a revenue account, understating the Agency's revenues and expenditures<sup>2</sup>. Although there is no significant impact at the City level from this accounting practice, expenditures cannot be properly managed at the Agency level.

This accounting method was used because the City does not have formal (written, approved, dated) policies guiding City agencies how to record internal service revenues.

Prior to CY 2018, the accounting practice was to record PATS (see Table III Note) as unallocated credits using natural account number 600000, which is an expense account. In CY 2018, the Bureau of Accounting and Payroll Services required agencies to discontinue that method of accounting for unallocated credits and recommended revenues from that point forward be credited to respective revenue accounts beginning with natural 4XXXXX.

**Internal Service Fund**

An internal service fund is used in governmental accounting to track goods or services provided to other city agencies on a cost-reimbursement basis, with the goal to 'break-even' rather than make a profit. An example of an internal service fund is a maintenance department that provides equipment maintenance services to other agencies.

The internal service fund records costs incurred (e.g. payroll, supplies, etc.) as expenditures. The internal service fund will bill the "customer" agency and will record the billed amount as revenue. These revenues and expenditures should equal resulting in the break-even. The "customer" agency will record the billed amount as an expenditure on their financial statements (e.g. maintenance).

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<sup>2</sup> Certain agencies / funds have been designated as internal service fund "customers" for the Agency. The Agency correctly bills and records revenue for service provided to these agencies. For agencies / funds not designated as internal service fund "customers" which are budgeted through the General Fund, the Agency transfers the related costs to their General Ledger accounts and credits the Agency expenditures (reducing the costs reported by the Agency).

**Table III**

**Summary of 2017 Revenues Recorded in an Expenditure Account**

<b>Descriptions</b>	<b>Exceptions</b>	<b>Percent</b>	<b>Amount</b>
PATS <sup>1</sup>	6 of 15	40	\$(42,056)
CRJ <sup>2</sup>	6 of 6	100	(112,122)
Total			\$(154,178)

**Notes:** <sup>1</sup> PATS are timesheet transactions for Agency payroll charged to other agencies for services provided by Agency staff.

<sup>2</sup> CRJ's are receivables cash receipts that are recorded as reduction of expenditures

**Recommendation #2:**

We recommend the Agency Director develop and implement formal (written, approved, dated) policy to guide the Agency on how internal service revenues should be recorded.

## Implementation Status of Prior Audit Findings and Recommendations

Table IV

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	Recommendation	Management's Self-reported Implementation Status	Auditor's Assessment
1	<p>Review of the Past Maintenance Compliance Report, which resulted from testing of fleet expenditures, disclosed 452 vehicle (cars and trucks) and equipment (e.g. generators, pumps, back hoes, tractors, trailers, and Bobcats) listings that are one to 15 years late in receiving scheduled maintenance and 772 that are 90 days to one year late. The Agency periodically submits requests to the respective agencies to have the asset(s) brought in for maintenance. However, the agencies do not always comply. Additionally, inventories are performed by City agencies on a biennial basis and are forwarded to Agencies for reporting purposes. However, the Agency does not participate in the inventories to ensure the accuracy and completeness of the information provided. As a result, assets may be lost or stolen and not detected by management.</p>	<ul style="list-style-type: none"> <li>Escalate (e.g. Director of Finance and Mayor's Chief of Staff) aged past maintenance activity and biennial inventory issues, if any, to obtain Agency compliance.</li> <li>Participate in the biennial audits and perform inventory tests to validate the existence of City assets and the accuracy and completeness of the inventories. Sample should include transactions from the Past Maintenance Compliance Report.</li> </ul>	<p>Implemented - Fleet's most recent vehicle audit was completed in August 2018. The next audit is scheduled to be conducted March 2020 – June 30, 2020. While spot checks for grossly overdue Preventive Maintenances were temporarily halted with the unexpected vacancy of our Research Analyst position in March 2019. Fleet has recently filled the vacancy and spot-checks are slated to resume within the next 30 days.</p>	<p><b>Implemented</b></p>

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No.	Finding	Recommendation	Management's Self-reported implementation status	Auditor's Assessment
2	<p>During our testing of Fleet related expenditures, we noted that supervisors and lead workers have the authority to initiate a repair order, assign work to themselves, authorize the acquisition of parts and subsequently close the order. In the current environment, supervisors and lead workers typically hand carry repair orders to technicians to perform the actual work. As a result, there are no controls to preclude supervisors and lead workers from preparing fictitious repair orders for existing City vehicles, ordering parts, closing the order and retaining the parts for personal use.</p>	<ul style="list-style-type: none"> <li>• Upgrade / revise the FASTER System<sup>3</sup> to require technicians to accept the repair order within the system to permit continuation of the order. Initiation for parts should come from technicians.</li> <li>• Obtain and review activity reports by management to verify the appropriateness of the work orders. In the interim, management could perform customer service follow up to ensure the legitimacy of the transactions.</li> </ul>	<p>Implemented - In June 2019, Fleet completely revamped its parts authorization process to include a three-step process requiring technicians, supervisors and storekeepers to request, approve and issue via signatures on three-part parts authorization. Requiring the existence of corresponding repairs prior to issuing parts adds another layer of checks and balances to assure parts are being issued to legitimate repairs. Reports returning work orders (WO's) with issued parts and no labor, and WO's with manually added labor transactions will be created and reviewed by management staff beginning January 2020.</p>	<p>Auditors did not evaluate the implementation status of this prior finding and recommendation because the Agency has not implemented the recommendation.</p> <p>Auditors will follow-up after the recommendations are implemented in January 2020.</p>

<sup>3</sup> FASTER is an information system database that tracks the following: equipment inventory, parts inventory, maintenance history and costs, fuel usage and costs, etc. It also schedules and tracks preventive maintenance services.

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No.	Finding	Recommendation	Management's Self-reported Implementation Status	Auditor's Assessment
3	<p>The review of logical access controls over the FASTER System, which is used to manage the City's fleet, disclosed that the responsible Systems Analyst (SA) has the authority to provide user access and perform day to day activities. The system does produce a report that details system updates (e.g. additions, changes and deletes); however, the report is not reviewed by management. As a result, assets may be lost or stolen and not detected by management.</p>	<ul style="list-style-type: none"> <li>• Remove the SA ability to process transactions within the System.</li> <li>• Review a sample of System updates prepared by the SA should be conducted by management periodically to determine appropriateness.</li> <li>• Retain documentation substantiating the review in the permanent records.</li> </ul>	<p>Implemented - Permissions to process transactions have largely been removed from the SA outside of training. Transactions are processed by the automotive techs and staff normally assigned to the tasks. The SA does not perform processing (such as creating work orders, issuing parts, logging onto jobs, etc.).</p>	<p><b>Not implemented</b></p> <p>The system analyst has two types of user access, system administrator and super user. Currently, the system administrator access is read only for process transactions, but the super user enables unlimited access to the module. The SA can create fictitious user accounts and / or change her user roles at any time. As a result, without management periodic review of user access and transactions, management will not be able to detect fictitious accounts and / or suspicious transactions.</p>

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No.	Finding	Recommendation	Management's Self-reported implementation status	Auditor's Assessment
4	<p>Testing of 40 Agency payroll transactions for the periods ending June 30, 2016 and 2015 noted the following exceptions:</p> <p><u>FY 2016</u></p> <ul style="list-style-type: none"> <li>• Documentation not provided: 17 of 40</li> <li>• Biweekly timesheets not approved: 30 of 40</li> <li>• Compensatory time earned was not approved: 3 of 40</li> <li>• Bi-weekly time sheet did not agree to E-time: 2 of 40</li> <li>• Could not verify the hourly rate per timesheet: 1 of 40</li> </ul> <p><u>FY 2017</u></p> <ul style="list-style-type: none"> <li>• Leave documentation not provided: 9 of 40</li> <li>• Employees did not consistently sign-in or out: 3 of 40</li> <li>• Compensatory time earned was not approved: 4 of 40</li> <li>• Bi-weekly timesheet did not agree to E-time: 5 of 40</li> </ul>	<p>Refine the Agency's process (e.g. training and procedure development) for the recording and reporting of employee time that ensures the accuracy and completeness of the data and the resulting employee pay checks.</p>	<p>Implemented - Since the previous audit we have consolidated the payroll team under the Human Resources (HR) office in 2018 where internal audits and spot checking occurs. Our payroll clerks are trained by the HR team and updated continuously on all policies and Memorandum of Understanding (MOU) as they change.</p> <p>The HR Business Partner or the Chief of HR does a bulk of the review work to make sure everyone is paid correctly, and no payroll clerk signs off on their own work which was done previously.</p> <p>Payroll clerks work with supervisors to obtain all necessary information but do not insert any information that does not have documentation to backup.</p>	<p>The Agency implemented recommendations in late CY 2018<sup>1</sup>. Payroll documentation issues were observed in our audit scope of FYs 2018<sup>2</sup> and 2017<sup>3</sup> (see Finding # 1 on page 13).</p> <p>Auditor will review the implementation of the prior year recommendations in the next biennial audit, which will be performed in CY 2021.</p> <p><b>Notes:</b></p> <ul style="list-style-type: none"> <li>• <sup>1</sup> CY 2018 is from January 1, 2018 to December 31, 2018.</li> <li>• <sup>2</sup> FY 2018 is from July 1, 2017 to June 30, 2018</li> <li>• <sup>3</sup> FY 2017 is from July 1, 2016 to June 30, 2017</li> </ul>

## **Management's Response**

**Date:** December 19, 2019

**To:** Josh Pasch, City Auditor

**Subject:** Management Response to Audit Report:  
Biennial Financial Audit Report on Department of General Services

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

### **Recommendation # 1**

We recommend the Agency Director develop and implement formal (written, approved, and dated):

- Policies and procedures for payroll processing; and
- Record retention schedule for the Agency and file with City Archivist.

### **Management Response / Corrective Action Plan**

**Agree**   **Disagree**

The Agency is in agreement with the findings from the Department of Audits. As Agency works towards development of appropriate formal policies, the agency would note the following:

- **Determination of Overtime:** The Agency generally performs overtime work on an on-demand basis, on behalf of other city agencies (such as Police, Fire, Health) that work to ensure the safety and well-being of City residents. Though cannot predict corrective maintenance needs of its customer agencies, Agency Fleet Management and Facilities Management Divisions will look to produce additional documentation outlining operational requirements for essential city services, MOUs governing overtime procedures across different City unions or bargaining units, and formalized documentation for policies and practices regarding the approval of overtime by supervisors or management personnel.
- **Adequacy of Controls:** Agency will also work to produce a structure with well-defined segregation of duties and controls related to attendance recordation.

**Implementation Date:** July 1, 2020

Agency will aim to implement corrective measures for this finding within approximately 180 days (6 months) of the issuance of this report.



**Responsible Personnel:**

- Benjamin Brosch, Chief Financial Officer, 410-396-1733
- Catherine Burns, Human Resources Chief, 410-396-7258

**Recommendation #2**

We recommend the Agency Director develop and implement formal (written, approved, dated) policy to guide the agency on how internal service revenues should be recorded.

**Management Response/Corrective Action Plan**

Agree   Disagree

The Agency agrees with the finding that certain revenues were recorded as negative expenditures during the periods of FY2017 and FY2018 and wishes to provide clarification in select instances.

**Charges for services:** The Facilities Maintenance Division charges other city agencies for services not captured within the scope of their current leases (ex. – agency office renovations, or services to buildings not owned / operated by Agency). Prior practice has credited Agency operating budget accounts based on the charges to other agencies. The Agency has notified agency personnel to temporarily halt execution of these transactions, until a revised process has been formalized. Going forward, Agency will work to demonstrate charges specifically as revenues rather than as credits to expenditure accounts.

**Capital Project Recapping:** The Capital Projects Division’s operating budget is informed by credits related to project “recapping”. As full-time positional salaries and benefits may not be budgeted directly within a capital fund source, recapping allows the agency to charge personnel time on a project-by-project basis. Agency will work with the Department of Finance to determine the most appropriate methodology to recognize project-specific personnel expenses and ensure this is consistent with methodology employed by other city agencies.

**Implementation Date:** July 1, 2020

The Agency will aim to implement corrective measures for this finding within approximately 180 days (6 months) of the issuance of this report.

**Responsible Personnel:**

Benjamin Brosch, Chief Financial Officer, 410-396-1733