



Brandon M. Scott
Mayor

FY 23

Annual Comprehensive Financial Report (ACFR)

PREPARED BY
Department of Finance

June 25, 2024

FY23 ACFR Highlights and Focus on Corrective Actions

- An unmodified opinion on the financial statements
- Discovered no instances of material fraud
- Received full cooperation from management
- There were material weaknesses and significant deficiencies in internal controls identified and the auditors provided recommendations for improvement to internal controls
- As noted by auditors the prior finding removal process faces a heightened standard and is anticipated to be a multi year process.
- This is first full year in a new accounting system and new chart of accounts



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Financial Reporting Function	The City had significant post year-end adjustments to its fiscal year 2023 financial statements. Such adjustments relate to errors (both material and immaterial) undiscovered throughout the fiscal year. For example, there were cash accounts that were not reconciled for the majority of the fiscal year, which resulted in approximately \$50 million of uninvestigated reconciling items. Additionally, upon review of the trust accounts, an account for \$92 million was identified, but had not been recorded as of year end.
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The following corrective actions have been undertaken to address (with status noted):

- Produce financial statements in Workday using multibook accounting (GAAP and modified accrual) beginning in fiscal year 2023. This reduces the volume of manual adjustments in the ACFR preparation process. (complete)
- Set up automated business process for the monthly accounting close process to track significant tasks and send these tasks to relevant employee's inbox beginning with fiscal year 2023. (complete)
- The city uses "control" accounts for accounts receivable and accounts payable, which requires the subsidiary systems to reconcile to the general ledger. (continuous)
- An extensive review of the chart of accounts has been completed. The City now uses the same chart of accounts across multiple critical fiscal functions including budgets, procurement, accounting, etc. (complete)
- Develop and refine Workday integrations to allow for efficient and timely reconciliation of cash accounts. (ongoing)
- A review of Bureau of Accounting & Payroll Services (BAPS) accounting team was conducted in May 2024 and as a result additional staff training, reorganization of staff portfolios to cross train is underway.



Grant Accounting

Due to lack of formal procedures and accountability at various departments, the City is not able to establish accurate balances of grant accounts receivable and grant deferred revenue accounts.

Schedule of Federal Awards (SEFA)

Finance is responsible for preparing the schedule of expenditures of Federal awards based upon grant information obtained from the financial accounting records and other information provided by each department or agency. In many instances, the detail expenditure information in the accounting software differed from the expenditures reported by various City departments. Additionally, expenditures related to sub-recipients, subcontractors, and beneficiaries are not separately tracked in the general ledger. Without adequate controls over financial reporting, the City cannot provide reasonable assurance that the SEFA is fairly presented. There were also significant delays in the preparation of the Schedule of Federal awards, which prevented the City from meeting the March 31, 2024 deadline with the Federal clearinghouse.

The following corrective actions have been undertaken to address (with status noted):

We are now able in one system to :

- Track the grant performance period and the CFDA number (complete)
- Manage and capture grant related expenditures (complete)
- Calculate automated billing to sponsors based on recoverable costs (in progress)
- Calculate the revenue by grant based on the recoverable costs (in progress)
- Business processes have been developed and implemented in Workday's grant management module to include:
 - Definition of the grant funding source by creating a system-generated grant work tag (identifier) upon receipt of the Sponsor's Notice of Award. (complete)
 - Populated fields in Workday with pass-through award data with Prime Sponsor and Bill-to-Sponsor data to billing data (complete).
 - Modifying create award business process to add the Grants Management Office as final approval (in progress)



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The corrective actions for grants have included citywide actions in policy and process:

- Instituted Grants Management Committee monthly meeting led by OPI with support of Grants Management Office and BAPS. Participation includes all grant funded agencies and focus on tracking progress on corrective action plans, ongoing grant process standardization and improvement and a forum to present and drill down on grant related issues.
- Staffing – reviewed staffing and mission of Grants Management Office- developed short and longer term plan for an expanded scope that focuses on providing citywide support in policy, training, compliance and audit monitoring, and budget oversight. Creation of a key Grants Director position that will lead the transformation.
- As part of this expanded role, Grants Management Office and BAPS have led multiple citywide trainings on key grant accounting functions in Workday; covered topics have included grant billing, award creation, tracking grant reporting with each training having between 50-70 agency grant staff attending



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Water and Waste Water Billing

There was a significant number of accounts that have not been billed since the system has been implemented and a significant number of accounts have been billed inconsistently. The City's water and wastewater utilities system is not able to establish accurate water and wastewater utilities revenue and accounts receivable balances without manually calculated adjustments and this is a greater risk of error due to manual adjustments. There were also approximately \$13 million capitalizable costs that were erroneously recorded as operational expenses that needed to be adjusted post-close.

The following corrective actions have been undertaken to address (with status noted):

- The Office of the Mayor led a review of unbilled properties that have no accounts established within the billing system
- Baltimore City and Baltimore County undertook a joint review of the entire water and wastewater utility
- DPW optimized water billing cycles and schedules through a software program called Route Smart. City customers are billed monthly
- When a billing case is established the adjustments are now in a timely manner. DPW is working to automate the adjustment process via the billing system
- The UMAX update went live on Monday, June 17th which provides additional capability
- DPW attributed costs that were not erroneous there were a series of costs related to materials and contractual services related to compliance. The costs were unanticipated because they were compliance-related. Once analyzed, DPW determined that it was more suited to capitalize the costs because the costs were essentially a consent decree project
- As of May 2024, we've billed 99.25% of accounts, including 99.5% of residential accounts, which make up 87% of all accounts. Meter reads via the AMI/AMR technology allow for consistent billing, there are processes to no/mis-readings and to pull bills that may have erroneous or exceptionally high reads.



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Fixed Asset Accounting

There were significant post-close adjustments recorded to fixed assets to correct the year-end reporting for capitalized assets. Additionally, errors were detected in the depreciation calculation that resulted in additional adjustments.

The following corrective actions have been undertaken to address (with status noted):

- Track fixed asset in Workday and calculate the depreciation of the assets (in progress)
Enterprise Funds – Completed FY23;
General Funds – Targeted FY24; Construction in Progress – Target FY25
- Depreciation will be run monthly rather than at the end of the year, allowing for a more regular review of the fixed assets (in progress).
- A new Workday role within each agency, an asset tracking specialist, is responsible for reviewing the fixed asset listing and working with the Department of Finance ensuring that assets are capitalized properly (complete)
- A Capital Assets policy has been drafted and is expected to be reviewed and approved (in progress).
- The capitalization process is automated. A separate business process has been set up to flag certain expenditures (i.e., equipment) for tracking and review. A business asset accountant approves the final capital asset, life, and start date. A similar process is in place for large construction processes. (complete)
- Workday reports which reconcile the subsidiary fixed asset module to the general ledger will be run monthly and reviewed (continuous)



Information Technology Security

While progress has been made in addressing and remediating the legacy vulnerabilities, including adding additional personnel to the task, a number of “severe/critical/high risk” vulnerabilities remain to be remediated. The absence of timely remediation increases the risk that vulnerabilities may be exploited leading to disruption of the City’s operations and/or theft/loss of data.

The following corrective actions have been undertaken to address (with status noted):

- Complete the review and cleanup of the final wave of agencies – BCIT, BCHD, BCFD and some stragglers from DPW, DHR and DOF (complete)
- Disable all privileged accounts that have not been used within 180 days (complete)
- Review any remaining P accounts for disposition (complete)
- Seek feedback from agencies on the FY 2023 Privileged Account review process and develop process improvements (complete)
- The FY 24 entitlement review and process improvements were shared in December 2023 Security Council.
- The FY 24 annual privileged entitlement review cycle began in January 2024.



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