

BALTIMORE CITY DEPARTMENT OF PUBLIC WORKS

Biennial Financial Audit
for Fiscal Years Ended
June 30, 2020 and 2019
City Auditor, Josh Pasch
December 30, 2021



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Office of the Comptroller

Josh Pasch, City Auditor

100 N. Holliday St., Room 321
Baltimore, Maryland 21202

INDEPENDENT AUDITOR'S REPORT

Honorable Bill Henry, Comptroller

and Other Members of the

Board of Estimates

City of Baltimore

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, of the Baltimore City Department of Public Works (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, State Video Lottery; Schedule of Revenues, Expenditures and Encumbrances, and Changes in Fund Balance, Budget and Actual, Budgetary Basis, Casino Fund; Schedule of Budgetary Revenues and Expenditures, Modified Accrual Basis, Energy Conservation Fund; Statement of Revenues, Expenditures and Changes in Fund Balance, Capital Projects Fund; and Statement of Revenues, Expenditures and Changes in Grant Cash Balance*, for the years ended June 30, 2020 and 2019, 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 basis of accounting described in Note 3. This includes determining that the basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, except for peer review requirements. Those standards require that we plan and perform the audit

to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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 insufficient to allow us to state an opinion on the financial statements; therefore, we disclaim an opinion on the statements as presented

Basis of Accounting

The financial statements are prepared using the general ledger activity posted for the given Fiscal Year excluding the adjustments made for purposes of the Annual Comprehensive Financial Report (ACFR). Postings to the general ledger include certain year end accruals, expenses which were not yet paid and revenues which were not yet received at year end making them non-compliant with the cash basis of accounting. Additionally, expenses and revenues posted in the two months after fiscal year end which are attributable to the prior Fiscal Year are not accrued as would be required for the modified accrual basis of accounting. Additionally, 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. We therefore are disclaiming an opinion on the statements as they were not prepared in compliance with any basis of accounting.

Note: The biennial financial statements are requested by the Biennial Audits Oversight Commission to monitor expenditures of the agencies on an annual basis. Therefore, they are not required to comply with Generally Accepted Accounting Principles (GAAP).

Report on Other Legal and Regulatory Requirements

In accordance with *Government Auditing Standards*, we have also issued our report, dated December 30, 2021 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 16). 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 30, 2021

CITY OF BALTIMORE
Department of Public Works
Schedule of Revenues, Expenditures and Encumbrances, and Changes in Fund Balance
Budget and Actual – Budgetary Basis – General Fund
For Fiscal Years Ended June 30, 2020 and 2019

Fiscal Year 2020	Final Budget	Actual	Variance
Revenues:			
Appropriated Revenues	\$ 93,342,351	\$ 88,977,853	\$(4,364,498)
Expenditures and Encumbrances:			
Administration - Solid Waste	1,645,529	2,038,744	(393,215)
Public Right-of-Way Cleaning	18,097,284	16,158,579	1,938,705
Vacant/Abandoned Property Cleaning and Boarding	12,762,208	9,775,314	2,986,894
Waste Removal and Recycling	31,227,006	31,069,412	157,594
Waste Re-Use and Disposals	26,460,912	24,766,394	1,694,518
Administration – DPW	3,149,412	5,169,410	(2,019,998)
Total Expenditures and Encumbrances	93,342,351	88,977,853	4,364,498
Excess of Revenues over Expenditures	-	-	-
Opening Fund Balance	-	-	-
Ending Fund Balance	\$ -	\$ -	\$ -

CITY OF BALTIMORE
Department of Public Works
Schedule of Revenues, Expenditures and Encumbrances, and Changes in Fund Balance
Budget and Actual – Budgetary Basis – General Fund
For Fiscal Years Ended June 30, 2020 and 2019

Fiscal Year 2019	Final Budget	Actual	Variance
Revenues:			
Appropriated Revenues	\$ 89,299,246	\$ 87,186,782	\$ (2,112,464)
Expenditures and Encumbrances:			
Administration - Solid Waste	1,469,082	2,240,060	(770,978)
Public Right-of-Way Cleaning	18,018,939	16,468,364	1,550,575
Vacant / *Abandoned Property Cleaning and Board	9,479,101	11,403,776	(1,924,675)
Waste Removal and Recycling	32,526,371	30,186,737	2,339,634
Waste Re-Use and Disposals	24,366,439	18,148,349	6,218,090
Administration – DPW	3,439,314	8,739,496	(5,300,182)
Total Expenditures and Encumbrances	89,299,246	87,186,782	2,112,464
Excess of Revenues over Expenditures	-	-	-
Opening Fund Balance	-	-	-
Ending Fund Balance	\$ -	\$ -	\$ -

CITY OF BALTIMORE
Department of Public Works
Schedule of Revenues, Expenditures and Encumbrances, and Changes in Fund Balance
Budget and Actual – Budgetary Basis – State Video Lottery
For Fiscal Years Ended June 30, 2020 and 2019

Fiscal Year 2020	Final Budget	Actual	Variance
Revenues:			
Appropriated Revenues	\$ 200,000	\$ 117,725	\$ (82,275)
Expenditures and Encumbrances:			
Salaries and Wages		24,076	(24,076)
Other Personnel Cost		1,842	(1,842)
Contractual Services	200,000	91,807	108,193
Material and Supplies			
Minor Equipment			-
Other			-
Total Expenditures and Encumbrances	200,000	117,725	82,275
Excess of Revenues over Expenditures	\$ -	\$ -	\$ -

Fiscal Year 2019	Final Budget	Actual	Variance
Revenues:			
Appropriated Revenues	\$ -	\$ -	\$ -
Expenditures and Encumbrances:			
Salaries and Wages			
Other Personnel Cost			
Contractual Services			
Material and Supplies			
Minor Equipment			
Other			-
Total Expenditures and Encumbrances			
Excess of Revenues over Expenditures	\$ -	\$ -	\$ -

CITY OF BALTIMORE
Department of Public Works
Schedule of Revenues, Expenditures and Encumbrances, and Changes in Fund Balance
Budget and Actual – Budgetary Basis – Casino Fund
For Fiscal Years Ended June 30, 2020 and 2019

Fiscal Year 2020	Final Budget	Actual	Variance
Revenues:			
Appropriated Revenues	\$ 664,918	\$ 373,090	\$ (291,828)
Expenditures and Encumbrances:			
Salaries and Wages	38,351	118,390	(80,039)
Other Personnel Cost	35,529	37,082	(1,553)
Contractual Services	580,728	206,896	373,832
Material and Supplies	2,959	3,371	(412)
Minor Equipment			-
Other	7,351	7,351	-
Total Expenditures and Encumbrances	664,918	373,090	291,828
Excess of Revenues over Expenditures	\$ -	\$ -	\$ -

Fiscal Year 2019	Final Budget	Actual	Variance
Revenues:			
Appropriated Revenues	\$ 400,000	\$ 974,186	\$ 574,186
Expenditures and Encumbrances:			
Salaries and Wages	24,139	178,089	(153,950)
Other Personnel Cost	31,737	47,020	(15,283)
Contractual Services	332,714	452,239	(119,525)
Material and Supplies	2,474	2,665	(191)
Minor Equipment	3,202	288,439	(285,237)
Other	5,734	5,734	-
Total Expenditures and Encumbrances	400,000	974,186	(574,186)
Excess of Revenues over Expenditures	\$ -	\$ -	\$ -

CITY OF BALTIMORE
Department of Public Works
Schedule of Budgetary Revenues and Expenditures
Modified Accrual Basis – Energy Conservation Fund
For Fiscal Years Ended June 30, 2020 and 2019

Fiscal Year 2020	Final Budget	Actual	Variance
Revenues:			
Appropriated Revenues	\$ 2,699,085	\$ 704,430	\$ (1,994,655)
Expenditures and Encumbrances:			
Salaries and Wages	1,403,004	134,218	1,268,786
Other Personnel Cost	204,567	156,610	47,957
Contractual Services	973,060	388,092	584,968
Material and Supplies	15,960		15,960
Minor Equipment	80,441	7,889	72,552
Other	22,053	22,053	-
Total Expenditures and Encumbrances	2,699,085	708,862	1,990,223
Excess of Revenues over Expenditures	\$ -	\$ (4,432)	\$ (4,432)

Fiscal Year 2019	Final Budget	Actual	Variance
Revenues:			
Appropriated Revenues	\$ 2,860,691	\$ 1,052,097	\$ (1,808,594)
Expenditures and Encumbrances:			
Salaries and Wages	1,539,962	289,298	1,250,664
Other Personnel Cost	196,761	168,600	28,161
Contractual Services	1,015,442	(223,033)	1,238,475
Material and Supplies	15,601	133	15,468
Minor Equipment	75,724	12,063	63,661
Other	17,201	17,201	-
Total Expenditures and Encumbrances	2,860,691	264,262	2,596,429
Excess of Revenues over Expenditures	\$ -	\$ 787,385	\$ 787,385

CITY OF BALTIMORE
Department of Public Works
Statement of Revenues, Expenditures and Changes in Fund Balance
Capital Projects
For Fiscal Years Ended June 30, 2020 and 2019

	Fiscal Year 2020	Fiscal Year 2019
Revenues		
General Fund Revenue	\$ 200,000	\$ 177,755
Mayor & City Council Revenue		
Federal Grant Revenue		
Stormwater Utility Funds		
Public Building Loans	733,122	2,710,067
Other Fund Revenue		1,616,300
Total Revenues	\$ 933,122	\$4,504,122
Expenditures		
Capital Outlay	1,143,122	5,192,214
Total Expenditures	1,143,122	5,192,214
(Deficit) Excess of Revenues over Expenditures	(210,000)	(688,092)
Beginning Fund Balance	6,475,708	7,163,800
Ending Fund Balance	\$ 6,265,708	\$ 6,475,708

CITY OF BALTIMORE
Department of Public Works
Statement of Revenues, Expenditures and Changes in Grant Cash Balance
For Fiscal Years Ended June 30, 2020 and 2019

	Cash Balance July 1, 2019 (Deficit)	Revenues	Expenditures	Transfers to / from Other Funds	Cash Balance June 30, 2020 (Deficit)
State Grants					
Administration – Energy	\$ 2,141,910	\$-	\$ 679,692	\$-	\$1,461,948
Waste Removal and Recycling	-	-	-	-	-
Waste Re-Use and Disposals	-	-	-	-	-
Total revenues, expenditures and change in grant balances-State	\$ 2,141,910	\$-	\$679,962	\$-	\$ 1,461,948
Other Grants					
Administration - Solid Waste	\$ 49,020	\$ -	\$ -	\$ -	\$ 49,020
Waste Removal and Recycling	58,601	-	-	-	58,601
Waste Re-Use and Disposals	(100)	-	-	-	(100)
Total revenues, expenditures and change in grant balances - Other	\$ 107,521	\$ -	\$ -	\$ -	\$ 107,521

Note: The Agency had no Federal Grants which were active in the Fiscal Year 2020.

CITY OF BALTIMORE
Department of Public Works
Statement of Revenues, Expenditures and Changes in Grant Cash Balance
For Fiscal Years Ended June 30, 2020 and 2019

	Cash Balance July 1, 2018 (Deficit)	Revenues	Expenditures	Transfer to / from Other Funds	Cash Balance June 30, 2019 (Deficit)
State Grants					
Administration – Energy	\$9,812,686	\$1,238,893	\$3,822,863	\$(5,086,806)	\$2,141,910
Waste Removal and Recycling	-	-	-	-	-
Waste Re-Use and Disposals	-	-	-	-	-
Total revenues, expenditures and change in grant balances-State	\$9,812,686	\$1,238,893	\$3,822,863	\$(5,086,806)	\$2,141,910
Other Grants					
Administration – Solid Waste	\$ 49,020	\$ -	\$-	\$ -	\$ 49,020
Waste Removal and Recycling	5,600,599	(5,541,998)	-	-	58,601
Waste Re-Use and Disposals	-	3,383,700	3,383,800	-	(100)
Total revenues, expenditures and change in grant balances -Other	\$ 5,649,619	\$(2,158,298)	\$3,383,800	\$ -	\$ 107,521

Note: The Agency had no Federal Grants which were active in the Fiscal Year 2019.

CITY OF BALTIMORE
Department of Public Works
Notes to the Financial Statements
For Fiscal Years Ended June 30, 2020 and 2019

1. Description of the Department of Public Works

The Agency's mission is to enhance and sustain healthy quality of life for every citizen and customer by providing efficient management of its services. The Agency consists of three major divisions: the Bureau of Solid Waste, the Surface Water Service, and the Bureau of Water and Wastewater.

The Bureau of Solid Waste is responsible for providing waste removal and recycling services, including curbside collection of mixed refuse, recycling, and seasonal waste for 640,000 residents in approximately 210,000 households. The Bureau also provides vacant and abandoned property maintenance services, rat control services as well as public right of way cleaning of streets, alleys and lots. The Bureau of Solid Waste is also responsible for disposal of refuse in accordance with governmental regulations and mandates. This includes the management of a 125-acre active landfill at Quarantine Road and through agreements with the Wheelabrator Waste to Energy facility, recycling service providers and maintenance of six closed landfills. The long-term goal is to reduce volume and amount of waste deposited in landfills in order to extend the life of these assets and make the City self-reliant for the future. The Bureau also promotes and markets special initiatives for a cleaner and greener Baltimore.

The Surface Water Service consolidates all stormwater related functions and includes the Watershed Liaison Office, Stormwater Management and Sediment and Erosion Control, Storm Drain Engineering, Storm Drain and Waterway Maintenance, Water Quality Monitoring and Inspections, and Environmental Engineering. The Division's mission is to restore the City's surface water to swimmable, fishable conditions in compliance with the Environmental Protection Agency and the Clean Water Act. The Division is pursuing the establishment of a fee-based utility to fund capital projects and operations necessary to meet State and Federal mandates.

The Bureau of Water and Wastewater is responsible for the operation of a water distribution system that supplies water to 1.8 million customers in the Baltimore Metropolitan Region. These responsibilities include the operation, maintenance and security of three watershed systems; three filtration plants; pumping stations and 4,500 miles of water distribution mains. The collection and treatment of wastewater, the operation and maintenance of two wastewater treatment plants, approximately 3,100 miles of collection and conveyance lines, pumping stations and the City's system of storm drains are also the Bureau's responsibility.

The Financial Statements of the Bureau of Surface Water Service and the Bureau of Water and Waste Water are not included in these financial statements because they are audited separately by the City's outside auditors and the City Department of Audits.

CITY OF BALTIMORE
Department of Public Works
Notes to the Financial Statements
For Fiscal Years Ended June 30, 2020 and 2019

2. Fund Financial Statements

These financial statements have been prepared on a 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. 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 fund activities are reported on a modified accrual in the *Schedule of Revenues, Expenditures, Encumbrances and Changes in Fund Balance*. The financial Statements of the internal services, casino and video lottery funds are report in the *Schedule of Budgetary Revenues and Expenditures*. The financial statements of the special revenue and capital project funds are reported in the *Statement of Receipts, Disbursement, and Changes in Cash Balance*.

3. Summary of Significant Accounting Policies

The financial statements of the Agency are prepared on the following basis:

- **General, Internal Service, Casino, Video Lottery and Capital Projects Funds - Modified Accrual Basis** - Revenues are recognized when they become available and measurable. Availability arises when the revenue is available to finance current expenditures to be made within 60 days. Measurability occurs when the cash flow from the revenue can be reasonably estimated. Expenditures are recognized when liabilities are incurred.
- **Grants Fund – Cash Basis** - The cash receipts and disbursement basis of accounting 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 in those revenues are recognized when received rather than earned and expenses are recognized when paid rather than when the obligation is incurred.

The accompanying financial statements are not intended to present the financial position and results of operations in conformity with accounting principles generally accepted in the United States of America.

4. Budget Process

The Agency participates in the City's Outcome Based Budgeting process. Outcome Based Budgeting is a budget process that aligns resources with results produced. This budgeting tool integrates strategic planning, long-range financial planning and performance

CITY OF BALTIMORE
Department of Public Works
Notes to the Financial Statements
For Fiscal Years Ended June 30, 2020 and 2019

management, and is a recommended practice of the Government Finance Officers Association.

5. Advance from the City

Cash deficits represent cash advances by the City that have not been reimbursed by the grantor. Cash advances not reimbursed by the grantor will be the responsibility of the City. During the year, the City evaluates the cash surplus and deficits in various grants to determine the actions needed to correct mis-postings and where necessary to transfers cash between grants and the general fund to reduce deficits. This activity reported as transfers in the financial statements.

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 of Baltimore municipal government. Therefore, its exposure to various risks is managed 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



Office of the Comptroller

Josh Pasch, City Auditor

100 N. Holliday St., Room 321
Baltimore, Maryland 21202

Honorable Bill Henry, Comptroller
and Other Members of the
Board of Estimates
City of Baltimore, Maryland

In planning and performing our audit of the financial statements of the Baltimore City Department of Public Works (Agency) as of and for the years ended June 30, 2020 and 2019 in accordance with auditing standards generally accepted in the United States of America, except for peer review requirements, we considered the Agency's internal control over financial reporting (internal control) as a basis for designing the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses, significant deficiencies, or control deficiencies and therefore, material weaknesses, significant deficiencies, or control deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Finding, we identified a material weakness, a significant deficiency and a control deficiency.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Agency's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of finding to be as described above for Findings 1 through 3.

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*.

Agency and the Department of Finance’s Responses to Findings

The Agency’s, the Department of Finance’s (DOF), and the Department of Human Resources’ (DHR) responses to the findings (see Schedule of Finding) identified in our audit are described in Appendix I. The responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Agency’s internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity’s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully,



Josh Pasch, CPA
City Auditor
Baltimore, Maryland
December 30, 2021

Finding I - Control Deficiency – The DPW needs to improve certain payroll controls to demonstrate it is in compliance with certain City Human Resources (HR) and payroll documentation policies and procedures.

As shown in Table I below, the Agency was not able to completely provide documentation for the selected FY 2020 payroll activities for testing. As a result, the Agency is not in compliance with the Administrative Manual (AM) 205-10, *Payroll Systems*. Also, the Agency was not able to demonstrate whether the selected payroll activities were accurately recorded to process correct payments, which may result in financial losses including inaccurate payments, accruals and final payouts to employees.

Table I
Summary of Occurrences Noted for Selected Payroll Activities

Document Type	Number	Percent
No timesheets	28 of 60	47
Missing approval on timesheets ¹	1 of 32	3
Timesheets did not agree to E-time ¹	2 of 32	6
Missing approval for Overtime (OT), Compensatory Time (CT) or leave ²	14 of 53	26

Notes: ¹ The denominator is based on available timesheets.

² The denominator is based on individuals who took leave or worked OT or earned CT.

The cause of this finding is because the agency did not comply with the City document retention policies.

According to:

- **AM 205-10, *Payroll Systems***, each agency / bureau head is to establish internal controls in administering payroll systems to provide reasonable protection against various payroll errors and fraud schemes. The policy requires using a positive documented system to determine the presence or absence of employees. In addition, supervisors are responsible for assuring the accuracy of time and attendance of individuals under their immediate supervision.
- **AM 502-1, *Records Management***, all agencies are required to maintain records of all proceedings, financial transactions and official acts.
- The schedule below is the City's retention policy for payroll related documents.

Table II

Retention Schedule for Payroll Related Documents

Document Type	Retention Period
Employees daily time reports, departmental copies	Three (3) years and current year
Employee's leave list, departmental copies	One (1) year after current calendar year
Employee sign-in sheets	Two (2) years and current year

Recommendation I: The City implemented Workday in late Calendar Year (CY) 2020. The system includes electronic timesheet submissions and requires managers' and Agency time approvers to approve employees' timesheets for each pay period closing. We recommend that the Director of Human Resources update the AM 205-10 and AM 502-1 to align with the current processes in Workday.

Finding II – Material Weakness - Improper accounting treatments impact the Agency’s Internal Service Fund.

The Agency is not properly accounting for expenditures and revenues in the Energy Internal Service Fund (ISF). Specifically,

- In Fiscal Year (FY) 2019, certain contractual expenditures incurred by the fund for energy costs were allocated to agencies via journal entries. However, the allocations to agencies were not properly recorded. The journal entries were charged as credits to the expenditures rather than revenue to the Agency. Additionally, certain revenues (approximately \$500,000) from outside vendors were recorded in the fund. The revenues from outside vendors should not have been recorded in the fund.
- In FY 2020, contractual expenditures were no longer allocated to agencies. Since this is ISF, all expenditures should have been allocated to respective agencies by using the proper accounting treatments. The recording of outside vendor revenues in the fund continued.

<p style="text-align: center;">Internal Service Fund</p> <p>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.</p> <p>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 breakeven. The “customer” agency will record the billed amount as an expenditure on their financial statements (e.g. maintenance).</p>

As a result, the ISF statements are not materially accurate.

The incorrect accounting treatments were used because the City does not have formal (written, approved, dated) policy guiding City agencies how to manage an ISF.

The ISF are created to centralize a process that is essential to all City agencies. An ISF is supposed to be supported by agencies based upon an allocation of their cost to City agencies benefiting from their services.

Recommendation: We recommend the Director of DOF establish formal (written, approved, dated) policies and procedures that should address the following:

- Define ISF as a proprietary fund which must be accounted for accordingly;
- Require training accounting personnel on proper ISF accounting periodically;
- Allocate all ISF expenditures to respective agencies; and
- Evaluate ISF annually to identify surpluses or deficits and re-evaluate charge backs to agencies.

Finding III - Significant Deficiency - Outstanding encumbrances impact the Agency's budgetary statements.

There are open Purchase Orders (POs) that should have been closed as of June 30, 2020. These POs were encumbered in FY 2019 and FY 2020. Of 35 encumbrances selected for testing, there are 25 open encumbrances that should no longer be encumbered. Specifically,

- Three POs were open and did not have any invoices although the funds were encumbered for more than a year.
- Ten POs were open and have remaining encumbrances after all billed invoices were paid.
- Two POs were closed in Citibuy (Procurement System) in July 2019; however, encumbrances are still open in Dynamics (Financial System). The last payments were for these POs were 2012 and 2016.
- Ten POs incurred prior to FY 2019 had no payments made for them after June 2019. These encumbrances were for PO releases where the period of performance was ended or for market purchase orders where the actual invoice was for an amount less than the encumbrance.

Encumbrances	
Encumbrance	accounting
(commitment	accounting)
tracks anticipated spending to budgeted amounts. It is a two-step process. The first step encumbers newly entered purchase order (PO) line items into the general ledger to help prevent overspending. After that, the line items are unencumbered once they go into an Accounts Payable invoice for payment. PO encumbrances are most used in government accounting. Open encumbrances record the amount to be reserved from the unencumbered balance that is remaining to honor the commitments. They are closed (reserved) when the money is paid out.	
The PO encumbrances approach allows financial statements to reflect the allocation of budget resources when they are committed, rather than when the expense is recorded. This gives organizations information earlier than relying on "budget to actual" bookkeeping reports.	

These outstanding encumbrances are rolled over to future periods resulting in inaccurate Agency's budgetary statements

The overall cause of this finding is the City's procurement and accounting systems do not have controls over encumbrances including the automatic liquidation of encumbrances when POs are closed or inactive. The current process, which is a mitigating control, requires agencies to review open encumbrance files at year end and report to Bureau of Accounting and Payroll Services (BAPS) which are to be liquidated. Although the Director of Finance's Office reviews agencies' feedback on open encumbrances, the process of liquidating open encumbrances was not completed. According to DOF's informal policy and procedures, BAPS is responsible for liquidating open encumbrances in the City accounting system (Dynamics) and the Procurement is responsible for liquidating open encumbrances in the City's procurement system.

According to the Office of Procurement, the two POs are closed out; however, P520746 has an encumbrance of \$0.18 and P523800:193 has an encumbrance of \$0.38, not

counting the one returned invoice in the amount of \$33,964.80. It is not clear why the invoice was returned within the AP process, but if that invoice is canceled, the Office of Procurement can likely liquidate the associated encumbrance further. Both PO's are set up for quantity receipt, however the quantities entered are not whole numbers, this prohibits the manual closeout process from reducing the encumbrance to \$0.

Budgetary accounting requires that encumbrances be liquidated when a purchase order is closed.

Recommendation III: We recommend the Director of DOF establish formal (written, approved, dated) policies and procedures to:

- Formally assign liquidating responsibility on BAPS (Dynamics) and Procurement (Citibuy) for operating expenditures;
- Review open encumbrances more frequently than the current annual requirement (e.g. quarterly or monthly);
- Generate and review reports of encumbrances which are for: (1) POs where period performance has expired; (2) POs for which no payments were made in a determined period;
- Follow-up with agencies as reports are generated and make necessary adjustments to close encumbrances related to POs, which are no longer active; and
- Automate the liquidation process in Citibuy to close all outstanding encumbrances when a purchase order is marked as closed.

Implementation Status of Prior Audit Findings and Recommendations

Table I

Summary of implementation Status of Audit Findings and Recommendation from the Financial Audit Report for Fiscal Year Ended June 30, 2018 and 2017

No.	Finding Summary	Prior Recommendation	Management Self-Reported Implementation Status	Auditor's Assessment
1	The Agency did not have a process to review the general ledger to validate account activities and account balances. As a result, the Agency was unaware of revenue which was available for use. For example, our audit of the Statement of Revenues, Expenditures and Changes in Grant Cash Balances for the periods ending June 30, 2018 and 2017 identified a \$5.6 million revenue balance in grant account number 6855XX ¹ without any corresponding expenditure activity. According to the Agency, the \$5.6 million revenue has been sitting on the books since 2007, which resulted from citations issued by the Sanitation and Enforcement Division prior to the transfer to the Department of Housing and Community Development.	<ul style="list-style-type: none"> - Review the account to determine the source and accuracy of the fund balance; - Utilize or remit the funds to the appropriate fund; and - Perform periodic account analysis to appropriately identify and manage the corresponding financial activity. 	<p>Implemented</p> <p>On October 31, 2018, the Bureau of Budget and Management Research (BBMR) requested the Board of Estimates (BOE) to approve the transfer of funds from Service 730 - Public and Private Energy Performance to Service 664 - Waste Re-Use and Disposal. A balance of \$5,541,998.02 in Special Fund 6855 was identified that is a result of fines collected from when the Sanitations Inspection Program was housed within DPW. Of that balance, \$3,383,700 was transferred to Service 664 for Quarantine Road Landfill (QRL) compliance.</p>	Implemented

¹ The last two digits "XX" represents the FY.

Biennial Financial Audit Report on the Department of Public Works

No.	Finding Summary	Prior Recommendation	Management Self-Reported Implementation Status	Auditor's Assessment
2	<p>The DPW does not have preventative and detective controls to minimize the risk of potential financial loss resulting from misappropriation of landfill revenue or assets at the Northwest Transfer Station (NTS) and QRL. Specifically, the landfill revenue collection duties are not properly segregated, management oversight is lacking, camera systems (detective control) are not operating. The current landfill revenue collection process:</p> <ul style="list-style-type: none"> - Requires the administrative staff to enter data to initiate vehicle weighing and produce the resulting record. Segregation of duties are lacking. This is because the scales neither automatically initiate the weighing process to record the transaction and related collection or is a counter available to permit daily reconciliation. - Permits the administrative staff to prepare credit memos to clear/cancel the respective collections. The credits are not recorded on the daily collection report that is used to prepare the bank deposit nor are credit memo reports obtained by management 	<ol style="list-style-type: none"> 1. Revise the weigh station system to initiate the weighing process when the vehicle crosses the scale. Alternatively, install a counter and reconcile the records against the daily activity log and deposit. 2. Implement a policy and procedures that requires management to: (i) obtain and review credit memo reports daily; (ii) ensure the accuracy of the corresponding deposit(s); and (iii) include the credit 	<ol style="list-style-type: none"> 1. Not Implemented but have plan to move forward with implementation. Software/hardware interface issues have not allowed completion of this item. The path forward is to replace the current weighing program. A procurement will be issued for a new weighing program that will allow the required interface for the truck counter, but have plan to move forward with implementation <ul style="list-style-type: none"> • June-August 2021: Prepare scope of work for new program, in coordination with DPW IT and others • September-January 2021: Work with Bureau of Procurement, MBOO, MOED, and other City office to put out an RFP and purchase justification • January-February 2022: Receive and review bids • March-April 2022: Finalize agreement with new weighing program • May 2022: Implement new weighing program 2. Partially Implemented, with plans to fully implement. To ensure cashiers are appropriately cancelling or clearing transactions, all cancelled or cleared transactions will require approval from a supervisor. Supervisors will be required to complete a form that identifies why a cancellation was required and how much was cancelled. If a supervisor is not available, it is the cashier's responsibility to complete the transaction, take the receipt with the mistake on it and write the 	<p>Partially implemented</p> <ol style="list-style-type: none"> 1. The recommendation regarding the weigh station has not been implemented. 2. The current SOP does not include the printing of the credit memo report for inclusion with the daily reconciliation. 3. As stated by the agency, the Office of Support Services which plans to monitor the cashier's activities is not operational.

Biennial Financial Audit Report on the Department of Public Works

No.	Finding Summary	Prior Recommendation	Management Self-Reported Implementation Status	Auditor's Assessment
	<p>for review and reconciliation purposes.</p> <ul style="list-style-type: none"> - Allows the administrative staff person at the QRL to collect cash, prepare the daily deposit and validate the corresponding deposit. However, there is no independent management verification to ensure revenue is properly collected deposited and recorded. <p>Additionally,</p> <ul style="list-style-type: none"> - Camera systems are not operable at NTS and QRL to detect suspicious activities. - There are no controls to preclude QRL employees from entering the landfill area and exiting with scrap metal and other assets. - NTS and QRL gate house staff can provide access to residents and businesses, collect fees and not record the transactions. - The staff could also understate the activity of businesses that are billed monthly. 	<p>memo reports into the deposit validation process</p> <p>3. Segregate the QRL cash collection, recording and deposit preparation functions. Alternatively, an independent secondary or management review can be performed and</p>	<p>word " VOID" along with the cashier's initials and date. The voided receipt is to be placed in the cash drawer for a supervisor or manager to correct at a later time when they are available. <u>In addition, QRL and NWTS will submit a daily memo credit report to the Bureau Head's Office of Support Services for daily review along with the voided receipts and signed supervisor approved cancellation forms.</u></p> <p>In February 2019, the Office of Support Services (Support Services) was created within the Bureau of Solid Waste to provide quality assurance and control services to the Bureau. As a result of this audit, Support Services will begin tracking and monitoring how often transactions are canceled. Key performance indicators (KPIs) will be created based upon the number of cancelled transactions in an effort to reduce cancellations. If an employee is unable to meet the KPI, then a Performance Improvement Plan (PIP) will be implemented according to the Performance Management Policy.</p> <p>3. Implemented</p>	

Biennial Financial Audit Report on the Department of Public Works

No.	Finding Summary	Prior Recommendation	Management Self-Reported Implementation Status	Auditor's Assessment
		appropriately documented		
		4. Install camera systems at both locations to monitor operations.	4. Implemented	

Biennial Financial Audit Report on the Department of Public Works

No.	Finding Summary	Prior Recommendation	Management Self-Reported Implementation Status	Auditor's Assessment
3	<p>Multiple internet outages were noted during observation of the NTS's vehicle weighing system which shut down weighing operations, precluded site access, and significantly impacted wait times for residents and City and private haulers. Also, discussions with staff at the QRL indicated that periodic outages routinely occur and adversely affect operations.</p>	<p>Perform analysis to determine if system outages can be significantly reduced and that a backup process be developed to minimize downtime.</p>	<p>Implemented</p> <p>Working with the teams at BCIT and DPW IT, upgrades at QRL include completion of an upgrade to the internet connectivity system, which included a 20x increase in bandwidth, as well as the installation of new network switching and other equipment at both sites.</p> <p>DPW is aware of intermittent internet connectivity issues at QRL and NWTS and has met with BCIT to address the issue. NNWTS utilizes a router for internet connection whereas QRL utilizes a fiber optic network. Unfortunately, router are less reliable than fiber optic network which results in higher internet outages experienced at the sites. When internet outages are experienced, the scalehouses at each facility will utilize a mobile hotspot to access the internet. BCIT has recommended replacing the router with fiber optics at NWTS, but it will require a capital investment to provide fiber optic internet. Until a fiber optic network can be provided, DPW will prepare a SOP to ensure a backup process is utilized at these facilities to reduce downtime during internet outages.</p>	<p>Implemented.</p>

APPENDIX I

Management’s Response to the Audit Report

Date: December 27,2021

To: Josh Pasch, City Auditor

Subject: Management Response to Audit Report:
Biennial Financial Audit Report on the Department of Public
Works for the Fiscal Years Ended June 30, 2020 and 2019

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

Recommendation # I

We recommend that the Director of Human Resources update the AM 205-10 and AM 502-1 to align with the current processes in Workday.

Management Response/Corrective Action Plan

Agree **Disagree**

Agency’s Response:

The Department of Public Works Human Resources is in consistent communication with all divisions on maintaining proper protocols for approvals, document retention, submission, and data entry regarding payroll for nearly 2,710 budgeted positions spread across multiple locations. This includes front-line supervisors responsible for approving time, unit timekeepers, and centralized oversight. However, maintaining the protocols was a systemic challenge because various processes were spread across multiple systems with varying requirements. The Agency, along with all City agencies, completed the citywide implementation of Workday for payroll processing in CY 2020. Workday has allowed the agency to shift from paper-based verifications, manual time entries, and other mixed processes to a consolidated and comprehensive timekeeping and payroll system with streamlined and required approvals that will be retained electronically for verification. The Department of Public Works will deliver its perspective on how to best align the Administrative Manual Policy to the current Workday process to the Department of Human Resources (DHR), who administers the citywide policies.

Implementation Date: June 30, 2022

Responsible Personnel:

- Tamiko Bryant, Human Resources Chief
- Julie Day, Chief Administrative Officer

Department of Human Resources Response: The DHR recognizes the necessity for revision of AM 205-10, *Payroll Systems* to reflect updates in the processes since implementing Workday for time-tracking and payroll. However, while the policy is within the 200-series of the Administrative Manual and related to personnel, it is particularly concerned with accounting for time and pay data which are under the purview of the Department of Finance (DOF). We plan to work closely with DOF to make the required modifications.

It should be noted however, that Workday's implementation was planned in accordance with the City's existing policies, including AM 205-10. DHR's expectations for how agencies track time are in line with the cited section of the current City policy:

"...each agency / bureau head is 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."

If the required "internal controls" established by AM 205-10 in its current form were adhered to, Agencies would be compliant with Workday and the policy, with no need to update the policy reflecting particular reference to Workday procedures.

AM 502-1, Records Management, is not related to the personnel administration of the City and DHR has no responsibility for it.

We will work with DOF to make any necessary modifications to AM 205-10 and make recommendations to the Board of Estimates within 180 days of the date of this response.

Implementation Date: May 2, 2022

Responsible Personnel: Valerie Weldon, Chief of Policy and Compliance

Recommendation # II

We recommend the Director of DOF establish formal (written, approved, dated) policies and procedures that should address the following:

- Define ISF as a proprietary fund which must be accounted for accordingly;
- Require training accounting personnel on proper ISF accounting periodically;
- Allocate all ISF expenditures to respective agencies; and
- Evaluate ISF annually to identify surpluses or deficits and re-evaluate charge backs to agencies

Management Response/Corrective Action Plan

Agree Disagree

Agency's Response: The Department of Public Works no longer manages an ISF or Service 730: Public and Private Energy Performance as of Fiscal 2021. Management of the service was transferred to the Department of General Services mid-year in FY 2020. The agency defers to DOF for the establishment and administration of citywide fiscal policies.

DOF's Response: Management concurs with the finding and recommendation.

Implementation Date: June 30, 2022

The Department of Audit recommendations will be implemented no later than June 30, 2022 and will coincide with the Workday implementation.

Responsible Personnel: Karen Tolley, Bureau Chief, BAPS

Recommendation # III

We recommend the Director of DOF establish formal (written, approved, dated) policies and procedures to:

- Formally assign liquidating responsibility on BAPS (Dynamics) and Procurement (Citibuy) for operating expenditures;
- Review open encumbrances more frequently than the current annual requirement (e.g. quarterly or monthly);
- Generate and review reports of encumbrances which are for: (1) POs where period performance has expired; (2) POs for which no payments were made in a determined period;
- Follow-up with agencies as reports are generated and make necessary adjustments to close encumbrances related to POs, which are no longer active; and
- Automate the liquidation process in Citibuy to close all outstanding encumbrances when a purchase order is marked as closed.

Management Response/Corrective Action Plan

Agree **Disagree**

Agency’s Response: The Department of Public Works defers to DOF for the establishment and administration of citywide fiscal policies.

DOF’s Response: Management concurs. With the implementation of Workday, auditor recommendations will be addressed with many automated procedural processes. Currently, with the Workday configuration, many systemic issues are being reviewed. Standard Operating Procedures and City Policies are under revision. This finding is city-wide and will be implemented on an entity-wide basis.

Implementation Date: July 1, 2022

Responsible Personnel: Karen Tolley, Bureau Chief, BAPS