

DEPARTMENT OF FINANCE

INDEPENDENT
AUDITOR'S REPORT ON
APPLYING AGREED
UPON PROCEDURES
FOR UNIDENTIFIED
RECEIPTS PROCESS
FISCAL YEAR ENDED
JUNE 30, 2020

Josh Pasch, City Auditor
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 ON APPLYING AGREED-UPON
PROCEDURES FOR UNIDENTIFIED RECEIPTS PROCESS
Fiscal Year Ended June 30, 2020**

Dear Director Raymond:

We have performed the agreed-upon procedures enumerated on page 3 below which were agreed to by the Department of Finance's (DOF) management (the management). The objective of the agreed-upon procedures was to reconcile the outstanding balance of unidentified receipts for the period ended June 30, 2020, and to determine if there are documented policies and procedures to manage the unidentified receipts reconciliation process. The management is responsible for the reconciliation of the unidentified receipts account balances. The sufficiency of these procedures is solely the responsibility of the DOF management. Consequently, we make no representation regarding the sufficiency of the procedures enumerated on page 3 either for the purpose for which this report has been requested or for any other purpose.

This agreed-upon procedures engagement was conducted in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States, except for the peer review requirements. We were not engaged to and did not conduct an examination or review engagement, the objective of which would be the expression of an opinion or conclusion, respectively, on unidentified receipts account balance. Accordingly, we do not express such an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

We are required to be independent of the Management and to meet our ethical responsibilities, in accordance with the relevant ethical requirements related to our agreed-upon procedures engagement. The procedures performed may not address all the items of interest to a user of this report and may not meet the needs of all users of this report and, as such, users are responsible for determining whether the procedures performed are appropriate for their purposes.

The report is intended solely for the information and use of the City Management, City Council, and the Board of Estimates. The report is not intended to be, and should not be, used by anyone other than the specified parties. Accordingly, this report is not suitable for any other purpose.

Respectfully,

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

Cc:

- Honorable Members of Board of Estimates
- Michael Huber, Mayor's Chief of Staff
- Christopher Shorter, City Administrator
- Yoanna Moises, Deputy Director, DOF
- Karen Tolley, Bureau Chief, Accounting & Payroll Services (BAPS), DOF
- Julie Floyd, Deputy Chief, Accounting & Payroll Services (BAPS), DOF

**RESULTS OF APPLYING
AGREED UPON PROCEDURES FOR
UNIDENTIFIED RECEIPTS AS OF JUNE 30, 2020**

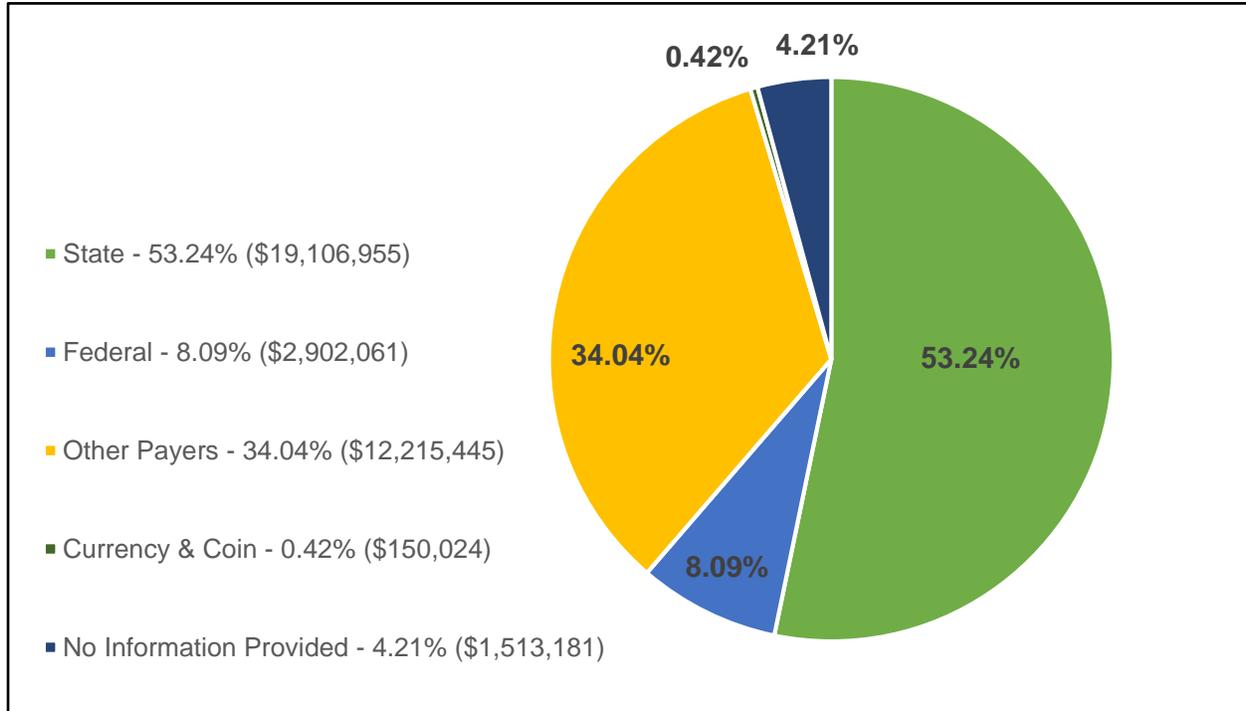
Procedure #1: Determine the Composition of the Balance of Unidentified Receipts

The amount of unidentified receipts as of June 30, 2020 was \$49.1 million, however, when the Department of Audits (DOA) started the reconciliation process, the balance had reduced to \$35.9 million. This amount represents money paid to the City from various sources for which the Bureau of Accounting and Payroll Services (BAPS) does not know what revenue account they should be posted to. Until the revenue is posted, the amount is shown as a liability of the City.

After discussions with BAPS and examining the population, we divided the unidentified receipts list into five categories: (1) state revenue; (2) federal revenue; (3) revenues from other payers¹; (4) currency and cash; and (5) no information provided. The rationale for this segmentation of the unidentified receipts population was to determine if the different sources of receipts had differing factors that led to them being unidentifiable or different factors that would aid them being more identifiable than another category.

Exhibit I

Population of Unidentifiable Receipts Based on Dollar Value



Source: BAPS

¹ These are receipts from sources other than Federal or State.

Procedure #2: To verify if there are documented procedures for identifying and coding of receipts which do not have accompanying remittance advices

Exception was noted as a result of applying the procedure.

The current documented procedures do not reflect all steps that need to be taken to identify unidentified receipts. For example, during our review, there was no procedures to identify the unidentified book transfers² receipts appearing on the bank statement. Therefore, all the book transfers remained unidentified.

Procedure #3: Assist in identifying appropriate accounts to code the unidentified receipts

The Department of Audits selected 60 unidentified receipts totaling 16.5 million, which is approximately 46 percent of the \$ 35.9 million or 806 unidentified receipts. Of 60 unidentified receipts, we were able to accurately identify 49 unidentified receipts. However, we were not provided with sufficient information to reconcile the remaining 11 unidentified receipts totaling \$938,000. Of the 11 unidentified receipts,

- Four unidentified receipts totaling \$ 759,000 were reported as book transfers on the bank statement. The Bureau of Treasury Management was asked about these transactions numerous times and were unable to supply any information regarding the items.
- Seven unidentified receipts totaling \$179,000 were from various City vendors. However, we were not able to contact these vendors to identify the sources of the revenues because contact information was not provided by the agencies involved.

Procedure #4: To identify the root cause of the balance of the unidentified receipts and make appropriate recommendations

Following are the root causes of the balance of the unidentified receipts:

- **Lack of Recording Accounts Receivable (AR):** The City does not record AR and recognize revenue in the accounting system when billings are sent. The recording of a receivable would make it easier for BAPS to identify the payment when it is received and would also add the benefit of being aware when payments are not received so that the City can follow up on uncollected revenues.
- **Learning Curve:** The process of reconciling the unidentified receipts is complex and is a manual process with many sub processes. It takes time to get familiar with all the processes involved. The employee in the position is new and needs time to learn all the process and get up to speed. This employee was posted in this

² Book Transfers are transfers of funds between City bank accounts

position on June 1, 2020. The previous employee was in the position for over 20 years.

- **Slow response time from some City Agencies:** Some City agencies take longer to respond to information requests from BAPS about unidentified receipts relating to their agencies.
- **Incomplete Policy and Procedures:** See exception noted in Procedure 2.

We recommend the Director of DOF:

- Migrate all billing to Workday³. Record and track accounts receivable for bills sent⁴; train BRC personnel to post cash receipts against AR; and develop and implement procedure manuals to guide BRC and BAPS personnel in posting cash receipts of billed items and non-billed items (e.g. Ambulance revenue);
- Revise and implement the current documented procedures for unidentified receipts by including the following items, but are not limited to:
 - Require BAPS to continue building the list of contacts that include name, phone number, e-mail, specific deposit codes and their meaning, and the specific agencies so that future similar payments originating from the same agencies can be communicated to more efficiently;
 - Reconcile book transfers reported in the bank statement;
 - Train and have a back-up employee to: (1) process backlogs; and (2) deputize the current employee in case of absences; and
 - Establish escalation procedures for agencies that do not communicate on a timely basis to BAPS about inquiries related to unidentified receipts.

³ The City has chosen to continue billing real estate taxes and water through the existing systems.

⁴ For governmental funds reported on the modified accrual basis, revenue and AR can be tracked in Workday.

Management's Response to the Audit Report

Date: March 07, 2022

To: Josh Pasch, City Auditor

Subject: Management Response to Audit Report:
Agreed Upon Procedures Unidentified Receipts
June 30, 2020

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

Recommendation # I: We recommend the Director of DOF:

- Migrate all billing to Workday. Record and track accounts receivable for bills sent; train BRC personnel to post cash receipts against AR; and develop and implement procedure manuals to guide BRC and BAPS personnel in posting cash receipts of billed items and non-billed items (Ambulance revenue).

Management Response/Corrective Action Plan

Agree Disagree

The City is currently in the process of implementing Workday software, which has an online bank reconciliation process. This will allow banking transactions to be uploaded daily to Workday, and to the extent possible, automatically record to a default general ledger account. Updated procedures will be completed.

Implementation Date: Workday will be live on July 2022. Procedures will be re-written by August 2022.

Responsible Personnel: Karen Tolley, Bureau Chief, Bureau of Accounting and Payroll Services, DOF

Recommendation # II: We recommend the Director of DOF:

- Revise and implement the current documented procedures for unidentified receipts by including the following items but are not limited to:
 - Require BAPS continue building the list of contacts that include name, phone number, e-mail, specific deposit codes and their meaning, and the specific agencies so that future similar payments originating from the same agencies can be communicated to more efficiently;
 - Reconcile book transfers reported in the bank statement;
 - Train and have a back-up employee to: (1) process backlogs; and (2) deputize the current employee in case of absences; and
 - Establish escalation procedures for agencies that do not communicate on a timely basis to BAPS about inquiries related to unidentified receipts.

Management Response/Corrective Action Plan

Agree Disagree

BAPS will continue to build the contact list, work with Treasury to develop proper notification of book transfers, and train a backup employee. Escalation procedures will also be developed.

Implementation Date: December 2022

Responsible Personnel: Karen Tolley, Bureau Chief, Bureau of Accounting and Payroll Services, DOF