



**BALTIMORE CITY
DEPARTMENT OF HUMAN RESOURCES
BIENNIAL FINANCIAL AUDIT FOR
FISCAL YEARS ENDED JUNE 30, 2017 AND 2016**

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying cash basis financial statements of the governmental activities, of the Department of Human Resources (the Agency), an agency of the primary government of the City of Baltimore, Maryland, which is comprised of the Schedule of Revenues, Expenditures and Encumbrances, and Changes in Fund Balance, Budget and Actual, Budgetary Basis, General Fund, for the years ended June 30, 2017 and 2016, and the related notes to the financial statements. The Agency's basic financial statements are listed in the table of contents.

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 misstatements, 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. 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 entity'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 entity'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 our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the revenues collected and expenses paid for governmental activities, of the Agency, for the years ended June 30, 2017 and 2016 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.



Audrey Askew, CPA
City Auditor

October 11, 2018

Baltimore City
Department of Human Resources
Biennial Financial Audit
Schedule of Revenues, Expenditures and Encumbrances, and Changes in Fund Balance
Budget and Actual – Budgetary Basis – General Fund
Fiscal Years Ended June 30, 2017 and 2016

	<u>2017</u>		
	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues			
Appropriation revenue	\$ 9,389,676	\$ 13,866,649	\$ (4,476,973)
Expenditures and Encumbrances			
Administration	2,659,604	3,909,681	(1,250,077)
Benefits administration	4,413,619	6,533,964	(2,120,345)
Civil service management	2,316,453	3,342,541	(1,026,088)
City of Baltimore University	-	80,463	(80,463)
Total Expenditures and Encumbrances	<u>\$ 9,389,676</u>	<u>\$ 13,866,649</u>	<u>\$ (4,476,973)</u>
Excess of Revenues over Expenditures (GAAP)	-	-	-
Beginning Budgetary Fund Balance	-	-	-
Ending Budgetary Fund Balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

	<u>2016</u>		
	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues			
Appropriation revenue	\$ 8,832,025	\$ 7,634,498	\$ 1,197,527
Expenditures and Encumbrances			
Administration	2,646,889	2,604,733	42,156
Benefits administration	4,474,699	2,807,741	1,666,958
Civil service management	1,710,437	2,141,041	(430,604)
City of Baltimore University	-	80,983	(80,983)
Total Expenditures and Encumbrances	<u>\$ 8,832,025</u>	<u>\$ 7,634,498</u>	<u>\$ 1,197,527</u>
Excess of Revenues over Expenditures (GAAP)	-	-	-
Beginning Budgetary Fund Balance	-	-	-
Ending Budgetary Fund Balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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

Baltimore City
Department of Human Resources
Biennial Financial Audit
Notes to the Financial Statements
Fiscal Years Ended June 30, 2017 and 2016

1. Description of the Department of Human Resources

The Department of Human Resources advises the Civil Service Commission on rules and regulations governing the selection, appointment, promotion, demotion and discipline of City employees. It also provides comprehensive human resources programs and services including training to attract, develop and retain an organizationally effective workforce.

The City Charter established the Civil Service Commission to advise the Mayor on personnel matters and provide oversight to the Department of Human Resources that is also established by the Charter. The Commission also investigates and rules on appeals of termination, suspensions over 30 days and demotions of civil service employees.

While the commission is responsible for the final determination of personnel rules and regulations, most of the daily work is performed by the Department. Its various functions are performed by individual divisions under the direction of the Director of Human Resources.

2. Fund Financial Statements

The Agency's services are reported in the City's general fund. The Agency annually receives appropriations from the general fund. General fund appropriations expire at year end. Therefore, the financial statements of the Agency's general fund activities are reported on a budgetary basis in the *Statement of Revenues, Expenditures and Encumbrances, and Changes in Fund Balance*.

3. Summary of Significant Accounting Policies

Basis of Accounting

The financial statements of the Agency are prepared on the cash basis of cash receipts and disbursements, 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 (GAAP) in that revenues are recognized when received rather than earned and expenses are recognized when paid rather than when the obligation is incurred. Specifically, the variances from GAAP include the omission of receivables and payables of the Agency, and 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 accounting principles generally accepted in the United States of America.

4. Budget Process

The Agency participates in the City of Baltimore'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 management, and is a recommended practice of the Government Finance Officers Association.

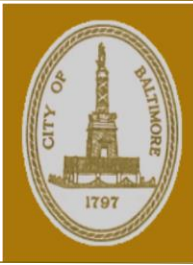
Baltimore City
Department of Human Resources
Biennial Financial Audit
Notes to the Financial Statements
Fiscal Years Ended June 30, 2017 and 2016

5. Risk Management

The City of Baltimore 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 by the City's Office of Risk Management.

6. 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

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the cash basis financial statements of the governmental activities of the Department of Human Resources of the City of Baltimore, Maryland, as of and for the years ended June 30, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the Department of Human Resources' financial statements, and have issued our report thereon dated, October 11, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Department of Human Resources' internal control over financial reporting (internal control) to determine 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 Department of Human Resources' internal control. Accordingly, we do not express an opinion on the effectiveness of the Department of Human Resources' internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be a material weakness. However, material weaknesses may exist that have not been identified

Compliance and Other Matters

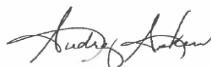
As part of obtaining reasonable assurance about whether the Department of Human Resources' financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have 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* and which are described in the accompanying Schedule of Findings as Finding #1.

Department of Human Resources' Response to Finding

City of Baltimore, Department of Human Resources response to the findings identified in our audit is described in the accompanying Schedule of Findings. City of Baltimore, Department of Human Resources response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity'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.



Audrey Askew, CPA
City Auditor

October 11, 2018

CITY OF BALTIMORE
Department of Human Resources
Schedule of Findings
Fiscal Years Ended June 30, 2017 and 2016

Finding #1 – Inadequate Controls over Human Resources Information System (HRIS) Access

Criteria:

The Committee of Sponsoring Organizations (COSO) requires entities to maintain a system of internal control that provides reasonable assurance that transactions are properly recorded and accounted for to permit the preparation of reliable financial statements.

Condition:

HRIS System Administrators (SAs) are responsible for importing drug and alcohol test results into HRIS for all agencies and the transfer of completed personnel actions which result in payroll activity. Additionally, SAs perform tasks (e.g. establish an employee profile and error correction) to assist agencies with the completion and/or correction of personnel transactions. In summary, SAs have the capability to add employees to the HRIS system, including new hire testing and other information without adequate segregation of duties or supervisory review. As a result, there are limited controls to preclude SAs from entering fictitious personnel information and/or actions that result in erroneous payments to non-existing personnel.

Cause:

Adequate controls were not established over HRIS system administrator capabilities.

Effect:

Assets may be lost or stolen and not detected by management.

Recommendation:

We recommend an independent report/log of employee additions, changes and deletions be obtained and reviewed by an independent Human Resources staff person to ensure the accuracy and reliability of the information. Management could also identify and eliminate a specific access right(s) that would preclude the addition of a fictitious employee.

Management Response:

In response to the Department of Audits, Agency Financial Audit (FY16 & FY17) General Controls Finding, the Department of Human Resources provides the following background information and resolve.

Prior State

Prior to 2016 and Chief Tonya Brinkley's arrival to the City of Baltimore Department of Human Resources, the Human Resources Information Systems (HRIS) Division; HRIS was controlled in large part by two former City employees—the prior Chief of HRIS and the prior Chief of Payroll. The two did not provide cross-training or share information and/or knowledge with their teams; and their teams were not aware of applicable system applications and functionality. Their departures highlighted, in part, the need for multiple users with a varying range of expertise and access to ensure adequate oversight, continuity of operations and maintenance of quality controls.

CITY OF BALTIMORE
Department of Human Resources
Schedule of Findings
Fiscal Years Ended June 30, 2017 and 2016

**Finding #1 – Inadequate Controls over Human Resources Information System (HRIS) Access
(Continued)**

Management Response (Continued):

Current State

System Administrators for the HRIS Systems are currently responsible for exporting the hiring information into an Excel Spreadsheet from the NeoGOV system (recruitment system of record). This report includes some employee demographic information which is imported into the ADP HRIS system. This import creates a hiring profile in HRIS, which enables agencies to complete the hiring process.

To complete the hiring process, Drug and Alcohol test results and Criminal Background Investigation clearances must also be imported in to the HRIS System. System Administrators presently export Drug and Alcohol test results from Wufoo (a secure third party tool) and imports them into the ADP HRIS system; System Administrators **DO NOT** have the ability to record Criminal Background Investigation clearances. This step in the process is completed by members of the Recruitment & Talent Acquisition Division.

Resolve

Systems Administrators have administrative rights in NEOGOV and HRIS. In order for the hiring process to continue in a manner that ensures adequate oversight, quality controls and continuity of operations. DHR will limit the number of System Administrators who have access to both NeoGov and HRIS.