

CITY OF BALTIMORE

STEPHANIE RAWLINGS-BLAKE, Mayor



DEPARTMENT OF AUDITS

ROBERT L. McCARTY, JR., CPA

City Auditor
100 N. Holliday Street
Room 321, City Hall
Baltimore, Maryland 21202
Telephone: 410-396-4783
Telefax: 410-545-3961

May 22, 2012

The Honorable President and Members
Of the Baltimore City Council
Attn: Karen Randle, Executive Secretary
Room 419, City Hall
100 North Holliday Street
Baltimore, Maryland 21202



Re: City Council Bill 12-0053 -- Biennial Agency Audits

City Council Bill 12-0053 requires that all City agencies, boards, commissions or other units of City government have their operations audited every second fiscal year (biennially) by the City Auditor or an independent Certified Public Accountant or a firm of Certified Public Accountants. The biennial audits would include both a financial audit and a performance audit. The Bill further defines the audits to include: (1) a financial audit of an agency's financial transactions, including all accounts, revenues, and receipts; and (2) a performance audit that assesses an agency's practices to determine whether the agency is operating economically and efficiently, and whether corrective actions for improving its performance are appropriate. Audit Reports conducted under this bill would be submitted to the Mayor, the Comptroller, and the City Council President. The cost of the audits would be required to be budgeted by each agency.

Article V of the City Charter, Sections 7 through 10, defines the duties of the City Auditor and the Department of Audits. Accordingly, the Department of Audits performs the City's Comprehensive Annual Financial Report, known as the CAFR, and four enterprise funds, Water Utility Fund, Waste Water Utility Fund, Parking Fund, and Loan and Guarantee Program, jointly with an independent firm of certified public accountants. Additionally, the Department performs audits of the City's three retirement systems (Employees' Retirement System, Elected Officials' Retirement System, and Fire and Police Employees' Retirement System), the City's Single Audit, the Enoch Pratt Free Library, the War Memorial Commission, the 9-1-1 Emergency Number System and performance audits. The Department also performs "non-audit services" as defined by generally accepted government auditing standards. These "non-audit services" include an annual review of Abandoned Properties, the weekly review of items submitted to the Board of Estimates, the operation of a Fraud Hotline, and special investigations.

Article V, Section 8(a) states that the duties of the Department of Audits will be performed in accordance with generally accepted government auditing standards, and State and federal law. Generally accepted government auditing standards (GAGAS) provides the following on financial and performance audits:

- Financial audits provide an independent assessment of and reasonable assurance about whether an entity's reported financial condition, results, and use of resources are presented fairly in

Comments

accordance with recognized criteria. Reporting on financial audits performed in accordance with GAGAS also includes reports on internal control, compliance with laws and regulations, and provisions of contracts and grant agreements as they relate to financial transactions, systems, and processes. Financial audits performed under GAGAS include financial statement audits and other related financial audits:

- a. Financial statement audits: The primary purpose of a financial statement audit is to provide reasonable assurance through an opinion (or disclaim an opinion) about whether an entity's financial statements are presented fairly in all material respects in conformity with generally accepted accounting principles (GAAP), or with a comprehensive basis of accounting other than GAAP.
 - b. Other types of financial audits: Other types of financial audits under GAGAS provide different levels of assurance and entail various scopes of work, including: (1) providing special reports, such as for specified elements, accounts, or items of a financial statement; (2) reviewing interim financial information; and (3) auditing compliance with regulations relating to federal award expenditures and other governmental financial assistance.
- Performance audits are defined as engagements that provide assurance or conclusions based on an evaluation of sufficient, appropriate evidence against stated criteria, such as specific requirements, measures, or defined business practices. Performance audits provide objective analysis so that those charged with governance and oversight can use information to improve program performance and operations, reduce costs, facilitate decision making by parties with responsibility to oversee or initiate corrective action, and contribute to public accountability.

Article V, Section 8(b) states that the City Auditor shall make reports of all audits to the Comptroller and, at the same time, to each of the other members of the Board of Estimates, however this Bill states that audit reports conducted would be submitted to the Mayor, the Comptroller, and the City Council President.

In order to maintain its independence, the Department of Audits is only issuing the above comments and is neither supporting nor objecting to this legislation.

Respectfully submitted,



Robert L. McCarty, Jr., CPA
City Auditor

cc: Honorable Joan M. Pratt, Comptroller
Angela C. Gibson, Mayor's Legislative Liaison
Gail F. Adams, Deputy City Auditor
Sheila Wyche