

COMPTROLLER

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OFFICE OF THE COMPTROLLER

Department of Audits
Department of Real Estate
Municipal Post Office
Municipal Telephone Exchange
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November 25, 2014

The Honorable Councilman Carl Stokes, Chair
Taxation, Finance and Economic Development Committee
Attn: Karen Randle, Executive Secretary
Room 419, City Hall
100 North Holliday Street
Baltimore, Maryland 21202

*Re: City Council Bill Number 14-0183R – Informational Hearing – Department
of Recreation and Parks - Implementation of the Recommendations
Contained in the Audit Report by the Baltimore City Auditor*

Dear Councilman Stokes,

I am writing to address your opinions expressed at the City Council meeting on Monday, November 10, 2014. At that meeting, you stated that:

“I have two announcements. The first is Taxation, Finance, and Economic Development on Wednesday, December 3rd at 5:00, here in chambers, televised hearing Bill Number 14-0183R. It will be for the purpose of requesting the Director of Recreation and Parks and Finance to come before the City Council to discuss the implementation of a recommendation containing the audit report by the Baltimore City Auditor dating April 9, 2014. Now, Mr. President we want to hear a report from the Auditor, but what they did wasn’t actually an audit. It’s called the audit but no respectable person outside of any government, city government particularly, would have signed off on what they did. There’s no payroll system per se, there is no financials. What we have is something un-auditable, but we are going to hear from Recreation and Parks, Department of Finance and Audits here in chambers on Wednesday, December 3rd at 5 p.m.”

The above comments about the audit of the Department of Recreation and Parks performed by the Department of Audits reflects a lack of understanding about what constitutes an audit, the audit process, and its findings and recommendations. Your unsubstantiated declarations about the work performed by the Department of Audits were inaccurate, and impugned the integrity of this Office, which therefore requires a response.

The following statements made on November 10, 2014 were simply not true and are being responded to as follows:

No obj.



1) You said, "... we want to hear a report from the Auditor, what they did wasn't actually an audit. It's called the audit but no respectable person outside of any government, city government particularly, would have signed off on what they did."

Response: The City Auditor, Deputy City Auditor, and the lead auditor of the engagement met with you to go over the audit report and the related findings directly after the audit report was presented to the Board of Estimates on April 23, 2014. You did not ask questions about the audit or express any concerns at that time. If you needed additional clarification, the meeting offered the appropriate time and opportunity, rather than making unsupportable statements seven months later at the City Council meeting.

The Board of Estimates noted the audit on April 23, 2014. It was an independent financial audit performed 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 ("Yellow Book"). Your statements reflect that you do not understand the requirements of a financial audit. As stated previously, it must be performed under generally accepted auditing standards. The audit opinion was based on the financial statements prepared by the Departments of Finance and Recreation and Parks. The financial statements were supported by the City's financial records (CityDynamics).

The adherence of the Department of Audits to auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, and the quality of the Department of Audits has been reported in the Department of Audits' Peer Review. The work of the Department of Audits is required to be periodically reviewed, and it had been determined with the current Peer Review that its internal control system was suitably designed and operating effectively to provide compliance with auditing standards.

In other words, the body of work of the Department of Audits fully complies with the requirements applicable not only to governmental entities, like the Maryland Office of Legislative Audits, but also those of independent CPA (Certified Public Accountant) firms that are governed by AICPA (American Institute of Certified Public Accountants). Currently, the City's CAFR (Comprehensive Annual Financial Report) is jointly audited by the Department of Audits and KPMG LLP, an independent CPA firm. Your characterization of the City Auditor as not a respectable person is not only objectionable, unfounded and irresponsible, but it impugns the integrity of the Department of Audits. Therefore, the declarations made cannot be condoned by my Office.

2) You stated, "There's no payroll system per se, there is no financials. What we have is something un-auditable..."

Response: This statement is not correct. The Department of Recreation and Parks has the same payroll system that is used by the City Council and all the City's Departments, which is the City's Etime Payroll System. The financial statements for the Department of Recreation and Parks were derived from, and supported by CityDynamics, the City's financial accounting system. All Departments, as they are audited, will need to use CityDynamics, with assistance from the Department of Finance, to generate their own financial statements.

While there were findings as described in the Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters on both payroll and the financial statements, these findings did not cause a modification of the auditor's opinion on the financial statements. Based on the audit, the financial statements present fairly the financial position of the Department of Recreation and Parks, for fiscal year 2012. In other words, the Department of Recreation and Parks received a "clean" audit opinion.

To assist you with understanding the audit and audit process, I am enclosing, for your review:

1. The audit report of the Baltimore City Recreation and Parks for the year ended June 30, 2012 and the *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*.
2. The response of the Departments of Finance and Recreation and Parks presented to the Board of Estimates on November 5, 2014.
3. The report of the Department of Audits addressing the above response.
4. The Department of Audits' current Peer Review.

I remain willing to meet with you to ensure that you are informed on the audit process. However, your inaccurate public comments should be retracted so that the public is properly informed, served openly, and with transparency.

The City Auditor will be attending the informal hearing on City Council Bill Number 14-0183R on December 3, 2014.

Sincerely,



Joan M. Pratt, CPA
Comptroller



Robert L. McCarty, Jr., CPA
Auditor