

Andrew Kleine

FROM	NAME & TITLE	Andrew Kleine, Chief
	AGENCY NAME & ADDRESS	Bureau of the Budget and Management Research Room 432, City Hall (410 396-4941)
	SUBJECT	City Council Bill # 12-0053– Biennial Agency Audits

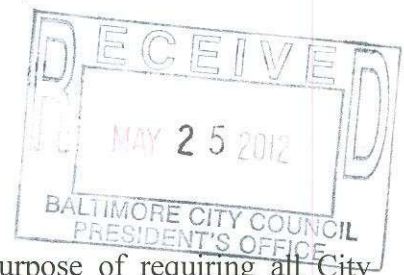
CITY of  
BALTIMORE  
**MEMO**



DATE: May 23, 2012

TO  
The Honorable President and  
Members of the City Council  
Room 400, City Hall

Attention: Ms. Karen Randle



City Council Resolution 12-0043R has been introduced for the purpose of requiring all City agencies to have their operations audited every second fiscal year; defining certain terms; specifying who may conduct the audits; requiring certain reports; providing for a stagger in undergoing the audits; and generally relating to the biennial audit of City agencies.

There are 55 City agencies, boards and commissions within the City's municipal organization chart. This legislation would require at least 27 audits performed annually. The fiscal auditing functions of the City are under the purview of the Comptroller's Office, Department of Audits. The Department performs mandated audits and is responsible for determining the need for additional audits of City agencies.

BBMR has met with representatives from the Department of Audits. The Department says that it does not have the capacity to meet the requirements of this legislation. Although the Department of Audits has some unused capacity -- six funded auditor positions that are currently vacant --the scope of this legislation would likely necessitate significant additional funding for the Department of Audits and/or City agencies. The Department of Audits was not able to estimate an average audit cost, either for in-house or outsourced audits, saying it would need to interview each agency to determine the scope of the audit and the resources necessary. Based on recent procurement information, the annual cost of conducting even the most basic financial audits pursuant to this legislation could exceed \$1 million. More complex and in-depth performance audits would significantly increase this cost.

Another consideration is the capacity of individual agencies, boards and commissions to prepare for fiscal audits. One of the preliminary items required for an audit is financial statements. Most City agencies, boards and commissions do not prepare annual financial statements and lack the expertise to prepare these documents. Financial statement preparation may be an additional cost related to the legislation's requirements.

The Department of Finance appreciates the goal of this legislation and agrees that a robust audit function is a key component of sound fiscal and performance management. However, the requirements of this legislation appear to be overly broad and unfocused. Many questions about agency finances can be answered without a formal audit, and audits should be targeted based on the scope, complexity, and materiality of the financial and performance issues under scrutiny.

At this time, the Department of Finance is unable to estimate the fiscal impact of this bill with any specificity due to the lack of availability of data and uncertainty about the types of audits that would be conducted pursuant to the bill. It is apparent that compliance with the requirements of this legislation would be very costly, and it is not certain that the benefits would outweigh the costs.

The Department of Finance opposes this bill in its current form and recommends further discussions about how to improve the City's audit function.

cc: Harry Black  
Angela Gibson

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*Angela Gibson/Comments*