



Brandon M. Scott
Mayor

Finance and Performance Committee
Legislative Oversight: L024-0066

Annual Comprehensive Financial Report (ACFR)

YE June 30, 2023

PREPARED BY
Department of Finance

September 26, 2024

SECTION 1: ACFR Overview



Annual Comprehensive Financial Report (ACFR) Overview

What is an ACFR and how is it used?

- The ACFR is standard basic financial statements for a governmental entity that complies with the accounting requirements established by the Governmental Accounting Standards Board (GASB).
- The Department of Finance compiles the financial statements which must be audited by an independent auditor using generally accepted government auditing standards.
- The ACFR consists of three sections: Introductory, Financial and Statistical. The Introductory section provides background context and provides a guide to the report. The Financial section provides the basic financial statements as well as notes to the statements and the independent auditors report. The Statistical section provides additional financial and statistical data, including data about financial trends changed over time.



Breaking Down 180 Pages of Financial Reporting

Introduction

Unaudited

Transmittal Letter

- Government structure
- Economic Outlook
- Budget highlights and priorities

Financial

Audited

Auditors Report

Management, Discussion and Analysis (MD&A)

- Government-Wide Financial Results

Audited Financial Statements & Notes

- Details the various accounting components
- Ex: Capital Assets, Debt, Pension, Receivables, Risk

Required Supplemental Information

Statistical

Unaudited

10 years of summary data

- Financial Trends
- Revenue & Debt Capacity
- Demographic & Economic
- Operating Information



SECTION 2: ACFR Timeline



ACFR Timeline

- Per state guidelines (LG Sec. 16-305 and Sec.16-306), the deadline is December 31.
- An extension of time to complete the audit and file the audit report may be granted for good cause by request to the MD Department of Legislative
- FY23 – City of Baltimore had an extension from the State through April 30th
Finalized April 12, 2024



ACFR Timeline Process Improvement

Financial Reporting – Year 2 in Workday

FY24 is the 2nd Fiscal Year in Workday

- Natural time efficiencies from second year with new chart of accounts, system of record, etc.
- All conversion activity is complete

Partnered Workday with other tools (Workiva) to reduce manual processes in ACFR preparation

- Change from manual excel to linked data

FY24 Targets

ACFR – to be submitted with State by February 28, 2025

Single Audit – to be submitted to Federal Clearing House by March 31, 2025

- Meets Federal compliance requirements



SECTION 3: Resources



Resources

- The ACFR is posted at the following page:
[Documents & Reports | Baltimore City Department of Finance](#)
- Direct link:
[City of Baltimore Final Audited ACFR FY23.pdf \(baltimorecity.gov\)](#)



**SECTION 4:
Findings and
Corrective Actions:
July 2022-June 2023**



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Highlights and Focus on FY 24

- An unmodified opinion on the financial statements
- Discovered no instances of material fraud
- Received full cooperation from management
- There were material weaknesses and significant deficiencies in internal controls were identified and the auditors provided recommendations for improvement to internal controls
- As noted by SB the prior finding removal process faces a heightened standard and is anticipated to be a multi year process
- This is first full year in a new accounting system and new chart of accounts



Financial Reporting Function	The City had significant post year-end adjustments to its fiscal year 2023 financial statements. Such adjustments relate to errors (both material and immaterial) undiscovered throughout the fiscal year. For example, there were cash accounts that were not reconciled for the majority of the fiscal year, which resulted in approximately \$50 million of uninvestigated reconciling items. Additionally, upon review of the trust accounts, an account for \$92 million was identified, but had not been recorded as of year end.
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The following corrective actions have been undertaken to address (with status noted):

- Produce financial statements in Workday using multibook accounting (GAAP and modified accrual) beginning in fiscal year 2023 (complete)
- Set up a written business process for the monthly close process which track significant tasks and send these tasks to relevant employee's inbox beginning with fiscal year 2023 (complete)
- The city uses “control” accounts for accounts receivable and accounts payable, which requires the subsidiary systems to reconcile to the general ledger (continuous).
- An extensive review of the chart of accounts has been completed. The City essentially uses the same chart of accounts allowing for easier reporting for Budgets, Procurement, Accounting etc. (complete)
- A request framework has been developed for future organizational changes, to ensure that the chart of accounts is maintained in a consistent manner
- A review of BAPS accounting teams was conducted in May 2024 and as a result additional staff training, reorganization of staff portfolios to cross train is underway.



Grant Accounting	Due to lack of formal procedures and accountability at various departments, the City is not able to establish accurate balances of grant accounts receivable and grant deferred revenue accounts.
Schedule of Federal Awards (SEFA)	Finance is responsible for preparing the schedule of expenditures of Federal awards based upon grant information obtained from the financial accounting records and other information provided by each department or agency. In many instances, the detail expenditure information in the accounting software differed from the expenditures reported by various City departments. Additionally, expenditures related to sub-recipients, subcontractors, and beneficiaries are not separately tracked in the general ledger. Without adequate controls over financial reporting, the City cannot provide reasonable assurance that the SEFA is fairly presented. There were also significant delays in the preparation of the Schedule of Federal awards, which prevented the City from meeting the March 31, 2024 deadline with the Federal clearinghouse.

The following corrective actions have been undertaken to address (with status noted):

We are now have the ability in one system to:

- Track the grant performance period and the CFDA number (complete)
- Manage and capture grant related expenditures (complete)
- Calculate automated billing to sponsors based on recoverable costs (in progress)
- Calculate the revenue by grant based on the recoverable costs (in progress)
- Business processes have been developed and implemented in Workday’s grant management module to include:
 - Definition of the grant funding source by creating a system-generated grant work tag (identifier) upon receipt of the Sponsor’s Notice of Award. (complete)
 - Populated fields in Workday with pass-through award data with Prime Sponsor and Bill-to-Sponsor data to billing data (complete).
 - Modifying create award business process to add Grants Management Office to final approval (complete)



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The corrective actions for grants have included citywide actions in policy and process:

- Instituted Grants Management Committee monthly meeting led by OPI with support of Grants Management Office (GMO) and Bureau of Accounting. Monthly meeting for all grant funded agencies where track progress, standardize processes and focus on drill down issues.
- Staffing – reviewed staffing and mission of GMO- developed short- and longer-term plan for an expanded scope that focuses on providing citywide support in policy, training, compliance and audit monitoring, and budget oversight. A new Grants Director position was created and our new Grants Director, Ashley Meyer joined the City at the end of August and she has been engaged in meeting with stakeholders.
- The expanded role of GMO focuses on grants oversight and compliance, training, budget development, technical/WD, policies and procedures.
- As part of this expanded role, since May 2024 GMO and BAPS have led over 8 citywide trainings on key grant accounting functions in WD; including for example, Billing, Creating an Award, Sub Recipients with each training having between 60 - 90 agency grant staff attending. These citywide meetings have a biweekly cadence and alternate between formal trainings on specific topics and discussion sessions.



Fixed Asset Accounting

There were significant post-close adjustments recorded to fixed assets to correct the year-end reporting for capitalized assets. Additionally, errors were detected in the depreciation calculation that resulted in additional adjustments.

The following corrective actions have been undertaken to address (with status noted):

- Track fixed asset is Workday and calculate the depreciation of the assets beginning with fiscal year 2023. The City expects to use Workday to calculate the fiscal year 2023 depreciation for its proprietary funds and internal service funds. (complete for proprietary funds and in progress for governmental funds).
- Depreciation will be run monthly rather than at the end of the year, allowing for a more regular review of the fixed assets (in progress).
- Workday reports which reconcile the subsidiary fixed asset module to the general ledger will be run monthly and reviewed (continuous).
- A new Workday role within each agency, an asset tracking specialist, will be responsible for reviewing the fixed asset listing and working with the Department of Finance ensuring that assets are capitalized properly (complete).
- A Capital Assets policy has been drafted and is expected to be reviewed and approved (in progress). The capitalization process is automated. A separate business process has been set up to flag certain expenditures (i.e., equipment) for tracking and review. A business asset accountant approves the final capital asset, life, and start date. A similar process is in place for large construction processes. (complete).



Water and Waste Water Billing

There was a significant number of accounts that have not been billed since the system has been implemented and a significant number of accounts have been billed inconsistently. The City's water and wastewater utilities system is not able to establish accurate water and wastewater utilities revenue and accounts receivable balances without manually calculated adjustments and this is a greater risk of error due to manual adjustments. There were also approximately \$13 million capitalizable costs that were erroneously recorded as operational expenses that needed to be adjusted post-close.

The following corrective actions have been undertaken to address (with status noted):

- The Office of the Mayor led a review of unbilled properties that have no accounts established within the billing system
- Baltimore City and Baltimore County undertook a joint review of the entire water and wastewater utility
- DPW optimized water billing cycles and schedules through a software program called Route Smart. City customers are billed monthly
- When a billing case is created, the adjustments are now done in a timely manner when a case is established. DPW is working to automate the adjustment process via the billing system
- The UMAX update went live on June 2024 and there is additional capability with the updates
- DPW attributed costs that were not erroneous there were a series of costs related to materials and contractual services related to compliance. The costs were unanticipated because they were compliance-related. Once analyzed, DPW determined that it was more suited to capitalize the costs because the costs were essentially a consent decree project
- As of May 2024, we've billed 99.25% of accounts, including 99.5% of residential accounts, which make up 87% of all accounts. Meter reads via the AMI/AMR technology allow for consistent billing, there are processes to no/mis-readings and to pull bills that may have erroneous or exceptionally high reads.



Information Technology Security

While progress has been made in addressing and remediating the legacy vulnerabilities, including adding additional personnel to the task, a number of “severe/critical/high risk” vulnerabilities remain to be remediated. The absence of timely remediation increases the risk that vulnerabilities may be exploited leading to disruption of the City’s operations and/or theft/loss of data.

The following corrective actions have been undertaken to address (with status noted): Finding 2022-005 Material Weakness over Information Technology Security

- Complete the review and cleanup of the final wave of agencies – BCIT, BCHD, BCFD and some stragglers from DPW, DHR and DOF (complete)
- Disable all privileged accounts that have not been used within 180 days (complete)
- Review any remaining privileged accounts for disposition (complete)
- Seek feedback from agencies on the FY 2023 Privileged Account review process and develop process improvements (complete)
- Begin FY 24 Privilege entitlement review process – (in progress)
- The FY 24 entitlement review and process improvements were shared in December 2023 Security Council
- The FY 24 annual privileged entitlement review cycle begins January 2024



THANK YOU!



Brandon M. Scott
Mayor