

Finance and Performance Committee

Legislative Oversight Hearing on the City of Baltimore's Annual Comprehensive Financial Report (ACFR) and Single Audit for FY 2023

Overview and Context

Baltimore City's ACFR and Single Audit for FY 2023 were both delayed and as such, the city did not meet the State's submission deadline requirement of on or before December 31 after the close of the fiscal year; nor did the city meet the federal deadline for submitting the Single Audit which was March 31, 2024.

In prior years, the ACFR for FY 2021 was submitted and presented to the Board of Estimates (BOE) in December 2022 and for FY 2022, the ACFR and Single Audit were prepared and presented simultaneously to the BOE in September 2023.

This upcoming hearing will provide the Council an opportunity to emphasize the value of and set clear expectations for prompt financial statements and audits, discuss key findings, and be advised of the plan to ensure timely and accurate financial management and reporting going forward.

Financial statements and independent audits are important for several reasons including:

- 1) they help us/citizens understand the city's financial health, including how well the city can meet its financial needs and maintain stability in the long run,
- 2) they provide key information for making decisions, and
- 3) provides evidence that the money is/was used appropriately.

Without timely financial statements and independent audited information, the City and Council are operating in the dark leading to uncertainty, potentially poor decisions, compliance problems, which could lead to penalties, and most importantly, compromised accountability to taxpayers.

The failure of a local government to file an audit report, or a delay in filing, results in the lack of timely accountability to its citizens.

FY 2023 Timeline:

During 2024, the city made multiple requests to the State's Department of Legislative Services to extend the date to submit its FY 2023 ACFR beyond the 12/31/23 due date.

On January 3, 2024, the city made its initial request for an extension through 2/28/24, which was further extended twice for 1 month each through April 30, 2024, the latest allowable extension.

The City's ACFR was:

- completed in April 2024 (10 months after the close of the fiscal year)
- submitted to the State Department of Legislative Services, May 23, 2024
- presented to the Board of Estimates (BOE) on June 26, 2024.

Historically, the ACFR and Single Audit are submitted simultaneously to the BOE, which did not happen for the fiscal year ending June 2023 as the Single Audit was just completed, draft copy received September 16, 2024.

Background Information

	ACFR	Single Audit
Purpose	To provide a detailed overview of the city's financial condition through a comprehensive set of financial statements.	To provide a comprehensive audit of an entity that expends \$750,000 or more in federal funds in a fiscal year, as required by the U.S. federal government.
Legislative Authority	Article V, Section 9(a) of the Baltimore City Charter "The City Auditor...shall audit the comprehensive annual financial report of the City, prepared by the Director of Finance."	Title 2, Part 200 of the Code of Federal Regulations (CFR)
Best Practice	The Government Finance Officers Association (GFOA) suggests that ACFRs be submitted no later than six months after the last day of the reporting period covered by the ACFR.	n/a
Due Date	<p>The City Charter and Code do not specify when the ACFR must be prepared or made available.</p> <p>Section 16-306 of the Annotated Code of Maryland (The Local Government Article), generally requires audit reports to be filed with the State's Department of Legislative Services on or before October 31 after the close of the fiscal year, or on or before December 31 after the close of the fiscal year for those local governments with a population of more than 400,000, and gives local governments until April 30th before classifying a report due as not submitted.</p> <p>For fiscal year 2023, the city did not meet this deadline. The ACFR was:</p> <ul style="list-style-type: none"> • completed in April 2024 • submitted to the state May 2024 • presented to the Board of Estimates (BOE) in June 2024. <p>Historically, the ACFR and Single Audit are submitted simultaneously to the BOE.</p>	<p>Per 2 CFR 200.512, "The audit must be completed and must be submitted within the earlier of 30 calendar days after receipt of the auditor's report(s), or nine months after the end of the audit period."</p> <p>The Office of Management and Budget has waived the 30-day deadline for any 2023 submissions. Audits will be considered on time if they are submitted within nine months after their fiscal period end date.</p> <p>The deadline for the Single Audit was March 31, 2024. The city had not completed or submitted the Single Audit.</p> <p>Extensions are not allowed for the Single Audit.</p>

<p>Reason for the delay</p>	<p>The city has testified that the audit was delayed, in part, because of challenges associated with the rollout of Workday, in addition to experiencing staffing shortages in accounting.</p>	<p>According to the external auditor, SB & Company, a draft Schedule of Federal Awards (SEFA) was provided in April 2024; however, data and accounting issues were discovered; therefore, delaying the audit. On August 15, 2024, the DOF informed the external auditor that they were close to providing the remaining open items. Based on that, SB & Company believed that it could finalize the audit in approx. 2 weeks assuming no further open items on the schedule of Federal awards and other requested documents once received.</p> <p>On September 16, the City's Single Audit was finalized and received.</p>
<p>Penalties</p>	<p>No financial penalties were incurred by the City. According to the Department of Finance, penalties do not begin until a locality is two years late with their submissions.</p>	<p>There will be a finding, and it will not be the first time the city has had this finding. There is always the risk of financial penalties. Potential penalties for non-compliance are the responsibility of the awarding agencies or pass-through entities.</p>
<p>How Baltimore compares to other governments</p>	<p>Many governments, regardless of population and budget size, are required by local or state law to prepare annual, audited financial reports within six months after the end of the fiscal year. On page 5, a chart illustrating audit timeframes for the State of Maryland, surrounding counties and other metropolitan areas is included.</p>	<p>n/a</p>

Audit Timelines for Baltimore City, Surrounding Counties and Other Metro Areas					
Level of Government	Name	Population	Fiscal Year	Audit Due Date	Submission Date
State	State of Maryland*	6,200,000	July 1 - June 30	January 24	January 24
City	Baltimore, Maryland	585,708	July 1 - June 30	December 31	April 12, 2024
County	Anne Arundel County	588,261	July 1 - June 30	December 31	December 21, 2023
County	Baltimore County	854,535	July 1 - June 30	December 31	April 30, 2024
County	Harford County	260,924	July 1 - June 30	October 31	October 12, 2023
County	Howard County	332,317	July 1 - June 30	November 30	November 30, 2023
County	Prince George's County	967,201	July 1 - June 30	October 28	February 29, 2024
City	Atlanta, Georgia	498,715	July 1 - June 30	December 31	December 22, 2023
City	Columbus, Ohio	905,748	January 1 - December 31	May 30	March 28, 2024
City	Denver, Colorado	715,522	January 1 - December 31	July 31	July 19, 2024
City	Detroit, Michigan	639,111	July 1 - June 30	December 31	December 21, 2023
City	Kansas City, Missouri	508,090	May 1 - April 30	October 31	October 30, 2023
City	Philadelphia, Pennsylvania	1,603,797	July 1 - June 30	February 25	February 24, 2024
City	Pittsburgh, Pennsylvania	302,971	January 1 - December 31	May 1	April 29, 2024
City	Portland, Oregon	652,503	July 1 - June 30	December 31	October 30, 2023

* The State of Maryland is required to provide certain financial reports, which are contained within the ACFR, to the General Assembly in January; however, there is no official deadline for completion of the ACFR.

Summary of Results (ACFR) - The Auditors:

- 1) Issued an unmodified opinion on the financial statements
- 2) Discovered no instances of material fraud
- 3) Received full cooperation from management
- 4) **Identified material weaknesses and significant deficiencies in internal controls such as:**
 - In the area of Financial Reporting, the City had significant post-year-end adjustments to its fiscal year 2023 financial statements, said adjustments related to errors (both material and immaterial) undiscovered throughout the fiscal year.
 - In the area of Grant Accounting, the City was not able to establish accurate balances of grant accounts receivable and grant deferred revenue accounts due to the lack of formal procedures and accountability at various departments.
 - In the area of Water and Wastewater billing, there were a significant number of accounts that had not been billed since the system has been implemented and a significant number of accounts have been inconsistently billed. The City's water and wastewater utilities were not able to establish accurate water and wastewater utility revenue and account balances without manually calculating adjustments and this presents a greater risk of error due to manual adjustments. Additionally, there was also approximately \$13 million of capitalized costs that were erroneously recorded as operational expenses that had to be adjusted post-close.
 - In the area of Fixed Asset Accounting, there were significant post-close adjustments recoded to fixed assets to correct the year-end reporting for capitalize assets.
 - In the area of Information Technology Security, while progress has been made in addressing and remediating legacy vulnerabilities, a few 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.
 - And with respect the Schedule of Federal Awards, 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 SEFA, which prevents the city from meeting the March 31,2024 deadline with the Federal clearinghouse.
- 5) **Provided recommendations for improving the City's internal controls and procedures**

As it relates to the Single Audit, please find below the Summary of Findings:

In accordance with 2 CFR 200.303: Internal Control, the non-Federal entity (the City) must: (a) Establish and maintain effective internal control over the Federal award that provides reasonable assurances that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulation and the terms and conditions of the Federal award.

Cash Management Deficiencies – there were instances where the support provided by management did not reconcile to the drawdown amounts in the Federal database.

Eligibility Deficiencies – there were instances where:

- Management did not have evidence of case manager review of the participant file for eligibility requirements.
- Management was unable to provide evidence of third-party verifications or documentation of expected income, assets, unusual medical expenses, and any other pertinent information.

Subrecipient Monitoring Deficiencies – there were instances where:

- Management did not provide evidence that the risk assessment was performed.
- Management did not include the Federal award identification number (FAIN) and the subrecipient's unique entity identifier (UEI) in the subaward agreement.
- Management was unable to provide evidence that subrecipient monitoring was performed during the grant year to ensure compliance with accounting requirements.
- Management was unable to provide evidence that the subreceipts' active registration on SAM.gov was verified.

Reporting Deficiencies – there were instances where:

- Management was unable to reconcile the expenditure details from the general ledger to the amounts reported to the funder(s).
- Management was unable to provide evidence that the required reports were submitted to the funder(s) and/or submitted timely.

Recommendations for Improvement:

- that the Department of Finance establish policies and procedures to ensure that the Federal funds are properly identified and reported accurately in the schedule of Federal awards in accordance with Uniform Guidance requirements.
- that the individuals responsible for administering Federal assistance programs with the City of Baltimore receive training in grant administration, including specific Uniform Guidance requirements (eligibility, reporting, cash management, subrecipient monitoring, etc.) for each grant administered.

Suggested Questions (Audit Timeliness)

#1: According to testimony provided at the BOE hearing, the ACFR was made available online in April 2024; however, the BOE and the Council received the audit in June 2024, why the delay?

1. When was the ACFR submitted to the State of Maryland?
2. Was an extension granted or any communications with our federal partners concerning the Single Audit being late?

#2: Does the City have a process flow and timeline of year-end activities that leads to the timely delivery of the ACFR and Single Audit for FY 2024? If so, could you share and/or provide that to the Council.

1. The concern being that its now the end of September, year-end supplementals need to get through the BOE and the Council (October). Then, the DOF will still need time to complete its close out and produce the financial statements and draft SEFA. The external auditor needs time to conduct the audit. The ACFR is due to state by the end of December and the Single Audit is due to OMB in March. It's a very tight timeline.

#3: It's been previously mentioned that the rollout of Workday attributed to some of the delay in completing and submitting ACFR and Single Audits. We understand that some of those challenges have been resolved,

- 1, What remains outstanding to be completed?
2. Who was responsible for the rollout of Workday?
3. Can we expect that the FY 24 ACFR and Single Audit will be completed and submitted to the state/federal government timely?

Suggested Questions (Financial Statements)

#5: (Pages 11 -13) As noted in the report, while governmental revenue increased by \$165.9 million during FY 2023, governmental expenses increased by \$1.0 billion for the same period. The expense increases primarily attributable to increases in public safety and regulations which almost doubled (\$400.2M), conservation of health (\$122.1M, education (\$248.2M) and highways and streets (\$118.5M) activities.

- What measures are being implemented to control expenses while still maintaining essential services?
- What's driving the public safety and general government expenditure increases?

#6: (Page 13) There is a reference to capital assets increasing by \$175.5 million in business-type activities primarily because of the utilities funds' effort to build environmentally sound facilities.

- What does that mean? Is this projected to have a long-term fiscal impact?

#7: (Page 15) Compared to FY2022, for FY2023 there was a \$127m decrease in Other local taxes, what is that attributed to?

#8: (Page 16) In FY2023, the city's expenditures for grants exceeded grant revenue by \$28,091,000 and that gap was resolved with a transfer of \$28.7 million from the general fund. The administration has testified to the recent efforts to improve grant management, which is important for ensuring that we effectively use and track grant funds.

1. Can you provide an update on whether the improvements in grant management are expected to positively impact the balance between grant revenue and expenditures in FY2024?

#9: (Page 17/106) If the approved budget (including supplementals) establishes the legal expenditure limit for the city, please explain how the city's general fund expenditures and encumbrances exceeded the final general fund budget by \$155M in FY2023?

Other Suggested Questions (Independent Public Accountant recommendations)

#9: Regarding Internal Controls over financial reporting, what steps (if any) have been recently implemented and/or are being taken by the City to prevent, detect or correct errors in a timely manner to improve the information included in the schedule of Federal awards, and to ensure that grants are operated in accordance with Uniform Grant Guidance?

#1: Have policies and procedures been implemented to ensure that Federal funds been identified and reported in accordance with Uniform Guidance requirements?

#2: Have all individuals responsible for administering Federal assistance programs been trained in grant administration and Uniform Guidance requirements?

#3: Has a Grants Director been hired and is the group fully and properly staffed?

