

Performance Audit Report

Baltimore Police Department

Evaluation of Purchasing and Disbursement Controls and Transactions

October 2021



OFFICE OF LEGISLATIVE AUDITS
DEPARTMENT OF LEGISLATIVE SERVICES
MARYLAND GENERAL ASSEMBLY

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Victoria L. Gruber
Executive Director

DEPARTMENT OF LEGISLATIVE SERVICES
OFFICE OF LEGISLATIVE AUDITS
MARYLAND GENERAL ASSEMBLY

Gregory A. Hook, CPA
Legislative Auditor

October 19, 2021

Senator Clarence K. Lam, M.D., Senate Chair, Joint Audit and Evaluation Committee
Delegate Carol L. Krimm, House Chair, Joint Audit and Evaluation Committee
Members of Joint Audit and Evaluation Committee
Annapolis, Maryland

Ladies and Gentlemen:

We have conducted a performance audit to evaluate the effectiveness and efficiency of the financial management practices of the Baltimore Police Department (BPD) as required by the State Government Article, Section 2-1220 of the Annotated Code of Maryland. This is the first audit of BPD as the audit requirement took effect July 1, 2020. The scope of this audit focused on reviewing controls and transactions relating to BPD purchasing and disbursement activity for the six-year period beginning July 1, 2014 and ending June 30, 2020.

BPD safeguards the lives and properties of persons within the areas under the control of Baltimore City (City), and assists in securing protection under the law for all persons. Although a State agency, BPD is not a budgetary unit of State government, with the City maintaining financial records for BPD and providing significant budgeting and support services to BPD, including processing of purchasing and disbursement transactions. In this regard, the City's Department of Finance (DOF) is responsible for most of BPD's procurement and disbursement activities. As such, our audit evaluated the adequacy of BPD and City requirements and procedures related to BPD purchasing and disbursement activity, and determined whether purchases and disbursements by BPD and the City (on behalf of BPD) were performed in accordance with those requirements and procedures.

According to City records, BPD's fiscal year 2020 expenditures totaled approximately \$531.6 million, including \$95.2 million for non-payroll related

expenses. Our overall audit scope, objectives, and methodology (including additional planned audits of BPD) are explained on page 5.

Our audit disclosed that the City's purchasing policies and procedures did not require maintenance of a complete and centralized procurement file for every procurement; accordingly, we found that such files were not prepared for BPD purchases. In addition, our testing disclosed that certain critical procurement documentation was not maintained for several BPD procurements selected for testing. For example, vendor technical proposals were not maintained for BPD's \$35 million body worn camera contract (with modifications).

In addition, our audit found that certain controls over disbursements were not adequate. Specifically, verification that related goods or services had been received was not always obtained by BPD prior to approving payments to vendors. In addition, vendor payments were routinely made late, as we found that for 57 of 117 transactions tested, payments were made between 3 days to over one year late. Additionally, DOF did not sufficiently control access to a critical financial system that allowed certain users to both initiate and approve disbursement transactions without independent approval.

Furthermore, our audit disclosed the City's Procurement Card Program policy did not include requirements to use certain additional detailed purchasing data available to help monitor and ensure the propriety of purchases made. Additionally, documentation supporting Program expenditures and journal entries required to properly record expenditures were not always submitted to DOF by BPD on a timely basis.

Our audit also found that DOF had not established formal policies and procedures to monitor vendor compliance with minority and women-owned business enterprise participation goals included in contracts and, although compliance reviews were performed by DOF in certain cases, these reviews were not adequate. As a result, assurance was lacking that BPD vendors were meeting required participation goals.

Finally, our audit disclosed the City has adopted a detailed ethics policy that conforms to State law, and includes adequate provisions for financial and conflict of interest disclosures. We also found that all of the financial disclosure statements and conflict of interest disclosures forms that we selected for testing were completed and filed as required.

BPD's response to this audit, on behalf of itself and DOF, is included as an appendix to this report. We reviewed the response and noted general agreement to our findings and related recommendations, and while there are other aspects of the response which will require further clarification, we do not anticipate that these will require the Joint Audit and Evaluation Committee's attention to resolve.

We wish to acknowledge the cooperation extended to us during the audit by BPD and DOF. We also wish to acknowledge BPD's and DOF's willingness to address the audit issues and implement appropriate corrective actions.

Respectfully submitted,

A handwritten signature in black ink that reads "Gregory A. Hook". The signature is written in a cursive, flowing style.

Gregory A. Hook, CPA
Legislative Auditor

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Audit Scope, Objectives, and Methodology

Audit Scope

Chapter 535 of the Laws of Maryland, 2020, effective July 1, 2020, requires the Office of Legislative Audits (OLA), at least once every six years, to conduct an audit or audits of the Baltimore Police Department (BPD) to evaluate the effectiveness and efficiency of the financial management practices of BPD. The law also states the scope and objectives of the audit or audits shall be determined by the Legislative Auditor.

OLA identified four separate audits to be conducted of BPD during the first audit cycle of BPD (in the following order).

1. Evaluation of Purchasing and Disbursement Controls and Transactions,
2. Asset Forfeiture and Property Control,
3. Surveillance Equipment, and
4. Human Resource Activities and Overtime.

The scope of this first audit focused on reviewing controls and transactions relating to BPD purchasing and disbursement activity for the six-year period beginning July 1, 2014 and ending June 30, 2020. In this regard, BPD receives significant support services for its procurement and disbursement activity from several Baltimore City (City) agencies, primarily the City's Department of Finance (DOF) where most of BPD's procurement and disbursement activities were processed. As such, our audit evaluated the adequacy of BPD and City requirements and procedures related to BPD purchasing and disbursement activity, and determined whether purchases and disbursements by BPD and the City (on behalf of BPD) were performed in accordance with those requirements and procedures.

Our audit was performed in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Objectives and Methodology

Our audit included the following objectives:

1. Evaluate the adequacy of BPD and City requirements and procedures for procurements, and determine whether procurements selected for review were performed in accordance with these requirements and procedures.
2. Evaluate the adequacy of BPD and City requirements and procedures for payment processing, and determine whether vendor payments selected for testing were subject to adequate controls and performed in accordance with these requirements and procedures.
3. Evaluate the adequacy of BPD and City requirements and procedures for procurement card (P-Card) usage, and determine whether P-Card usage was in accordance with these requirements and procedures.
4. Evaluate the adequacy of requirements and procedures used by BPD and the City to monitor compliance with minority and women-owned business enterprise participation goals, and determine whether monitoring was performed in accordance with City requirements and procedures.
5. Determine whether BPD and City requirements and procedures for ethics and financial disclosure filings conformed with State law, and determine whether financial and conflict of interest disclosures were filed, as required and, if not, whether appropriate follow-up was taken.

To accomplish our objectives, we reviewed the Baltimore City Charter and applicable laws and regulations governing procurement and disbursement processes. We also reviewed pertinent sections of the Baltimore City *Administrative Manual* that communicates official City policies and procedures affecting City operations and its employees for all financial practices, including procurement and disbursement (payment processing) activity. City requirements regarding procurements and disbursements were compared, for evaluation purposes, to corresponding State requirements, including State procurement and disbursement laws and regulations, as well as applicable Statewide procurement and disbursement policies promulgated by State control agencies.

We interviewed BPD, and City staff at the DOF, Baltimore City Comptroller's Office, Office of the Inspector General, and Law Department to determine the processes used to procure goods and services, and to issue payments. We obtained the following data for our testing of the purchasing and disbursement processes:

- BPD's general ledger activity from the City's financial system for the period from July 1, 2014 to June 30, 2020.
- Reports of purchasing activity for selected periods from the City's procurement system (CitiBuy).

- P-Card activity from the City P-Card vendor's online account for the period of July 1, 2016 to June 30, 2020 (activity prior to July 1, 2016 could not be provided).

We performed various tests of the relevant data and determined these data files and reports were sufficiently reliable for the purposes used during the audit.

We also obtained view-only access to three critical automated City systems used to process, control, and perform key purchasing and disbursement activities. This access was used to review system controls (such as approval paths) and user access, purchasing and disbursement records, and other critical information pertaining to evaluating procedures and testing specific transactions.

Our assessment was based on the requirements and procedures in place at the time of our fieldwork and the compliance with these requirements and procedures. Our tests of transactions and other auditing procedures were generally focused on the transactions occurring during our audit period of July 1, 2014 to June 30, 2020, but may include transactions before or after this period as we considered necessary to achieve our audit objectives.

Generally, transactions were selected for testing based on auditor judgment, which primarily considers risk, the timing or dollar amount of the transaction, or the significance of the transaction to the area of operation reviewed. As a matter of course, we do not normally use sampling in our tests, so unless otherwise specifically indicated, neither statistical nor non-statistical audit sampling was used to select the transactions tested. Therefore, unless sampling is specifically indicated in a finding, the results from any tests conducted or disclosed by us cannot be used to project those results to the entire population from which the test items were selected. The reliability of data used in this report for background or informational purposes was not assessed. In addition to the conditions included in this report, other findings were communicated to BPD and DOF that were not deemed significant and, consequently, did not warrant inclusion in this report.

More detailed descriptions of the specific objectives and related methodologies, including the time period covered by our test work, are discussed in the Findings and Recommendations section of this report.

Fieldwork and Agency Response

We conducted our fieldwork from July 1, 2020 to February 26, 2021. A copy of the draft report was provided to BPD and DOF. The responses to our findings and recommendations from BPD and DOF appear as an appendix to this audit

report. As prescribed in the State Government Article, Section 2-1224 of the Annotated Code of Maryland, we will advise BPD and DOF regarding the results of our review of the responses.

Background Information

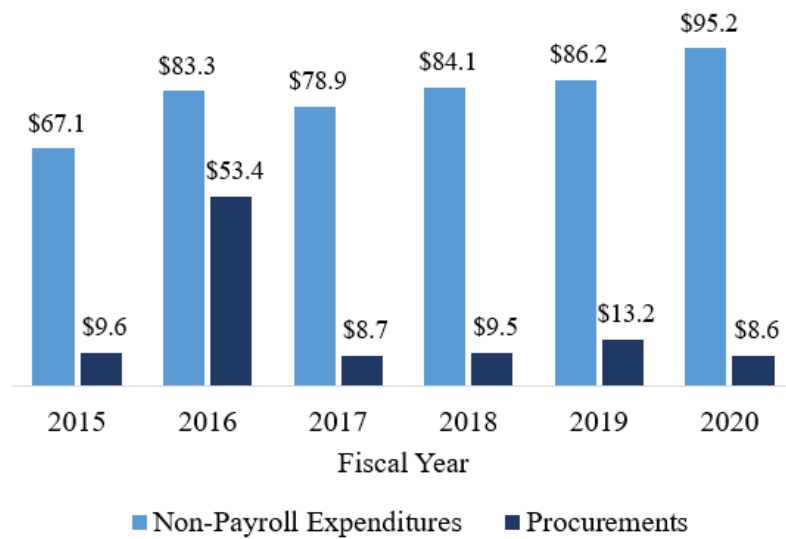
Agency Responsibilities

The Baltimore Police Department (BPD) is an agency and instrumentality of the State, established under Article 4 - Section 16 of the Code of Public Local Laws of Maryland. BPD safeguards the lives and properties of persons within the areas under the control of Baltimore City (City), and assists in securing protection under the law for all persons. Authority to appoint the Police Commissioner was transferred from the Governor to the Mayor of Baltimore, effective July 1, 1978. The Police Commissioner has the full authority and responsibility for directing and supervising the operations and affairs of BPD. Although a State agency, the BPD is not a budgetary unit of State government, with the City maintaining financial records for BPD and providing significant budgeting and support services to BPD, including processing of purchasing and disbursement transactions.

Expenditure and Procurement Activity

According to City records, BPD's fiscal year 2020 expenditures totaled approximately \$531.6 million, including \$95.2 million for non-payroll related expenses. BPD expenditures are primarily funded through the City's general fund, accounting for \$508.3 million of the aforementioned total expenditures. As depicted in Figure 1, the portion of non-payroll procurements directly made by BPD each year is significantly less than BPD's total non-payroll expenditures. This difference is attributable to most of BPD's non-payroll procurements being made through the City's Department of Finance, such as by using City contracts. In this regard, direct BPD procurements generally ranged between \$8.6 million and \$13.2 million a year during the audit period, except for fiscal year 2016 when procurements were \$53.4 million primarily due to the procurement of the Body Worn Camera contract, which had a total contract value (after amendments) of \$35.2 million.

Figure 1
BPD Non-Payroll Expenditures and Procurements
(in millions)



Source: City Budget Books and the City's purchasing system (CitiBuy)

Department of Finance

The Baltimore City Department of Finance (DOF) is responsible for the management of the City's financial operations including payroll, revenues and receivables, procurements and disbursements, and grants management through five Bureaus. DOF processes the majority of BPD's critical procurement and disbursements functions (referred to as support services) itself through the City's financial and purchasing systems. These support services are primarily provided by the DOF's Bureau of Procurement and Bureau of Accounting and Payroll Services.

Bureau of Procurement (BOP) – BOP serves as the City procurement unit, and is responsible for performing critical procurement functions and ensuring each procurement complies with City purchasing requirements. In general, BOP handles the solicitation and bid evaluation functions, establishment of the contract including approval or recommendations to the Board of Estimates, and creates a purchase order in the City's purchasing system. BPD's involvement in the procurement process is generally limited to making requisitions, developing specifications, and serving as a supporting member on bid evaluation committees when applicable.

Bureau of Accounting and Payroll Services (BAPS) – BAPS is responsible for approving all payments and disbursements made by the City. BPD is responsible for ensuring that goods or services have actually been received, contract monitoring, and for providing approval for payment at an agency level. Once approved, the payment goes to BAPS for the final approval, which results in payment through the City’s Treasurer’s Office.

Financial and Purchasing Systems – The City uses three systems for processing procurement and disbursement activity. The three systems are managed by DOF.

- **CitiBuy** – CitiBuy is the City’s procurement system that controls critical procurement processes such as requisition, public solicitation, receipt of electronic bid documentation and bid tabulation, and creation of purchase orders. CitiBuy is also used to document the receipt of goods or services and approve payments against purchase orders and is used as a repository for support for procurements and payments against purchase orders.
- **CoreIntegrator** – CoreIntegrator is used by the City to control and process virtually all material payments to vendors. Payments are initiated, supported, and approved for payment through workflows established in CoreIntegrator. In addition, CoreIntegrator accounts for other disbursement activity that occurs outside the system such as petty cash and purchasing card transactions, as well as non-disbursement activity such as end-of-year closing and allocation of shared expenditures between agencies through journal entry transactions.
- **CityDynamics** – CityDynamics is the City’s accounting and payment system used to request and transmit payment information for payments approved in CoreIntegrator to the City Treasury Department.

BAPS and BOP are responsible for establishing user access and automated controls over these systems, such as workflows and approval paths.

In June 2019, the City awarded a contract to replace its automated systems through the Baltimore City Workday Project. Workday is enterprise resource planning software used by many State and local governments, (including Maryland for its payroll system). The Workday Project was planned to be implemented in three distinct phases¹ as depicted in Figure 2:

¹ Phase I was deployed in December 2020. However, as of July 2021, the City was continuing efforts to stabilize the platform. Due to that situation, Phase I systems will be considered during the scope of our fourth BPD audit related to human resource activities and overtime.

Figure 2
Workday Project Phases



Source: Baltimore City Workday website

Phase II includes the replacement of CitiBuy, CoreIntegrator, and CityDynamics. According to DOF management, as of June 2021, the targeted timeline was for Phase II development to begin in June 2021 and for implementation to be completed in March 2022.

Additional support services are provided by other DOF Bureaus and City agencies, such as the Baltimore City Office of Information and Technology, the Comptroller's Office, and the Law Department. More detailed descriptions of the respective agency responsibilities are discussed as applicable in the Background sections of each objective in this report.

Procurement Assessment and Transformation Initiative

In March 2021, the Mayor's Office announced its plan to overhaul the City's procurement practices referred to as the Procurement Assessment and Transformation Initiative. A request for proposals was issued on March 12, 2021 and the assessment was to include the procurement code, policies, systems, administrative processes, technology tools and capacity to optimize procurement services within BOP.

This assessment was also intended to review procurement activity and centralized coordination opportunities within all City agencies to include an end-to-end procurement process with a focus on the following key areas:

- People and organization;
- Category management, strategic sourcing and spend analysis;
- Technology;
- Governance and risk;
- Internal stakeholder management;
- Purchase-to-pay;
- Performance management; and
- Strategic direction.

We were advised that the results of this assessment will be used to facilitate change to the City's procurement practices such as to streamline the process, ensure proper controls and policies are in place, drive efficiencies, increase stakeholder satisfaction, and drive additional savings. Due to the timing of this initiative, the results are not included within the scope of our audit.

Findings and Recommendations

Objective 1 – Purchasing Process

Background

According to Baltimore City (City) records, the Baltimore Police Department (BPD) had 58 active contracts totaling approximately \$59.0 million as of September 1, 2020. In addition, non-payroll disbursements totaled \$95.2 million in fiscal year 2020. In general, purchases greater than \$5,000 are required to be made in accordance with the following City purchasing requirements.

Posting of Solicitations

For competitive procurements anticipated to result in a contract exceeding \$50,000, solicitations are required to be published electronically on the City purchasing system (known as ‘CitiBuy’), between 10 and 90 days before bid openings, and advertised at least twice in local newspapers. For competitive procurements less than \$50,000, publishing and advertising are not specifically required.

Receipt of Bids and Proposals, and Opening

For competitive procurements less than \$50,000, vendors are required to submit bids electronically through CitiBuy, which are subsequently received and opened by the Department of Finance (DOF) – Bureau of Procurement (BOP). For competitive procurements greater than \$50,000, bids and proposals are required to be submitted in hardcopy to the City Board of Estimates (BOE) and the City Comptroller’s Office, which is responsible for physically securing, and publicly opening and recording bids and proposals.

Evaluation

In conjunction with BPD, BOP is required to appoint a bid and proposal evaluation committee made up of three or more individuals, of whom no more than 50 percent can be BPD personnel. BOP is responsible for reviewing the evaluation committee’s recommendations and the related vendor bids and proposals, and determining the winning vendor.

Contract Approvals

The City Purchasing Agent, who is the Chief Procurement Officer at BOP, has been delegated the authority to approve contracts up to \$25,000. Contracts that exceed \$25,000 require BOE approval.

Award Posting and Purchase Orders

After all approvals have been obtained, BOP posts the award and creates a purchase order in CitiBuy, which is used in the disbursement process. For certain procurements, generally less than \$25,000, the purchase order serves as the contract between the City and vendor.

Non-Competitive Procurements

City purchasing regulations define a non-competitive procurement as a procurement which is of such a nature that no advantage will result in seeking additional bids or proposals, or it is not practicable to obtain competitive responses. In general, non-competitive procurements are one of two types, as depicted in Figure 3. City regulations also permit a noncompetitive procurement when the need for supplies, materials, equipment, services, or public works is of an emergency nature.

Figure 3
Non-Competitive Procurement Types and Uses

Sole Source	Select Source
Item is copyrighted intellectual property	No advantage to seeking competition
Compatibility of equipment	Not practicable to obtain competition
Items or services unique to vendor	Urgently needed but not of emergency nature
Public utility	Not applicable

Source: City purchasing requirements, and BOP Non-Competitive Procurement Justification Form

When a non-competitive procurement is made, written justification must be provided to the BOE (prepared by the requisitioning agency and approved by BOP) detailing why the procurement met the criteria for a non-competitive procurement.

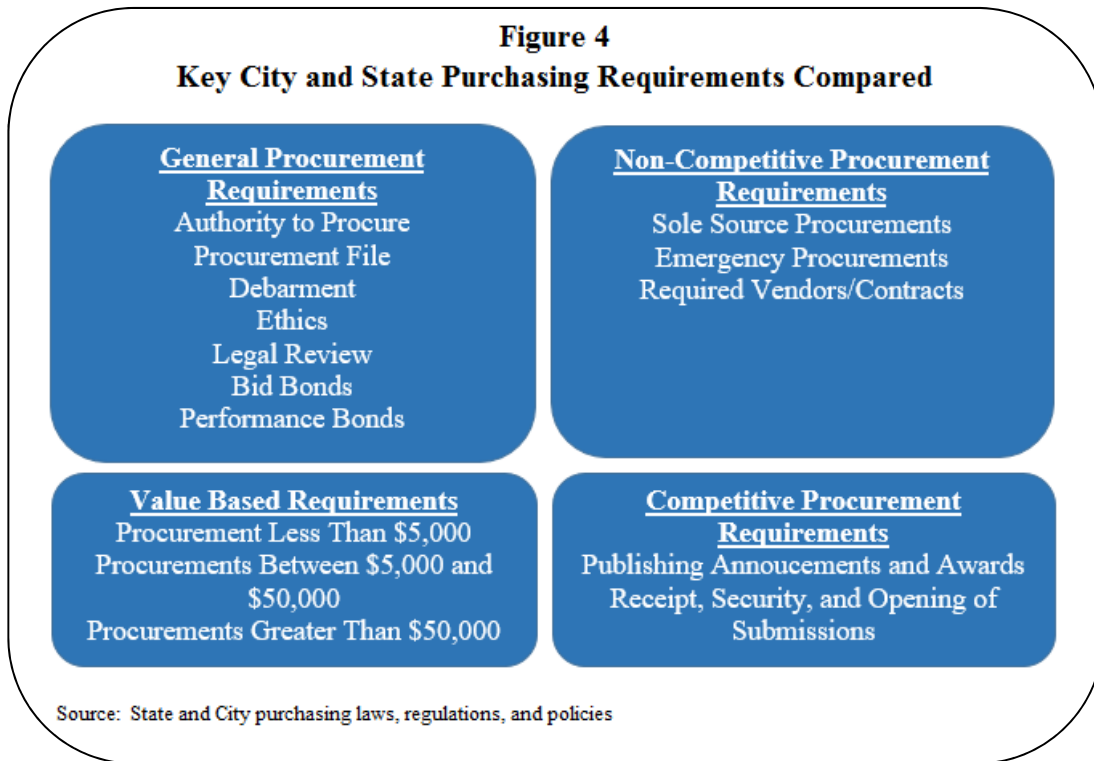
Purchasing Controls

BPD uses a combination of manual and automated procedures for processing requisitions to purchase goods and services. Manual requisitions are prepared by BPD documenting the need and are subject to supervisory approval. Specifically, the approved requisitions are entered on CitiBuy by BPD personnel, and approved by BPD procurement, fiscal, and/or budget personnel. The approved requisitions are then sent to BOP through CitiBuy. BOP generally handles the solicitation and bid evaluation functions, establishes the contract, and creates a purchase order in CitiBuy. BOP is ultimately responsible for ensuring each procurement complies with City purchasing requirements.

Objective and Methodology

Our objective for the purchasing process was to evaluate the adequacy of BPD and City requirements and procedures for procurements, and to determine, based on this evaluation and transaction testing, whether procurements were performed in accordance with these requirements and procedures.

To accomplish our objective, we reviewed excerpts of the City charter, laws, and regulations governing the City's purchasing process. We also reviewed pertinent sections of the City's *Administrative Manual* that communicates official City policies and procedures that affect the City's operations and its employees. We then compared City purchasing requirements to corresponding State requirements for four key purchasing categories. Specifically, we judgmentally identified 15 key purchasing areas as depicted in Figure 4 and compared the City's purchasing requirements to corresponding State purchasing laws and regulations, and the State Department of General Services' *Maryland Procurement Manual*.



We interviewed BPD, DOF, Baltimore City Comptroller's Office, Office of the Inspector General (OIG), and Law Department staff to determine the typical processes used to procure goods and services, including but not limited to requisitions, solicitations, bid opening, and contract award. We evaluated the adequacy of the related procedures and controls by comparing these typical processes to City and State requirements.

We also obtained reports of purchasing activity from the City's purchasing system, such as a current contract listing and a report of purchase orders for selected periods of time within our audit period. We performed various tests of the relevant data, including tracing and vouching data directly to the City purchasing system and comparing data to BOE contract approvals, and determined that the data were sufficiently reliable for the purposes used during the audit. In addition, we obtained view-only access to the City's automated purchasing system which we used to review system controls (such as approval paths) and user access, procurement records, and other critical information pertaining to evaluating procedures and transaction testing.

Finally, we tested 17 BPD procurements (10 non-competitive and 7 competitive) totaling approximately \$80.3 million² including contract modifications and renewals to evaluate whether purchases were made in accordance with key City and State purchasing requirements. Our testing was based on a review of available electronic and hardcopy procurement records and data within the City's purchasing system, and interviews with key personnel involved in the related purchases.

Conclusion

Overall, we determined that BPD and City purchasing requirements were adequate for 14 of the 15 key purchasing areas we reviewed. Specifically, these requirements were generally similar to State requirements (with certain differences in terminology and dollar thresholds). For the remaining purchasing area, we found that requirements had not been established by the City for maintaining a complete and centralized procurement file for each procurement, which is required by State purchasing regulations.

Our review of procedures in place determined that processes used to procure goods and services including, but not limited to requisitions, solicitations, bid openings, and awards, were in accordance with key procurement requirements. In addition, we found that CitiBuy online controls (such as approval paths) and user access appeared to be appropriate.

Our review and test of 17 procurements totaling approximately \$80.3 million disclosed that the procurements were generally made in accordance with key procurement requirements. However, we identified 7 procurements totaling \$40.2 million for which certain critical procurement documentation was not maintained by BPD or the aforementioned City units.

² Test selection was based on auditor judgment, and considerations included, for example, expected cost, nature of purchase, potential risk, and diversity of selection source. The related beginning contract dates spanned from January 21, 2015 to June 17, 2020.

Findings

Finding 1

The City's purchasing policies and procedures did not require maintenance of a complete and centralized procurement file for every procurement. Accordingly, we found that such files were not prepared for BPD purchases and certain critical procurement documentation was not maintained for several BPD procurements selected for testing.

Analysis

The City's purchasing policies and procedures did not require maintenance of a complete and centralized procurement file for every procurement; accordingly, we found that such files were not prepared for BPD purchases. In addition, our testing disclosed that certain critical procurement documentation was not maintained for several BPD procurements selected for testing. According to City records, BPD had 58 active contracts valued in total at approximately \$59.0 million as of September 1, 2020.

Inadequate City Requirements

Our review of City policies and procedures disclosed that they did not include a requirement to maintain a complete and centralized procurement file for each procurement. Although a general financial record retention policy was established by DOF that required bid requests, contracts, and correspondence to be maintained for seven years, this policy lacked sufficient specificity, such as a requirement to maintain a separate procurement file in some manner for each procurement, and clarification as to what each file should contain. In addition, the policy was not established in any of the aforementioned formal City purchasing requirements.

In comparison, State procurement regulations require that a procurement file for each procurement be created, which may be kept electronically. The requirement further specifies that the procurement file include a record of all inquiries, a listing of every bidder or offeror solicited, all bids or offers received, all internal and external correspondence regarding the procurement, written documentation from the procurement officer describing efforts to confirm the information in the affidavits submitted by the successful bidder or offeror, and the final contract. The *Maryland Procurement Manual* further states that the procurement officer is responsible for creating, updating, and maintaining the procurement file from the beginning to the end of the procurement process.

Insufficient Record Retention

Our test of 17 BPD procurements (10 non-competitive and 7 competitive) totaling \$80.3 million, including contract modifications and renewals, disclosed that certain critical procurement documentation was not maintained for 7 procurements totaling \$40.2 million.

- Our test of the 10 non-competitive procurements totaling \$39.6 million disclosed 5 procurements totaling \$4.2 million for which certain required critical procurement documentation could not be provided. Specifically, for 4 procurements totaling \$3.0 million a justification form (for a non-competitive procurement) was prepared and approved by BPD, but there was no documentation of the required BOP approval. In addition, certain documentation required by BPD to support the need for the items procured and the BPD approval could not be located for 4 procurements totaling \$4.0 million. Finally, neither BPD nor the City could provide us with price quotes and a fully executed copy of the final contract for one procurement totaling \$2.3 million. DOF subsequently obtained the missing documents for this procurement from the vendor as a result of our inquiry. Based on our review of documents that were available for the 5 procurements, we were able to determine that each procurement appeared to be reasonable and appropriate for BPD despite the missing documentation.
- Our test of the 7 competitive procurements totaling \$40.7 million disclosed 2 procurements totaling \$36.0 million for which certain critical documentation could not be provided. Specifically, neither BPD nor the City could provide us with vendor technical proposals for its \$35.0 million (with subsequent modifications) body worn camera contract. According to DOF management, these records were believed to have been destroyed as a result of a flood in 2017. We were able to review documentation of technical evaluations performed (including field testing by BPD officers) which mentioned that vendor technical proposals were submitted. For another \$1 million procurement related to BPD's workforce management and scheduling system, neither BPD nor the City could provide documentation of the evaluation of the bidder technical proposals. While we were provided with certain communications and documentation, such as evaluation team disclosure letters, the actual technical evaluation documentation was not provided.

In our opinion, procurement records were maintained in a decentralized manner. For example, BPD maintained requisition documentation it had prepared, as well as certain other related internal and external correspondence, whereas BOP

generally maintained procurement records relating to functions occurring after BPD's electronic submission of its requisition, including solicitation of bids, bid evaluation, and contract award. In addition, certain procurement records were maintained in the City purchasing system (CitiBuy), while others were maintained on various shared drives, local drives, and/or in hardcopy form. As such, a single procurement file including all pertinent records was not maintained by either BPD or BOP, and based on our observations these conditions created inconsistency and disorganization in record retention, and delays in obtaining requested procurement records.

Recommendation 1

We recommend that DOF

- a. modify City purchasing policies and procedures to require a comprehensive central file or repository of critical documents for each procurement consistent with State procurement regulations and the *Maryland Procurement Manual*; and**
- b. ensure that all critical procurement documentation, including those required of BPD, is maintained in each centralized City procurement file.**

Objective 2 - Disbursements

Background

DOF – Bureau of Accounting and Payroll Services (BAPS) is responsible for approving all payments and disbursements made by the City. BPD is responsible for ensuring that goods or services have actually been received and for providing approval for payment at an agency level. Once approved by BPD, Procurement, and the Bureau of the Budget and Management Research (when applicable), the transaction is forwarded to BAPS for the final approval, which results in payment through the City's Treasurer's Office. According to the City's records, BPD's non-payroll disbursements totaled \$95.2 million in fiscal year 2020, as depicted in Figure 1.

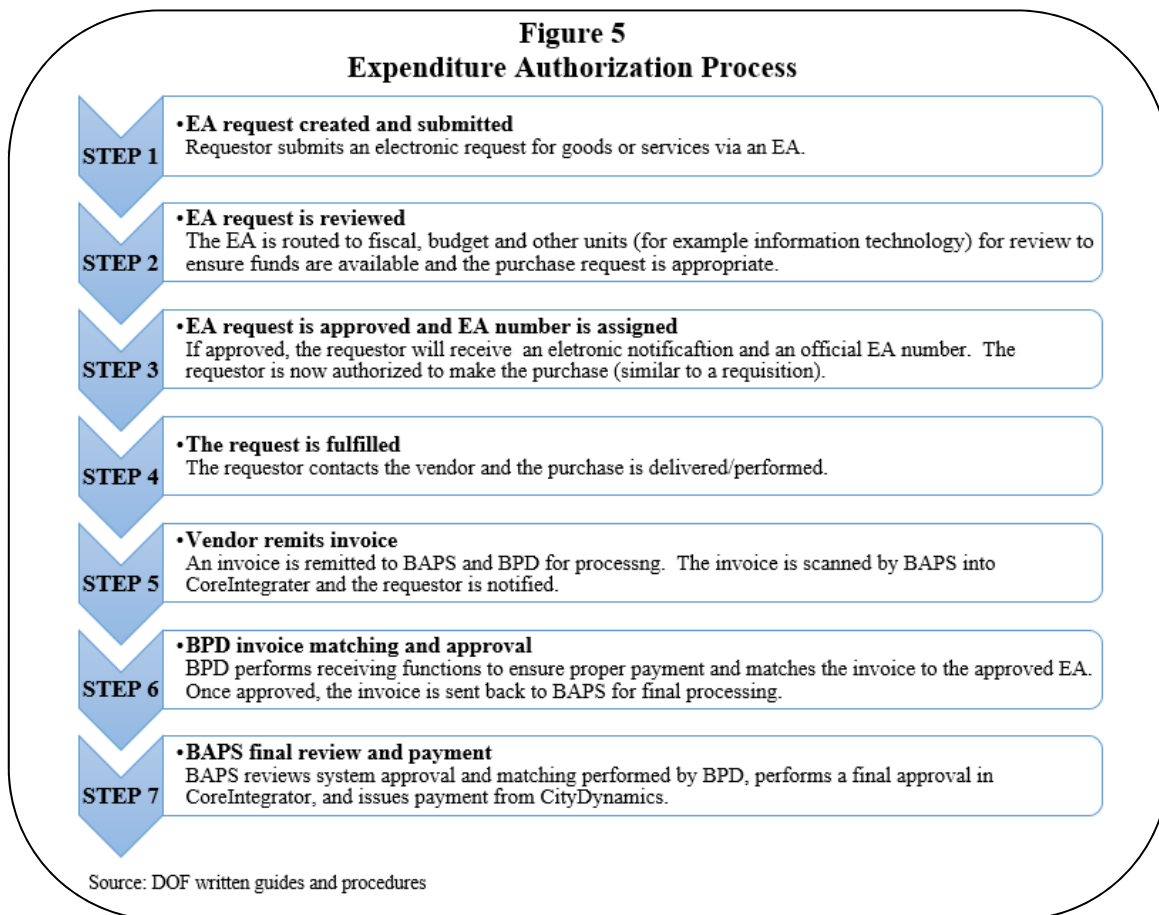
The City *Administrative Manual* details the disbursement processes and requirements to be followed by City agencies. In general, disbursements are processed as either an expenditure authorization or release against an existing purchase order. City agencies initiate and approve disbursement transactions through the City's two financial and purchasing systems (CoreIntegrator and CitiBuy). User access and automated controls, such as workflows and approval requirements for both systems are established by BAPS and BOP.

Expenditure Authorizations (EA)

The City *Administrative Manual* provides that acceptable uses of an EA include:

- purchases up to \$5,000 of a non-recurring nature;
- obligations approved by the Board of Estimates of a non-recurring nature (even if this amount is more than \$5,000); and
- certain Special Authority purchases regardless of the amount, such as payment of utility bills and court-related legal costs.

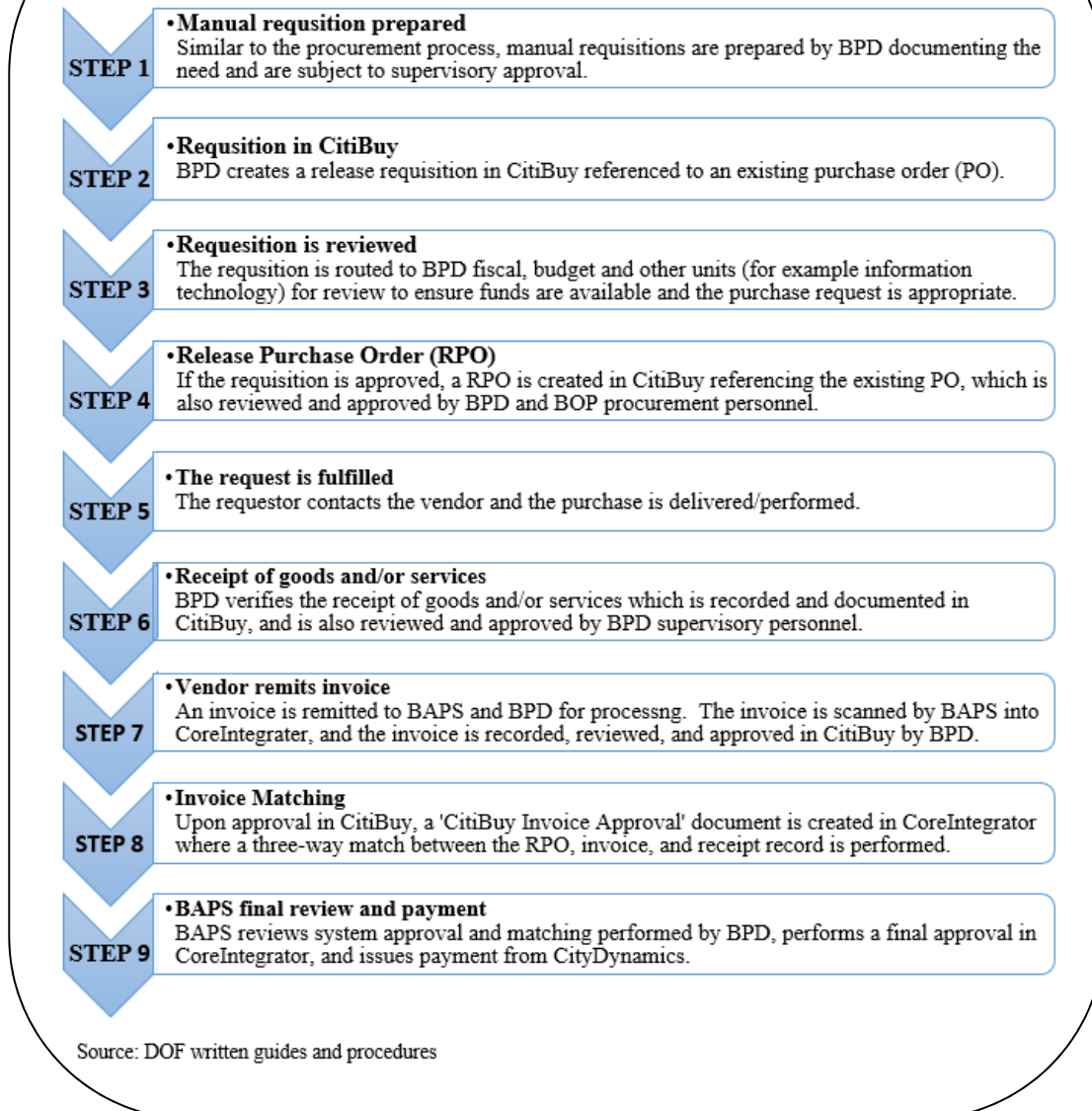
EAs are processed and controlled entirely through the CoreIntegrator System and generally follow a 7-step process as depicted in Figure 5.



Release against a Purchase Order (RPO)

For purchases from an existing citywide or BPD awarded contract, an RPO is used to request goods and services, or to process periodic payments in accordance with contract terms. RPOs are processed and controlled through CitiBuy and CoreIntegrator, and generally follow a 9-step process that is depicted in Figure 6.

Figure 6
Release Purchase Order Process



Objective and Methodology

Our objective for the disbursement process was to evaluate the adequacy of BPD and City requirements and procedures for disbursements (invoice processing), and to determine, based on this evaluation and transaction testing, whether disbursements were subject to adequate controls and performed in accordance with these requirements and procedures.

To accomplish our objective, we reviewed applicable City charter excerpts, laws, and regulations governing the City's disbursement process. We also reviewed pertinent sections of the City's *Administrative Manual* and financial system

guides that communicate official City policies and procedures that affect the City's operations and its employees, including disbursement activity. Furthermore, we reviewed the Comptroller of Maryland's *Accounting Procedures Manual* to help evaluate City disbursement requirements and procedures.

We interviewed BPD, DOF, Baltimore City Comptroller's Office, OIG, and Law Department staff to determine the disbursement processes currently in place, including initial authorization, the receipt, verification, and processing of invoices, and the actual payment process. Furthermore, we examined the processes for preparing and recording the related journal entries. We evaluated the adequacy of the related procedures and controls and compared these processes to City and State requirements.

We also obtained from the City's financial systems, reports of disbursement activity, such as BPD's general ledger activity for the period of July 1, 2014 to June 30, 2020, to perform various tests of the disbursement processes. We performed various tests of the data, including tracing and vouching data directly to the City's financial systems and comparing data totals to City Budget Books, and determined that the data were sufficiently reliable for the purposes the data were used during the audit.

In addition, we obtained view-only access to the City's automated purchasing and financial systems which was used to review system controls (such as approval paths) and user access, payment records (such as invoices), and other critical information pertaining to evaluating procedures and transaction testing.

Finally, we performed 15 tests of BPD disbursements and disbursement-related journal entries, for various attributes, that included a review of 232 judgmentally selected transactions³ with a net value totaling \$89.2 million to evaluate whether disbursements and journal entries were made in accordance with key City requirements, and were consistent with significant State disbursement requirements. Each test performed was tailored to address certain risks and processes associated with an individual activity or payment type. While each test may have included certain differences in scope, the tests generally included the following attributes:

- were disbursements paid from the proper account;
- were disbursements supported and appeared proper;
- were disbursements approved by independent supervisory personnel;
- were disbursements made timely; and

³ Test selection was based on auditor judgment and considerations included, for example, materiality, potential risk, and diversity of selection source.

- when applicable, were checks paid to and cashed by the proper recipient?

Conclusion

Overall, we determined that City disbursement requirements adequately address the various disbursement types and methods used by the City, the receipt of goods and services, documentation requirements, necessary approvals, journal entry processing, and the timeliness of invoice payment.

However, our review and testing of BPD and DOF procedures disclosed that these requirements were not always followed. Specifically, receipt of goods and services were not always verified prior to payment, and vendor payments were routinely made late. Based on discussions with City and BPD staff, it appears that the untimely payment of invoices is a longstanding issue and seems to be systemic in nature (our review did not include a determination as the cause of this longstanding problem).

Furthermore, although the City had established certain system controls within its CoreIntegrator, such as the use of approval paths and controls over user access, certain critical user access was not sufficiently controlled. We noted six system users who had the ability to initiate and approve the same disbursement transaction, and no mitigating controls were in place.

Findings

Finding 2

Verification that related goods or services had been received was not always obtained prior to making payments to vendors, and payments were routinely made late.

Analysis

Verification that related goods or services had been received was not always obtained prior to making payments to vendors, and payments were routinely made late. Of the 232 disbursements subject to testing, we examined 137 transactions for documentation to support receipt of goods or services prior to payment and 117 transactions for timely payment (some disbursements were tested for both attributes).

Documentation of Receipt of Goods/Services Was Not Obtained

Our tests of 137 transactions totaling approximately \$33.7 million disclosed that for 35 transactions totaling \$3.0 million documentation could not be provided by BPD to support the receipt of the related goods and services prior to payment,

such as a signed invoice (a permitted document for evidence of receipt). Consequently, there was a lack of assurance that goods and services paid for had been received.

Invoices Were Not Paid Timely

Our tests of 117 transactions totaling approximately \$23.7 million disclosed that 57 transactions totaling \$15.1 million were paid from 3 days to over a year late as depicted in Figure 7. City disbursement requirements dictate that payment shall be made by the City to the vendor within 30 days of receipt of a proper invoice, or as specified in the related contract.

Figure 7
Summary of Untimely Payments

Range of Delay	Number of Test Items	Disbursement Amount
1 month or less	35	\$10.2 million
1 month to 3 months	13	4.4 million
3 months to 1 year	6	424,200
More than 1 year	3	32,400
Totals	57	\$15.1 million

Source: City financial and purchasing systems

We were advised by all parties that late payment of invoices has been a longstanding and known systemic issue. Based on available documentation, we were not able to readily identify the specific causes attributable to each test item for these delays, or the primary party responsible (the City or BPD), but we believe that the delays could in part be attributable to the lack of a centralized process for handling and tracking all invoices from receipt (at BPD) through the invoice verification process (BPD) to payment (City).

According to DOF and BPD management, late payments generally occur because of deficiencies in process flow, vendor submission, and certain other related procedures. For example:

- **Workflow Process** – A related EA or RPO may not have been created or created timely by BPD or approved by DOF in the financial system for the payment to be processed against, causing delays in processing. In addition certain payments require multiple actions and approval by authorized personnel across various entities, such as approval by BOE, which often take an extended amount of time.

- **Vendor Submission** – Invoices do not always have appropriate identifying information included by the vendor as specifically instructed by DOF, such as related contract or purchase order reference, and invoices are not always submitted by vendors to both DOF and BPD as required, causing further delay.
- **Procedural Issues** – Invoices are sometimes routed to the wrong BPD individuals for verification and approval, or the appropriate individuals take too long to verify, approve, and submit documentation back to DOF.

The most egregious delays from testing (delays of more than one year) all pertained to certain electronic surveillance services, such as wire taps, performed by telecommunication vendors. Telecommunication vendors often invoice for each service provided resulting in hundreds of invoices routed to different units and personnel within BPD for approval. Without a centralized process for tracking and processing these invoices from telecommunication vendors, significant delays in payment have occurred. According to one vendor's records, as of September 2019 BPD had 195 invoices outstanding totaling \$117,100 dating back to 2016, which BPD was attempting to resolve. BPD advised us that it is working with certain telecommunication vendors to develop a more streamlined process to help expedite the invoice processing.

Recommendation 2

We recommend that

- a. **BPD verify the receipt of goods and services prior to approving the related payment, and that this verification be documented; and**
- b. **BPD and DOF take the necessary steps to ensure that invoices are paid in accordance with the City's disbursement requirements.**

Finding 3

Certain critical access to the CoreIntegrator System was not sufficiently controlled by DOF.

Analysis

DOF did not sufficiently control certain critical access to the CoreIntegrator System. Our review disclosed that six DOF employees had system access capabilities that allowed them to both initiate and approve disbursement transactions without independent approval.

Specifically, these employees could access the system and process transactions using capabilities explicitly granted to other users without the six employees being readily identified. In effect, these employees had capabilities allowing

them to initiate a transaction as one user and to approve the same transaction as another user. While the online controls established for the transaction were followed, in effect these controls could be circumvented using this feature.

According to DOF management, this feature exists to facilitate processing transactions when a user normally responsible for initiating or approving a transaction is not available. However, controls to ensure the propriety of these transactions, such as generating output reports of transactions initiated and approved by the same employee for review by an independent third party, had not been established. Consequently, errors or improper transactions could occur without timely detection. DOF could not readily identify or quantify the number of times this feature had been used, or those transactions initiated and approved by the same individual.

Recommendation 3

We recommend that controls be established by the City to ensure all critical disbursement-related transactions are subject to independent review and approval. For example, develop a system-generated output report of all transactions initiated and approved by the same employee for use in a subsequent independent review and approval process.

Objective 3 – Procurement Cards

Background

DOF established the purchasing card program (PCP) to facilitate the purchasing of goods and services on a direct or emergency basis; the payment of recurring expenditures; and the payment of invoices as set by the terms of an approved purchase order. The PCP is designed to save the City time and money by providing authorized personnel a convenient alternative to the City's standard purchasing process described in Objective 1. According to the City's purchasing card (P-Card) vendor, BPD had 15 cardholders with related expenditures totaling approximately \$590,200 in fiscal year 2020.

Program Policy and Controls

BOP is responsible for administering the PCP for the City including card issuance, training, monitoring; whereas BAPS is responsible for paying the citywide PCP invoice. BOP established certain policies and practices to help ensure that P-Cards are used for appropriate purposes. The policies stipulate the acceptable P-Card uses, and include automated and manual process controls. Some controls are preventive, such as automatically limiting the type of merchants where the P-Cards can be used, limiting the amounts that can be purchased by each cardholder, and requiring multiple authorizations to establish an individual cardholder account. Other controls are detective, such as recordkeeping requirements for each transaction and a monthly post-purchase review of each transaction by supervisory personnel.

While BOP is responsible for administering the PCP for the City, the integrity of the PCP relies primarily on cardholders, including those at BPD, using their P-Cards in accordance with the City's acceptable use policies, and on independent and thorough supervisory reviews of individual cardholder transactions to ensure compliance with those policies.

Significant Changes to the Program

In June 2020, BOE approved a contract with a new vendor to administer the City's PCP for the period of July 1, 2020 to June 30, 2025. The incumbent vendor continued to provide certain transition services through September 15, 2020. In addition, effective January 1, 2020, the PCP section of the City *Administrative Manual* was updated to provide more detail regarding the program and program policy, such as strictly prohibiting the purchase of gift cards which was previously only an informal policy.

Objective and Methodology

Our objective for the P-Card process was to evaluate the adequacy of BPD and City requirements and procedures for P-Card usage, and to determine, based on this evaluation and transaction testing, whether P-Card usage by BPD personnel was in accordance with these requirements and procedures.

To accomplish our objective, we reviewed applicable sections of the City's *Administrative Manual* that communicates official City policies and procedures that affect the City's operations and its employees, including the PCP. City PCP requirements were compared, for evaluation purposes, to corresponding State requirements. Specifically, we judgmentally identified six key areas of requirements covering 1) eligibility, 2) restrictions and controls, 3) monitoring, 4) training, 5) documentation and procedure, and 6) other general requirements, and compared the City's PCP requirements to corresponding State requirements found in the State's Comptroller of Maryland *Corporate Purchasing Card Program Policy and Procedures*.

Additionally, we interviewed BPD and DOF staff to determine the processes used for P-Card expenditures including requests for purchases, transaction documentation and recordation, supervisory review, and corresponding accounting. We evaluated the adequacy of the related procedures and controls by comparing these processes to City and State requirements.

We also obtained from the City's PCP vendor a report of BPD's P-Card expenditures made between July 1, 2016 and June 30, 2020. We performed various tests of the relevant data, and determined that the data were sufficiently reliable for the purposes the data were used during this audit. In addition, we obtained view-only access to the City's automated financial system which was used to review documentation supporting P-Card expenditures and related accounting entries.

Finally, we tested 22 P-Card statements from BPD cardholders that collectively included 407 purchases totaling approximately \$264,800⁴ to evaluate whether P-Card purchases were made in accordance with key City and State requirements.

Conclusion

Overall, we determined that City PCP requirements (and consequently requirements for BPD P-Card expenditures) adequately addressed 5 of the 6 key purchasing areas we identified for review: 1) eligibility, 2) restrictions and controls, 3) training, 4) documentation and procedure, and 5) other general

⁴ Test selection considerations included, for example, statements (transactions) with potentially higher risk.

requirements. Our comparison to State requirements disclosed that City requirements were generally similar. For the remaining key purchasing area pertaining to monitoring efforts, we found that requirements had not been established by the City for the use of Level-3 purchasing data. Often Level-3 data can be obtained from the card vendor and provides additional detailed information about purchases made, and can be used to help ensure the propriety of the purchases. Although Level-3 data were not available from the City's prior PCP vendor, we determined that, effective September 15, 2020, the new PCP vendor had the ability to provide Level-3 purchasing data.

Our test of 22 P-Card statements disclosed that all tested P-Card transactions generally complied with City PCP requirements, were reasonable and supported, and were approved by supervisory personnel. However, for 11 of the statements, certain documentation and supporting journal entries required by DOF were submitted by BPD between 2 and 23 days after their required due date and 1 additional statement was not submitted until 72 days after the required date. This late submission affects the timely posting of journal entries that are necessary for the proper allocation and accounting of P-Card expenditures in the City's financial system, and late submission of supporting documentation likewise delays the additional review of BPD PCP activity by DOF.

Findings

Finding 4

The City's Procurement Card Program policy for monitoring P-Card expenditures did not include a requirement to review Level-3 data, and documentation required to properly record expenditures was not always forwarded to DOF by BPD on a timely basis.

Analysis

The City's Procurement Card Program policy did not include requirements to use Level-3 data to help monitor and ensure the propriety of purchases made. Additionally, documentation supporting P-Card expenditures and journal entries required to properly record expenditures were not always submitted to DOF by BPD on a timely basis.

City Policy Did Not Require Review of Level-3 Data

Requirements had not been established by the City for the use of Level-3 purchasing data to help monitor and ensure the propriety of PCP purchases. Although Level-3 data were not available from the City's prior PCP vendor, the new PCP vendor (effective September 15, 2020) had the ability to provide Level-

3 purchasing data, but the related contract and the City's policy were silent on the regular reporting of Level-3 data and as of November 2020, the City had not requested or obtained such data. Level-3 data provides detailed purchasing information, including invoice-level line item details (such as item descriptions and item quantities), which can be used by supervisory personnel to help detect questionable purchases.

The use of Level-3 purchasing data for monitoring purposes has been required by the State's Corporate Purchasing Card (CPC) Program since 2014. The State's *Corporate Purchasing Card Program Policy and Procedures Manual* required the use of Level-3 purchasing data during monthly reviews of cardholder logs to ensure that each item purchased as reported on the logs is accurate. This process has helped identify several instances of fraud and abuse in the State's CPC program.⁵

All of the purchases we examined were made prior to the availability of Level-3 purchasing data to the City. Accordingly, our testing relied on reviewing copies of receipts and other documentation provided by the cardholder, which appeared to support the transactions recorded on the monthly transaction logs.

Supporting Documentation and Journal Entries Were Not Submitted Timely

Our test of the aforementioned 22 P-Card statements disclosed that documentation supporting expenditures on 11 statements, and the related BPD-prepared journal entries required to properly record those expenditures, were submitted to DOF between 2 and 23 days after the required submission date and one additional statement was submitted 72 days after the required date. This late submission inhibits the timely posting of journal entries that are necessary for the proper allocation and accounting of P-Card expenditures in the City's financial system, and late submission of supporting documentation likewise delays the additional review of BPD PCP activity by DOF.

The City's *Administrative Manual* requires that copies of purchasing card statements, the related activity logs, and the journal entries necessary to properly record those expenditures in the City's financial system be forwarded to DOF within 15 work days of receiving the P-Card statement. A similar condition was commented upon by the City Auditor's Office in its report dated August 30, 2018 on its audit of calendar year 2017 PCP expenditures made by various City agencies including BPD. BPD agreed with the finding as it related to the Department.

⁵ For example, various Office of Legislative Audits (OLA) audits have reported improper purchases, which were identified by other State employees or OLA through the use of Level 3 data.

Recommendation 4

We recommend that

- a. the City's *Administrative Manual* be amended to require the use of Level-3 purchasing data to help monitor and ensure the propriety of PCP purchases, and**
- b. required documentation and journal entries supporting PCP purchases be submitted to DOF by BPD within the timeframe required by the City's *Administrative Manual*.**

Objective 4 - Minority and Women-Owned Business Enterprises

Background

The City's Minority and Women's Business Opportunity Office (MWBOO) functions under the City Law Department and is responsible for operating the Minority⁶ and Women's Business Opportunity Program. MWBOO responsibilities include certification of businesses, maintaining a directory of certified businesses, annual reporting, and investigating alleged violations. In addition, for procurements expected to exceed \$50,000, MWBOO sets minority and women-owned business enterprise (MWOBE) participation goals, and reviews proposals and bids to determine if they include the required participation goals. Waivers from participation are permitted during the pre-solicitation and pre-award processes if certain criteria are met as set forth by City regulations.

We were advised by MWBOO management that, during our audit period, each contracting agency was responsible for monitoring compliance with MWOBE participation goals established in their respective contracts. DOF (specifically BOP as a unit within DOF) is responsible for performing procurements on BPD's behalf and is considered the contracting agency for BPD for purposes of this Program. As such, during the audit period, DOF was responsible for monitoring compliance with MWOBE participation goals established in BPD contracts. However, according to DOF management, effective October 2020, all responsibilities for monitoring compliance with MWOBE participation goals for all City contracts were transferred to MWBOO.

As of September 1, 2020, BPD had two active contracts, totaling approximately \$727,000, with MWOBE participation goals. In addition, there were 10 active citywide contracts totaling \$119.7 million, with MWOBE participation goals, which BPD had used for disbursements totaling \$20.3 million. A report of all BPD and citywide contracts with MWOBE participation goals that were active during the audit period could not be readily provided.

Objective and Methodology

Our objective was to evaluate the adequacy of the requirements and procedures used by the City to monitor compliance with MWOBE participation goals, and to determine, based on this evaluation and transaction testing, whether monitoring was performed in accordance with City requirements and procedures.

⁶ Baltimore City Code specifies the criteria defining a minority business enterprise including ownership, operation, and control by one or more minority group members and location in Baltimore City. The Code further indicates that a minority group member is a member of a minority group, such as African American, Hispanic American, Asian American, or Native American, for which a utilization disparity has been identified.

To accomplish our objective, we reviewed applicable City charter excerpts, laws, and regulations governing the City's minority and women-owned business enterprise process. City minority and women-owned business enterprise requirements were compared, for evaluation purposes, to corresponding State requirements. Specifically, we judgmentally identified six key areas, such as eligibility, oversight, and reporting requirements, and compared the City's related MWOBE requirements to corresponding or similar requirements in State laws and regulations.

Additionally, we interviewed BPD, DOF, and Law Department staff to determine the responsibilities and procedures to monitor vendor compliance with minority and women-owned business enterprise participation goals included in contracts. We evaluated the adequacy of the related procedures and controls by comparing them to City and State requirements.⁷

In addition, we obtained view-only access to the City's automated purchasing system data on procurement and compliance reviews for contracts with established MWOBE participation goals, and other critical information pertaining to evaluating procedures and transaction testing.

Finally, we tested four BPD contracts awarded totaling \$3.7 million with MWOBE participation goals⁸ ranging from 5 to 16 percent to evaluate whether monitoring of vendor compliance was performed. Our testing was based on a review of available electronic and hardcopy records and data within the City's purchasing system, and interviewing key personnel involved in the related monitoring process.

Conclusion

Overall, we determined that City MWOBE requirements addressed all six key areas reviewed and appeared adequate. Our comparison to State MWOBE requirements disclosed that City requirements were generally similar.

However, our review disclosed that adequate policies and procedures had not been established by DOF to monitor vendor compliance for all contracts with MWOBE participation goals, and certain BPD contracts tested were not subject to any monitoring.

⁷ Our review did not include an evaluation of procedures and controls in place at (MWBOO) such as its processes for certification, reporting, and investigating because we determined that these were not support services, and we considered these functions to be beyond the scope of our audit. Our evaluation of procedures and testing was limited to the monitoring efforts by DOF, on behalf of BPD, to ensure vendor compliance.

⁸ The number of BPD contracts with MWOBE participation goals in effect during our audit period that we were readily able to identify was minimal. Our test selection focused on those contracts.

Our test of four BPD contracts with awards totaling \$3.7 million with MWOBE participation goals ranging from 5 to 16 percent, disclosed that, as of February 2021, two contracts totaling \$2.3 million, which had been awarded in November 2017 and March 2018, respectively, had not had a compliance review performed and consequently, achievement of the respective participation goals could not be assessed.

These reviews were only required under certain circumstances, and for those performed by DOF that we tested (two contracts totaling \$1.4 million) we concluded that they were not sufficiently comprehensive to ensure that vendors met required participation goals. In this regard, in February 2020, the Baltimore City OIG reported that a BPD towing contractor had reported approximately \$191,200 in subcontractor payments to minority or women-owned businesses, but had actually paid only \$39,300.

Findings

Finding 5

Formal policies and procedures had not been established by DOF to monitor vendor compliance with MWOBE participation goals, consequently compliance reviews were not performed on all contracts, and although compliance reviews were performed by DOF in certain cases, these reviews were not comprehensive.

Analysis

DOF had not established formal policies and procedures to monitor vendor compliance with MWOBE participation goals included in contracts, consequently compliance reviews were not performed on all contracts, and although compliance reviews were performed by DOF in certain cases, these reviews were not comprehensive. As a result, assurance was lacking that BPD vendors were meeting required participation goals.

We were advised by MWBOO management that each contracting City agency must establish procedures to monitor compliance with MWOBE participation goals established in each contract, and that compliance reviews should be conducted each time a prime contractor is paid by the City in an effort to identify issues early. Compliance reviews include obtaining payment information to determine whether payments made by the prime contractor to the subcontractor meet the participation goals established in each contract.

Compliance reviews were not performed on all BPD contracts with participation goals by the DOF as required. Rather, we were advised that compliance reviews were only performed by DOF for those contracts (BPD and other City agencies) that required BOE action subsequent to the initial award, such as for renewing, extending, or modifying the contract. Conversely, for contracts without BOE action prior to expiration, a vendor compliance review would not be performed. Our test of four BPD contracts totaling \$3.7 million with participation goals ranging from 5 to 16 percent, disclosed that, as of February 2021, two contracts totaling \$2.3 million that had been awarded in November 2017 and March 2018, respectively, had not had a compliance review performed by DOF.

The other two contracts we tested had reviews performed by DOF because certain BOE action was required during the contract term. However, we concluded these reviews were not sufficiently comprehensive because subcontractor payment information was not independently verified as part of those reviews. Rather, vendors self-reported payment information by phone or email when requested by DOF without providing supporting documentation to substantiate the accuracy of reported payments. City regulations and contract terms include requirements that when requested, vendors submit proof verifying payments to subcontractors to achieve contract participation goals.

Without formal policies and procedures requiring comprehensive compliance reviews of all contracts with MWOBE participation goals, noncompliance with City requirements may go undetected. In February 2020, the City OIG reported that its investigation into an allegation of a vendor falsely reporting subcontractor payment information for a citywide police requested towing contract, disclosed a vendor that had falsely reported approximately \$191,200 in subcontractor payments to minority or women-owned businesses when actual payments totaled only \$39,300. In that report, the OIG determined that, although three separate compliance reviews had been performed of the contractor compliance with the goals, reported subcontractor payments had not been verified during those reviews.

Recommendation 5

We recommend that

- a. formal policies and procedures be established to actively monitor all contracts for vendor compliance with MWOBE participation goals, and**
- b. existing policies and procedures be modified to include a requirement that reported subcontractor payments be verified to adequate supporting documentation.**

Objective 5 – Ethics and Financial Disclosures

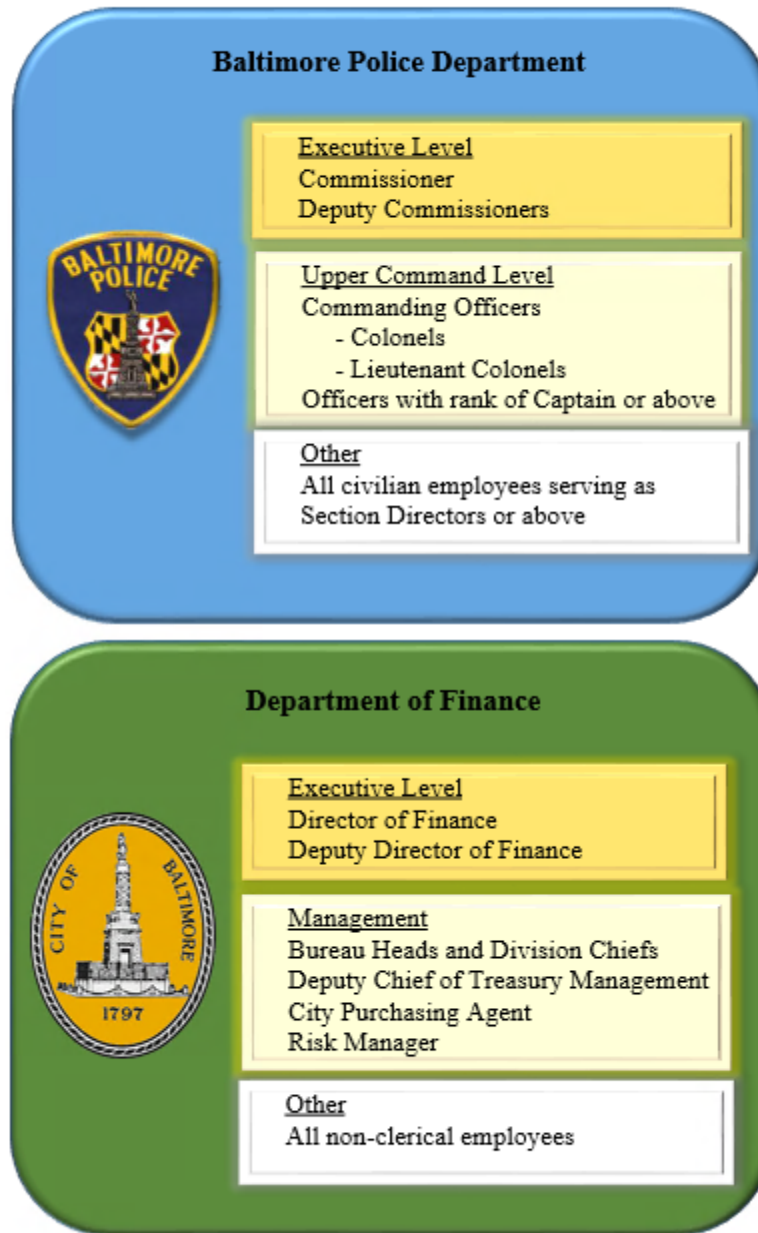
Background

As prescribed by the General Provisions Article, Section 5-807 of the Annotated Code of Maryland, each local jurisdiction is required to enact its own provisions to govern the public ethics of local officials relating to conflicts of interest, financial disclosure, and lobbying. The City's Public Ethics Law was established in Article 8 of the City Code, and establishes the City Board of Ethics to oversee and enforce the Public Ethics Law.

The City Board of Ethics consists of five members appointed by the Mayor and confirmed by the City Council. Pursuant to legislation passed by the City Council in April 2020, effective October 10, 2020 the City Inspector General became the Executive Director of the Ethics Board, and is responsible for providing the necessary staffing to carry out the responsibilities of the Ethics Board including, but not limited to, investigating ethics complaints, providing ethics training, and collecting and reviewing financial disclosure filings.

Annual Financial Disclosure Statements - The City's Public Ethics Law requires certain individuals to file annual financial disclosure statements on or before April 30 of each year covering the preceding calendar year. Those individuals include elected and appointed senior City officials, many non-clerical City employees (including those with procurement responsibilities), and members of most City boards and commissions. In addition, more specific filing requirements were established for certain City agencies including BPD and DOF as depicted in Figure 8 on the following page. According to Board of Ethics records, 64 BPD employees and 104 DOF employees were required to file an annual financial disclosure statement for calendar year 2019.

Figure 8
Positions That Require Annual Financial Disclosures



Source: Baltimore City Public Ethics Law - Article 8 , Title 7

Conflict of Interest Disclosure Form – In addition to required annual financial disclosure statements, BOP developed other disclosure requirements to further ensure compliance with the City’s Public Ethics Law by its procurement employees.

- For competitive procurements with a technical evaluation - each member of the bid or proposal evaluation committee is required to complete a Conflict of Interest Disclosure Form disclosing any relationships with any of the bidding vendors.
- For non-competitive procurements - the BPD Commissioner or designee is required to certify there was no conflict of interest regarding the recommended contract award. This certification is included on the Non-Competitive Procurement Justification Form that is processed by BOP.

Objective and Methodology

Our objective was to determine whether BPD and City requirements and procedures for ethics and financial disclosure filings conformed to State law. In addition, we determined whether financial and conflict of interest disclosures were filed, as required, and if not, whether appropriate follow-up was taken. We considered this type of disclosure to be a key component of the procurement process.

To accomplish our objective, we reviewed applicable City charter excerpts, laws, and regulations governing the City's ethics and financial and conflict of interest disclosure filings to determine whether the City had conformed to State law requiring local jurisdictions to enact laws concerning the ethics of local officials, including conflicts of interest, financial disclosure, and lobbying.

Additionally, we interviewed BPD, DOF, OIG, and City Board of Ethics support staff to determine the processes used to ensure annual financial disclosure statements were properly filed by individuals required to do so, and the follow-up process for noncompliance. In addition, we determined the processes used by BOP to ensure that conflict of interest disclosures, which are required for certain individual procurements, were completed prior to contract award. We evaluated the adequacy of the related procedures and controls by comparing these processes to City requirements. We also obtained from the Board of Ethics certain listings of required financial disclosure filings for BPD and DOF personnel we identified as being involved in the procurement and disbursement process. We used these listings to perform tests of financial disclosure filings.

We tested 25 BPD and DOF employees involved in BPD procurement and disbursements required to file annual financial disclosure statements for at least one of the following calendar years; 2017, 2018, and 2019, to determine whether they submitted the required filings. We also tested 8 non-competitive and 3 competitive procurements totaling approximately \$40.9 million (including

contract modifications and renewals) that required a conflict of interest disclosure to evaluate whether required conflict of interest disclosures were completed.

Conclusion

Based on our review, the City has adopted a detailed ethics policy that conforms to State law, which includes provisions for financial and conflict of interest disclosures. Our test of the financial disclosure statements filed by 25 BPD and DOF employees disclosed that all required filings were submitted as required. Finally, our test of the 11 procurements disclosed that all conflict of interest disclosures forms were completed as required.



APPENDIX

BALTIMORE POLICE DEPARTMENT



Brandon M. Scott
Mayor

Michael S. Harrison
Police Commissioner

October 12, 2021

Gregory A. Hook, CPA
Legislative Auditor
Department of Legislative Services
301 West Preston Street, Room 1202
Baltimore, MD 21201

Dear Mr. Hook:

Enclosed please find responses from the Baltimore Police Department (BPD) to the audit report from the Office of Legislative Audits for the period beginning July 1, 2014 and ending June 30, 2020.

If you have any additional questions or concerns, please contact Ms. Shallah L. Graham, BPD Chief Financial Officer, at 443-602-4280 or shallah.graham@baltimorepolice.org. Ms. Graham will be happy to assist you. Of course, you may always contact me directly.

Respectfully,

Michael S. Harrison
Police Commissioner

Enclosure

Cc: Henry J. Raymond, Director and Chief Financial Officer, Baltimore City Department of Finance
Eric Melancon, Chief of Staff, BPD
Shallah Graham, Chief Financial Officer, BPD
Yoanna Moises, Chief of Staff, Baltimore City Department of Finance

Baltimore Police Department

Evaluation of Purchasing Disbursement Controls and Transactions

Agency Response Form

Finding 1

The City's purchasing policies and procedures did not require maintenance of a complete and centralized procurement file for every procurement. Accordingly, we found that such files were not prepared for BPD purchases and certain critical procurement documentation was not maintained for several BPD procurements selected for testing.

We recommend that DOF

- a. modify City purchasing policies and procedures to require a comprehensive central file or repository of critical documents for each procurement consistent with State procurement regulations and the *Maryland Procurement Manual*; and
- b. ensure that all critical procurement documentation, including those required of BPD, is maintained in each centralized City procurement file.

Agency Response			
Analysis	Factually Accurate		
Please provide additional comments as deemed necessary.	<p>The City's purchasing policies do require maintenance of a complete procurement file. However, the City does not require internal agency workflow documents to be submitted to Procurement, these approvals are recorded through the requisition workflow which requires sign off and approval from the agency requestor, agency approver, and assigned agency budget analyst. The Baltimore Police Department has an internal workflow for procurement requests that requires sign off by multiple roles before the requisition can be entered in CitiBuy, these documents are examples of the type of documentation not retained in the central system.</p> <p>In the test of justification forms, 4 of the 5 forms were retained without DOF signature. However, all of the forms were submitted as an agenda item to the Board of Estimates, by the Department of Finance or Baltimore Police with a corresponding signed memo from Procurement or the Commissioner, were subject to the BOE publication and public approval process and were approved. That approval was retained.</p>		
Recommendation 1a	Agree	Estimated Completion Date:	12/31/2021
Please provide details of corrective action or explain disagreement.	<p>The recommendation to review City purchasing policies to require a comprehensive central file with certain critical documents will be reviewed in the Procurement study process. This will also be reviewed in the business process analysis during Workday implementation to ensure that the process of record retention is implemented to provide a centralized, electronic repository.</p>		

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Recommendation 1b	Agree	Estimated Completion Date:	12/31/2021
Please provide details of corrective action or explain disagreement.	Procurement will modify City Procurement SOP's to clarify procedures for what documents are designated critical and are required to be maintained in the centralized City Procurement file.		

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Finding 2

Verification that related goods or services had been received was not always obtained prior to making payments to vendors, and payments were routinely made late.

We recommend that

- a. BPD verify the receipt of goods and services prior to approving the related payment, and that this verification be documented; and**
- b. BPD and DOF take the necessary steps to ensure that invoices are paid in accordance with the City's disbursement requirements.**

Agency Response			
Analysis	Factually Accurate		
Please provide additional comments as deemed necessary.			
Recommendation 2a	Agree	Estimated Completion Date:	8/31/2021
Please provide details of corrective action or explain disagreement.	According to BPD's procurement SOP section 4.3, since the initial finding, BPD fiscal is enforcing invoices for goods and services to be signed by the receiving unit to certify receipt as approval to pay for service or product. The BPD procurement staff will attach the invoice to the receipt entry in CitiBuy.		
Recommendation 2b	Agree	Estimated Completion Date:	10/31/2021
Please provide details of corrective action or explain disagreement.	<p>BPD has updated its procurement SOP (section 4.3.1) to require that invoices sent for certification must be turned around in 7 days and BPD fiscal has 7 days to submit approval to pay signed invoices to accounts payable.</p> <p>The Department of Finance continues to work on a prompt payment initiative that includes all stakeholders (vendors, agencies, etc.) and focuses on enhancing data measures, vendor and agency education and transparency. As noted, delays often occur due to multiple factors in the required approval steps in the business process. In addition to the targeted efforts to improve prompt payment, the implementation of Workday will reduce processing times once fully implemented as all the steps in the process occur within one system allowing for a more efficient and transparent workflow. Continual and ongoing.</p>		

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Finding 3

Certain critical access to the CoreIntegrator System was not sufficiently controlled by DOF.

We recommend that controls be established by the City to ensure all critical disbursement-related transactions are subject to independent review and approval. For example, develop a system-generated output report of all transactions initiated and approved by the same employee for use in a subsequent independent review and approval process.

Agency Response			
Analysis	Factually Accurate		
Please provide additional comments as deemed necessary.			
Recommendation 3	Agree	Estimated Completion Date:	07/01/2021
Please provide details of corrective action or explain disagreement.	<p>The CoreIntegrator workflow is set up to include independent review and approval of the disbursement. As noted, there are several super user accounts who had system level access to initiate an approve transactions. These roles were designed to address backlog issues related to systemwide issues; for example, issues occurring during ransomware or other emergencies. The DOF previously worked with the existing vendor to identify options for enhancing controls related to this category of access, but the vendor was not able to implement additional system controls without significantly impairing system operations. This issue will be resolved with the citywide implementation of WD modules in 2022 which allows for increased functionality in defining and maintaining user security roles.</p> <p>Finance did review existing super user access and confirmed the appropriateness of designated access, which is not provided to the agencies, such as BPD, but rather is limited to selected managers within the Bureau of Accounting and Payroll Services (BAPS). Restrictions are placed on all other staff within the City and their access level.</p> <p>Proxy rights are limited as well to the same individuals above and the Lead in Accounts Payable is able to proxy as needed to return invoices to the correct staff member. Proxy rights do not allow the person, without an audit trail, to perform any task. All tasks performed in Core Integrator show who performed the task and on behalf of whom. No one</p>		

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	outside of BAPS has the proxy permissions the permission is limited to an as needed level. The log of “delegated” access is the documentation maintained in CoreIntegrator. No permissions are delegated, but are proxied and the system fully documents this modification. Again, no one outside of BAPS can perform this task.
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Finding 4

The City's Procurement Card Program policy for monitoring P-Card expenditures did not include a requirement to review Level-3 data, and documentation required to properly record expenditures was not always forwarded to DOF by BPD on a timely basis.

We recommend that

- a. the City's *Administrative Manual* be amended to require the use of Level-3 purchasing data to help monitor and ensure the propriety of PCP purchases, and
- b. required documentation and journal entries supporting PCP purchases be submitted to DOF by BPD within the timeframe required by the City's *Administrative Manual*.

Agency Response			
Analysis	Factually Accurate		
Please provide additional comments as deemed necessary.			
Recommendation 4a	Agree	Estimated Completion Date:	12/31/2021
Please provide details of corrective action or explain disagreement.	Procurement will review and amend the City's Administrative Manual and/ or Procurement SOP's to include a requirement to review Level-3 data as appropriate.		
Recommendation 4b	Agree	Estimated Completion Date:	9/30/2021
Please provide details of corrective action or explain disagreement.	BPD will re-enforce compliance with its procurement SOP (section 4.8), as it pertains to timelines and expectations for the processing of Baltimore City Purchasing Card activity. Specifically, BPD cardholders are required to reconcile their monthly statements on a timely basis so as to allow the BPD Agency Administrator to process the statement and submit it to DOF. Failure to submit reconciled statements on time may result in suspension of the card.		

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Finding 5

Formal policies and procedures had not been established by DOF to monitor vendor compliance with MWOBE participation goals, consequently compliance reviews were not performed on all contracts, and although compliance reviews were performed by DOF in certain cases, these reviews were not comprehensive.

We recommend that

- a. formal policies and procedures be established to actively monitor all contracts for vendor compliance with MWOBE participation goals, and**
- b. existing policies and procedures be modified to include a requirement that reported subcontractor payments be verified to adequate supporting documentation.**

Agency Response			
Analysis			
Please provide additional comments as deemed necessary.	BOP was not a final compliance reviewer, but did have compliance oversight during increase, renewals, and extensions. A prior administration established a Supplier Management Team, to support the compliance reviews, however, the final compliance decision rests with MWBOO. If a contract has goals Procurement was required to present the compliance review with each BOE action for increase, renewals, extensions and goal setting for awards. Subsequent to the time period of this audit, the Supplier Management Team was transferred from Procurement to LAW/MWBOO however one position remained with BOP. The remaining position in Procurement is assigned a role in "setting goals" on a contract prior to advertising the solicitation.		
Recommendation 5a	Agree	Estimated Completion Date:	ongoing
Recommendation 5b	Agree	Estimated Completion Date:	01/31/2022
Please provide details of corrective action or explain disagreement.	The Department of Finance will support and continue discussions with the Department of Law in the development of policies and procedures that require reported subcontractor payments be verified to supporting documentation is accurate. MWBOO is also implementing a system to track payments from the prime to any subcontractors to ensure accurate and timely payments to subcontractors; information that will be accessible to the contract managers and project managers within the agencies. This system is currently scheduled for a January go live date.		

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