

Audit Report

**Department of Public Safety and Correctional Services
Eastern Shore Region**

December 2008



OFFICE OF LEGISLATIVE AUDITS
DEPARTMENT OF LEGISLATIVE SERVICES
MARYLAND GENERAL ASSEMBLY

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Karl S. Aro
Executive Director

DEPARTMENT OF LEGISLATIVE SERVICES
OFFICE OF LEGISLATIVE AUDITS
MARYLAND GENERAL ASSEMBLY

Bruce A. Myers, CPA
Legislative Auditor

December 4, 2008

Senator Verna L. Jones, Co-Chair, Joint Audit Committee
Delegate Steven J. DeBoy, Sr., Co-Chair, Joint Audit Committee
Members of Joint Audit Committee
Annapolis, Maryland

Ladies and Gentlemen:

We have audited the Eastern Shore Region of the Department of Public Safety and Correctional Services, which comprises the Eastern Correctional Institution, the Eastern Correctional Institution Annex, and the Poplar Hill Pre-Release Unit, for the period beginning October 1, 2005 and ending July 15, 2008.

Our audit disclosed that the Region had not established sufficient controls over certain disbursement transactions, inmate funds, materials and supplies, and equipment.

The Department of Public Safety and Correctional Services' response to this audit, on behalf of the Region, is included as an appendix to this report. We wish to acknowledge the cooperation extended to us during the course of this audit by the Region.

Respectfully submitted,

Bruce A. Myers, CPA
Legislative Auditor

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Background Information

Agency Responsibilities

The Eastern Shore Region is a separate budgetary unit within the Division of Correction of the Department of Public Safety and Correctional Services and consists of several facilities for adult male offenders.

Facilities Comprising the Division of Correction's Eastern Shore Region			
Facility	Security Level	Location	Inmate Population as of June 30, 2008
Eastern Correctional Institution	Medium Security	Westover, MD	2,658
Eastern Correctional Institution Annex	Minimum Security	Westover, MD	600
Poplar Hill Pre-Release Unit	Pre-Release	Quantico, MD	171
Total			3,429

According to the State's records, total Region expenditures were approximately \$95.8 million during fiscal year 2008. In addition, the Region's fiscal year 2008 appropriations provided for 900 positions, including 680 correctional officers.

Status of Findings From Preceding Audit Report

Our audit included a review to determine the status of the four findings contained in our preceding audit report dated February 8, 2006. We determined that the Region satisfactorily addressed one of these findings. The remaining three findings are repeated in this report.

Findings and Recommendations

Disbursements

Finding 1

Proper controls were not established over the processing of certain disbursement transactions.

Analysis

The Region was not using the available security features of the State's Financial Management Information System (FMIS) to restrict user access and prevent unauthorized disbursement transactions. According to the State's accounting records, during fiscal year 2008, the Region used FMIS to process disbursements totaling approximately \$16.4 million. Specifically, we noted that five employees had the capability to initiate invoices without independent approvals, and these employees could also redirect payments to a vendor other than the one named on the related purchase order. Consequently, these employees could potentially process a fictitious invoice on a legitimate purchase order by changing the vendor during the invoice entry process.

Recommendation 1

We recommend that the Region fully use the available FMIS security features by establishing independent online approval requirements for all critical disbursement transactions. In addition, we recommend that the Region remove the ability for an employee to change the vendor named on an invoice.

Inmate Funds

Finding 2

Inmate account balances were not always reconciled with the State Comptroller's records, and differences identified were not investigated and resolved.

Analysis

The total of the individual inmate accounts as maintained by the Region was not always reconciled with the corresponding records of the State Comptroller. Specifically, reconciliations were not prepared for the period from November 2006 through March 2008. In addition, the reconciliation prepared for May 2008 (the last reconciliation prepared as of the date of our review) contained a

difference of \$82,985 (the Comptroller's balance exceeded the Region's balance) that was not investigated. As of June 30, 2008, the Comptroller's balance (\$646,624) exceeded the total of the individual inmate accounts (\$527,213) by \$119,411. Similar conditions were commented upon in our four preceding audit reports.

Inmate funds represent monies earned by or received on behalf of inmates. These funds, which are deposited with the State Treasurer, can be saved or inmates can direct the Region to pay these funds to third parties.

Recommendation 2

We again recommend that the aggregate balance of the individual inmate accounts be reconciled with the State Comptroller's records on a timely basis, such as monthly, and that all differences be investigated and resolved.

Materials and Supplies

Finding 3

Internal control and record keeping deficiencies were noted over the Region's materials and supplies.

Analysis

Internal control and record keeping deficiencies were noted over the Region's food, maintenance, and commissary supplies. According to the Region's records, expenditures for these supplies during fiscal year 2008 totaled approximately \$6.1 million. Specifically, we noted the following conditions:

- Physical inventories of the food, maintenance, and commissary supplies were conducted by the inventory custodians and were not subject to independent verifications. As a result, errors or irregularities could occur without detection. A similar condition was commented upon in our three preceding audit reports.
- Requisition forms used for inventory postings of food supplies were not compared with the copies of the forms provided to the employees who received the supplies. As a result, the requisition forms could be altered after the issuance of supplies, and additional items could be removed from the related inventory without detection.
- The Region did not document its investigation of differences between perpetual inventory record balances and physical inventory counts performed

in June 2008 for food and maintenance supplies—which collectively had a book value of \$565,078 at that time—and recounts were not performed. The total dollar variance between the perpetual inventory records and the physical counts for these areas was \$207,981 (shortages of \$103,125 and overages of \$104,856).

- A comparison on May 19, 2008 of our physical count of 60 items, costing \$61,000, from the food, maintenance, and commissary inventories, to the perpetual inventory records disclosed differences totaling \$18,266 (shortages of \$15,763 and overages of \$2,503) for 36 items. A similar condition was commented upon in our preceding audit report.

The Department of General Services' (DGS) *Inventory Control Manual* requires separation of custodial and recordkeeping duties and establishes related recordkeeping requirements to be followed by State agencies.

Recommendation 3

We recommend that the Region comply with the requirements of the DGS *Inventory Control Manual*. Specifically, we again recommend that employees other than those who have custody of the inventories conduct the physical inventories. Additionally, we recommend that the employee who maintains the food perpetual inventory records compare, at least on a test basis, the requisition copies used for inventory postings to the copies retained by the employees receiving the goods. We also again recommend that the Region accurately maintain perpetual inventory records, and that the Region document investigations of variances between the perpetual inventory records and physical inventory counts.

Equipment

Finding 4

Equipment acquisitions were not always properly recorded in the detail records.

Analysis

Equipment acquisitions were not always properly recorded in the detail records. According to the Region's records, the book value of its equipment totaled approximately \$5 million as of June 2008. Specifically, our test of 190 equipment items, costing \$78,921, that were purchased during the period from October 2006 through February 2008, disclosed that 53 of these items, costing \$20,553, were not recorded in the detail records as of July 18, 2008.

A similar condition was commented on in our two preceding audit reports. The Department of General Services' *Inventory Control Manual* requires that detail equipment records be maintained on a current basis.

Recommendation 4

We again recommend that the Region comply with the requirements of the *Inventory Control Manual*.

Audit Scope, Objectives, and Methodology

We have audited the Eastern Shore Region of the Department of Public Safety and Correctional Services for the period beginning October 1, 2005 and ending July 15, 2008. The audit was conducted 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.

As prescribed by the State Government Article, Section 2-1221 of the Annotated Code of Maryland, the objectives of this audit were to examine the Region's financial transactions, records and internal control, and to evaluate its compliance with applicable State laws, rules, and regulations. We also determined the status of the findings contained in our preceding audit report.

In planning and conducting our audit, we focused on the major financial-related areas of operations based on assessments of materiality and risk. Our audit procedures included inquiries of appropriate personnel, inspections of documents and records, and observations of the Region's operations. We also tested transactions and performed other auditing procedures that we considered necessary to achieve our objectives. Data provided in this report for background or informational purposes were deemed reasonable, but were not independently verified.

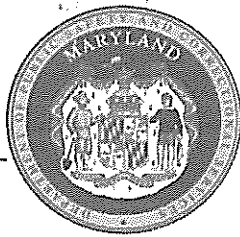
The Region's management is responsible for establishing and maintaining effective internal control. Internal control is a process designed to provide reasonable assurance that objectives pertaining to the reliability of financial records, effectiveness and efficiency of operations including safeguarding of assets, and compliance with applicable laws, rules, and regulations are achieved.

Because of inherent limitations in internal control, errors or fraud may nevertheless occur and not be detected. Also, projections of any evaluation of internal control to future periods are subject to the risk that conditions may change or compliance with policies and procedures may deteriorate.

Our reports are designed to assist the Maryland General Assembly in exercising its legislative oversight function and to provide constructive recommendations for improving State operations. As a result, our reports generally do not address activities we reviewed that are functioning properly.

Our audit disclosed conditions that we consider to be significant deficiencies in the design or operation of internal control that could adversely affect the Region's ability to maintain reliable financial records, operate effectively and efficiently, and/or comply with applicable laws, rules, and regulations. This report also includes findings regarding significant instances of noncompliance with applicable laws, rules, or regulations. Other less significant findings were communicated to the Region that did not warrant inclusion in this report.

The response from the Department of Public Safety and Correctional Services, on behalf of the Region, to our findings and recommendations is included as an appendix to this report. As prescribed in the State Government Article, Section 2-1224 of the Annotated Code of Maryland, we will advise the Department regarding the results of our review of its response.



APPENDIX

Department of Public Safety and Correctional Services

Office of the Secretary

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December 1, 2008

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CORRECTIONAL STANDARDS

CORRECTIONAL TRAINING
COMMISSION

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COMMISSION

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EMERGENCY NUMBER
SYSTEMS BOARD

SUNDRY CLAIMS BOARD

INMATE GRIEVANCE OFFICE

Mr. Bruce A. Myers, CPA
Legislative Auditor
Office of Legislative Audits
Room 1202
301 West Preston Street
Baltimore, Maryland 21201

Dear Mr. Myers:

The Department of Public Safety and Correctional Services has reviewed the November 17, 2008, draft audit report of the Eastern Shore Region for the period beginning October 1, 2005, and ending July 15, 2008. The Region is comprised of the Eastern Correctional Institution (ECI), the Eastern Correctional Institution Annex, and the Poplar Hill Pre-Release Unit (PHPRU). The Division of Correction (DOC), as well as the Department, acknowledge the importance of each finding, appreciate the constructive recommendations made as a result of this audit, and have taken steps to implement the recommendations.

It should be noted that during this audit period there have been significant initiatives by the Eastern Shore Region that were designed to improve customer service to Maryland's citizens by increasing economy and efficiency, creating safer communities, expanding the number of services inmates offer to nonprofit agencies and municipalities, and enhancing its relationships with local governments and other stakeholders who share a mutual vision. Some significant recent accomplishments/initiatives of the Eastern Shore Region include:

- In conjunction with the Governor's Chesapeake Bay Restoration efforts and the Department's initiative to utilize pre-release inmates in community improvement efforts, ECI Annex inmates constructed 1030 oyster cages to be placed on citizens' private waterfront piers for growing oysters. Similarly, PHPRU inmates participated in the Bay Grass Restoration Program by planting grasses for shoreline erosion prevention.
- The DOC has dramatically increased training, security, and intelligence efforts to combat the introduction of contraband into its facilities. A greatly enhanced contraband interdiction effort has focused on cell phone detection using specially trained K-9 dogs to sniff out the phones. The DOC's K-9 cell phone detection program was demonstrated at ECI for an ABC World News Tonight broadcast.

- Through the CHOICES (Children Having Obstacles Involving Choices Eventually Succeed) Program, ECI staff visit schools, community organizations, and churches to provide reality education about incarceration, promote anti-gang initiatives, and encourage youth to make good life style choices. Through a cooperative effort, representatives from other law enforcement agencies and health and youth-orientated organizations also participate in this program.
- ECI conducts institutional tours for schools, colleges, and at-risk youth. The tours, which have been conducted throughout ECI's history, are structured for individual group needs.
- PHPRU inmate crews are involved with many community and charitable organizations assisting with clean up and maintenance projects. The inmates have also painted, set-up for planned activities, landscaped, and have provided many other worthwhile community improvement endeavors.

Attached is Assistant Commissioner Wendell France's response to the draft audit report, with which I concur. I trust that this responds to your request. If you have any questions concerning this correspondence, please contact me.

Sincerely,



G. Lawrence Franklin
Acting Secretary

Attachment

c: J. Michael Stouffer, Commissioner, DOC
Wendell France, Assistant Commissioner, DOC
Kathleen Green, Warden, DOC – ECI
Susan D. Dooley, Director, Office of Financial Services, DPSCS
Patricia A. Moore, Director of Finance, DOC
Joan Gordy, Fiscal Services Chief II, ECI
Joseph M. Perry, Inspector General, DPSCS



Department of Public Safety and Correctional Services

Division of Correction Eastern Correctional Institution

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FACILITY ADMINISTRATOR
ANNEX

DARRYL K. WEBSTER
FACILITY ADMINISTRATOR
PHPRU

November 26, 2008

The Honorable Gary D. Maynard, Secretary
Department of Public Safety and Correctional Services
300 East Joppa Road, Suite 1000
Towson, Maryland 21286-3020

Via

Mr. J. Michael Stouffer, Commissioner
Division of Correction
6776 Reisterstown Road, Suite 300
Baltimore, Maryland 21215-2342

Dear Secretary Maynard:

Attached are the responses to the draft Legislative Audit report dated November 17, 2008 covering the examination of the accounts and records of the Eastern Shore Region for the period beginning October 1, 2005 and ending July 15, 2008. Corrective action will be taken for all the findings noted by the Legislative Auditor as delineated below:

Finding #1 – Proper controls were not established over the processing of certain disbursement transactions.

We agree. Effective July 1, 2008 the Region had established independent on-line approval requirements for all critical disbursement transactions. In addition, effective November 13, 2008, the Department of Budget and Management implemented a programming change which prevents individuals changing a vendor named on an invoice.

Finding #2 – Inmate account balances were not always reconciled with the State Comptroller's records, and differences identified were not investigated and resolved.

We agree. The Region shall continue to reconcile the aggregate balance of the individual inmate accounts to the corresponding records of the State Comptroller on a timely basis and investigate differences until fully reconciled.

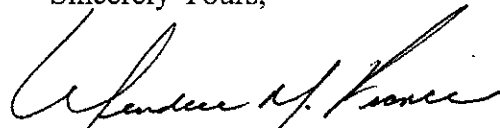
Finding #3 – Internal control and record keeping deficiencies were noted over the Region's materials and supplies.

We agree. The Region agrees to comply with the requirements of the Department of General Services (DGS) *Inventory Control Manual* regarding the physical inventories of materials and supplies. In addition, the employee who maintains the food perpetual inventory records will compare, at least on a test basis, the requisition copies used for inventory postings to the copies retained by the employees receiving the goods. Finally, the Region will accurately maintain perpetual inventory records and document investigations of variances between the perpetual inventory records and physical inventory counts. It is anticipated that these recommendations will be fully implemented by March 31, 2009.

Finding #4 – Equipment acquisitions were not always properly recorded in the detail records.

We agree. The Region agrees to comply with the requirements of the DGS *Inventory Control Manual*. Specifically, the Region agrees to maintain accurate detail inventory records and reconcile the control account quarterly with the aggregate balance of the detail equipment records. It is anticipated that this recommendation will be fully implemented by March 31, 2009.

Sincerely Yours,

A handwritten signature in black ink, appearing to read "Wendell M. France", is written over the typed name.

Wendell M. France,
Assistant Commissioner
Division of Correction

cc: G. Lawrence Franklin, Deputy Secretary, DPSCS
Susan D. Dooley, Director of Financial Services, DPSCS
Kevin Patten, Deputy Director of Financial Services, DPSCS
Patricia A. Moore, Director of Finance, Division of Correction
Kathleen Green, Warden, Eastern Correctional Institution
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