

Audit Report

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**Department of Public Safety and Correctional Services**

**Baltimore Region**

October 2010

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**OFFICE OF LEGISLATIVE AUDITS**  
**DEPARTMENT OF LEGISLATIVE SERVICES**  
**MARYLAND GENERAL ASSEMBLY**

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**DEPARTMENT OF LEGISLATIVE SERVICES**  
**OFFICE OF LEGISLATIVE AUDITS**  
**MARYLAND GENERAL ASSEMBLY**

**Karl S. Aro**  
Executive Director

October 29, 2010

**Bruce A. Myers, CPA**  
Legislative Auditor

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 Baltimore Region of the Department of Public Safety and Correctional Services for the period beginning February 1, 2006 and ending June 30, 2009. The Region comprises the Maryland Correctional Adjustment Center, the Metropolitan Transition Center, the Maryland Reception, Diagnostic, and Classification Center, the Baltimore City Correctional Center, and the Baltimore Pre-Release Unit.

Our audit disclosed serious procedural and record keeping deficiencies relating to the Region's general and inmate working funds, including several unsupported and/or questionable transactions. For example, critical accounting records were not maintained, resulting in the Region being unable to account for certain funds and paying unnecessary bank fees because checks were issued with insufficient funds on account. Additionally, inmate fund reconciliations were not being performed of the Region's records to the corresponding State records; as of May 31, 2009, the two records differed by \$227,000. Furthermore, the Region periodically transferred money between the two working funds, thereby mixing State funds with funds belonging to inmates. Disbursements and cash withdrawals, including salary advances, were often unsupported and questionable in nature.

Our audit also disclosed that critical controls over cash receipts, payroll, and purchasing transactions were not sufficient. In addition, we noted certain record keeping and procedural deficiencies relating to the Region's equipment, and materials and supplies.

An Executive Summary of our findings can be found on page 5. The Department of Public Safety and Correctional Services' response, on behalf of the Region, is included as an appendix to this report. We wish to acknowledge the cooperation extended to us during our audit by the Region.

Respectfully submitted,

Bruce A. Myers, CPA  
Legislative Auditor

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## **Executive Summary**

### **Legislative Audit Report on the Department of Public Safety and Correctional Services – Baltimore Region October 2010**

- **The Region did not maintain critical accounting records for its general working fund (GWF) and inmate working fund (IWF), such as not maintaining a checking account balance on a current basis and not preparing bank reconciliations and fund compositions accurately or at all. Consequently, funds were unaccounted for in the GWF and IWF, and the Region incurred significant bank fees totaling \$23,000 primarily related to checks written with insufficient funds.**

The Region should maintain critical accounting records, such as its checking account balances, on a current basis and should ensure that bank reconciliations and fund compositions are completed timely and accurately and are approved by supervisory personnel.

- **The aggregate balance of inmate funds recorded on the Region's records were not reconciled with the corresponding total on the Comptroller of Maryland's records. As of May 31, 2009, total inmate funds per the Region's records exceeded the related balance per the Comptroller's records by \$227,000. This is of particular concern considering the deficiencies noted associated with the IWF.**

The Region should periodically reconcile its records with the State's records for inmate funds and resolve any significant differences.

- **Procedural controls necessary for ensuring the propriety of working fund transactions and records were either not in place or were ineffective. For example, employees had access to both the blank GWF checks and the signature plate and access was not limited only to authorized employees. For IWF disbursements, one employee exercised complete control over cash that was withdrawn from the IWF for inmates upon their release.**

The Region should establish controls and segregate duties as appropriate.

- **Several transactions initiated by the Region related to the GWF and IWF impaired accountability over the funds including periodic unauthorized transfers of funds between the GWF and IWF that circumvented the Comptroller's approval process. In addition, unsupported and questionable disbursement transactions were also noted. Based on the matters noted, we referred these issues to the Criminal Division of the Office of the Attorney General.**

The Region should ensure that adequate accountability is established over the GWF and IWF by ensuring that all transfers are properly authorized by the Comptroller and that all other transactions affecting the funds are properly supported and approved.

- **Procedures and controls relating to the accountability and verification of cash receipts, which totaled \$4.1 million in fiscal year 2009, were not sufficient, and chargeback transactions totaling \$174,000 were not resolved on a timely basis.**

Adequate procedures and controls should be established over cash receipts, and chargeback transactions should be investigated and resolved in a timely manner.

- **Payroll adjustments, such as processing overtime worked, were not adequately verified and frequently lacked required supporting documentation. Furthermore, certain purchasing transactions were not adequately controlled.**

The Region should implement adequate controls over payroll adjustments and purchasing transactions.

- **Certain procedural and record keeping deficiencies existed with regard to the Region's equipment, and materials and supplies.**

The Region should comply with the applicable requirements of the Department of General Services *Inventory Control Manual*.



## **Background Information**

### **Agency Responsibilities**

The Baltimore Region is a separate budgetary unit within the Department of Public Safety and Correctional Services (DPSCS) and comprises the following maximum, minimum, or multi-level security institutions for male offenders:

- Maryland Correctional Adjustment Center
- Metropolitan Transition Center
- Maryland Reception, Diagnostic, and Classification Center
- Baltimore City Correctional Center
- Baltimore Pre-Release Unit

In a budget amendment dated August 27, 2007 and approved October 12, 2007, the Region's Home Detention Unit was eliminated through a transfer of the Unit's funding to the newly established Community Surveillance and Enforcement Program of the DPSCS Division of Parole and Probation.

According to its records, as of June 30, 2009, the Region had a total population of 3,202 inmates. According to the State's records, total Region expenditures were approximately \$132.8 million during fiscal year 2009. The Region's fiscal year 2009 appropriation provided for 1,406 employee positions, including 1,167 correctional officers.

### **Status of Findings From Preceding Audit Report**

Our audit included a review to determine the status of the 10 findings contained in our preceding audit report dated November 27, 2006. We determined that the Region satisfactorily addressed 4 of these findings. The remaining 6 findings are repeated in this report.



## Findings and Recommendations

### Working Funds and Inmate Funds

#### Background

The Region maintains a general working fund (GWF) and an inmate working fund (IWF). Working funds are normally established using an initial advance or deposit of a specified amount, and are generally used to make smaller one-time expenditures when other disbursement methods, such as the State's transmittal process, are not warranted or required. The Region's GWF and IWF were initially established by advances received from the Comptroller of Maryland and consist of funds on deposit in a checking account for each fund, as well as certain cash on hand.

According to the Comptroller of Maryland's *Accounting Procedures Manual*, the GWF should only be used for emergency purchases in nominal amounts, or for travel and emergency payroll advances. The IWF is used to disburse funds belonging to inmates. Disbursements from both working fund checking accounts can be made by cash withdrawal directly from the account or by issuing a working fund check. Direct cash withdrawals are used to replenish cash on hand which may be used for small disbursements or when issuance of a check is not called for. As disbursements are made from the working funds, the checking accounts must be replenished by the Region through the State transmittal process. GWF disbursements totaled \$283,000 during the period July 1, 2006 through October 31, 2009, and IWF disbursements totaled \$1.5 million during the period July 1, 2007 through October 31, 2009.

Inmate funds are non-budgeted funds which are initially deposited with the State Treasurer and recorded in the inmate's personal account on the Maryland Offenders Banking System (MOBS). MOBS serves as a record of each inmate's account activity, including funds received and disbursed, as well as the available balance. Inmate funds can be saved, provided directly to inmates in certain circumstances, such as upon their release, or inmates can direct the Region to disburse these funds to third parties. Disbursements of inmate funds are made using a check or cash withdrawal from the aforementioned inmate working fund checking account, and the applicable inmate accounts on MOBS are charged.

The *Accounting Procedures Manual* establishes certain controls and procedures governing agencies' working funds and petty cash. These include limiting disbursements for only authorized purposes and requiring reconciliation of records (for example, checkbook) to bank statements and State accounting records. To aid in this process, the checkbook should be maintained on a current basis and provide a balance of funds available.

During the course of our audit, we became aware of certain unusual activities, including the improper commingling of GWF and IWF transactions. As a result, we expanded our work related to these working funds. Our findings regarding the working funds and inmate funds indicate serious control weaknesses; a lack of proper record keeping, documentation, and oversight for these funds; as well as questions regarding specific fund transactions. The conditions described below in Findings 1 through 5, when taken as a whole, indicate almost a complete lack of control and accountability over the GWF and IWF by the Region. Based on the matters noted, we referred these issues to the Criminal Division of the Office of the Attorney General.

**Finding 1**

**The Region did not maintain certain critical accounting records relating to the two working funds, could not account for certain funds, and incurred significant bank fees for overdrafts and checks written with insufficient funds on account.**

**Analysis**

The Region did not adequately maintain certain critical accounting records associated with the working funds. Specifically, checking account balances for both working fund accounts, which reflect all transactions, such as deposits, disbursements, and cash withdrawals, were not maintained on a current basis. Consequently, the daily fund balances were not readily available and reconciliations of the Region's records to bank statements (to ensure completeness and accuracy) were difficult or impractical to perform. As a result, for the GWF, we found that the bank reconciliations and fund compositions, when prepared, were unreliable. For the IWF, the Region discontinued preparing bank reconciliations and fund compositions after July 2009. In both cases, reconciliations and compositions, when prepared, lacked documentation of supervisory review and approval. A similar condition regarding the lack of adequate reconciliations and compositions for the IWF was commented upon in our preceding audit report.

We asked the Region to prepare a composition of the GWF as of October 31, 2009. Our request was made in early November 2009, but the composition was not provided to us until January 2010. The composition disclosed unaccounted for funds totaling approximately \$14,400. In addition, although we asked the Region to provide a similar composition of the IWF, we were never provided with the requested documents. Therefore, using the Region's records, we prepared an analysis of the IWF's cash activity for the period July 3, 2008 to November 2, 2009. Based on our calculations, funds totaling \$15,500 were unaccounted for.

Furthermore, we noted that the Region had incurred significant bank fees (\$23,300 between October 2006 and September 2008) primarily related to overdrafts and checks written with insufficient funds on the account applicable to the IWF. Such charges are often indicative of a lack of adequate record keeping and monitoring including the preparation of proper bank reconciliations, and possibly other discrepancies. We noted that in a written communication to the Region, the Region's bank expressed concern regarding the continued overdrawn position of the IWF account, and specifically asked the Region to not issue checks unless adequate funds were in the account. The Department of Public Safety and Correctional Services' (DPSCS) *Financial Operations Manual*, and as previously mentioned the Comptroller's *Accounting Procedures Manual*, require the preparation of periodic working fund bank reconciliations and fund compositions.

### **Recommendation 1**

**We recommend that the Region**

- a. maintain for both funds critical accounting records, such as a working fund checking account balance, on a current and complete basis and use these records to prepare bank reconciliations and fund compositions on a monthly basis (repeat);**
- b. ensure that independent supervisory personnel review and approve all reconciliations and compositions including verifying that all adjustments and reconciling items are adequately supported; and**
- c. investigate the disposition of any unaccounted for funds, and refer any questionable activities to the Office of the Attorney General.**

### **Finding 2**

**The Region had not reconciled its records of inmate funds with the Comptroller of Maryland's records.**

### **Analysis**

The Region had not reconciled the aggregate balance of inmate accounts recorded on its records (MOBS) with the corresponding records of the Comptroller of Maryland. As of July 2009, the most recent reconciliation attempted was as of July 31, 2008. That reconciliation indicated an unresolved difference of \$314,132. As of May 31, 2009, the total balance of the individual inmate accounts recorded on MOBS of \$698,556 exceeded the Comptroller's balance of \$471,807 by \$226,749. This difference is of particular concern considering the other deficiencies associated with the IWF noted in this report, and implies that inmate funds on deposit with the Comptroller may not be sufficient to cover the aggregate balance of inmate accounts in MOBS.

Collections received by the Region on behalf of inmates totaled approximately \$2.4 million in fiscal year 2009. A similar condition has been commented upon in our two preceding audit reports.

## **Recommendation 2**

**We recommend that the Region**

- a. periodically reconcile the aggregate balance of the individual inmate accounts with the corresponding records of the Comptroller of Maryland (repeat), and**
- b. investigate and resolve all differences and that these actions be documented and retained for future reference (repeat).**

## **Finding 3**

**Controls necessary for ensuring the propriety of working fund transactions and records were either not established or were ineffective.**

## **Analysis**

The Region lacked adequate procedures for ensuring that all working fund transactions were valid and properly authorized, and that the related records were prepared and maintained in an appropriate, accurate manner. Our examination disclosed, for example, inadequate separation of certain critical employee functions, a lack of effective supervisory oversight for transactions, and poor or non-existent records. Specifically, we noted the following conditions:

- Blank checks and the signature plate used for disbursements from the GWF were not adequately controlled since access was not restricted to designated, authorized employees who required such access for their job duties. Furthermore, employees who had access to blank checks also had access to the signature plate. In addition, during the period May 2007 to October 2007, 67 checks totaling \$44,230 were signed using a signature plate that contained the signature of an individual who had resigned from the Region in May 2007 (dual signatures were not required). These checks were used for various purposes, such as employee advances.
- Two employees, who could record transactions in MOBS which was used to process and print IWF checks, also had access to the blank check stock. In addition, one of these employees was responsible for using the signature plate to affix the authorized signature to checks processed.
- One employee exercised complete control over cash that was withdrawn from the IWF for inmates upon their release. This employee requested and received the cash and subsequently placed it in individual envelopes for pick-

up by correctional officers for distribution to the inmates, and could perform these functions without independent supervisory approval.

- Disbursement transactions related to the IWF frequently lacked adequate supervisory review as evidenced, for example, by the lack of sufficient documentation for certain transactions, including documentation specifically required by DPSCS policy, such as inmate signatures.
- Supervisory review of transmittals submitted to the Comptroller to replenish the IWF was, in some cases, inadequate as evidenced by the submission of duplicate transmittals and a lack of supporting documentation. Our testing disclosed that 12 duplicate transmittals totaling \$28,235 were submitted by the Region during the period January to September 2009, and that a transmittal for \$70,454 was processed in October 2008 without supporting documentation. In 1992, DPSCS received a waiver from the Comptroller from the requirement to submit supporting documents, such as receipts, with requests for reimbursement of the IWF. However, documentation must be kept on file at the applicable unit.

### **Recommendation 3**

**We recommend that the Region establish appropriate controls and adequate segregation of duties. Specifically, the Region should ensure that**

- a. employees who have access to blank checks not have access to signature plates, or be assigned the capability to record transactions in MOBS, and that access to both the blank checks and signature plates be limited to only those employees who require such access for their job duties;**
- b. employees who request cash for inmates' release are not also allowed to receive and prepare the cash for distribution;**
- c. independent supervisory personnel adequately verify the propriety and accuracy of all critical transactions and records, disbursement transactions and reimbursement requests, and document this verification; and**
- d. return the aforementioned \$28,235 to Comptroller, make any necessary adjustments to inmate fund records, and investigate and determine the appropriate disposition of the \$70,454.**

**Finding 4**

**The Region periodically transferred funds between the GWF and IWF, which impaired accountability for the funds and circumvented the Comptroller's approval process for establishing the amount authorized for each working fund.**

**Analysis**

The Region periodically transferred funds between the GWF and the IWF without proper authority. In addition, the Region received a \$40,000 loan from the inmate working fund of another Division of Corrections (DOC) region. These actions impaired accountability for the funds, and circumvented the Comptroller's approval process for establishing the amount authorized for each fund. Specifically, we noted the following conditions:

- The Region made four transfers totaling \$48,829 between the GWF and the IWF during the period April 2008 to April 2009 without the approval of the Comptroller. In one case, an emergency advance of \$31,500 received from the Comptroller in March 2009 for the IWF was subsequently transferred by the Region to the GWF. Furthermore, although the Comptroller required repayment by May 2009, as of January 2010 this advance had not been repaid.
- Our review of 15 GWF checks issued during the period September 2007 to November 2008 disclosed 3 checks totaling \$10,365 that were issued to the IWF. The Region had no documentation on file substantiating the reason for these payments.

Beside the lack of accountability and approval for these transfers, we question the practice of comingling State funds and funds belonging to inmates. We were advised that these steps were necessary, in part, to help ensure that sufficient cash balances existed to cover disbursements and avoid bank service charges for overdrafts and insufficient funds (see Finding 1 for comment on bank fees). According to the State's records, as of March 2010, \$8,300 had been advanced to the Region for its GWF and \$57,300 had been advanced for the IWF.

**Recommendation 4**

**We recommend that the Region**

- a. not transfer funds between the GWF and the IWF without authorization, and use the Comptroller's established procedures for requesting additional working funds when necessary;**
- b. investigate the aforementioned transactions to determine the proper disposition of these funds (including a determination as to why such transfers were necessary); and**



- c. repay the aforementioned \$31,500 emergency advance to the Comptroller, as well as the \$40,000 loan to the other region.

#### **Finding 5**

**The Region made certain unsupported and questionable check disbursements and cash withdrawals from the working funds.**

#### **Analysis**

Adequate documentation was not available to substantiate the propriety of several check disbursements and cash withdrawals made from the working funds, and the propriety of certain transactions was questionable. Specifically, we noted the following conditions:

#### **General Working Fund**

- Our review of 37 GWF checks totaling \$23,780, written during the period December 2006 through July 2009, disclosed 25 checks totaling \$19,536 for which the Region was unable to provide documentation substantiating the propriety of the disbursement. One check for \$2,000 indicated that it was for the IWF. However, there was no evidence that the funds were deposited into the IWF bank account. Furthermore, in February 2008, a check for \$541 was issued to a former employee who had resigned in June 2005. The Region could not provide an adequate explanation or authorizing documentation for this payment.
- Our review of approximately 60 cash withdrawals from the GWF totaling \$33,000 made between November 2008 and October 2009 disclosed 3 withdrawals totaling \$7,600 for which documentation was not on file substantiating why the cash was needed. Another withdrawal of \$6,200 was never recorded or included in the daily counts of cash on hand by the cashier as was the Region's regular procedure. Two months after this cash was withdrawn, \$6,200 in cash was deposited back into the GWF account. Due to the lack of accounting for the withdrawal, the Region was unable to authenticate the whereabouts of the cash during the interim.
- Authorizing documentation was not on file to substantiate the propriety of salary advances made from the GWF prior to fiscal year 2008, and documentation for advances processed since that time often lacked certain required signatures. For example, supporting documentation could not be located for any of the 72 advances (\$53,000) issued in fiscal year 2007. Furthermore, an employee with an unpaid advance of \$1,052 from October

2007 was issued a second advance of \$1,117 just prior to the employee's retirement in July 2009. Both advances remained unpaid as of January 2010.

### **Inmate Working Fund**

- Cash withdrawals from the IWF for the purpose of paying inmates upon their release were frequently not supported by a receipt form signed by the inmate as required by DPSCS policy. Our review of documents supporting approximately 270 such withdrawals totaling \$10,500 made during August and September 2009, disclosed that the vast majority did not include the inmate's signature. Although the documentation was always signed, the signature was often that of someone other than the inmate who should have received the funds, such as a correctional officer.
- Supporting documentation was not on file for three IWF checks (totaling \$7,474) we examined for the period March to May 2009.
- The Region improperly used inmate funds from the IWF to pay seven salary advances totaling \$4,199, rather than using general funds from the GWF. As previously noted, inmate funds are the property of inmates and should not be used to advance funds to Region employees.

### **Recommendation 5**

**We recommend that the Region**

- a. maintain adequate documentation, including documentation required by DPSCS policy, supporting the propriety of all disbursements and withdrawals from the working funds;**
- b. ensure that all cash withdrawals are properly documented, recorded, and accounted for when received;**
- c. verify the propriety of the aforementioned checks and cash withdrawals lacking adequate supporting documentation (including the disbursement to the former employee); and**
- d. recover salary advances on a timely basis, including those noted as outstanding and, in the future, ensure salary advances are not paid from the IWF.**

## Cash Receipts

### **Finding 6**

**Procedures and controls relating to the accountability and verification of the Region's cash receipts were not sufficient.**

#### **Analysis**

Procedures and controls relating to the accountability and verification of the Region's cash receipts were not sufficient. During fiscal year 2009, cash receipts deposited by the Region totaled approximately \$4.1 million. These receipts included, for example, funds received for inmates, and were received either directly by the Region's finance office, or at one of the Region's five institutions and forwarded to the office. We noted the following conditions:

- Although the Region performed certain procedures to account for pre-numbered receipt forms used to record collections, there was no documentation that missing forms identified through this process were subsequently investigated for propriety. We examined the Region's accounting for a block of 13,000 receipts issued between June 2008 and May 2009. According to the Region's records, approximately 3,700 missing multi-part receipt forms were identified within the 13,000. However, the Region was unable to provide any documentation that an investigation or other review was performed to determine the disposition of the missing forms. As a result, receipt forms could have been provided for payments without the funds being deposited and this would not be detected.
- Our test of 20 cash receipts, collected during fiscal years 2008 and 2009 and totaling approximately \$1.3 million, disclosed 10 deposits that were made totaling \$390,000 for which there was no documentation supporting a verification of recorded collections to bank deposit records. Additionally, for five other deposits totaling \$77,000, the deposit verification was not performed timely. Specifically, the verification was performed using bank statements that were received at the end of the month, rather than the daily bank record of deposits.
- Chargeback transactions totaling approximately \$174,000 as of June 30, 2009 had not been resolved as of October 2009. Approximately \$165,000 of this total related to transactions that had occurred prior to fiscal year 2008. Chargeback transactions occur when the State Treasurer is unable to obtain credit from the bank for certain items, such as non-sufficient fund checks.

The lack of an adequate accounting for receipt forms was commented upon in our preceding audit report, while deficiencies in the deposit verification function have been commented upon in our three preceding audit reports.

#### **Recommendation 6**

**We recommend that the Region**

- a. adequately account for pre-numbered receipt forms and investigate the disposition of missing forms (repeat);**
- b. verify in a timely manner (as deposits are made) that all receipts are subsequently deposited by comparing recorded collections to bank deposit documentation and ensure the verification is documented (repeat); and**
- c. promptly investigate and resolve chargeback transactions.**

## **Payroll**

#### **Finding 7**

**Certain controls had not been established over the Region's payroll.**

#### **Analysis**

Procedures and controls over the Region's payroll were not sufficient. Specifically, procedures had not been established during our audit period to ensure that payroll adjustments recorded on automated timekeeping reports were subject to independent supervisory review. Our review of four pay periods disclosed that supervisory verification of payroll adjustments had not been conducted for two of the Region's five institutions. Furthermore, we noted that the Region, in December 2007, processed a duplicate payroll payment totaling \$12,017, to a retired employee for unused leave. The Region made the same payment twice in consecutive pay periods and was unaware of the duplication until our inquiries. We were advised by DPSCS management that, subsequent to our inquiries, the overpayment was recovered.

A similar condition was commented upon in our preceding audit report. According to the State's accounting records, the Region's regular payroll totaled \$89.1 million during fiscal year 2009.

#### **Recommendation 7**

**We recommend that the Region ensure that all payroll adjustments recorded on payroll time reports are subject to supervisory review, at least on a test basis (repeat).**

## Purchasing Transactions

### **Finding 8**

**Proper internal controls were not established over the processing of certain purchasing transactions.**

#### **Analysis**

Proper internal controls were not established over the processing of certain purchasing transactions on the State's Financial Management Information System (FMIS). Specifically, the Region's online approval rules allowed eight employees (one of which was employed by the Region while the remaining seven were employed by other DPSCS facilities) with the capability to initiate purchase orders to also make changes to those transactions after independent approvals were obtained. Consequently, the aforementioned employees had the capability to make unauthorized changes to critical purchase information (such as vendor names and amounts) without those changes being subject to independent approval. According to the State's accounting records, during fiscal year 2009, the Region used FMIS to process payments against purchase orders totaling approximately \$2.1 million.

#### **Recommendation 8**

**We recommend that the Region establish approval requirements that prevent individuals with the capability to initiate purchasing transactions from modifying the transactions after related approvals have been obtained.**

## Equipment

### **Finding 9**

**Equipment records were not adequately maintained and physical inventories were not completed as required.**

#### **Analysis**

The Region's equipment records were not adequately maintained and physical inventories were not conducted in compliance with the Department of General Services' *Inventory Control Manual*. According to the Region's records, the book value of the Region's equipment totaled approximately \$5.9 million as of June 30, 2009. Specifically, we noted the following deficiencies:

- Significant adjustments to the Region's equipment control accounts were not adequately supported, and the account balances were not periodically reconciled with the related detail records. For example, according to the

Region's records, during the third quarter of fiscal year 2008, adjustments totaling approximately \$4 million were made to reduce the control account totals maintained for three locations (Maryland Reception, Diagnostic, and Classification Center; Maryland Correctional Adjustment Center; and Metropolitan Transition Center). However, the Region could not explain or document the reason for these adjustments, nor had the adjustments been approved as required. In addition, periodic reconciliations of the control accounts with the corresponding detail records were not performed. As of June 30, 2009, the aggregate total of the Region's control accounts (\$5,948,548) exceeded the total of the corresponding detail records (\$5,821,386) by \$127,162.

- Acquired equipment was not always recorded in the detail records. Specifically, our test of 5 equipment purchases totaling \$69,294 that were made between October 2006 and December 2008, disclosed that 4 of the purchases comprising 152 items and totaling \$59,294 were not posted to the detail inventory records as of October 2009. These items included bullet proof vests and handheld radios.
- Equipment items recorded in the detail records could not always be located. Our test of 15 equipment items totaling \$15,673 and recorded in the detail records, disclosed that 5 of the items (such as photography equipment) totaling \$8,091 could not be located by us or Region personnel. Furthermore, equipment items on hand were not always recorded in the detail records. Our test of 15 items sighted at the Region, disclosed 5 items that could not be located in the detail records.
- Physical inventories of sensitive items had not been completed annually as required. As of October 2009, physical inventory counts of sensitive items at each of the Region's five units had not been conducted for periods ranging from 22 to 30 months.

The Department of General Services' (DGS) *Inventory Control Manual* requires that a control account and detail records be properly maintained for equipment and that the control account be reconciled at least quarterly with the aggregate balance of the detail records. In addition, the *Manual* requires that all adjustments to equipment control accounts be approved by someone in authority not below the level of Chief Administrative Officer (or designee). Furthermore, the *Manual* requires that all capital equipment items be recorded in the detail records and that a complete inventory of sensitive items be performed annually.

Similar conditions have been commented upon in our preceding audit reports, including conditions relating to the proper maintenance of a control account, which has been commented upon in our five preceding audit reports.

#### **Recommendation 9**

**We recommend that the Region**

- a. comply with the aforementioned requirements of the *Inventory Control Manual* (repeat), and**
- b. investigate the propriety of the noted \$4 million in adjustments to the control accounts.**

### **Materials and Supplies**

#### **Finding 10**

**Procedures and controls over the Region's materials and supplies inventory were not adequate.**

#### **Analysis**

Procedures and controls over the Region's materials and supplies inventory were not adequate. For example, we noted that requisition forms used for withdrawals from the Region's storerooms could be altered after the issuance of goods, and additional items could be removed from stock without detection. Specifically, the custodian officers had access to all three copies of the completed requisition form used to withdraw items from inventory. The custodians forwarded two copies of the completed requisitions to the inventory record keeper to update the perpetual inventory records. Consequently, the record keeper was unable to determine whether improper alterations to the quantities issued on the requisition forms were made. A similar condition was commented upon in our preceding audit report.

Furthermore, differences between the perpetual inventory records and physical inventory counts were not always investigated and resolved. Our review of the results of two monthly physical inventories conducted during fiscal year 2009 for the commissary at the Metropolitan Transition Center, disclosed a lack of documentation to support an investigation of differences noted (primarily shortages) totaling approximately \$49,000. The lack of a proper investigation of such differences was commented upon in our two preceding audit reports.

The DGS *Inventory Control Manual* establishes requirements regarding internal controls and related recordkeeping to be followed by State agencies. According to the State's records, the Region's materials and supplies expenditures totaled approximately \$2.5 million in fiscal year 2009. As of June 30, 2009, the Region's

reported materials and supplies inventories on hand totaled approximately \$988,000.

**Recommendation 10**

**We recommend that the Region comply with the requirements of the *Inventory Control Manual*. Specifically, we recommend that the Region**

- a. provide copies of completed inventory requisition forms to the requisitioning unit, and that the inventory record keeper periodically compare the requisition copies used for inventory posting to the copies provided to the employees receiving the goods, at least on a test basis (repeat);**
- b. ensure that differences between physical quantities on hand (noted as a result of physical inventories) and the related perpetual records are investigated and resolved by an employee who does not have access to the materials and supplies stock (repeat); and**
- c. ensure that documentation be maintained to support such investigations.**



## **Audit Scope, Objectives, and Methodology**

We have audited the Baltimore Region of the Department of Public Safety and Correctional Services (DPSCS) for the period beginning February 1, 2006 and ending June 30, 2009. 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 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 included 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. The areas addressed by the audit included primarily the general and inmate working funds, inmate funds, cash receipts, payroll, the purchasing function, equipment, and materials and supplies. 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.

This report includes findings relating to 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. Our 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.

DPSCS' response to our findings and recommendations, on behalf of the Region, 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 DPSCS 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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(410) 339-5000 • FAX (410) 339-4240 • TOLL FREE (877) 379-8636 • V/TTY (800) 735-2258 • [www.dpscs.state.md.us](http://www.dpscs.state.md.us)

STATE OF MARYLAND

MARTIN O'MALLEY  
GOVERNOR

ANTHONY G. BROWN  
LT. GOVERNOR

GARY D. MAYNARD  
SECRETARY

G. LAWRENCE FRANKLIN  
DEPUTY SECRETARY  
ADMINISTRATION

PHILIP PIÉ  
DEPUTY SECRETARY  
PROGRAMS AND SERVICES

DAVID N. BEZANSON  
ASSISTANT SECRETARY  
CAPITAL PROGRAMS

DIVISION OF CORRECTION

DIVISION OF PAROLE AND  
PROBATION

DIVISION OF PRETRIAL  
DETENTION AND SERVICES

PATUXENT INSTITUTION

MARYLAND COMMISSION  
ON CORRECTIONAL  
STANDARDS

CORRECTIONAL TRAINING  
COMMISSION

POLICE TRAINING  
COMMISSION

MARYLAND PAROLE  
COMMISSION

CRIMINAL INJURIES  
COMPENSATION BOARD

EMERGENCY NUMBER  
SYSTEMS BOARD

SUNDRY CLAIMS BOARD

INMATE GRIEVANCE OFFICE

October 28, 2010

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

Dear Mr. Myers:

The Department of Public Safety and Correctional Services has reviewed the Draft Audit Report for the Baltimore Region dated October 2010 for the period beginning February 1, 2006 and ending June 30, 2009. The Department acknowledges the importance of each finding, appreciates the constructive recommendations, and is seriously committed to resolving each finding.

Attached is Commissioner Stouffer's response to the Draft Audit Report, with which I concur. Commissioner Stouffer has been directed to implement corrective action for all the audit findings and recommendations, and to closely monitor the status in order to prevent any repeat findings in the next audit. If you have any questions concerning this correspondence, please contact me.

Sincerely,

  
Gary D. Maynard  
Secretary

#### Attachment

cc: G. Lawrence Franklin, Deputy Secretary, DPSCS  
J. Michael Stouffer, Commissioner, DOC  
Susan D. Dooley, Director, Office of Financial Services, DPSCS  
Patricia A. Moore, Assistant Commissioner, Administrative Services, DOC  
Felicia Hinton, Assistant Commissioner, Baltimore Region, DOC  
William Johnson, Acting Director of Finance, DOC  
Robert Koppel, Warden, MCAC  
Tyrone Crowder, Warden, MRDCC  
Solomon Hejirika, Warden, MTC  
Keith Hardesty, Fiscal Services Chief II, Central Region  
Sylvia Senkus, Fiscal Services Chief II, Central Region  
Anthony Newton, Fiscal Services Chief II, Central Region  
Amelia Smith, Fiscal services Chief II, Central Region  
Joseph M. Perry, Inspector General, DPSCS



# Department of Public Safety and Correctional Services

## Division of Correction

6776 REISTERSTOWN ROAD • SUITE 310 • BALTIMORE, MARYLAND 21215-2342  
(410) 585-3300 • FAX (410) 764-4182 • TTY USERS 1-800-735-2258 • www.dpscs.state.md.us

October 28, 2010

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

Via

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

Dear Secretary Maynard:

Included below are the responses to the Draft Legislative Audit Report dated October 2010 covering the examination of the accounts and records of the Baltimore Region for the period beginning February 1, 2006 and ending June 30, 2009. The Division of Correction will aggressively pursue implementation of the Draft Audit Report recommendations. In addition, please note that the Baltimore Region finance office has been consolidated with three other Division of Correction finance offices, combining expertise and resources as the Central Region Finance Office (CRFO). This reorganization will improve controls over financial operations and more effectively address and eliminate audit exceptions.

**Finding 1 - The Region did not maintain certain critical accounting records relating to the two working funds, could not account for certain funds, and incurred significant bank fees for overdrafts and checks written with insufficient funds on account.**

### Recommendation 1:

**We recommend that the Region**

- a. maintain for both funds critical accounting records, such as a working fund checking account balance, on a current and complete basis and use these records to prepare bank reconciliations and fund compositions on a monthly basis (repeat);

STATE OF MARYLAND

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DIVISION OF  
CORRECTION

J. MICHAEL STOFFER  
COMMISSIONER

EASTERN  
CORRECTIONAL  
INSTITUTION

JESSUP  
CORRECTIONAL  
INSTITUTION

MARYLAND  
CORRECTIONAL  
ADJUSTMENT CENTER

MARYLAND  
CORRECTIONAL  
ENTERPRISES

MARYLAND  
CORRECTIONAL  
INSTITUTION-  
HAGERSTOWN

MARYLAND  
CORRECTIONAL  
INSTITUTION-JESSUP

MARYLAND  
CORRECTIONAL  
INSTITUTION FOR  
WOMEN

MARYLAND  
CORRECTIONAL  
PRE-RELEASE SYSTEM

MARYLAND  
CORRECTIONAL  
TRAINING CENTER

MARYLAND RECEPTION,  
DIAGNOSTIC AND  
CLASSIFICATION  
CENTER

METROPOLITAN  
TRANSITION CENTER

NORTH BRANCH  
CORRECTIONAL  
INSTITUTION

ROXBURY  
CORRECTIONAL  
INSTITUTION

WESTERN  
CORRECTIONAL  
INSTITUTION

- b. ensure that independent supervisory personnel review and approve all reconciliations and compositions including verifying that all adjustments and reconciling items are adequately supported; and**
- c. investigate the disposition of any unaccounted for funds, and refer any questionable activities to the Office of the Attorney General.**

**We agree.** On July 1, 2009, the General Working Fund (GWF) transactions were transferred to the CRFO account. No activity has occurred related to the Baltimore Region GWF account since May 2010. Also, on July 1, 2009, the Inmate Working Fund (IWF) transactions were transferred to the CRFO account. No checks have been written on the Baltimore Region IWF account since that date. Presently, the CRFO is maintaining critical accounting records on a current and complete basis and using these records in the preparation of bank reconciliations and fund compositions on a monthly basis. The CRFO ensures that independent supervisory personnel review and approve all reconciliations and compositions including verifying that all adjustments and reconciling items are adequately supported. The Division plans to close the Baltimore Region Working Fund accounts by December 31, 2010. By June 30, 2011, the Division will investigate and resolve all unaccounted for funds and refer any instance of possible criminal or unethical conduct to the Office of the Attorney General. The Department is reviewing the feasibility of contracting with an outside accounting firm to investigate the GWF and IWF transactions identified in the audit findings to assure that these funds have been reviewed and accounted for by an independent examination.

**Finding 2 - The Region had not reconciled its records of inmate funds with the Comptroller of Maryland's records.**

**Recommendation 2:**

**We recommend that the Region**

- a. periodically reconcile the aggregate balance of the individual inmate accounts with the corresponding records of the Comptroller of Maryland (repeat); and**
- b. investigate and resolve all differences and that these actions be documented and retained for future reference (repeat).**

**We agree.** Periodic reconciliations of the aggregate balance of the individual inmate accounts with the corresponding records of the Comptroller are complete for July, August, and September 2010. The Division will investigate and resolve all differences and these actions will be documented and retained for future reference by June 30, 2011.

**Finding 3 - Controls necessary for ensuring the propriety of working fund transactions and records were either not established or were ineffective.**

**Recommendation 3:**

**We recommend that the Region establish appropriate controls and adequate segregation of duties. Specifically, the Region should ensure that**

- a. employees who have access to blank checks not have access to signature plates, or be assigned the capability to record transactions in MOBS, and that access to both the blank checks and signature plates be limited to only those employees who required such access for their job duties;**
- b. employees who request cash for inmates' release are not also allowed to receive and prepare the cash for distribution;**
- c. independent supervisory personnel adequately verify the propriety and accuracy of all critical transactions and records, disbursement transactions and reimbursement requests, and document this verification; and**
- d. return the aforementioned \$28,235 to Comptroller, make any necessary adjustments to inmate fund records, and investigate and determine the appropriate disposition of the \$70,454.**

**We agree:** Effective July 2009, the CRFO has established appropriate controls and adequate segregation of duties. Specifically, the Region will ensure that employees who have access to blank checks do not have access to signature plates, nor will they be assigned the capability to record transactions in MOBS. The Region will also ensure that access to both the blank checks and signature plates be limited to only those employees who require such access for their job duties. Employees who request cash for inmates' release are also not allowed to receive and prepare the cash for distribution effective March 2010. In addition, as of July 2009, independent supervisory personnel adequately verify the propriety and accuracy of all critical transactions and records, disbursement transactions and reimbursement requests, and document this verification. The CRFO will return the aforementioned \$28,235 to the Comptroller and make any necessary adjustments to inmate fund records by December 31, 2010. By June 30, 2011, the Division will investigate the appropriate disposition of the \$70,454.

**Finding 4 - The Region periodically transferred funds between the GWF and IWF, which impaired accountability for the funds and circumvented the Comptroller's approval process for establishing the amount authorized for each working fund.**

**Recommendation 4:**

**We recommend that the Region**

- a. not transfer funds between the GWF and IWF without authorization and use of the Comptroller's established procedures for requesting additional working funds when necessary;**
- b. investigate the aforementioned transactions to determine the proper disposition of these funds (including a determination as to why such transfers were necessary); and**
- c. repay the aforementioned \$31,500 emergency advance to the Comptroller, as well as the \$40,000 loan to the other region.**

**We Agree:** The CRFO will not transfer funds between the GWF and the IWF. The two funds are now controlled by two separate Fiscal Services Chiefs. The Division plans to close the Baltimore Region GWF and IWF by December 31, 2010, and return the related advances to the Comptroller. By June 30, 2011, the Division will investigate the aforementioned transactions to determine the proper disposition of these funds (including a determination as to why such transfers were necessary). The Division will repay the aforementioned \$31,500 emergency advance to the Comptroller. In addition, the CRFO has requested the Comptroller's Office to complete a journal entry to transfer the \$40,000 as required to close the account. The \$71,500 will be returned to the Comptroller by December 31, 2010.

**Finding 5 - The Region made certain unsupported and questionable check disbursements and cash withdrawals from the working funds.**

**Recommendation 5:**

**We recommend that the Region**

- a. maintain adequate documentation, including documentation required by DPSCS policy, supporting the propriety of all disbursements and withdrawals from the working funds;**
- b. ensure that all cash withdrawals are properly documented, recorded, and accounted for when received;**
- c. verify the propriety of the aforementioned checks and cash withdrawals lacking adequate supporting documentation (including the disbursement to the former employee); and**
- d. recover salary advances on a timely basis, including those noted as outstanding and, in the future, ensure salary advances are not paid from the IWF.**

**We agree.** The Division plans to close the Baltimore Region GWF and IWF accounts by December 31, 2010, and return the related advances to the Comptroller. The CRFO currently maintains adequate documentation, including documentation required by DPSCS policy, supporting the propriety of all disbursements and withdrawals from the working funds. In addition, the CRFO currently ensures that all cash withdrawals are properly documented, recorded, and accounted for when received. By June 30, 2011, the Division will investigate the propriety of the aforementioned checks and cash withdrawals lacking adequate supporting documentation (including the disbursement to the former employee). By June 30, 2011, the CRFO will also recover salary advances on a timely basis, including those noted as outstanding, and will ensure salary advances are not paid from the IWF.

**Finding 6 - Procedures and controls relating to the accountability and verification of the Region's cash receipts were not sufficient.**

**Recommendation 6:**

**We recommend that the Region**

- a. adequately account for pre-numbered receipt forms and investigate the disposition of missing forms (repeat);**
- b. verify in a timely manner (as deposits are made) that all receipts are subsequently deposited by comparing recorded collections to bank deposit documentation and ensure the verification is documented (repeat); and**
- c. promptly investigate and resolve chargeback transactions.**

**We agree.** The CRFO will adequately account for pre-numbered receipt forms by investigating missing receipt forms and reviewing voided receipts for propriety. To assist with compliance, the Division of Correction contracted with SunTrust Bank to provide a lock box service to process the receipts of inmate funds. This new process began in May 2010 and eliminates the need for most pre-numbered receipt forms. The remaining receipts are being adequately accounted for as required.

As of July 2009, the CRFO verifies in a timely manner (as deposits are made) that all receipts are subsequently deposited by comparing recorded collections to the bank deposit documentation and ensuring that the verification is documented. The verifications are documented and retained for reference. Also, as of July 2009, the CRFO investigates and resolves chargeback transactions in a timely manner.



**Finding 7 - Certain controls had not been established over the Region's payroll.**

**Recommendation 7:**

**We recommend that the Region ensure that all payroll adjustments recorded on payroll time reports are subject to supervisory review, at least on a test basis (repeat).**

**We agree:** As of July 2009, the CRFO ensures that all payroll adjustments recorded on payroll time reports are subject to supervisory review, at least on a test basis.

**Finding 8 - Proper internal controls were not established over the processing of certain purchasing transactions.**

**Recommendation 8:**

**We recommend that the Region establish approval requirements that prevent individuals with the capability to initiate purchasing transactions from modifying the transactions after related approvals have been obtained.**

**We agree:** The CRFO has established approval requirements that prevent individuals with the capability to initiate purchasing transactions from modifying the transactions after related approvals have been obtained. The DPSCS FMIS Security Officer has updated the approval path for purchases to include removal of procurement employees' ability to make changes to critical purchase information after independent approvals were obtained. The interface 02 in ADPICS was removed from the Baltimore Region procurement employees' FMIS security profile. The CRFO will continue to monitor security reports to assure compliance bi-monthly as new reports are issued.

**Finding 9 - Equipment records were not adequately maintained and physical inventories were not completed as required.**

**Recommendation 9:**

**We recommend that the Region**

- a. comply with the aforementioned requirements of the *Inventory Control Manual* (repeat); and**
- b. investigate the propriety of the noted \$4 million in adjustments to the control accounts.**

**We agree:** The CRFO will comply with the aforementioned requirements of the *Inventory Control Manual*. It should be noted that the responsibility for maintenance of equipment records and physical inventories of equipment is a shared responsibility. The CRFO is responsible for maintenance of the control accounts and for assisting with the reconciliation of control accounts to the detail records. However, the Warden is responsible for the maintenance of the detail records and the physical inventories of the equipment. In any case, the fixed assets control accounts have been reconciled to the related detailed record for fiscal year 2010. Fixed assets control accounts and detail records are being updated on a quarterly basis and reconciliations of control accounts to the detailed records are also performed quarterly. Physical inventories are currently being conducted in accordance to the DGS manual. In addition, the CRFO will have the Fiscal Services Chief review and approve the equipment control accounts effective October 31, 2010. The Division will investigate the propriety of the noted \$4 million in adjustments to the control accounts by December 31, 2010.

**Finding 10 - Procedures and controls over the Region's materials and supplies inventory were not adequate.**

**Recommendation 10:**

- We recommend that the Region comply with the requirements of the *Inventory Control Manual*. Specifically, we recommend that the Region**
- a. provide copies of completed inventory requisition forms to the requisitioning unit, and that the inventory record keeper periodically compare the requisition copies used for inventory posting to the copies provided to the employees receiving the goods, at least on a test basis (repeat);**
  - b. ensure that differences between physical quantities on hand (noted as a result of physical inventories) and the related perpetual records are investigated and resolved by an employee who does not have access to the materials and supplies stock (repeat); and**
  - c. ensure that documentation be maintained to support such investigations.**

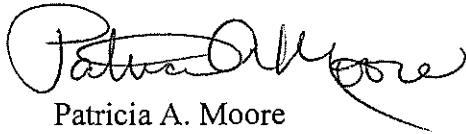
**We agree.** The CRFO and the Baltimore Region Wardens will comply with the requirements of the *Inventory Control Manual*. The Enterprise Inventory Management System (eIMS) was implemented for the Baltimore Region institutions in June 2010, creating a paperless on-line requisition process. The eIMS requires independent responsibilities and access, and therefore, negates the need for comparing requisition copies. In addition, investigating and resolving differences between the physical quantities on hand and the related perpetual records will be

October 28, 2010

completed timely, and documentation will be maintained to support such investigations. The Baltimore Region institutions will ensure that differences between physical quantities on hand (noted as a result of physical inventories) and the related perpetual records are investigated and resolved by an employee who does not have access to the materials and supplies to ensure the proper separation of duties. Documentation will be maintained to support the investigations and compliance will be achieved by December 31, 2010.

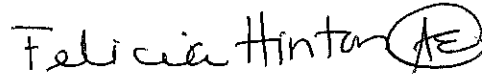
The Division believes that with the drastic corrective action of the Central Region Finance Office reorganization, the appropriate actions will be taken to assure future compliance. In addition, the Division is committed in its efforts to achieve and maintain compliance for all of the legislative audit findings.

Sincerely,



Patricia A. Moore  
Assistant Commissioner,  
Administrative Services  
Division of Correction

Sincerely,



Felicia Hinton,  
Assistant Commissioner,  
Central Region  
Division of Correction

- c: G. Lawrence Franklin, Deputy Secretary, DPSCS  
Susan D. Dooley, Director of Financial Services, DPSCS  
Joseph M. Perry, Inspector General, DPSCS  
William Johnson, Director of Finance, DOC  
Solomon Hejirika, Warden, MTC  
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Keith Hardesty, Fiscal Services Chief II, Central Region  
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