

Audit Report

Department of Public Safety and Correctional Services North Region

October 2015



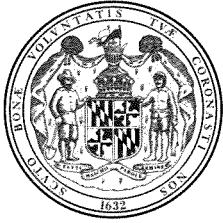
OFFICE OF LEGISLATIVE AUDITS
DEPARTMENT OF LEGISLATIVE SERVICES
MARYLAND GENERAL ASSEMBLY

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DEPARTMENT OF LEGISLATIVE SERVICES
OFFICE OF LEGISLATIVE AUDITS
MARYLAND GENERAL ASSEMBLY

Warren G. Deschenaux
Executive Director

Thomas J. Barnickel III, CPA
Legislative Auditor

October 28, 2015

Senator Guy J. Guzzone, Co-Chair, Joint Audit Committee
Delegate Craig J. Zucker, Co-Chair, Joint Audit Committee
Members of Joint Audit Committee
Annapolis, Maryland

Ladies and Gentlemen:

We have conducted a fiscal compliance audit of the following units of the Department of Public Safety and Correctional Services (DPSCS) for the periods noted:

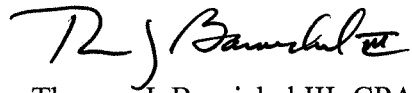
North Region – July 1, 2012 to March 31, 2015
Hagerstown Region – June 4, 2012 to June 30, 2012
Western Maryland Region – June 20, 2011 to June 30, 2012

Our audit covered the financial activities of the North Region's correctional facilities (with the exception of the Patuxent Institution) which are located primarily in western Maryland. These facilities became part of the Region via a departmental reorganization effective July 1, 2012 and were previously audited as part of the Hagerstown and Western Maryland Regions. The North Region has a fiscal office in Hagerstown, Maryland (Hagerstown Office) to support correctional facilities in Hagerstown and a fiscal office in Cumberland, Maryland (Cumberland Office) for correctional facilities in Cumberland.

Our audit disclosed that the North Region's records of inmate funds were not timely reconciled with the corresponding State records and certain inmate fund controls were lacking. We also noted that the Region made repeated purchases from one vendor without consolidating and soliciting bids for the purchases or executing written contracts.

DPSCS' 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,

A handwritten signature in black ink, appearing to read "TJ Barnickel III". The signature is fluid and cursive, with the first letters of the first and last names being capitalized and prominent.

Thomas J. Barnickel III, CPA
Legislative Auditor

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Background Information

Agency Responsibilities and Organizational Change

The North Region of the Department of Public Safety and Correctional Services (DPSCS) consists of the following correctional facilities that house sentenced inmates, located primarily in western Maryland, and the community supervision offices for offenders serving terms of probation or parole.

- Maryland Correctional Institution – Hagerstown (MCIH)
- Maryland Correctional Training Center (MCTC)
- Roxbury Correctional Institution (RCI)
- North Branch Correctional Institution (NBCI)
- Western Correctional Institution (WCI)
- Patuxent Institution

Effective July 1, 2012, DPSCS completed a departmental reorganization that established three regions within the State (North, Central, and South). The reorganization created a regional approach to providing inmate-related services, including incarceration, probation, parole, and reentry into society. This report represents the results of our first fiscal compliance audit of the North Region.

North Region Audit Scope

Our audit of the North Region included the financial activities of the North Region correctional facilities with the exception of the Patuxent Institution. Financial support services are provided to the Patuxent Institution by DPSCS – South Region, and the Institution is included within the scope of that audit. The North Region’s Hagerstown Office provides fiscal support to MCIH, MCTC, and RCI, which were previously audited under the DPSCS – Hagerstown Region. The North Region’s Cumberland Office provides fiscal support to NBCI and WCI, which were previously audited under the DPSCS – Western Maryland Region.

According to the State’s records, during fiscal year 2014, the expenditures for the North Region (excluding Patuxent Institution) totaled \$304 million. These facilities (excluding Patuxent Institution) housed 8,902 inmates as of June 30, 2014.

Status of Findings From Preceding Audit Reports

Our audit included a review to determine the status of the four findings contained in our preceding audit report of DPSCS – Hagerstown Region dated January 7, 2013. We determined that these four findings were satisfactorily addressed. Our preceding audit report of DPSCS – Western Maryland Region dated October 18, 2011 contained no findings.

Findings and Recommendations

Inmate Funds

Background

The Department of Public Safety and Correctional Services (DPSCS) – North Region maintains inmate funds, which are non-budgeted funds that are initially deposited with the State Treasurer and recorded in the inmates' personal accounts on the Maryland Offenders Banking System (MOBS). MOBS serves as the official record of each inmate's account activity, including funds received and disbursed, as well as the available balances. DPSCS replaced MOBS with the Maryland Offenders Banking System II (MOBSII) as the record of each inmate's account activity, beginning in August 2014.

Disbursements of inmate funds are made using a check or cash withdrawal from a working fund checking account, and the applicable inmate accounts on MOBS are charged. Disbursements may be paid directly to inmates in certain circumstances, such as upon their release, or to third parties as directed by the inmates. Working funds are initially established by an advance received from the Comptroller of Maryland and are replenished as needed by the Comptroller.

Finding 1

The Region's Hagerstown and Cumberland Offices had not timely reconciled the inmate fund records with the corresponding records maintained by the Comptroller of Maryland.

Analysis

The Hagerstown and Cumberland Offices had not timely reconciled the aggregate balances of the inmate personal fund accounts, as recorded on MOBSII, with the corresponding records maintained by the Comptroller of Maryland. As of May 2015, the most recent reconciliation at both offices was performed for August 2014 activity. DPSCS management advised us in June 2015 that, until very recently, it had been unable to provide the reports the Region needed to perform the reconciliations since the Office of the Secretary implemented MOBSII in August 2014.

According to MOBSII, for the eight-month period ending March 2015, inmate fund receipts in the Hagerstown and Cumberland Offices totaled approximately \$4.7 million and \$2.3 million, respectively. During this period, disbursements for these Offices totaled approximately \$1.4 million and \$834,000, respectively.

Recommendation 1

We recommend that the Region reconcile the aggregate balance of individual inmate accounts in MOBSII with the corresponding records of the Comptroller of Maryland on a timely basis.

Finding 2

The Region's Hagerstown Office lacked certain critical controls over inmate fund transactions and records.

Analysis

The Region's Hagerstown Office lacked certain critical controls for ensuring the propriety of inmate fund transactions and records.

- Transactions recorded in the inmate fund accounts were not independently reviewed to ensure that the transactions were posted to the proper individual inmate accounts. Prior to implementing MOBSII in August 2014, supervisory personnel verified that postings, in the aggregate, were correct; however, this is not sufficient to ensure the propriety of individual inmate accounts. As of May 2015, the last such verifications performed were for August 2014 activity.
- User access over inmate account records in MOBSII was not adequately restricted. We noted two employees with the capability to create transactions and print checks in MOBSII although such access was not required for these employees to perform their job duties. One of these employees also had access to blank checks and was an authorized check signer, and thus could make disbursements without independent approval. In addition, system access had not been eliminated for three individuals who were no longer employed by the Hagerstown Office.
- As of May 7, 2015, the Office's working fund checking account used to process inmate fund disbursements had not been reconciled with the corresponding bank records since the January 2015 reconciliation. In addition, previous reconciliations completed were not timely. Specifically, our test of the 11 reconciliations prepared from March 2014 to January 2015 disclosed that 10 of the reconciliations were prepared from 56 to 142 days after the end of the related months. DPSCS' *Financial Operations Manual* requires this checking account to be reconciled on a monthly basis. According to State records, during fiscal year 2014, Hagerstown Office working fund disbursements from the inmate fund totaled approximately \$1.8 million.

Recommendation 2

We recommend that the Region

- a. ensure that transactions posted to individual inmate accounts are independently reviewed for propriety, at least on a test basis;**
- b. work in conjunction with DPSCS Office of the Secretary to restrict employee user access capabilities on MOBSII to employees requiring such access and eliminate the ability to perform incompatible duties; and**
- c. ensure that monthly bank reconciliations are prepared timely.**

Purchases

Finding 3

The Region made repeated purchases of fresh produce from one vendor without consolidating and appropriately soliciting competitive bids and executing written contracts.

Analysis

The Region made frequent purchases of fresh produce but did not consolidate and appropriately solicit competitive bids for these purchases in accordance with State procurement regulations. Specifically, the Region's Hagerstown Office (on behalf of the five facilities located in Hagerstown and Cumberland) repeatedly purchased produce from one vendor without entering into a written contract. According to State records, during fiscal years 2012 through 2015 (as of February 12, 2015), the Hagerstown Office made 528 individual payments to this vendor totaling approximately \$2.5 million. Since the purchases were not consolidated, the Region's leverage as a high-volume purchaser may not have been maximized. For purchases exceeding \$25,000, Department of General Services' approval would have been required.

In addition, our review of two procurements totaling \$54,613 from this vendor, each exceeding \$25,000, disclosed that the related bids (two for each procurement) were obtained by fax, rather than through competitive sealed bidding, as required by State procurement regulations for purchases exceeding \$25,000.

Hagerstown Office personnel advised us that they believed that competitive procurement was not feasible for fresh produce because it spoils quickly and delivery must be timely and frequent. Management further advised us that fluctuations in market pricing could not be adequately accommodated in a contract. We discussed these issues with representatives of DGS, which delegated the procurement of fresh produce to DPSCS, although contracts

exceeding \$25,000 would require DGS approval. We were advised that State procurement regulations must be complied with and that a formal competitive procurement would be required in this situation. DGS personnel further stated that concerns regarding delivery times and market pricing could be addressed through the procurement process and drafting of the bid specifications and related contract. Finally, DGS personnel advised us that DPSCS could request that DGS conduct the procurement on its behalf or assist DPSCS in the procurement to ensure its needs would be met.

Recommendation 3

We recommend that the Region comply with State procurement regulations when procuring fresh produce. Specifically, we recommend that the Region

- a. work with DPSCS Office of the Secretary and DGS to competitively procure fresh produce in a manner that will meet the needs of the Region and ensure that produce is obtained at the best value; and**
- b. ensure that formal written contracts are executed and DGS approval is obtained, as needed.**

Audit Scope, Objectives, and Methodology

We have conducted a fiscal compliance audit of the Department of Public Safety and Correctional Services (DPSCS) – North Region. Because of a departmental reorganization (which is explained on page 5 of this report), our audit of the North Region included the activities of the following DPSCS units for the indicated periods:

North Region – July 1, 2012 to March 31, 2015

Hagerstown Region – June 4, 2012 to June 30, 2012

Western Maryland Region – June 20, 2011 to June 30, 2012

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.

In planning and conducting our audit, we focused on the major financial-related areas of operations based on assessments of significance and risk. The areas addressed by the audit included purchases and disbursements, payroll, and inmate funds. We also determined the status of the findings contained in our preceding audit report of the DPSCS – Hagerstown Region.

Our audit did not include the financial activities (such as payroll processing, purchasing, maintaining inmate fund records, maintaining accounting records and conducting related fiscal functions) of the Patuxent Institution. These financial activities are provided by the Department of Public Safety and Correctional Services – South Region and are included within the scope of that audit.

To accomplish our audit objectives, our audit procedures included inquiries of appropriate personnel, inspections of documents and records, observations of the Region's operations, and tests of transactions. Generally, transactions were selected for testing based on auditor judgment, which primarily considers risk. Unless otherwise specifically indicated, neither statistical nor non-statistical audit sampling was used to select the transactions tested. Therefore, the results of the

tests cannot be used to project those results to the entire population from which the test items were selected.

We also performed various data extracts of pertinent information from the State's Financial Management Information System (such as revenue and expenditure data) and the State's Central Payroll Bureau (payroll data), as well as from the contractor administering the State's Corporate Purchasing Card Program (credit card activity). The extracts are performed as part of ongoing internal processes established by the Office of Legislative Audits and were subject to various tests to determine data reliability. We determined that the data extracted from these various sources were sufficiently reliable for the purposes the data were used during this audit. Finally, we performed other auditing procedures that we considered necessary to achieve our objectives. The reliability of data used in this report for background or informational purposes was not assessed.

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.

The response from DPSCS, 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 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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DAVID N. BEZANSON
ASSISTANT SECRETARY
CAPITAL PROGRAMS

October 19, 2015

Mr. Thomas J. Barnickel III, CPA
Department of Legislative Services
Office of Legislative Audits
301 West Preston Street, Room 1202
Baltimore, Maryland 21201

Dear Mr. Barnickel:

The Department of Public Safety and Correctional Services has reviewed the Draft Audit Report dated October 2015 for the DPSCS North Region for the period beginning June 20, 2011 and ending March 31, 2015. The Department appreciates the constructive findings and recommendations that were made as the result of this audit.

Please find below DOC Assistant Commissioner Randall L. Watson's itemized responses to the Draft Audit Report findings. Mr. Watson and his management team have begun, and will continue to implement corrective action to address the audit findings, and will closely monitor their status in order to prevent any repeat audit findings in the next audit.

If you have any questions regarding the Department's response, please contact me.

Sincerely,

A handwritten signature in black ink, appearing to read "Stephen T. Moyer".

Stephen T. Moyer
Secretary

Copy: Col. Thomas E. Hutchins, Director, Governor's Office of Homeland Security



Department of Public Safety and Correctional Services

DIVISION OF CORRECTION Office of the Assistant Commissioner – West

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LARRY HOGAN
GOVERNOR

October 19, 2015

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The Honorable Stephen T. Moyer, Secretary
Department of Public Safety and Correctional Services
300 East Joppa Road, Suite 1000
Towson, Maryland 21286-3020

Via

Mr. Wayne A. Webb, Acting Deputy Secretary, Operations
Department of Public Safety and Correctional Services
6776 Reisterstown Road, Suite 300
Baltimore, Maryland 21215-2342

Dear Secretary Moyer:

Attached are the responses to the Draft Legislative Audit Report dated October 2015, covering the examination of the accounts and records of the following offices:

- North Region for the period July 1, 2012 to March 31, 2015;
- Hagerstown Region for the period June 4, 2012 to June 30, 2012;
- Western Maryland Region for the period June 20, 2011 to June 30, 2012.

Corrective action will be taken for all the findings noted by the Legislative Auditor as delineated below:

Finding 1:

The Region's Hagerstown and Cumberland Offices had not timely reconciled the inmate fund records with the corresponding records maintained by the Comptroller of Maryland.

Recommendation 1:

We recommend that the Region reconcile the aggregate balance of individual inmate accounts in MOBSII with the corresponding records of the Comptroller of Maryland on a timely basis.

We Agree:

The Region will, on a timely basis, reconcile the aggregate balance of the individual accounts in MOBSII with the corresponding records of the Comptroller of Maryland. The reconciliations through October 31, 2015 will be completed by June 30, 2016; reconciliations through June 30, 2016 will be completed by October 31, 2016; and

reconciliations through October 31, 2016 will be completed by December 31, 2016 with future reconciliations completed on a similar timely basis.

Finding 2:

The Region's Hagerstown Office lacked certain critical controls over inmate transactions and records.

Recommendation 2:

We recommend that the Region:

- a. ensure that transactions posted to individual inmate accounts are independently reviewed for propriety, at least on a test basis;
- b. work in conjunction with DPSCS Office of the Secretary to restrict employee user access capabilities on MOBSII to employees requiring such access and eliminate the ability to perform incompatible duties; and
- c. ensure that monthly bank reconciliations are prepared timely.

We Agree:

The Region will:

- a. ensure that transactions posted to individual inmate accounts are independently reviewed for propriety, at least on a test basis. The anticipated completion date is December 31, 2015.
- b. work in conjunction with DPSCS Office of the Secretary to restrict employee user access capabilities on MOBSII to employees requiring such access and eliminate the ability to perform incompatible duties. Completed.
- c. ensure that monthly bank reconciliations are prepared timely. The reconciliations will be completed up-to-date by December 31, 2015 and will be conducted monthly thereafter.

Finding 3:

The Region made repeated purchases of fresh produce from one vendor without consolidation and appropriately soliciting competitive bids and executing written contracts.

Recommendation 3:

We recommend that the Region comply with State procurement regulations when procuring fresh produce. Specifically, we recommend that the Region

- a. work with DPSCS Office of the Secretary and DGS to competitively procure fresh produce in a manner that will meet the needs of the Region and ensure that produce is obtained at the best value; and
- b. ensure that formal written contracts are executed and DGS approval is obtained, as needed.

We Agree:

The Region will:

- a. work with DPSCS Office of the Secretary and DGS to competitively procure fresh produce in a manner that will meet the needs of the Region and ensure that produce is obtained at the best value. The anticipated completion date is July 31, 2016.

- b. ensure that formal written contracts are executed and DGS approval is obtained, as needed. Effective immediately, the Region will obtain DGS approval, as required, for all future contracts.

Sincerely,



Randy Watson

Assistant Commissioner, West Region



cc: William Stewart, Deputy Secretary, Administration
Steven F. Geppi, Director, Secretary's Office of Investigation, Intelligence and
Fugitive Apprehension
Christopher McCully, Director of Financial Services
Rosetta Butler, Director, Procurement Services
Patricia Goins-Johnson, Acting Commissioner, DOC
Patricia Moore, Assistant Commissioner, DOC
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