

Audit Report

**Department of Public Safety and Correctional Services
South Region**

October 2015



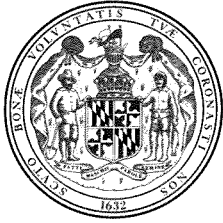
OFFICE OF LEGISLATIVE AUDITS
DEPARTMENT OF LEGISLATIVE SERVICES
MARYLAND GENERAL ASSEMBLY

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DEPARTMENT OF LEGISLATIVE SERVICES
OFFICE OF LEGISLATIVE AUDITS
MARYLAND GENERAL ASSEMBLY

Warren G. Deschenaux
Executive Director

October 28, 2015

Thomas J. Barnickel III, CPA
Legislative Auditor

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:

South Region – July 1, 2012 to June 30, 2014
Central Region Finance Office – August 22, 2011 to June 30, 2012
Eastern Shore Region – October 3, 2011 to June 30, 2012

Our audit covered the financial activities of the South Region's correctional facilities which are located primarily in the State's southern and eastern shore areas. These facilities became part of the Region via a departmental reorganization effective July 1, 2012 and were previously audited under the DPSCS – Central Region Finance Office and the Eastern Shore Region. The South Region has a fiscal office in Jessup, Maryland (Jessup Office) to support southern correctional facilities and a fiscal office in Westover, Maryland (Eastern Correctional Institution Office) to support eastern shore correctional facilities. This audit also included the financial activities of the Central Region correctional facilities that were primarily previously audited as part of DPSCS – Central Region Finance Office before the reorganization.

Our audit disclosed that the South Region's records of inmate funds were not fully reconciled with the corresponding State records and certain inmate fund controls were lacking. For example, the Jessup Office's July 2014 reconciliation, which was the most recent at the time of our review, indicated that its balance exceeded the related Comptroller's balance by approximately \$182,000, indicating that inmate funds on deposit with the Comptroller may not be sufficient to cover the aggregate balance of inmate accounts.

We also noted that the Region made repeated purchases from two vendors for fresh produce without competitive bids and written contracts. In addition, a management employee was in a position to influence the Region's decision to contractually hire an immediate family member, potentially violating State Ethics Laws. Finally, procedures and controls over certain overtime payments and employee leave recordkeeping need improvement.

An executive summary of our findings can be found on page 5. 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", with a stylized flourish at the end.

Thomas J. Barnickel III, CPA
Legislative Auditor

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* Denotes item repeated in full or part from preceding audit report

Executive Summary

Legislative Audit Report on the Department of Public Safety and Correctional Services - South Region October 2015

- **The Region's Jessup and Eastern Correctional Institution (ECI) Offices had not fully reconciled inmate fund records with corresponding records maintained by the Comptroller of Maryland. At the time of our review, the last reconciliation performed for each Office was for July 2014 activity, prior to the implementation of a new inmate funds recordkeeping system. For example, the last reconciliation prepared for the Jessup Office indicated that its balance exceeded the Comptroller's records by \$182,000 and, as a result, the Region lacked assurance that inmate funds on deposit with the Comptroller will be sufficient to cover the balance of the inmate accounts. Department of Public Safety and Correctional Services (DPSCS) management advised us that it had been unable to provide the necessary reports to perform the reconciliations since the implementation of the new recordkeeping system (Finding 1).**

The Region should work with the DPSCS – Office of the Secretary to obtain the needed system reports and ensure that inmate fund reconciliations are conducted timely and differences are resolved.

- **The Jessup Office lacked certain critical controls over inmate fund transactions and records. Transactions were not verified to ensure they were posted to the proper inmate accounts, user access to modify fund records was not properly restricted, and the Office's checking account used to process inmate fund disbursements had not been reconciled since April 2014 (Finding 2).**

The Jessup Office should develop and implement procedures to ensure the propriety of inmate fund transactions and records.

- **The Region made frequent purchases of fresh produce primarily from two vendors during fiscal years 2012 through 2014, totaling \$2.7 million, without consolidating and competitively bidding these purchases and executing written contracts. During this period, hundreds of individual purchases were made.**

The Region, in conjunction with the DPSCS – Office of the Secretary, should consolidate and competitively procure fresh produce, and execute written contracts.

- **A management employee was in a position to influence the Region’s decision to hire an immediate family member as a contractual employee within the management employee’s unit. The employment contract was awarded without a formal recruitment and interview process. These actions may have violated conflict of interest provisions of the State’s Ethics Laws (Finding 4).**

The Region should immediately refer this matter to the State Ethics Commission and take appropriate action as directed by the Commission.

- **Payroll procedures and controls at the Jessup Office need improvement. Certain employees received monetary payments for overtime even though the employees were ineligible based on their employment classifications. In addition, leave recordkeeping deficiencies were noted (Finding 5).**

The Region should establish appropriate payroll and leave recordkeeping procedures and controls as recommended.

Background Information

Agency Responsibilities and Organizational Change

The South Region of the Department of Public Safety and Correctional Services (DPSCS) consists of the following correctional facilities that house sentenced inmates and the community supervision offices for offenders serving terms of probation or parole in the State's southern and eastern shore areas:

- Jessup Correctional Institution
- Maryland Correctional Institution Jessup
- Maryland Correctional Institution for Women
- Brockbridge Correctional Facility
- Jessup Pre-Release Unit
- Southern Maryland Pre-Release Unit
- Eastern Pre-Release Unit
- Eastern Correctional Institution (including Poplar Hill Pre-Release Unit)
- Dorsey Run Correctional Facility

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 functions, including incarceration, probation, parole, and reentry into society. This report represents the results of our first fiscal compliance audit of the South Region.

South Region Audit Scope

Our audit of the South Region included the financial activities of the South Region's correctional facilities that became part of the Region via the departmental reorganization. These facilities were previously audited under the DPSCS – Central Region Finance Office and the Eastern Shore Region. The region has fiscal offices in Jessup, Maryland (Jessup Office) to support southern correctional facilities and in Westover, Maryland (Eastern Correctional Institution Office) to support eastern shore correctional facilities. The fiscal offices also support certain other DPSCS facilities and units to which the South Region provides support services as discussed below.

Our audit also included the financial activities of a number of facilities and units in other Regions for which the South Region provides support services:

- Patuxent Institution
- Metropolitan Transition Center
- Maryland Reception, Diagnostic and Classification Center
- Baltimore Pre-Release Unit
- Baltimore City Correctional Center
- Central Maryland Correctional Facility

Our audit of the South Region also included certain activities (maintenance of inmate fund records and processing federal reimbursement requests) of the Chesapeake Detention Facility (CDF) and payroll support services for transportation staff of the Security Operations Unit of the Deputy Secretary for Operations within the DPSCS – Office of the Secretary. The activities of the above facilities and units included in our audit were previously audited under the DPSCS – Central Region Finance Office (CRFO).

According to the State's records, during fiscal year 2014, the expenditures for South Region administration and correctional facilities, Central Region correctional facilities, Patuxent Institution, and CDF totaled \$489.7 million. These facilities housed 11,770 inmates as of June 30, 2014. In addition, according to agency records, payroll expenditures for the transportation staff of the Security Operations Unit totaled \$20.5 million during fiscal year 2014.

Status of Findings From Preceding Audit Reports

Our audit included a review to determine the status of the six findings contained in our preceding audit reports of DPSCS – Central Region Finance Office dated August 6, 2012 and DPSCS – Eastern Shore Region dated July 13, 2012. We determined that the Region satisfactorily addressed four of these six findings. The remaining two findings are repeated as one finding in this report.

Findings and Recommendations

Inmate Funds

Background

The Department of Public Safety and Correctional Services (DPSCS) – South Region maintains inmate funds, which are non-budgeted funds 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 MOBSII 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 Jessup and Eastern Correctional Institution (ECI) Offices had not fully reconciled the inmate fund records with corresponding records maintained by the Comptroller of Maryland.

Analysis

The Jessup and ECI Offices had not fully reconciled the aggregate balances of the inmate personal fund accounts, as recorded on MOBS, with the corresponding records maintained by the Comptroller of Maryland. In this regard, reconciliations performed were not conducted timely and significant differences were not resolved. Specifically, as of February 2015, the most recent reconciliation at both Offices was performed for July 2014 activity and both of those reconciliations included an unresolved difference. DPSCS management advised us that it has been unable to provide the reports needed by the Region to perform the reconciliations since the DPSCS Office of the Secretary implemented MOBSII in August 2014. Our review of inmate fund reconciliations for both offices disclosed the following conditions:

- The Jessup Office's July 2014 reconciliation indicated that the MOBS balance (\$1,552,000) exceeded the related Comptroller's balance (\$1,370,000) by approximately \$182,000. This unresolved difference indicates that inmate funds on deposit with the Comptroller may not be sufficient to cover the aggregate balance of inmate accounts in MOBS. Furthermore, this difference includes the effect of a June 2014 transfer of \$200,000 from the DPSCS administrative appropriation to the Comptroller's inmate funds account, which was made in accordance with the April 2013 *Joint Chairmen's Report* to reduce the difference between the two balances. Prior to the June 2014 transfer, the Jessup Office's reconciliation showed a consistent monthly unreconciled difference of \$382,000 dating back to the May 2013 reconciliation. This condition was commented upon in our preceding audit reports of the Central Region Finance Office (CRFO) and the Jessup Region. For example, in our August 6, 2012 audit report of CRFO, we reported that the MOBS balance exceeded the related Comptroller's balance by approximately \$309,000 as of June 30, 2011. Prior to the creation of CRFO, this condition had appeared in three preceding audit reports of the former Baltimore Region dating back to 2002.
- The ECI Office's July 2014 reconciliation indicated that the Comptroller's balance (\$547,000) exceeded the related MOBS balance (\$483,000) by approximately \$64,000. This difference has been noted consistently since the October 2012 reconciliation. In addition, our review of the ECI Office's reconciliations for fiscal year 2014 disclosed that reconciliations were performed from 44 to 183 days after the end of the related months. We have noted similar conditions in our six preceding audit reports of the former Eastern Shore Region.

Recommendation 1

We recommend that the Region

- a. work with DPSCS Office of the Secretary to obtain the needed reports from MOBSII;**
- b. on a timely basis, reconcile the aggregate balance of individual inmate accounts in MOBSII with the corresponding records of the Comptroller of Maryland, and investigate and resolve all differences (repeat); and**
- c. consult with the Comptroller's General Accounting Division and the Department of Budget and Management as to the proper disposition of the aforementioned differences of \$182,000 related to the Jessup Office and \$64,000 related to the ECI Office if the differences cannot be resolved (repeat).**

Finding 2

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

Analysis

The Region's Jessup Office lacked certain critical controls for ensuring the propriety of inmate fund transactions and records. According to MOBSII, inmate fund receipts in the Jessup Office totaled approximately \$2.5 million and disbursements totaled \$1 million for the three-month period ending October 2014.

- 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. No such verifications have been performed since July 2014.
- User access over inmate account records in MOBSII was not properly restricted for certain employees. Specifically, improper access to record or modify transactions was granted to four employees who did not require this access to perform their job duties. In certain instances, employee access capabilities allowed the employee to perform incompatible functions. For example, one of these four employees was responsible for the supervisory review and approval of inmate fund check disbursements.
- As of October 2014, the Office's working fund checking account used to process inmate fund disbursements had not been reconciled with the corresponding bank records since April 2014. In addition, previous reconciliations completed were not timely and supervisory review was not always evident. Specifically, 5 of the monthly reconciliations for the 12-month period ending April 2014 were prepared 46 to 62 days after the end of the related months. Furthermore, 6 of these reconciliations had not been signed and dated to indicate they had been subject to supervisory review. The DPSCS' *Financial Operations Manual* requires this checking account to be reconciled and reviewed on a monthly basis.

Recommendation 2

We recommend that the Region

- a. ensure that transactions are independently reviewed, at least on a test basis, to provide assurance that transactions are posted to the proper inmate accounts;**

- 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 monthly inmate working fund reconciliations are prepared, reviewed, and approved timely.**

Purchases

Finding 3

The Region made frequent purchases of fresh produce primarily from two vendors without competitive bids and written contracts.

Analysis

The Region (both the Jessup and ECI Offices) made frequent purchases of fresh produce but did not consolidate and competitively bid those purchases in accordance with State procurement regulations.

- The Region did not consolidate its fresh produce purchases; rather, it repeatedly purchased fresh produce primarily from two vendors on a case-by-case basis without written contracts. According to State records, during fiscal years 2012 through 2014, the Jessup Office made 934 individual payments to these two vendors totaling approximately \$2 million and the ECI Office made 234 individual payments to these two vendors totaling approximately \$652,000. Since the purchases were not consolidated, the Region's leverage as a high-volume purchaser may have not been maximized. If the purchases were consolidated, Department of General Services (DGS) approval would have been required.
- The Region made frequent purchases of fresh produce without competitive bids. We judgmentally selected for review nine fresh produce purchases (seven from the Jessup Office and two from the ECI Office) totaling approximately \$50,000. We noted that the Jessup Office did not obtain bid quotations for any of its seven purchases, which each individually exceeded \$5,000. State procurement regulations require quotations be obtained for purchases in amounts between \$5,000 and \$25,000.

Region management personnel advised us that it 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 this 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.**

Potential Ethics Violation

Finding 4

A management employee was in a position to influence the Region's decision to hire an immediate family member as a contractual employee within the management employee's unit. Such actions could be a potential violation of State Ethics Laws. Furthermore, the Region did not comply with State Personnel Laws and hiring practices and DPSCS policies with respect to this hiring.

Analysis

A management employee who made human resources decisions for the Region was in a position to influence the Region's decision to hire, as a contractual employee, an immediate family member of the management employee. Furthermore, the contractual employee was assigned to the unit overseen by this management employee. These actions could be a potential violation of the conflict of interest provisions of State Ethics Laws. State Personnel Laws and hiring practices and DPSCS policies were also not followed in this situation.

- The contractual position was awarded to this individual in April 2014 without any recruitment and interview process. Region human resources personnel advised us that the contract was awarded based on the individual's previous

application and interview for a similar position. In February 2013, this individual (the family member) applied and interviewed for an administrative support contractual position at a different location within the Region, but was not awarded the position.

While the Department of Budget and Management's (DBM) *Guidelines for the Recruitment and Selection of Contractual Employees* allow for agencies to maintain a registry of previously qualified individuals for filling contractual positions, the *Guidelines* require that all individuals on the registry be notified when subsequent positions are available; however, this notification did not occur in this case. Furthermore, we noted that the family member awarded the April 2014 contract was equally ranked with another individual from the 2013 interview process who was not considered for this subsequent contract.

- The Region did not provide a justification for the contractual position and why the functions could not be performed by existing employees. The DPSCS' *Financial Operations Manual* requires that the recruitment and selection of contractual employees follow a competitive process and further requires that written justification be documented for hiring contractual employees and why those functions cannot be performed by existing employees.
- The management employee was recorded as the contract monitor on the contractual employee's contract. While another individual appeared to supervise this contractual employee's daily activities, this supervisor reported to the management employee. This relationship allowed the management employee to influence the contractual employee's working activities and conditions. Our review of the contractual employee's 14 timesheets for the period from April 9, 2014 through October 21, 2014 disclosed that the management employee approved two of these timesheets. Our review further disclosed five timesheets (including these two) in which the hours worked exceeded the maximum of 37 hours of work per week allowed by the employment contract. In total, the individual worked 30 hours over the maximum allowed by the employment contract during these five pay periods. The State Personnel and Pensions Article of the Annotated Code of Maryland stipulates that an employee may not directly supervise the employee's parent, spouse, sibling, or child.

Region executive management was not aware of this relationship until we brought the relationship to its attention. Effective October 7, 2014, after our inquiries, the Region transferred the contractual employee to a different unit within the Region, not under the supervision of the management employee, and the Region subsequently extended the employment contract through June 30, 2016. As of

May 19, 2015, the contractual employee's earnings totaled approximately \$28,000. Effective April 28, 2015, the management employee retired from State service.

Senior management personnel at the State Ethics Commission advised us that the aforementioned conditions could violate several conflict of interest provisions of the State Ethics Laws. The General Provisions Article of the Annotated Code of Maryland prohibits a State employee or official from participating in a matter in which a qualifying relative has an interest in the matter and the official or employee knows of the interest. The Ethics Laws further state that an employee may not use prestige of office for that employee's private gain or that of another. Any final decision related to violations of the State Ethics Laws would ultimately be determined by the State Ethics Commission.

Recommendation 4

We recommend that the Region

- a. immediately refer this matter to the State Ethics Commission and take appropriate action as directed by the Commission; and**
- b. in the future, comply with aforementioned State Ethics and Personnel Laws, DBM guidelines, and DPSCS policies.**

Payroll

Finding 5

Procedures and controls over overtime payments and leave recordkeeping need improvement in the Jessup Office.

Analysis

The Region had not established adequate procedures and controls over overtime payments and leave recordkeeping in the Jessup Office. During fiscal year 2014, the Jessup Office processed payroll totaling approximately \$268.6 million.

- Certain employees received payments for overtime even though the employees were ineligible based on their employment classifications. We judgmentally selected for testing 10 overtime payments totaling \$45,000 made during our audit period for propriety. Our test disclosed one instance in which an employee, who was in an employment classification that had not been approved as eligible to earn overtime by the Department of Budget and Management, was improperly paid \$3,540 in overtime. We then judgmentally selected for testing 10 additional overtime payments totaling \$14,450 made to employees whose employment classifications generally would not be considered as eligible for overtime. We noted that 9 of the 10 employees

were improperly paid \$12,810 in overtime. In total, 10 ineligible employees were paid \$16,350 in overtime during our audit period based on these limited tests.

We were advised that the improper overtime payments noted in our tests were generally the result of data entry errors, such as recording shift differential hours as overtime hours, and that the Region was in the process of recovering any resulting improper payments. While the Jessup Office had a process to review overtime calculations on a test basis, the review procedures did not include ensuring overtime payments were made only to eligible employees. According to the State's records, during calendar year 2013, the Jessup Office paid overtime totaling approximately \$18 million.

- The Jessup Office had not established procedures to ensure employee compensatory leave earned in lieu of cash overtime payments did not exceed maximum amounts allowed by the State's collective bargaining agreement. We reviewed leave balance reports generated from the Jessup Office automated leave system for January 2013 and January 2014 and selected 20 significant balances related to 15 employees. We noted 10 instances (related to 8 employees) where these compensatory leave balances exceeded maximum allowed amounts by a total of 2,080 hours (ranging from 64 to 648 hours). Region personnel advised us that they relied on automated leave system controls to prevent compensatory leave balances from exceeding the allowed maximums but agreed, based on our tests, that these controls were not in place for compensatory leave earned in lieu of cash overtime. The State's collective bargaining agreement for DPSCS employees stipulates that balances of accumulated compensatory leave earned in lieu of cash overtime be limited to a maximum of either 240 or 480 hours depending on the job classification. According to the Jessup Office records, compensatory leave earned in lieu of cash overtime balances totaled 25,432 hours, as of January 21, 2014.

Recommendation 5

We recommend that the Region

- a. enhance review procedures and guidance to ensure that overtime is only paid to eligible employees;**
- b. establish procedures, such as automated system controls, to ensure that compensatory leave balances earned in lieu of cash overtime payments do not exceed maximum amounts allowed; and**
- c. investigate the aforementioned excessive compensatory leave balances and ineligible overtime payments and take appropriate action, such as recovery of payments or reduction of leave balances.**

Audit Scope, Objectives, and Methodology

We have conducted a fiscal compliance audit of the Department of Public Safety and Correctional Services (DPSCS) – South Region. Because of a departmental reorganization (which is explained on page 7 of this report), our audit of the South Region included the activities of the following DPSCS units for these periods:

South Region – July 1, 2012 to June 30, 2014

Central Region Finance Office – August 22, 2011 to June 30, 2012

Eastern Shore Region – October 3, 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, cash receipts, payroll, inmate funds, and equipment. Our audit also included the financial activities (such as payroll processing, purchasing, maintaining inmate fund records, maintaining accounting records, and conducting related fiscal functions) of the Central Region's correctional facilities, the North Region's Patuxent Institution, certain financial activities of the Central Region's Chesapeake Detention Facility (maintenance of inmate fund records and processing federal reimbursement requests), and payroll support services for transportation staff of the Security Operations Unit under the Deputy Secretary for Operations. We also determined the status of the findings contained in our preceding audit reports for the DPSCS – Central Region Finance Office and the Eastern Shore Region.

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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STATE OF MARYLAND

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GOVERNOR

October 16, 2015

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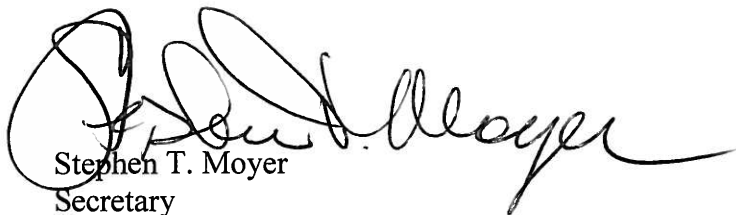
Dear Mr. Barnickel:

The Department of Public Safety and Correctional Services has reviewed the Draft Audit Report dated September 2015 for the DPSCS South Region for the period beginning July 1, 2012 and ending June 30, 2014. The Department appreciates the constructive findings and recommendations that were made as the result of this audit.

Please find below DOC Assistant Commissioner Dayena M. Corcoran's itemized responses to the Draft Audit Report findings. Ms. Corcoran and her 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,



Stephen T. Moyer
Secretary

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



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October 16, 2015

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 Webb, Acting Deputy Secretary, Operations
Department of Public Safety and Correctional Services
300 East Joppa Road, Suite 1000
Towson, Maryland 21286-3020

Dear Secretary Moyer:

Attached are the responses to the Draft Legislative Audit report dated September 30, 2015, covering the examination of the accounts and records of the following offices:

- South Region – July 1, 2012 to June 30, 2014
- Central Region Finance Office – August 22, 2011 to June 30, 2012
- Eastern Shore Region – October 3, 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 Jessup and Eastern Correctional Institution (ECI) Offices had not fully reconciled the inmate fund records with corresponding records maintained by the Comptroller of Maryland.

Recommendation 1:

We recommend that the Region

- work with DPSCS Office of the Secretary to obtain the needed reports from MOBSII;**
- on a timely basis, reconcile the aggregate balance of individual inmate accounts in MOBSII with the corresponding records of the Comptroller of Maryland, and investigate and resolve all differences (repeat); and**

- c. **consult with the Comptroller's General Accounting Division and the Department of Budget and Management as to the proper disposition of the aforementioned differences of \$182,000 related to the Jessup Office and \$64,000 related to the ECI Office if the differences cannot be resolved (repeat).**

We agree.

- a. The Region worked with the DPSCS Office of the Secretary to obtain the needed reports from MOBSII. The Region is currently utilizing the MOBS II reports to complete the MOBSII/FMIS reconciliation. *Anticipated Completion: Completed.*
- b. The Region will, on a monthly basis, reconcile the aggregate balance of individual inmate accounts in MOBSII with the corresponding records of the Comptroller of Maryland, and investigate and resolve all differences. *Anticipated Completion: Past due reconciliations will be completed by 04/30/16 and completed on monthly basis thereafter.*
- c. The Region has consulted with the Comptroller's General Accounting Division (GAD) and the Department of Budget and Management (DBM) as to the proper disposition of the aforementioned differences of \$182,000 related to the Jessup office and \$64,000 related to the ECI Office. As a result, the Region obtained approval to write off \$100,000 of the \$182,000 difference related to the Jessup office. The Office will continue to consult with GAD and DBM as to the proper disposition of the remaining \$82,000 difference in the Jessup office and the \$64,000 related to the ECI office. The Office will complete this as part of a Department-wide reconciliation of Inmate Funds for all regions. *Anticipated Completion: 06/30/16*

Finding 2:

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

Recommendation 2:

We recommend that the Region

- a. **ensure that transactions are independently reviewed, at least on a test basis, to provide assurance that transactions are posted to the proper inmate accounts;**
- 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 monthly inmate working fund reconciliations are prepared, reviewed, and approved timely.**

We agree.

- a. The Region will establish procedures to ensure that transactions are independently reviewed, at least on a test basis, to provide assurance that

transactions are posted to the proper inmate accounts. *Anticipated Completion: 02/29/16*

- b. The Region will work in conjunction with the 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. *Anticipated Completion: 02/29/16*
- c. The Region will ensure monthly inmate working fund reconciliations are prepared, reviewed, and approved timely. *Anticipated Completion: 02/29/16*

Finding 3:

The Region made frequent purchases of fresh produce primarily from two vendors without competitive bids and 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.

- a. The Region will work with the 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. *Anticipated Completion: 07/31/16*
- b. The Region will ensure that formal written contracts are executed and DGS approval is obtained, as needed. *Anticipated Completion: Effective immediately, the Region will obtain DGS approval, as required, for all future contracts.*

Finding 4:

A management employee was in a position to influence the Region's decision to hire an immediate family member as a contractual employee within the management employee's unit. Such actions could be a potential violation of State Ethics Laws. Furthermore, the Region did not comply with State Personnel Laws and hiring practices and DPSCS policies with respect to this hiring.

Recommendation 4:

We recommend that the Region

- a. **immediately refer this matter to the State Ethics Commission and take appropriate action as directed by the Commission; and**

- b. in the future, comply with aforementioned State Ethics and Personnel Laws, DBM guidelines, and DPSCS policies.

We agree.

- a. The Department referred this matter to the State Ethics Commission and took appropriate action as directed by the Commission. *Anticipated Completion: Completed.*
- b. In the future, the Region will comply with aforementioned State Ethics and Personnel Laws, DBM guidelines, and DPSCS policies. *Anticipated Completion: Effective immediately and ongoing.*

Finding 5:

Procedures and controls over overtime payments and leave recordkeeping need improvement in the Jessup Office.

Recommendation 5:

We recommend that the Region

- a. enhance review procedures and guidance to ensure that overtime is only paid to eligible employees;
- b. establish procedures, such as automated system controls, to ensure that compensatory leave balances earned in lieu of cash overtime payments do not exceed maximum amounts allowed; and
- c. investigate the aforementioned excessive compensatory leave balances and ineligible overtime payments and take appropriate action, such as recovery of payments or reduction of leave balances.

We agree.

- a. The Region will enhance review procedures and guidance to ensure that overtime is only paid to eligible employees. *Anticipated Completion: Manual procedures are in place. Automated controls will be established with the implementation of Workday by 4/30/16.*
- b. The Region will establish procedures, such as automated system controls, to ensure that compensatory leave balances earned in lieu of cash overtime payments do not exceed maximum amounts allowed. *Anticipated Completion: Manual procedures are in place. Automated controls will be established by 4/30/16.*
- c. The Region investigated the aforementioned excessive compensatory leave balances and ineligible overtime payments and took appropriate action. *Anticipated Completion: Completed.*

Sincerely Yours,



Dayena Corcoran
Assistant Commissioner, East Region



cc: William Stewart, Deputy Secretary, Administration
Steven F. Geppi, Director, Secretary's Office of Investigation,
Intelligence and Fugitive Apprehension
Joseph M. Perry, Inspector General
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