

Audit Report

**Comptroller of Maryland
General Accounting Division**

July 2016



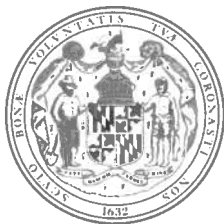
OFFICE OF LEGISLATIVE AUDITS
DEPARTMENT OF LEGISLATIVE SERVICES
MARYLAND GENERAL ASSEMBLY

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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

July 11, 2016

Senator Guy J. Guzzone, Co-Chair, Joint Audit Committee
Delegate C. William Frick, Co-Chair, Joint Audit Committee
Members of Joint Audit Committee
Annapolis, Maryland

Ladies and Gentlemen:

We have conducted a fiscal compliance audit of the Comptroller of Maryland – General Accounting Division (GAD) for the period beginning October 12, 2011 and ending June 30, 2015. GAD is responsible for maintaining the State's accounting records, processing vendor invoice payments, and distributing checks prepared by the State Treasurer's Office.

Our audit disclosed that GAD did not effectively account for and monitor State agency cash advances and related working fund accounts. For example, GAD did not have a complete list of State agency working fund accounts and did not always follow up with State agencies that reported cash advance balances that differed from the State's record of the cash advance amounts. As of December 31, 2014, outstanding advances totaling \$11.8 million had been issued to 103 State entities.

The Comptroller of Maryland's response to this audit, on behalf of GAD, is included as an appendix to this report. We wish to acknowledge the cooperation extended to us during our audit by GAD.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "TJ Barnickel III".

Thomas J. Barnickel III, CPA
Legislative Auditor

Background Information

Agency Responsibilities

The General Accounting Division (GAD), which is a unit of the Comptroller of Maryland, is primarily responsible for maintaining the State's accounting records, centrally processing vendor invoice payments, and distributing checks prepared by the State Treasurer's Office. GAD administers the State's corporate purchasing card system and prepares the State's annual financial statements. According to the State's accounting records, GAD's expenditures totaled approximately \$5.3 million during fiscal year 2015.

Audit of the State's Financial Statements

An independent accounting firm is engaged by the Comptroller of Maryland for the purpose of expressing an opinion on the State's annual financial statements. In the related audit reports for fiscal years ended June 30, 2012, 2013, 2014, and 2015, the firm stated that the State's financial statements presented fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Status of Findings From Preceding Audit Reports

Our audit included a review to determine the status of the two findings contained in our performance audit report dated March 26, 2014 regarding additional transaction review techniques that could be used to improve the integrity of the State Corporate Purchasing Card Program. We determined that GAD satisfactorily addressed both of these findings.

Our preceding fiscal compliance audit report dated July 27, 2012 did not contain any findings.

Findings and Recommendations

State Agency Cash Advances

Background

According to State law, the General Accounting Division (GAD) is responsible for approving and issuing cash advances to State agencies to facilitate the establishment of State-approved working fund bank accounts and petty cash funds (collectively referred to as bank accounts) that may be used for expedited payments and other purposes. These cash advances are recorded in the State's Financial Management Information System (FMIS) which, as of December 31, 2014, reflected that GAD had issued 171 advances totaling approximately \$11.8 million to 103 State agencies and/or divisions. During our review, we identified 164 bank accounts or petty cash funds that had been established related to these working fund advances.

Finding 1

GAD did not effectively account for and monitor agency cash advances and related working fund bank accounts. As of December 31, 2014, GAD had issued 171 advances totaling approximately \$11.8 million to 103 State agencies.

Analysis

GAD did not sufficiently account for and monitor agency cash advances and related working fund bank accounts. Our review, as of August 31, 2015, disclosed that GAD's oversight efforts for calendar year ending 2014 activity were generally ineffective. On an annual basis, agencies are required to submit to GAD a report for each working fund bank account that includes a bank reconciliation and an accounting for each cash advance (including petty cash funds if applicable). However, GAD did not maintain a complete master list of working fund bank accounts and cash advances for monitoring purposes, did not follow up with agencies that did not submit required reports, and did not follow up with agencies that, in their reports, accounted for advance amounts that differed from the actual cash advances. Furthermore, GAD did not request supporting documentation when bank account reconciliations included significant reconciling items and adjustments.

- GAD's master list of working fund bank accounts was not complete. We compared GAD's master list with the agency reports it received and identified 24 bank accounts that were not included in GAD's master list. For example, 16 bank accounts were not included in GAD's master list for agencies that had

allocated their advances into more than one bank account. The related cash advances totaled \$1.3 million for these 24 bank accounts.

- GAD did not ensure all agency reports were received. As of August 31, 2015, GAD had not received 2014 reports for 11 bank accounts that were included in its master list and did not take any follow-up action with the agencies to obtain the reports. For an additional 9 bank accounts, GAD had recorded on its master list that the agencies had accounted for the full cash advances, but could not provide us with the agency reports.
- GAD's master list of working fund bank accounts did not evidence effective oversight of the cash advances. We noted 11 instances in which GAD's master list did not accurately reflect the amount of the cash advances the agencies had accounted for in their 2014 reports. As a result, GAD did not identify 5 instances in which the cash advances the agencies had accounted for differed from the actual cash advances. For example, for one agency with a cash advance of \$1,125,872, the agency had accounted for funds totaling \$1,425,872, but GAD did not note this difference for follow-up purposes.
- GAD did not require agencies to submit supporting documentation to substantiate the propriety of significant bank account reconciling items (such as outstanding checks) and other adjustments (such as unreimbursed expenses) reflected on reports submitted. Our review of 14 reports submitted by 6 agencies, with advances totaling \$1.8 million, disclosed 4 reports that reflected large reconciling items and adjustments totaling \$904,000, including one adjustment labeled as "other" for \$165,000. Although the reports fully accounted for the related advances, without a review of supporting documentation for large adjustments, GAD cannot ensure that agencies are properly accounting for cash advances.

We reviewed all agency reports submitted for calendar year 2014 activity and identified differences between the cash advances agencies had accounted for and the cash advances recorded in FMIS for 45 agencies; these differences, in the aggregate, totaled \$966,800. Although, according to its master list, GAD identified differences for 31 of these agencies, it only took action to address these differences for 4 agencies whose differences totaled \$24,506. For example, in one instance, GAD requested the agency to return the excess funds to the State's General Fund. For the remaining 14 agencies, GAD had not identified the differences and, therefore, had not taken any follow-up action.

We were informed that GAD management became aware of some of these deficiencies in the fall of 2014 and initiated a thorough review of all working fund accounts and that, as of February 2016, all working fund bank accounts and cash advances have been accounted for, reconciled, and reviewed.

Recommendation 1

We recommend that GAD

- a. maintain a complete master list of State agency working fund bank accounts and cash advances, including agencies' accountings for cash advance amounts;**
- b. ensure agencies submit annual reports of all working fund bank accounts and related cash advances as required; and**
- c. thoroughly review all agency reports, take appropriate action for differences in cash advances identified and, at least on a test basis, require agencies to submit supporting documentation for significant reconciling items and adjustments.**

Audit Scope, Objectives, and Methodology

We have conducted a fiscal compliance audit of the Comptroller of Maryland – General Accounting Division (GAD) for the period beginning October 12, 2011 and ending June 30, 2015. The audit was conducted in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

As prescribed by the State Government Article, Section 2-1221 of the Annotated Code of Maryland, the objectives of this audit were to examine GAD'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 State agency vendor payment processing, vendor table maintenance, State agency cash advances and working funds, and the corporate purchasing card program. We also determined the status of the two findings contained in our preceding performance audit report on the State Corporate Purchasing Card Program dated March 26, 2014.

Our audit did not include certain support services provided to GAD by the Comptroller of Maryland – Office of the Comptroller. These support services (such as processing of invoices for GAD’s operating expenses, maintenance of accounting records, and related fiscal functions) are included in the scope of our audits of the Office of the Comptroller. Our audit also did not include certain other support services provided to GAD by the Comptroller of Maryland – Information Technology Division related to the procurement and monitoring of information technology equipment and services. These support services are included in the scope of our audits of the Information Technology Division.

To accomplish our objectives, our audit procedures included inquiries of appropriate personnel, inspections of documents and records, observations of GAD’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), 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.

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

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

APPENDIX



Peter Franchot
Comptroller

Sharonne R. Bonardi
Deputy Comptroller

June 6, 2016

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

Dear Mr. Barnickel:

Enclosed is the Comptroller's response to your report on the General Accounting Division for the period beginning October 12, 2011 and ending June 30, 2015.

We have carefully reviewed the finding, and we believe that our response fully address each recommendation contained in the report.

The Comptroller appreciates your objective appraisal of our operations and your recommendations for continuous improvements, and commends your auditors for their professionalism and thorough review.

Very truly yours,

Sharonne R. Bonardi
Deputy Comptroller

Sandra L. Zinck
Director, General Accounting Division

cc: Honorable Peter Franchot, Comptroller

Comptroller of Maryland
General Accounting Division
Audit Responses
Report Period October 12, 2011 – June 30, 2015

Finding 1

GAD did not effectively account for and monitor agency cash advances and related working fund bank accounts. As of December 31, 2014, GAD had issued 171 advances totaling approximately \$11.8 million to 103 state agencies.

Recommendation 1:

We recommend that GAD

- a. Maintain a complete master list of State agency working fund bank accounts and cash advances, including agencies' accountings for cash advance amounts;
- b. Ensure agencies submit annual reports of all working fund bank accounts and related cash advances as required; and
- c. Thoroughly review all agency reports, take appropriate action for differences in cash advances identified and, at least on a test basis, require agencies to submit supporting documentation for significant reconciling items and adjustments.

GAD RESPONSE:

We accept the recommendations of the Office of Legislative Audit (OLA) and appreciate the guidance provided to the Division. However, as a result of our own internal assessment, the General Accounting Division's newly appointed Management team was aware of this issue and was in the process of implementing changes to the working fund review process, as outlined in the following paragraph, prior to the arrival of OLA. Implemented changes include the development of a formal accounting review process and detailed worksheets to assist with the reconciliation process.

The newly developed work sheets ensure that:

- All Working Fund accounts are identified and tracked on a comprehensive master list
- Agency reconciliations are submitted to the General Accounting Division
- Reconciliation support is reviewed by GAD staff for reasonableness and adherence to established policies
- Agency fund balance is in agreement with the general ledger and State Treasury records, where applicable, with all differences investigated for appropriate follow-up action.

Formal accounting review processes were implemented to reconcile Working and have been applied to the 2014 and 2015 annual review periods. They will be utilized for all future periods. The Annual Working Fund Reconciliation process includes standardized accounting procedures, forms for agency reconciliation, and job aids to ensure appropriate accounting and monitoring.

The Division's implementation of these revised procedures, along with the recommendations set forth by Office of Legislative Audits, will further enhance controls surrounding Working Fund Balances.

A. GAD RESPONSE: The State's accounting system, Financial Management Information System (FMIS), is the system of record to track agencies' accounting for cash working fund advances. The Division, after review of internal documentation, concludes that the 2014 Working Fund balances in FMIS are correctly stated in all material respects.

It should be noted that we do not disagree and, in fact, do maintain subsidiary work papers of State agency working fund bank accounts and cash advances, including agencies' accountings for cash advance amounts.

We acknowledge that several subsidiary records did contain certain reconciling errors. It is the Division's position that the errors were immaterial. OLA issued this recommendation based on the subsidiary records; whereas, GAD is asserting the completeness based on FMIS records.

OLA noted that 24 bank accounts, approximating \$1.3M, were not included on the subsidiary record master list in 2014. The Division's review determined that:

- 1 agency provided a reconciliation incorrectly stating their routing number as their bank account within the documentation which did not agree to our master listing. The master listing only includes bank account numbers. This is a documentation error per the agency reconciliation. The \$2.7k was appropriately accounted for and reconciled.
- 23 of the 24 accounts were aggregated on the master list under their respective agency rather than listed separately and therefore covered in the Division's review. OLA's documentation preference is to list each account separately. The Division's approach was to group advances in total by agency. These 23 bank accounts, reconciled in aggregate by GAD, totaled \$1.31M.

For 2014, working fund accounts were validated and agreed to FMIS, the state's accounting system, and TBAIS, the state's Treasury system of record, to be certain that all accounts were identified for review.

B. GAD RESPONSE: The Division agrees with the audit recommendation to ensure agencies submit annual reports of all working fund bank accounts and related cash advances as required. Of the 164 identified bank accounts for 2014, 159 agency reports or 97% were received.

OLA noted in their review that 11 bank accounts were included on the subsidiary record master list, and the Division did not take any follow-up action with the agencies to obtain the reports. Additionally, OLA cited that 9 accounts were on the master list but that GAD did not provide OLA with the agency reports. The Division's review of these 20 bank accounts determined that:

- 14 bank accounts were misfiled; however, they were received from the agencies. These reconciliations support their respective Working Fund account balances.
- 1 agency account was closed prior to 12.31.14 and therefore the 2014 reconciliation was not required.
- 3 reconciliations were not received as the agencies wrote off the balances totaling \$599.55.
- 2 reconciliations were not sent to GAD although repeated requests were made.

C. GAD RESPONSE: The Division agrees with the recommendation to thoroughly review all agency reports, take appropriate action for differences in cash advances identified and, at least on a test basis, require agencies to submit supporting documentation for significant reconciling items and adjustments.

The Division notes that OLA identified 11 instances in which GAD's master list did not accurately reflect the amount of the cash advances that agencies had accounted for in their 2014 reports. OLA reported 5 instances in which the cash advances the agencies had accounted for differed from the actual advances. The Division's analysis resulted in the following findings:

- 8 agency accounts had no differences between the agency records and FMIS. For each of these, agencies had distributed Working Funds across multiple bank accounts.
- The Division found a nominal discrepancy in 3 agency accounts with a collective difference of \$3,440.

OLA notes in their analysis that one agency with a cash advance of \$1,125,872 accounted for funds totaling \$1,425,872 with no follow-up from the Division regarding the difference. The Division's review of the data determined this difference was not identified for follow-up as there was no difference. The agency had comingled \$300,000 of other internal (non-working fund) money, not advanced by the Comptroller, into one account and reported it within their annual reconciliation. As such, the agency reconciliation, excluding the comingled funds, agreed to the working fund balance per FMIS. GAD has updated the Accounting Procedures Manual [Section 3.13] to ensure that agency bank accounts containing Comptroller issued working funds contain only funds relating to such advance(s).

OLA noted in their review that 4 reports reflected large reconciling items and adjustments totaling \$904,000, including one adjustment labeled as 'other' for \$165,000 was not researched by GAD. The Division notes per review of the documentation:

- The \$904,000 in "large reconciling items and adjustments" represents normal routine reconciling items, such as outstanding checks and advances, found within routine bank reconciliations. Of the 4 reports noted with such reconciling items, 4 had supporting documentation attached, totaling \$904,000, which was reviewed by GAD.
- The \$165,000 reconciling item noted for this one agency is supported by documentation in the GAD Working Fund binder.

OLA calculated differences for 45 agencies which, in the aggregate, total \$966,800 (8% of the total Working Fund account balance). Per review of the Division's records, differences existed

for 27 agencies totaling \$113,600 (1% of the total Working Fund account balance). The variance between the two findings is explained by the following subset of significant items:

- 15 agencies, aggregating \$515,002, were not reviewed by OLA due to misfiled GAD support. These reconciliations were reconciled to the FMIS balance.
- One agency comingled \$300,000 of other internal (non-working fund) money not advanced by the Comptroller into one account. Excluding these non-related funds, the account reconciled to the FMIS balance.
- One agency provided duplicative reconciliations totaling \$30,000. Removing the duplicative support, the agency working fund balances agree to the FMIS records.

As we have stated, GAD had identified this reconciliation issue related to Working Funds prior to OLA's arrival. Leadership and process changes have been implemented by the Division to ensure the agency Working Fund balances are effectively accounted for and monitored. With these enhanced procedures, GAD is confident that this issue has been resolved and will not reoccur in the future.

AUDIT TEAM

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