

Audit Report

Maryland School for the Deaf

December 2015



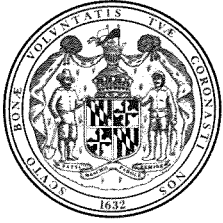
OFFICE OF LEGISLATIVE AUDITS
DEPARTMENT OF LEGISLATIVE SERVICES
MARYLAND GENERAL ASSEMBLY

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DEPARTMENT OF LEGISLATIVE SERVICES
OFFICE OF LEGISLATIVE AUDITS
MARYLAND GENERAL ASSEMBLY

Warren G. Deschenaux
Executive Director

December 11, 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 Maryland School for the Deaf (MSD) for the period beginning August 9, 2011 and ending March 30, 2015. MSD provides a comprehensive educational program for school-age deaf students and operates two campuses, in Frederick and Columbia, Maryland.

Our audit disclosed that MSD had not established an adequate supervisory review of corporate purchasing card transactions. We also noted control and recordkeeping deficiencies over equipment inventory, including the lack of annual physical inventories for sensitive equipment, inadequate separation of duties over recordkeeping, and the failure to record all equipment acquisitions in the detail records.

MSD's response to this audit is included as an appendix to this report. We wish to acknowledge the cooperation extended to us during the course of this audit by MSD.

Respectfully submitted,

Thomas J. Barnickel III, CPA
Legislative Auditor

Background Information

Agency Responsibilities

The Maryland School for the Deaf (MSD) provides a comprehensive educational program for school-age deaf students. MSD only charges tuition to non-State residents. MSD also provides a family education/early intervention program, through cooperative agreements with local health departments, that involves working with young deaf children and their families in the development of early language skills. MSD, with campuses located in Frederick and Columbia, is governed by a 19-member Board of Trustees appointed by the Governor. According to State records, as of June 2014, 507 students were enrolled in MSD, and expenditures totaled approximately \$33 million during fiscal year 2014.

Findings and Recommendations

Corporate Purchasing Cards

Finding 1

Corporate purchasing card transactions were not always reviewed and approved by appropriate supervisory personnel and documentation was lacking for a certain aspect of the new card issuance process.

Analysis

MSD lacked adequate controls over its corporate purchasing cards (CPC). During fiscal year 2014, expenditures charged to 10 corporate purchasing cards totaled \$270,716. Specifically, we found that monthly CPC activity logs and the related purchasing cardholder statements from the bank were not approved as required. Our review of 11 activity logs prepared during the period from April 2013 through January 2015 with charges totaling approximately \$76,000, disclosed that in each case the completion of the required review and approval of the logs and/or statements by the appropriate supervisory official was not properly documented. For example, although in many cases there was some indication of a review, 10 of the 11 activity logs were not signed by the supervisor designated on the CPC Program Authorized Reviewer Agreement on file as accepting responsibility for the cardholder's purchase activity. By accepting responsibility, the designated supervisor can face disciplinary actions for the failure to follow established procedures, including reimbursement of unauthorized purchases made by the cardholder. MSD management advised that it had not updated the reviewer agreements to reflect current supervisory relationships to cardholders.

Consequently, proper accountability had not been established over the review and verification of CPC purchases. Our review of CPC procedures and controls also found that MSD did not document the identity of the employee responsible for receiving new cards from the issuing bank, to ensure an adequate segregation of duties.

The Comptroller of Maryland's *Corporate Purchasing Card Program Policy and Procedures Manual* requires that cardholder activity logs and monthly statements be reviewed and approved by the cardholder's authorized reviewer to ensure that CPC charges are appropriate and for the benefit of the State. The *Manual* also requires that the individual who is to receive the CPC must be independent of the requester.

Recommendation 1

We recommend that MSD comply with the requirements of the *Corporate Purchasing Card Program Policy and Procedures Manual* by ensuring

- a. the appropriate supervisory review and approval of purchasing card activity logs and the related monthly cardholder statements be documented;**
- b. that CPC Program Authorized Reviewer Agreements be kept current; and**
- c. that the employee who receives the new cards from the bank be independent of the requestor, and that this receipt process be documented.**

We advised MSD on accomplishing the necessary separation of duties using existing personnel.

Equipment

Finding 2

MSD did not accurately maintain detail records and properly account for all of its equipment.

Analysis

MSD did not adequately control its equipment and properly maintain the related records in accordance with the Department of General Services' (DGS) *Inventory Control Manual*. According to MSD records, its equipment inventory as of June 30, 2014 totaled approximately \$6.7 million.

- Physical inventories of sensitive equipment were not completed annually as required. As of April 2015, a physical inventory of sensitive equipment had not been completed since 2012 and MSD detailed records valued sensitive equipment at approximately \$2.3 million.
- There was an inadequate separation of duties, as the same employee maintained both the equipment control account and related detailed equipment records, and was responsible for performing physical inventories of equipment.
- Although MSD management advised us that periodic reconciliations of the control account to the detailed records were conducted throughout the audit period, the completion of the reconciliations was not documented.
- Equipment acquisitions were not always recorded in the detail records, as required. Our initial test of 5 equipment acquisitions disclosed one item that had not been recorded in the detail records. Upon inquiry, we were advised that this item related to a cafeteria building completed in 2011. We selected an additional 22 equipment acquisitions related to the cafeteria and found that none had been recorded in the detail records, although the equipment had been purchased approximately 4 years earlier. The 23 items were valued at approximately \$21,000.

DGS' *Inventory Control Manual* requires that a physical inventory of sensitive equipment be taken annually. The *Manual* also requires that the equipment control account be maintained by someone who does not maintain the detail records and that the aggregate balance of the detail records be periodically reconciled to the control account balance, at least quarterly. Finally, the *Manual* requires that equipment detail records be properly maintained on a current basis, and that all capital equipment is included in the detail records.

Recommendation 2

We recommend MSD comply with the applicable requirements of DGS' *Inventory Control Manual*. We advised MSD on accomplishing the necessary separation of duties using existing personnel.

Audit Scope, Objectives, and Methodology

We have conducted a fiscal compliance audit of the Maryland School for the Deaf (MSD) for the period beginning August 9, 2011 and ending March 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 MSD'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, corporate purchasing cards, and equipment.

To accomplish our audit objectives, our audit procedures included inquiries of appropriate personnel, inspections of documents and records, observations of MSD'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.

MSD'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 related to conditions that we consider to be significant deficiencies in the design or operation of internal control that could adversely affect MSD'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 MSD that did not warrant inclusion in this report.

MSD's response 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 MSD regarding the results of our review of its response.

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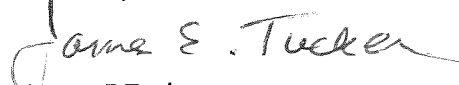
December 8, 2015

Thomas J. Barnickel III, CPA
Legislative Auditor
State of Maryland
Office of Legislative Audits
300 West Preston Street, Room 1202
Baltimore, Maryland 21201

Dear Mr. Barnickel,

Enclosed please find the School's responses to the Legislative Auditor's report for the period August 9, 2011 and ending March 30, 2015. If you have any questions please contact Suzanne Schwertman at 301-360-2010.

Sincerely,


James E Tucker
Superintendent

Enclosures

Cc: David Martin, President, MSD Board of Trustees
Suzanne Schwertman, Chief Operating Officer, MSD

Maryland School for the Deaf
Response to Legislative Audit Report
August 9, 2011 and ending March 30, 2015

Finding 1

Corporate Purchasing Cards

Corporate purchasing card transactions were not always reviewed and approved by appropriate supervisory personnel and documentation was lacking for a certain aspect of the new card issuance process.

Recommendation 1

We recommend that MSD comply with the requirements of the Corporate Purchasing Card Program Policy and Procedures Manual by ensuring

- a. the appropriate supervisory review and approval of purchasing card activity logs and the related monthly cardholder statements be documented;
- b. that CPC Program Authorized Reviewer Agreements be kept current; and
- c. that the employee who receives the new cards from the bank be independent of the requestor, and that this receipt process be documented.

MSD Response:

MSD concurs. All findings have been addressed and implemented.

- a. MSD is verifying that all monthly statements and activity logs are signed on each page as required.
- b. MSD has updated the Supervisory Review forms to document the changes in supervisors for card holders. The PCPA will insure that documentation stays current.
- c. MSD is now documenting that the employee who has been receiving the new cards from the bank is independent of the requester.

Finding 2

Equipment

MSD did not accurately maintain detail records and properly account for all of its equipment.

Recommendation 2

We recommend MSD comply with the applicable requirements of DGS' *Inventory Control Manual*. We advised MSD on accomplishing the necessary separation of duties using existing personnel.

MSD Response:

MSD concurs. MSD will make sure physical inventories are completed and reconciled per DGS' *Inventory Control Manual*. A full physical inventory will be completed during the School's summer break. The

reconciliation to the control account will be completed quarterly. Though the separation of duties blurred with the change in staff, separation of duties will be enforced moving forward.

AUDIT TEAM

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