

Audit Report

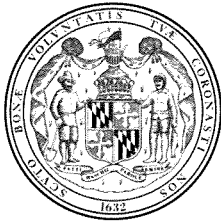
**Department of Public Safety and Correctional Services
Hagerstown Region**

January 2013



OFFICE OF LEGISLATIVE AUDITS
DEPARTMENT OF LEGISLATIVE SERVICES
MARYLAND GENERAL ASSEMBLY

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Karl S. Aro
Executive Director

DEPARTMENT OF LEGISLATIVE SERVICES
OFFICE OF LEGISLATIVE AUDITS
MARYLAND GENERAL ASSEMBLY

January 7, 2013

Thomas J. Barnickel III, CPA
Legislative Auditor

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

Ladies and Gentlemen:

We have audited the Department of Public Safety and Correctional Services (DPSCS) – Hagerstown Region for the period beginning July 1, 2009 and ending June 3, 2012. The Region consists of the Maryland Correctional Institution – Hagerstown, the Maryland Correctional Training Center, and the Roxbury Correctional Institution. These institutions are medium security facilities for adult male offenders. As a result of a Department-wide reorganization, the Hagerstown Region ceased to exist as a separate budgetary unit, effective October 2012, and the Region's institutions and functions are now budgeted under the newly established North Region.

Our audit disclosed several internal control and record keeping deficiencies relating to the Region's inmate funds, payroll, and corporate purchasing card transactions.

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

Respectfully submitted,

Thomas J. Barnickel III, CPA
Legislative Auditor

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Background Information

Agency Responsibilities

Prior to a Department-wide reorganization discussed below, the Hagerstown Region was a separate budgetary unit within the Department of Public Safety and Correctional Services (DPSCS), consisting of the Maryland Correctional Institution – Hagerstown, the Maryland Correctional Training Center, and the Roxbury Correctional Institution. These institutions are medium security facilities for adult male offenders. As of June 30, 2012, the Region had a total population of 6,135 inmates and its fiscal year 2012 appropriation provided for 1,613 employee positions, including 1,229 correctional officers. According to the State's records, total Region expenditures were approximately \$189.4 million during fiscal year 2012.

Reorganization

In fiscal year 2012, DPSCS initiated a Department-wide reorganization to establish three regions within the State (North, Central, and South) for the purpose of creating a regional approach to providing essentially all inmate-related functions, such as incarceration, probation, parole, and reentry into society. Through the reorganization, DPSCS is seeking to keep inmates in one region as they move within the DPSCS system. The reorganization is also meant to find efficiencies, and to improve inmate reentry into society. While the reorganization was initiated in fiscal year 2012, for budgetary purposes, the reorganization was implemented via budget amendment in October 2012.

Accordingly, effective October 2012, the Hagerstown Region ceased to exist as a separate budgetary unit. The Region's institutions and functions are now budgeted under the newly established North Region and, in the future, these activities will be included in other DPSCS audits.

Findings and Recommendations

Inmate Funds

Finding 1

The Region lacked accountability and control over inmate cash receipts.

Analysis

Collections received for inmates, which constituted the majority of the Region's cash receipts, were not adequately accounted for and controlled. According to the State's records, during fiscal year 2012, inmate collections totaled approximately \$4.8 million. These collections were received primarily through the mail and in person from inmates on work release (paychecks). Collections received in the mail were recorded on automated cash receipts logs, which generated a numbered receipt for the inmate. Collections from work release inmates were recorded on separate manually prepared prenumbered receipt forms. Our review disclosed the following conditions:

- The employee responsible for verifying recorded mail collections to deposit had access to the collections and, at times, made the deposits. Additionally, this employee verified the deposits using cash receipts logs obtained from the employees who regularly prepared the deposits, rather than using copies of the logs obtained directly from the staff who initially recorded the collections. Accordingly, funds could be lost or misappropriated without detection. Furthermore, our test of 17 deposits, totaling approximately \$113,000, disclosed that the verifications were performed 7 to 112 business days after deposit.
- There was no procedure to ensure the numerical sequence of receipt numbers recorded on the cash receipts logs. Although these numbers were automatically recorded on the logs as collections were recorded, the mailroom employees in all three Region institutions had necessary system access that would allow them to alter or delete the data, including the receipt numbers. It is important to verify the numerical sequence of recorded receipt numbers as part of the deposit verification process to help detect any misappropriation of cash receipts.
- Collections recorded on prenumbered receipt forms used for work release collections were not verified to deposit. In addition, the forms were not periodically accounted for as to issued, voided, or on hand, and the employee who received collections and prepared the receipt forms also maintained the

inventory of unused forms. Accordingly, this employee was in a position to conceal a misappropriation of funds.

The Department of Public Safety and Correctional Services (DPSCS) written procedures require that employees who verify collections to deposit not have access to those collections, and that the initial record of collections be verified to validated bank documentation on a daily basis. Those procedures also provide for the proper maintenance of and accounting for receipt forms issued.

Recommendation 1

We recommend that DPSCS

- a. ensure that an employee independent of the cash receipts processing functions verifies the deposit of all collections on a daily basis;**
- b. ensure that documentation used to initially record collections (that is, the logs and the prenumbered receipt forms) is given directly to the independent employee responsible for performing the deposit verifications; and**
- c. properly account for receipt forms as to issued, voided, or on-hand and ensure that the inventory of receipt forms is maintained by an employee without access to cash receipts.**

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

Finding 2

The Region lacked certain critical controls for ensuring the propriety of inmate working fund transactions and records.

Analysis

The Region lacked certain critical controls for ensuring the propriety of inmate working fund transactions and records. The inmate working fund was established through an advance from the Comptroller of Maryland and consists of certain invested funds, funds on deposit in a checking account, as well as petty cash on hand. The working fund is used to disburse funds belonging to inmates and is replenished from collections deposited in the State's account on behalf of the inmates. According to the State's records, during fiscal year 2012, working fund disbursements totaled approximately \$1.7 million. We noted the following conditions:

- One of the two employees who regularly signed (with a signature stamp) working fund checks did not examine the related supporting documentation, such as an inmate withdrawal voucher, prior to approving and signing the

checks. Furthermore, this signature stamp was left unsecure, and as a result, several employees who were not authorized to sign checks had access to blank checks and the signature stamp.

- Although supervisory personnel reviewed and initialed bank reconciliations prepared for the working fund, this review did not include a verification of critical data, such as reconciling items, for propriety. The Region's March 2012 reconciliation included reconciling items totaling approximately \$284,000. Based on our review of the March 2012 reconciliation, we noted that reconciling items appeared proper.
- Working fund composition statements, which provide an accounting for all working funds advanced to the Region by the Comptroller, were not prepared monthly as required. At the time of our review in July 2012, only one composition (March 2012) had been completed since February 2011. This March 2012 composition accounted for the entire \$175,000 advance from the Comptroller.

Under these conditions, errors or other irregularities could occur without timely detection. The DPSCS written procedures include specific requirements for preparing and reviewing inmate working fund transactions and records, including restrictions on who may perform those functions and the required time frames for completion.

Recommendation 2

We recommend that DPSCS

- a. ensure that employees responsible for approving working fund disbursements review supporting documentation prior to approval;**
- b. adequately secure blank checks and signature stamps, and limit access to employees who need access;**
- c. ensure that the supervisory review of bank reconciliations includes a verification of critical data, including reconciling items; and**
- d. prepare fund compositions for the working fund on a monthly basis as required.**

Payroll

Finding 3

Controls over critical adjustments to the Region's payroll were not sufficient.

Analysis

The Region's procedures for verifying the propriety of payroll adjustments were not sufficient, and adjustments for overtime worked were not always supported by required documentation. As a result, there was a lack of assurance that critical adjustments, such as payments for overtime and payments to former employees for accumulated leave, were proper.

The employee responsible for approving automated time reports submitted to the Comptroller of Maryland's Central Payroll Bureau for processing did not review supporting documentation for payroll adjustments included on the reports.

Rather, after the payroll was processed, an employee independent from the payroll process verified the propriety of the payroll payments on a test basis. However, this review was not adequate because it included only six randomly selected employees for each pay period, and selections were made without regard to whether adjustments had been recorded for the employees. According to the State's records, during fiscal year 2012, the Region had 1,613 authorized positions.

Our test of 10 overtime adjustments for 785 hours, totaling approximately \$28,000, disclosed that some of the overtime hours were not documented for 9 of the adjustments. Specifically, 307 hours totaling \$11,000 were not supported by approved documentation, such as the overtime verification form required by DPSCS' written procedures. According to the State's records, during fiscal year 2012, DPSCS' payroll expenditures totaled approximately \$118.6 million and adjustments to payroll totaled approximately \$7.3 million, including \$6 million for overtime.

Recommendation 3

We recommend that DPSCS

- a. ensure that critical payroll adjustments are selected for review and verified to supporting documentation, at least on a test basis;**
- b. increase the number of employee payroll payments verified each pay period based on an evaluation of significance and risk; and**
- c. ensure that overtime payments are made only if the required documentation is completed and submitted as required.**

Corporate Purchasing Cards

Finding 4

Corporate purchasing card transactions were not verified for propriety as required.

Analysis

Corporate purchasing card (CPC) transactions were not verified as required. Although supervisory personnel approved cardholder activity logs of purchases made, they did so without reviewing the required supporting documentation for those purchases, such as itemized receipts and invoices. Consequently, unauthorized purchases could be made without detection. According to the State's accounting records, CPC expenditures totaled approximately \$2.6 million during fiscal year 2012. There were 21 cards issued to Region employees.

The Department of Budget and Management's *Corporate Purchasing Card Procedures Manual* requires the cardholder's supervisor to review for propriety all card transactions by examining the related documentation, including receipts and invoices. The DPSCS written procedures call for a similar verification of purchases made.

Recommendation 4

We recommend that DPSCS ensure that all documentation supporting CPC transactions is reviewed by supervisory personnel as required.

Audit Scope, Objectives, and Methodology

We have audited the Department of Public Safety and Correctional Services (DPSCS) – Hagerstown Region for the period beginning July 1, 2009 and ending June 3, 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 the 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 materiality and risk. The areas addressed by the audit included procurements and disbursements, corporate purchasing cards, payroll, and inmate funds. Our audit procedures included inquiries of appropriate personnel, inspections of documents and records, and observations of the Region's operations. We also tested transactions and performed other auditing procedures that we considered necessary to achieve our objectives. Data provided in this report for background or informational purposes were deemed reasonable, but were not independently verified.

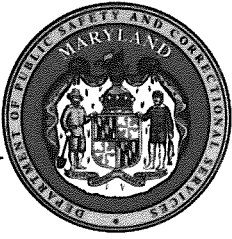
The Region's management is responsible for establishing and maintaining effective internal control. Internal control is a process designed to provide reasonable assurance that objectives pertaining to the reliability of financial records, effectiveness and efficiency of operations including safeguarding of assets, and compliance with applicable laws, rules, and regulations are achieved.

Because of inherent limitations in internal control, errors or fraud may nevertheless occur and not be detected. Also, projections of any evaluation of internal control to future periods are subject to the risk that conditions may change or compliance with policies and procedures may deteriorate.

Our reports are designed to assist the Maryland General Assembly in exercising its legislative oversight function and to provide constructive recommendations for improving State operations. As a result, our reports generally do not address activities we reviewed that are functioning properly.

This report includes 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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December 20, 2012

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SUNDRY CLAIMS BOARD

INMATE GRIEVANCE OFFICE

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

Dear Mr. Barnickel:

The Department of Public Safety and Correctional Services has reviewed the draft audit report dated December 2012 for the Hagerstown Region for the period beginning July 1, 2009 and ending June 3, 2012. The Department appreciates the constructive recommendations that were made as the result of this audit.

Please find below Regional Executive Director Jon Galley's itemized response to the draft audit report findings. Mr. Galley 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.

I trust that this response adequately addresses the findings and recommendations contained in the draft audit report. If you have any questions regarding the Department's response, please contact me.

Sincerely,

Gary D. Maynard
Secretary

Attachment

Cc: G. Lawrence Franklin, Deputy Secretary, Administration
J. Michael Stouffer, Deputy Secretary, Operations
Rhea L. Harris, Assistant Secretary/Chief of Staff
Susan D. Dooley, Director, Office of Financial Services
Patricia A. Moore, Director of Administrative Services
Jon Galley, Regional Executive Director, North Region
Donna Stigile, Program Manager II, North Region
Stacey D. Kretzer, Fiscal Services Chief II, North Region
Joseph M. Perry, Inspector General, OIG



Department of Public Safety and Correctional Services

North Region

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STATE OF MARYLAND

December 20, 2012

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ROXBURY
CORRECTIONAL
INSTITUTION

WESTERN
CORRECTIONAL
INSTITUTION

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

Via

Mr. J. Michael Stouffer, Deputy Secretary, Operations
Department of Public Safety and Correctional Services
6776 Reisterstown Road, Suite 300
Baltimore, Maryland 21215-2342

Dear Secretary Maynard:

Attached are the responses to the Draft Legislative Audit Report dated December 2012, covering the examination of the accounts and records of the Hagerstown Region Finance Office for the period beginning July 1, 2009 and ending June 3, 2012. Corrective action will be taken for all the findings noted by the Legislative Auditor as delineated below:

Finding 1:

The Region lacked accountability and control over inmate cash receipts.

Recommendation 1:

We recommend that DPSCS

- a. ensure that an employee independent of the cash receipts processing function verifies the deposit of all collections on a daily basis;**
- b. ensure that documentation used to initially record collections (that is, the logs and the prenumbered receipt forms) is given directly to the independent employee responsible for performing the deposit verifications; and**
- c. properly account for receipt forms as to issued, voided, or on-hand and ensure that the inventory of receipt forms is maintained by an employee without access to cash receipts.**

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

We agree. Effective immediately, DPSCS will:

- a. ensure that an employee independent of the cash receipts processing function verifies the deposit of all collections on a daily basis;
- b. ensure that documentation used to initially record collections (that is, the logs and the prenumbered receipt forms) is given directly to the independent employee responsible for performing the deposit verifications; and
- c. properly account for receipt forms as to issued, voided, or on-hand and ensure that the inventory of receipt forms is maintained by an employee without access to cash receipts.

Finding 2:

The Region lacked certain critical controls for ensuring the propriety of inmate working fund transactions and records.

Recommendation 2:

We recommend that DPSCS

- a. ensure that employees responsible for approving working fund disbursements review supporting documentation prior to approval;
- b. adequately secure blank checks and signature stamps, and limit access to employees who need access;
- c. ensure that the supervisory review of bank reconciliations includes a verification of critical data, including reconciling items; and
- d. prepare fund compositions for the working fund on a monthly basis as required.

We agree. Effective immediately, DPSCS will:

- a. ensure that employees responsible for approving working fund disbursements review supporting documentation prior to approval;
- b. adequately secure blank checks and signature stamps, and limit access to employees who need access; and
- c. ensure that the supervisory review of bank reconciliations includes a verification of critical data, including reconciling items.

In addition,

- d. DPSCS will prepare fund compositions for the working fund on a monthly basis as required.

Finding 3:

Controls over critical adjustments to the Region's payroll were not sufficient.

Recommendation 3:

We recommend that DPSCS

- a. ensure that critical payroll adjustments are selected for review and verified to supporting documentation, at least on a test basis;

- b. increase the number of employee payroll payments verified each pay period based on an evaluation of significance and risk; and**
- c. ensure that overtime payments are made only if the required documentation is completed and submitted as required.**

We agree. Effective immediately, DPSCS will:

- a. ensure that critical payroll adjustments are selected for review and verified to supporting documentation, at least on a test basis;
- b. increase the number of employee payroll payments verified each pay period based on an evaluation of significance and risk; and
- c. ensure that overtime payments are made only if the required documentation is completed and submitted as required.

Finding 4:

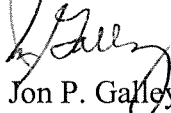
Corporate purchasing card transactions were not verified for propriety as required.

Recommendation 4:

We recommend that DPSCS ensure that all documentation supporting CPC transactions is reviewed by supervisory personnel as required.

We agree. Effective immediately, DPSCS will ensure that all documentation supporting CPC transactions is reviewed by supervisory personnel as required.

Sincerely,



Jon P. Galley
Regional Executive Director, North Region

cc: G. Lawrence Franklin, Deputy Secretary, Administration
Susan D. Dooley, Director of Financial Services
Patricia A. Moore, Director of Administrative Services
Yolanda R. Bethea, Community Supervision Director, North Region
Roderick R. Sowers, Corrections Director, North Region
Donna Stigile, Program Manager II, North Region
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