

Audit Report

Department of Public Safety and Correctional Services

Jessup Region

July 2010



OFFICE OF LEGISLATIVE AUDITS
DEPARTMENT OF LEGISLATIVE SERVICES
MARYLAND GENERAL ASSEMBLY

-
- This report and any related follow-up correspondence are available to the public through the Office of Legislative Audits at 301 West Preston Street, Room 1202, Baltimore, Maryland 21201. The Office may be contacted by telephone at 410-946-5900, 301-970-5900, or 1-877-486-9964.
 - Electronic copies of our audit reports can be viewed or downloaded from our website at <http://www.ola.state.md.us>.
 - Alternate formats may be requested through the Maryland Relay Service at 1-800-735-2258.
 - The Department of Legislative Services – Office of the Executive Director, 90 State Circle, Annapolis, Maryland 21401 can also assist you in obtaining copies of our reports and related correspondence. The Department may be contacted by telephone at 410-946-5400 or 301-970-5400.
-



Karl S. Aro
Executive Director

DEPARTMENT OF LEGISLATIVE SERVICES
OFFICE OF LEGISLATIVE AUDITS
MARYLAND GENERAL ASSEMBLY

Bruce A. Myers, CPA
Legislative Auditor

July 13, 2010

Senator Verna L. Jones, Co-Chair, Joint Audit Committee
Delegate Steven J. DeBoy, Sr., Co-Chair, Joint Audit Committee
Members of Joint Audit Committee
Annapolis, Maryland

Ladies and Gentlemen:

We have audited the Jessup Region of the Department of Public Safety and Correctional Services for the period beginning August 21, 2006 and ending September 21, 2009. The Region comprises the Jessup Correctional Institution, the Maryland Correctional Institution – Jessup and, until its closing in March 2007, the Maryland House of Correction.

Our audit disclosed that improvements were needed to strengthen controls over inmate funds, purchases, equipment, and materials and supplies. For example, critical reconciliations of the Region's inmate fund records were not performed on a timely basis, and significant equipment purchases were not recorded in the Region's records.

The Department of Public Safety and Correctional Services' response, on behalf of the Region, 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 the Region.

Respectfully submitted,

Bruce A. Myers, CPA
Legislative Auditor

Table of Contents

Background Information	4
Agency Responsibilities	4
Status of Findings From Preceding Audit Report	4
Findings and Recommendations	5
Inmate Funds	
Finding 1 – Critical Reconciliations Were Not Performed on a Timely Basis	5
Purchases	
Finding 2 – Proper Internal Controls Were Not Established Over the Processing of Certain Purchasing Transactions	6
Equipment	
Finding 3 – Equipment Records Were Not Adequately Maintained	6
Materials and Supplies	
* Finding 4 – Certain Record Keeping and Procedural Deficiencies Were Noted	7
Audit Scope, Objectives, and Methodology	9
Agency Response	Appendix

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

Background Information

Agency Responsibilities

The Jessup Region is a separate budgetary unit within the Department of Public Safety and Correctional Services and consists of the Jessup Correctional Institution and the Maryland Correctional Institution – Jessup. These institutions are maximum and medium security facilities, respectively, for adult male offenders. A third institution, the Maryland House of Correction, was closed in March 2007 due to the facility's antiquated design and safety concerns. Approximately 980 inmates were transferred out of the institution, with most remaining within the Department's Division of Correction. Although the facility no longer houses inmates, certain other functions remain there, including an infirmary and a maintenance unit which are now under the control of the Jessup Correctional Institution. As of June 30, 2009, the Region had a total population of 2,708 inmates, and its fiscal year 2010 appropriation provided for 935 employee positions, including 735 correctional officers. According to the State's records, the Region's expenditures totaled approximately \$100 million during fiscal year 2009.

Status of Findings From Preceding Audit Report

Our audit included a review to determine the status of the five findings contained in our preceding audit report dated February 16, 2007. We determined that the Region had satisfactorily resolved four of those findings. The remaining finding is repeated in this report.

Findings and Recommendations

Inmate Funds

Finding 1

Critical reconciliations were not performed on a timely basis.

Analysis

Critical reconciliations were not performed on a timely basis. Consequently, there was a lack of assurance that all recorded transactions were authorized and accurately posted. Specifically, we noted the following deficiencies:

- The Region had not reconciled the aggregate balance of inmate accounts maintained on its records with the corresponding records of the State Comptroller since February 2009. As of September 30, 2009, the Region's balance (\$604,000) was less than the State Comptroller's balance (\$744,000) by approximately \$140,000.
- The Region's checking account used to process inmate funds disbursements had not been reconciled with the corresponding bank records since April 30, 2009. As of September 30, 2009, the two records had negative balances of approximately \$15,000 and \$3,000 respectively. In addition, according to the bank's records, the Region paid service charges in August and September 2009 totaling \$8,240 for 206 nonsufficient fund items (checks). We were advised by the Region's management that it wrote checks assuming that deposits would be made in time to allow the checks to clear the bank.

Inmate accounts include funds earned by or received on behalf of inmates. These funds, which are deposited with the State Treasurer, can be saved or inmates can direct the Region to disburse the funds to third parties. Periodically, funds are transferred to the Region's checking account to make disbursements. Inmate fund revenues and disbursements during fiscal year 2009 totaled approximately \$3.3 million and \$3.4 million, respectively.

Recommendation 1

We recommend that the Region

- a. complete the aforementioned reconciliations, investigate differences noted, and take appropriate corrective action;**
- b. in the future, complete all account reconciliations on a monthly basis, investigate all differences, and document supervisory review and approval of the reconciliations; and**

- c. **only write checks if the corresponding funds are available in the bank account, thus avoiding unnecessary bank charges.**

Purchases

Finding 2

Proper internal controls were not established over the processing of certain purchasing transactions.

Analysis

Proper internal controls were not established over the processing of certain purchasing transactions. Specifically, the Region's online approval rules allowed six employees that had the capability to initiate purchase orders to also make changes to those transactions after independent approvals were obtained. Consequently, the aforementioned employees could make unauthorized changes to critical information (such as vendors and amounts) without the changes being subject to independent approval.

According to the State's accounting records, during fiscal year 2009, the Region used the State's Financial Management Information System to process disbursements totaling approximately \$22 million, of which \$6.5 million related to purchase orders.

Recommendation 2

We recommend that the Region establish approval requirements that prevent employees with the capability to initiate purchasing transactions from modifying the transactions after related approvals have been obtained.

Equipment

Finding 3

Equipment records were not adequately maintained.

Analysis

Equipment records were not adequately maintained as required by the Department of General Services' (DGS) *Inventory Control Manual*. Specifically, we noted that the equipment detail records were not updated for all purchases. Our test of 10 equipment purchases totaling \$202,000 disclosed that 5 equipment purchases

totaling \$168,000, made between December 2006 and December 2008 for the two institutions, had not been recorded in the detail records as of the time of our review in November 2009.

We were advised by Region personnel that detailed equipment records at one institution had not been updated since February 2009 and that the equipment control account for the other institution had not been maintained since April 2009. As a result, reconciliations between detail records and control accounts could not be performed for either institution. According to its records, as of June 30, 2009, the Region's equipment inventory totaled approximately \$5.4 million.

The DGS *Inventory Control Manual* requires that equipment detail and control records be properly maintained on a current basis and periodically reconciled.

Recommendation 3

We recommend that

- a. equipment detail records and control accounts be maintained on a current basis, and**
- b. control accounts be periodically reconciled to the aggregate balance of the related detail records.**

Materials and Supplies

Finding 4

Certain record keeping and procedural deficiencies existed that precluded adequate internal control over materials and supplies.

Analysis

Certain record keeping and procedural deficiencies existed that precluded adequate internal control over materials and supplies. According to the State's records, during fiscal year 2009, the Region's materials and supplies expenditures totaled approximately \$7.1 million. As of June 30, 2009, the book value of materials and supplies reported to DGS totaled approximately \$1.4 million. Our review disclosed the following conditions:

- Perpetual inventory records for materials and supplies were not consistently maintained. Specifically, we were advised by Region personnel that the perpetual inventory records for certain categories of supplies such as office supplies, maintenance supplies, janitorial supplies and clothing were not maintained during our audit period. Our test of 14 purchases in June and August 2009 totaling approximately \$95,000, for items such as dietary items

and janitorial supplies, disclosed that, as of November 2009, 13 items totaling \$49,000 had not been recorded on the perpetual inventory records.

Furthermore, a comparison on December 9, 2009 of our physical count of 10 items, costing \$25,700, from the dietary, janitorial supplies, clothing, and office supplies inventories, to the perpetual inventory records disclosed differences for all 10 items totaling \$23,697 (shortages of \$13,892 and overages of \$9,805).

- The Region lacked adequate procedures to ensure that withdrawals of materials and supplies posted to the perpetual inventory records agreed with the actual items and quantities received by the unit that requisitioned the goods. Specifically, when withdrawals were posted to the inventory records, the requisition forms used to post the withdrawals were not verified to independent documentation of supplies actually received (documentation provided by the unit that received the goods).
- The custodian of the storerooms at one institution was responsible for reconciling physical inventory counts to the perpetual records that were maintained. As a result of this lack of separation of duties, the Region's management may not readily detect any misappropriations or irregularities involving its materials and supplies inventories.

The DGS *Inventory Control Manual* specifies the requirements for proper maintenance of perpetual inventory records, controls over inventory withdrawals, and adequate separation of employee duties. Some of these conditions have been commented upon in our preceding audit reports, including one which has been commented upon in our audit reports dating back to 1992.

Recommendation 4

We recommend that the Region establish proper internal controls over materials and supplies (repeat). Detailed recommendations were provided to the Region which, if implemented, should correct the conditions identified.

Audit Scope, Objectives, and Methodology

We have audited the Jessup Region of the Department of Public Safety and Correctional Services for the period beginning August 21, 2006 and ending September 21, 2009. 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 controls, and to evaluate its compliance with applicable State laws, rules, and regulations. We also determined the status of the findings contained in our preceding audit report.

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 inmate and welfare funds, purchases and disbursements, cash receipts, equipment, payroll, and materials and supplies. 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.

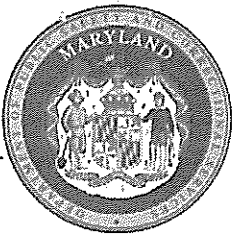
The Region's management is responsible for establishing and maintaining effective internal control. Internal control is a process designed to provide reasonable assurance that objectives pertaining to the reliability of financial records, effectiveness and efficiency of operations including the safeguarding 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 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 Department's response to our findings and recommendations, on behalf of the Region, 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 Department regarding the results of our review of its response.



APPENDIX

Department of Public Safety and Correctional Services

Office of the Secretary

300 E. JOPPA ROAD • SUITE 1000 • TOWSON, MARYLAND 21286-3020
(410) 339-5000 • FAX (410) 339-4240 • TOLL FREE (877) 379-8636 • V/TTY (800) 735-2258 • www.dpscs.state.md.us

STATE OF MARYLAND

MARTIN O'MALLEY
GOVERNOR

ANTHONY G. BROWN
LT. GOVERNOR

GARY D. MAYNARD
SECRETARY

G. LAWRENCE FRANKLIN
DEPUTY SECRETARY
ADMINISTRATION

PHILIP PIÉ
DEPUTY SECRETARY
PROGRAMS AND SERVICES

DAVID N. BEZANSON
ASSISTANT SECRETARY
CAPITAL PROGRAMS

DIVISION OF CORRECTION

DIVISION OF PAROLE AND
PROBATION

DIVISION OF PRETRIAL
DETENTION AND SERVICES

PATUXENT INSTITUTION

MARYLAND COMMISSION
ON CORRECTIONAL
STANDARDS

CORRECTIONAL TRAINING
COMMISSION

POLICE TRAINING
COMMISSION

MARYLAND PAROLE
COMMISSION

CRIMINAL INJURIES
COMPENSATION BOARD

EMERGENCY NUMBER
SYSTEMS BOARD

SUNDRY CLAIMS BOARD

INMATE GRIEVANCE OFFICE

July 8, 2010

Mr. Bruce A. Myers, CPA
Legislative Auditor
Office of Legislative Audits
301 West Preston Street
Room 1202
Baltimore, Maryland 21201

Dear Mr. Myers:

The Department of Public Safety and Correctional Services has reviewed the Draft Audit Report for the Jessup Region dated June 2010 for the period beginning August 21, 2006 and ending September 21, 2009. The Department acknowledges the importance of each finding, appreciates the constructive recommendations, and has taken steps to address the recommendations.

It should be noted that of the five findings contained in the auditors' preceding audit report dated February 16, 2007, it was determined that the Jessup Region had satisfactorily resolved four of those findings. The Department believes that this is indicative of its ongoing commitment to eliminate repeat findings.

Attached is Commissioner Stouffer's response to the draft audit report, with which I concur. I trust that this responds to your request. If you have any questions concerning this correspondence, please contact me.

Sincerely,

Gary D. Maynard
Secretary

Attachment

c: G. Lawrence Franklin, Deputy Secretary, DPSCS
J. Michael Stouffer, Commissioner, DOC
Susan D. Dooley, Director, Office of Financial Services, DPSCS
Patricia A. Moore, Assistant Commissioner, Administrative Services, DOC
Randy Watson, Assistant Commissioner, East Region, DOC
William Johnson, Acting Director of Finance, DOC
John Wolfe, Warden, JCI
Dayena Corcoran, Warden MCIJ
Keith Hardesty, Fiscal Services Chief II, Jessup Region
Joseph M. Perry, Inspector General, DPSCS



Department of Public Safety and Correctional Services

Division of Correction

6776 REISTERSTOWN ROAD • SUITE 310 • BALTIMORE, MARYLAND 21215-2342
(410) 585-3300 • FAX (410) 764-4182 • TTY USERS 1-800-735-2258 • www.dpscs.state.md.us

STATE OF MARYLAND

MARTIN O'MALLEY
GOVERNOR

ANTHONY G. BROWN
LT. GOVERNOR

GARY D. MAYNARD
SECRETARY

G. LAWRENCE FRANKLIN
DEPUTY SECRETARY

DIVISION OF CORRECTION

J. MICHAEL STOUFFER
COMMISSIONER

EASTERN
CORRECTIONAL
INSTITUTION

JESSUP
CORRECTIONAL
INSTITUTION

MARYLAND CORRECTIONAL
ADJUSTMENT CENTER

MARYLAND
CORRECTIONAL
ENTERPRISES

MARYLAND CORRECTIONAL
INSTITUTION-HAGERSTOWN

MARYLAND CORRECTIONAL
INSTITUTION-JESSUP

MARYLAND CORRECTIONAL
INSTITUTION FOR WOMEN

MARYLAND
CORRECTIONAL
PRE-RELEASE SYSTEM

MARYLAND
CORRECTIONAL
TRAINING CENTER

MARYLAND RECEPTION,
DIAGNOSTIC AND
CLASSIFICATION CENTER

METROPOLITAN
TRANSITION CENTER

NORTH BRANCH
CORRECTIONAL
INSTITUTION

ROXBURY
CORRECTIONAL
INSTITUTION

WESTERN
CORRECTIONAL
INSTITUTION

July 8, 2010

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, Commissioner *Jms.*
Division of Correction
6776 Reisterstown Road, Suite 300
Baltimore, Maryland 21215-2342

Dear Secretary Maynard:

Included below are the responses to the Draft Legislative Audit Report dated June, 2010 covering the examination of the accounts and records of the Jessup Region for the period beginning August 21, 2006 and ending September 21, 2009. The Jessup Region will aggressively pursue implementation of the Draft Audit Report recommendations. In addition, please note that the Jessup Region has been consolidated with three other Division of Correction finance offices, combining expertise and resources as the Central Region Finance Office.

Finding # 1 – Critical reconciliations were not performed on a timely basis.

We agree. Bank reconciliations have been completed through May 2010 and differences have been investigated and resolved. They will be completed monthly thereafter, with differences being investigated and resolved, and supervisory review and approval documented. Reconciliations of the inmate accounts of the Maryland Offenders Banking System (MOBS) to FMIS (including investigation and resolution of any differences) will be completed and brought up to date by June 30, 2011. They will be completed monthly thereafter, with differences being investigated and resolved, and supervisory review and approval documented. In addition, checks are currently being issued only if the corresponding funds are available in the bank account to avoid unnecessary bank charges.

July 8, 2010

Finding #2 – Proper internal controls were not established over the processing of certain purchasing transactions.

We agree. Effective September 1, 2010, the Region will establish approval requirements that prevent individuals with the capability to initiate purchasing transactions from modifying the transactions after related approvals have been obtained.

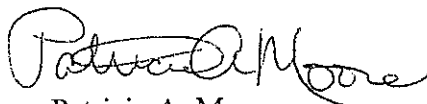
Finding #3 – Equipment records were not adequately maintained.

We agree. The Region will maintain the equipment detail records and the control accounts on a current basis beginning July 1, 2010. On a quarterly basis, beginning in October 2010 for the period of July 1, 2010 through September 30, 2010, the control account will be reconciled to the aggregate balance of the related detail records.

Finding #4 – Certain record keeping and procedural deficiencies existed that precluded adequate internal control over materials and supplies.

We agree. The Region will establish proper internal controls over materials and supplies. Effective June 28, 2010, the Region has implemented eIMS (Electronic Inventory Management System) to assist in maintaining the perpetual inventory records as well as the proper separation of duties. The Region will segregate the duties to ensure that those responsible for custody of the materials and supplies are not responsible for reconciling inventory counts to the inventory records.

Sincerely,



Patricia A. Moore
Assistant Commissioner
Administrative Services
Division of Correction

Sincerely,



Randy Watson
Assistant Commissioner
East Region
Division of Correction

c: G. Lawrence Franklin, Deputy Secretary, DPSCS
Susan D. Dooley, Director of Financial Services, DPSCS
Joseph M. Perry, Inspector General, DPSCS
William Johnson, Acting Director of Finance, DOC
John Wolfe, Warden, JCI
Dayena Corcoran, Warden, MCIJ
Keith Hardesty, Fiscal Services Chief II, Jessup Region

AUDIT TEAM

Paul R. Denz, CPA
Audit Manager

David S. Propper
Senior Auditor

Carey L. Harper
Staff Auditor