

DEPARTMENT OF LEGISLATIVE SERVICES
OFFICE OF LEGISLATIVE AUDITS
MARYLAND GENERAL ASSEMBLY

Warren G. Deschenaux
Executive Director

May 9, 2016

Thomas J. Barnickel III, CPA
Legislative Auditor

Senator Edward J. Kasemeyer, Chair
Senate Budget and Taxation Committee
Miller Senate Office Building, 3 West Wing
11 Bladen Street
Annapolis, Maryland 21401

Delegate Maggie McIntosh, Chair
House Appropriations Committee
House Office Building, Room 121
6 Bladen Street
Annapolis, Maryland 21401

Dear Senator Kasemeyer and Delegate McIntosh:

The Office of Legislative Audits (OLA) has conducted a review of the actions taken by the Department of Juvenile Services (DJS) to resolve the four repeat findings in our May 15, 2014 audit report. This review was conducted in accordance with a requirement specified in the April 2015 *Joint Chairmen's Report* (JCR), page 141. The JCR required that, prior to the release of \$100,000 of its administrative appropriation for fiscal year 2016, DJS must take corrective action on all repeat audit findings. The JCR language further provided that OLA submit a report to the budget committees listing each repeat audit finding along with a determination that each finding was corrected. The OLA report is required to be submitted to allow 45 days for the budget committees to review and release the funds prior to the end of the fiscal year.


The May 15, 2014 audit report of DJS contained four repeat audit findings (findings 1, 4, 7, and 12) that were addressed by five recommendations. In accordance with the April 2015 JCR requirement, DJS provided a report to OLA, dated October 28, 2015, detailing the corrective actions that it had taken with respect to the repeat audit findings. We reviewed this report and related documentation, performed limited tests and analyses of the information, and held discussions with DJS personnel as necessary to assess the implementation status of the related recommendations. Our review did not constitute an audit conducted in accordance with generally accepted government auditing standards.

Exhibit 1 is DJS's October 28, 2015 status report, which indicated that corrective actions had been taken by DJS to address the recommendations for all four findings. Our review determined that DJS had taken the necessary corrective actions to satisfactorily address two of the five recommendations. Three recommendations, relating to two findings, remained unresolved.

A summary of OLA's assessment of the status of each of the repeat audit findings is included in the attached Exhibit 2. Exhibit 3 contains OLA's assessment regarding the two repeat findings that had not been resolved. After discussing our review results, DJS generally agreed with the accuracy of the information presented and indicated that the remaining corrective actions would be taken immediately. We wish to acknowledge the cooperation extended to us by DJS during this review.

We trust our response satisfactorily addresses the JCR requirement. Please contact me if you need additional information.

Sincerely,


Thomas J. Barnickel III, CPA
Legislative Auditor

cc: Senator Guy J. Guzzone, Co-Chair, Joint Audit Committee
Delegate C. William Frick, Co-Chair, Joint Audit Committee
Joint Audit Committee Members and Staff
Senator Thomas V. Mike Miller, Jr., President of the Senate
Delegate Michael E. Busch, Speaker of the House of Delegates
Governor Lawrence J. Hogan, Jr.
Comptroller Peter V.R. Franchot
Treasurer Nancy K. Kopp
Attorney General Brian E. Frosh
David R. Brinkley, Secretary, Department of Budget and Management
Sam J. Abed, Secretary, Department of Juvenile Services
Linda S. McWilliams, Deputy Secretary, Operations, Department of Juvenile Services
Lynette E. Holmes, Deputy Secretary, Support Services, Department of Juvenile Services
Sheri S. Sanford, Director of Internal Audit, Department of Juvenile Services
Joan Peacock, Manager, Audit Compliance Unit, DBM
Warren G. Deschenaux, Executive Director, Department of Legislative Services
Rebecca J. Ruff, Policy Analyst, Department of Legislative Services

Exhibit 1 to May 9, 2016 Letter to Joint Chairmen



MARYLAND
Department of
Juvenile Services

Successful Youth • Strong Leaders • Safer Communities

One Center Plaza
120 West Fayette Street
Baltimore, MD 21201

Boyd K. Rutherford
Lt. Governor

Larry Hogan
Governor

Sam Abed
Secretary

October 28, 2015

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

Dear Mr. Barnickel:

Attached is the corrective action taken by the Department of Juvenile Services for the four (4) repeat findings in our May 15, 2014 audit report issued by the Office of Legislative Audits.

As requested, we are sending both a paper copy and an electronic copy of our response. If you have any questions, or require additional information, please do not hesitate to call me at 410-230-3101.

Sincerely,

Sam Abed
Secretary

Attachment



Maryland Department of Juvenile Services
Audit Response – May 15, 2015

Recommendation 1

We recommend that DJS establish independent online approval requirements for all critical disbursement transactions (repeat). If DJS elects to use alternate approval processes, we recommend that DJS comply with the applicable requirements of the *Manual*.

DJS has elected to use an alternative approval process for all critical disbursement transactions. The supervisor or staff responsible for transmitting invoices is required to review and initial all invoices that are processed by DJS. All invoices are batched and each batch's transmittal sheet is stamped "All invoices reviewed prior to transmittal". The supervisor or staff responsible for transmitting invoices signs each transmittal sheet and dates it. All DJS fiscal staff is following this process on a consistent basis.

Also, employees who have the capability to initiate and approve invoices do not have authority in RSTARS to transmit invoices for payment.

Recommendation 4

We recommend that DJS

- a. obtain financial statements within the required timeframes and follow up with contractors that are delinquent in submitting financial statements on a timely basis (repeat), and
 - b. conduct the required audits within the established time intervals.
- a) DJS Internal Audits (IA) ensures that all financial statements are submitted by youth care providers by the due date. Follow-up with delinquent providers is documented in the provider's file. IA maintains a spreadsheet to track due dates and submission dates.
- b) All audits have been conducted in a timely manner. There are times when additional information is required by a provider that can delay the completion of an audit. However, this is documented in the provider's file.

Recommendation 7

We recommend that

- a. DJS restrict restitution system access to ensure that employees with the capability to establish or adjust case data do not also have the capability to post and initiate payments on the system (repeat) or ensure an independent supervisor performs a documented review to determine the propriety of all critical transactions posted to the restitution system on a timely basis (that is, monthly),
 - b. an independent employee conduct reconciliations of DJS' restitution records with corresponding records maintained by the bank and by the State Comptroller (repeat) and investigate and resolve any differences, and
 - c. DJS pursue recovery of the above identified overpayments.
- a) Access to the restitution system is restricted to only employees who need the access to perform their duties. When an employee has access to establish or adjust case data and to post and initiate payments to the system, an independent supervisor performs a review to determine the propriety of the critical transactions posted to the system by that employee. The review is conducted on a timely basis and is documented.
- b) The reconciliations are being performed by the Director of Accounting on a monthly basis.
- c) Letters were sent to the parties who received overpayments. Documentation is available in cases where letters were returned as undeliverable and for those accounts that have been forwarded to CCU.



410-230-3333 / Toll Free: 1-888-639-7499 / TDD: 1-800-735-2258
Successful Youth • Strong Leaders • Safer Communities

OLA Note: Recommendation 4a. and 7c. were not related to a repeat audit report finding and consequently were not subject to the OLA's JCR follow-up review process.

DJS Audit Response
Audit Report – May 15, 2015
Page Two

Recommendation 12

We recommend that DJS comply with the requirements of the DGS *Inventory Control Manual* (repeat).

- Inventories are being conducted in the timeframe required by DGS.
- Inventory sheets, etc., are used to document that an inventory was conducted.
- A "Certification" is signed by each office indicating that their inventory was completed.
- Reconciliations are performed between the detail records and the physical inventories.
- Transfers or disposal forms are completed where necessary.
- Control accounts have been established for all inventory accounts.
- Control accounts have been reconciled to the detail records. The detail records were reconciled to the physical inventory sheets prior to reconciling the detail to the control accounts.
- The annual report of fixed assets has been submitted to DGS, as required.



Exhibit 2 to May 9, 2016 Letter to Joint Chairmen

Status of Repeat Findings in OLA's May 15, 2014 Audit Report on the Department of Juvenile Services

Prior Recommendations Pertaining to Repeat Findings	Status Based on OLA Review
Purchases and Disbursements 1. We recommend that DJS establish independent online approval requirements for all critical disbursement transactions. If DJS elects to use alternate approval processes, we recommend that DJS comply with the applicable requirements of the <i>FMIS Internal Control and Security Manual</i> .	Corrected
Youth Care Contracts 4. We recommend that DJS a. obtain financial statements within the required timeframes and follow up with contractors that are delinquent in submitting financial statements on a timely basis.	Corrected
Restitution 7. We recommend that a. DJS restrict restitution system access to ensure that employees with the capability to establish or adjust case data do not also have the capability to post and initiate payments on the system or ensure an independent supervisor performs a documented review to determine the propriety of all critical transactions posted to the restitution system on a timely basis (that is, monthly).	Not Resolved
b. an independent employee conduct reconciliations of DJS' restitution records with corresponding records maintained by the bank and by the State Comptroller.	Not Resolved
Equipment 12. We recommend that DJS comply with the requirements of the <i>DGS Inventory Control Manual</i> .	Not Resolved

Shaded recommendations are more fully described in Exhibit 3.

Exhibit 3 to May 9, 2016 Letter to Joint Chairmen

OLA's Assessments Regarding Repeat Findings That Had Not Been Resolved

Restitution

Prior Report Recommendation – Finding 7

We recommend that

- a. DJS restrict restitution system access to ensure that employees with the capability to establish or adjust case data do not also have the capability to post and initiate payments on the system (repeat) or ensure an independent supervisor performs a documented review to determine the propriety of all critical transactions posted to the restitution system on a timely basis (that is, monthly), and**
- b. an independent employee conduct reconciliations of DJS' restitution records with corresponding records maintained by the bank and by the State Comptroller (repeat) and investigate and resolve any differences.**

Status: Not Resolved

Although DJS restricted the user access for four of the five individuals noted in our preceding audit report, one employee continued to have unrestricted access to the system, and the related compensating controls were not sufficient. This one employee, who had unilateral control over the restitution process, continued to have the capability to add and update restitution case data (including the individual or organization receiving the restitution) and post payments received to individual accounts without supervisory review and approval. DJS implemented supervisory reviews over certain transactions processed by this employee, but the supervisor did not review critical transactions including restitution disbursements processed and new restitution recipients added. Rather, the reviews were limited to adjustments, such as corrections of data entry errors and modifications to restitution balances. Because posting payments received automatically creates a restitution payment advice, this employee could add new restitution recipients to the accounts receivable records and initiate improper disbursements without detection.

DJS also could not substantiate that it reconciled its unmatched payment activity with the corresponding records maintained by the Comptroller of Maryland, which in the prior report we noted had not been reconciled since 1997. The unmatched payment activity balance represents payments received that have not yet been identified to a specific case and, therefore, the funds cannot be paid to a restitution recipient. DJS management advised that these reconciliations were performed; however, as of October 2015, the balance of unmatched payments on the Comptroller's records was approximately \$90,000 greater than the related DJS records and DJS management could not explain the discrepancy.

Equipment

Prior Report Recommendation – Finding 12

We recommend that DJS comply with the requirements of the DGS *Inventory Control Manual* (repeat).

Status: Not Resolved

The prior report Finding 12 concluded that DJS does not adequately account for its equipment and included several specific findings related to equipment control and recordkeeping. Our follow-up review found that DJS had corrected certain, prior audit findings, while others remained unresolved. For example, a physical inventory of equipment had been conducted in fiscal year 2015 and property values were reported at June 30, 2015 to the Department of General Services. However, DJS could not substantiate its assertion that the results of the fiscal year 2015 physical inventory had been reconciled to the related detailed records. As a result, there is a lack of assurance that DJS equipment records were accurate and all DJS equipment was accounted for.