

Audit Report

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**Office of the Attorney General**

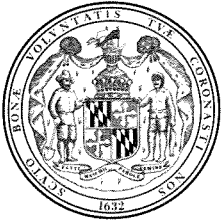
March 2015

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**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

Karl S. Aro  
Executive Director

March 4, 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 Office of the Attorney General (OAG) for the period beginning March 8, 2011 and ending July 17, 2014. OAG, which is a public office established under the Constitution of Maryland, acts as legal counsel to the governor, the General Assembly, the Judiciary, and State agencies. OAG also enforces antitrust, consumer protection, and securities laws; prosecutes Medicaid provider fraud; and monitors residential juvenile facilities.

Our audit disclosed that adequate controls were not established over cash receipts.

OAG'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 OAG.

Respectfully submitted,

Thomas J. Barnickel III, CPA  
Legislative Auditor



## **Background Information**

### **Agency Responsibilities**

The Office of the Attorney General (OAG) is a public office established under the Constitution of Maryland. OAG operates under the provisions of Title 6 of the State Government Article. OAG acts as legal counsel to the Governor, General Assembly, Judiciary, and State agencies, boards, and commissions, and represents the State in all legal matters of interest to the State. OAG also reviews legislation passed by the General Assembly for form and legal sufficiency; enforces antitrust, consumer protection, and securities laws; prosecutes Medicaid provider fraud; and monitors residential juvenile facilities. According to the State's records, OAG's expenditures totaled approximately \$30.4 million (primarily salaries and wages) during fiscal year 2014.

## **Findings and Recommendations**

### **Cash Receipts**

#### **Finding 1**

**Controls were not established to ensure collections were properly accounted for and deposited.**

#### **Analysis**

Proper controls were not established over cash receipts, which totaled approximately \$21.7 million during fiscal year 2014. These collections, which included certain registration fees and lawsuit settlements, were initially received in the various OAG divisions (such as the Consumer Protection Division) and were forwarded to its Fiscal Division for deposit.

- The Fiscal Division employee who performed the deposit verification was not independent of the cash receipts process. This employee had routine access to the collections and was also responsible for recording deposits in the State's accounting records and processing chargebacks resulting from checks that were dishonored by the bank. In addition, this employee did not use the initial recordation document when performing the deposit verification for the Consumer Protection Division. Rather, a summary report of collections was used for this purpose.

- Cash receipts were not sufficiently safeguarded prior to deposit. Funds received in the Consumer Protection Division and funds forwarded to the Fiscal Division were routinely stored in a location accessible to numerous employees throughout the day.

As a result of these conditions, funds could be misappropriated without detection. The Comptroller of Maryland's *Accounting Procedures Manual* requires that a reconciliation of the initial recordation of collections to the amount deposited be performed by an employee independent of the cash receipts function. Additionally, the *Manual* requires that receipts be adequately safeguarded until deposited.

#### **Recommendation 1**

**We recommend that OAG**

- a. ensure that collections are verified to deposit by an employee independent of the cash receipts functions and that the initial record of collections is used during the deposit verification process, and**
- b. adequately safeguard collections prior to processing and deposit.**

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

## **Audit Scope, Objectives, and Methodology**

We have conducted a fiscal compliance audit of the Office of the Attorney General (OAG) for the period beginning March 8, 2011 and ending July 17, 2014. 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 OAG'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 procurements and disbursements, cash receipts, special funds, non-budgeted funds, and payroll.

To accomplish our audit objectives, our procedures included inquiries of appropriate personnel, inspections of documents and records, observations of OAG's operations, and tests of transactions. 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). 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.

OAG'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 that we consider to be a significant deficiency in the design or operation of internal control that could adversely affect OAG's ability to maintain reliable financial records, operate effectively and efficiently, and/or comply with applicable laws, rules, and regulations. This finding also represents a significant instance of noncompliance with applicable laws, rules, or regulations. Other less significant findings were communicated to OAG that did not warrant inclusion in this report.

OAG's response to our finding and recommendation 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 OAG regarding the results of our review of its response.



**APPENDIX**

**BRIAN E. FROSH**  
*Attorney General*



**ELIZABETH F. HARRIS**  
*Chief Deputy Attorney General*

**THIRUVENDRAN VIGNARAJAH**  
*Deputy Attorney General*

**STATE OF MARYLAND  
OFFICE OF THE ATTORNEY GENERAL**

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March 4, 2015

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

Dear Mr. Barnickel:

Thank you for your letter regarding the draft audit report for the Office of the Attorney General ("OAG") for the period beginning March 8, 2011 and ending July 17, 2014. Enclosed you will find the OAG's response.

If you or your staff need any further information, please contact Beverly Pivec, Director of Administration at 410-576-6442.

Sincerely,

A handwritten signature in black ink, appearing to read "Brian E. Frosh".

Attorney General

## **Cash Receipts**

### **Finding 1**

Controls were not established to ensure collections were properly accounted for and deposited.

### **Recommendation 1**

We recommend that OAG

- a. ensure that collections are verified to deposit by an employee independent of the cash receipts functions and that the initial record of collections is used during the deposit verification process, and
- b. adequately safeguard collections prior to processing and deposit.

## **Office of the Attorney General Response**

### **Recommendation 1 (a)**

The OAG has established procedures and controls in place. The person responsible for the FMIS entry merely verified the accuracy of the written deposit ticket prior to the deposit going to the bank. This one minute verification was the only access to the checks referred to in the breakdown of controls. And, while we believe the current internal control to be sufficient, we will implement to recommendation to have an employee independent of the cash receipts function verify the accuracy of the written deposit ticket. We will also implement the recommendation to use the initial recordation document when performing the deposit verification for the Consumer Protection Division. This deposit verification will be performed by an employee independent of the cash receipts function.

### **Recommendation 1 (b)**

We believe the current internal controls to be sufficient in safeguarding checks prior to the deposit. The OAG is in a secured building with limited access and the Consumer Protection Division and the Fiscal Unit are located on secured floors with limited access. In the Fiscal Unit,

checks were kept in a filing cabinet in an office that was locked at night. And, while we believe those control to be strong, we have further secured the area by keeping the filing cabinet locked at all times. In the Consumer Protection Division, checks are kept in a locked room that also contains evidence (“Evidence Room”). The Division Chief’s Management Associate maintains the key to the Evidence Room. She provides access to only a limited number of employees and the access that is granted normally is limited in duration. It is unusual for an employee to need access to the Evidence Room while checks are being stored. We believe this is an efficient and secure way to store the checks.

AUDIT TEAM

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