

Audit Report

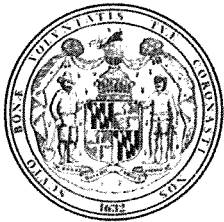
**Department of Public Safety and Correctional Services
Eastern Shore Region**

July 2012



OFFICE OF LEGISLATIVE AUDITS
DEPARTMENT OF LEGISLATIVE SERVICES
MARYLAND GENERAL ASSEMBLY

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OFFICE OF LEGISLATIVE AUDITS
MARYLAND GENERAL ASSEMBLY

Karl S. Aro
Executive Director

July 13, 2012

Bruce A. Myers, 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 Eastern Shore Region of the Department of Public Safety and Correctional Services, which comprises the Eastern Correctional Institution, the Eastern Correctional Institution Annex, and the Poplar Hill Pre-Release Unit, for the period beginning July 16, 2008 and ending October 2, 2011.

Our audit disclosed that the Region had not established sufficient controls over procurements, inmate funds, and materials and supplies. For example, reconciliations of the Region's inmate fund records were not performed on a timely basis.

The Department of Public Safety and Correctional Services' response to this audit, on behalf of the Region, is included as an appendix to this report. We wish to acknowledge the cooperation extended us during the course of this audit by the Region.

Respectfully submitted,

Thomas J. Barnickel III, CPA
Acting Legislative Auditor

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

Background Information

Agency Responsibilities

The Eastern Shore Region is a separate budgetary unit within the Division of Correction of the Department of Public Safety and Correctional Services and consists of several facilities for adult male offenders.

Facilities Comprising the Division of Correction's Eastern Shore Region			
Facility	Security Level	Location	Inmate Population as of June 30, 2011
Eastern Correctional Institution	Medium Security	Westover, MD	2,671
Eastern Correctional Institution Annex	Minimum Security	Westover, MD	597
Poplar Hill Pre-Release Unit	Pre-Release	Quantico, MD	185
Total			3,453

According to the State's records, the Region's expenditures totaled approximately \$102 million during fiscal year 2011. In addition, the Region's fiscal year 2011 appropriation provided for 879 positions, including 656 correctional officers.

Status of Findings From Preceding Audit Report

Our audit included a review to determine the status of the four findings contained in our preceding audit report dated December 4, 2008. We determined that the Region satisfactorily addressed three of these findings. The remaining finding is repeated in this report.

Findings and Recommendations

Procurement of Goods

Finding 1

The Region did not always adhere to State Procurement Regulations and DPSCS policies when procuring certain goods.

Analysis

The Region did not always follow procurement regulations and policies. Specifically, in some cases, the Region did not obtain competitive bids for certain goods, exceeded its procurement authority, and did not adequately verify that purchased goods were actually received. Specifically, our test of 20 disbursements totaling approximately \$1.5 million disclosed the following conditions:

- Of the 20 transactions tested, 6 transactions totaling approximately \$125,000 related to purchases for the commissary. Our review disclosed that these purchases were not competitively bid. According to the Region's records, total commissary purchases for fiscal year 2011 totaled approximately \$2.2 million.
- Two commodity purchases totaling approximately \$38,000 (each exceeding \$10,000) were not made in accordance with the procurement delegation authority established by the DPSCS Office of the Secretary. In June 2008, the Region's delegated authority was established at \$10,000 for commodities.
- For one of the aforementioned purchases totaling \$19,318, the Region did not obtain written solicitations and did not post the solicitation on eMaryland Marketplace as required. In addition, the Region did not verify that the quantity paid for was actually received.

The DPSCS' *Financial Operations Manual* requires that commissary purchases be acquired through a competitive bid process whenever possible. State procurement regulations require the use of written solicitations for procurements between \$15,000 and \$25,000 and the solicitation be posted on eMaryland Marketplace.

Recommendation 1

We recommend that the Region

- a. comply with DPSCS' *Financial Operations Manual* by obtaining competitive bids for commissary purchases;**

- b. comply with the procurement delegation authority established by the DPSCS Office of the Secretary;
- c. comply with the State Procurement Regulations by obtaining written solicitations and posting these solicitations on eMaryland Marketplace, as required; and
- d. verify that the quantity of goods paid for were actually received.

Inmate Funds

Finding 2

Inmate account balances were not reconciled with the State Comptroller's records in a timely manner.

Analysis

The total of the individual inmate accounts as maintained by the Region was not reconciled with the corresponding records of the State Comptroller in a timely manner. Specifically, reconciliations for fiscal year 2011 were performed from 53 to 320 days after the end of the month being reconciled. Additionally, in the June 2011 reconciliation, which was not prepared until November 7, 2011, the State Comptroller's balance (\$572,000) exceeded the Region's balance (\$498,000) by approximately \$74,000 and this difference was not investigated and resolved. We have noted similar conditions in our five preceding audit reports.

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 pay these funds to third parties.

Recommendation 2

We recommend that the Region complete the aforementioned reconciliations in a timely manner, investigate differences noted, and take appropriate corrective action (repeat).

Materials and Supplies

Finding 3

Procedures and controls over the Region's commissary materials and supplies inventories were not adequate.

Analysis

Procedures and controls over the Region's commissary supplies were not adequate. Specifically, we noted that differences between the commissary material and supplies inventory records and the physical inventory counts were not properly investigated or resolved. The June 2011 physical inventory for commissary items identified an absolute dollar value variance between the perpetual inventory records and the physical count of \$5,834 and reported an on-hand book value of \$243,735. Additionally, our comparison of materials and supplies to the related inventory records disclosed no discrepancies as related to the warehouse and maintenance storerooms, but disclosed numerous discrepancies as related to the commissary storeroom. In this regard, a comparison of our physical count of 20 commissary items, costing \$14,000, to the perpetual inventory records disclosed differences totaling \$1,947 (shortages of \$1,291 and overages of \$656) for 18 items. According to the Region's records, expenditures for commissary supplies totaled approximately \$2.2 million during fiscal year 2011.

The Department of General Services (DGS) *Inventory Control Manual* established requirements regarding internal control and related recordkeeping to be followed by State agencies. The *Manual* requires that, if the record balance differs from the physical count, the variance be investigated and the record balance be adjusted to make it equal to the physical count.

Recommendation 3

We recommend that the Region comply with the requirements of the DGS *Inventory Control Manual*. Specifically, we recommend that the Region

- a. document investigations of variances between the perpetual inventory records and the physical inventory counts, and**
- b. accurately maintain perpetual inventory records.**

Audit Scope, Objectives, and Methodology

We have audited the Eastern Shore Region of the Department of Public Safety and Correctional Services for the period beginning July 16, 2008 and ending October 2, 2011. 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. We also determined the status of the findings included 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, materials and supplies, and payroll. 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 findings 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.

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

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July 9, 2012

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SYSTEMS BOARD

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 June 2012 for the Eastern Shore Region. The Department appreciates the constructive recommendations that were made as the result of this audit.

Attached is Regional Executive Director Vale's response to the draft audit report, with which I concur. Ms. Vale will continue to implement corrective action to address all of the agreed upon audit findings, and will closely monitor the status in order to prevent any repeat audit findings in the next audit.

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

Sincerely,

A handwritten signature in dark ink, appearing to read "Gary D. Maynard".

Gary D. Maynard
Secretary

Attachment

Cc: G. Lawrence Franklin, Deputy Secretary, Administration
J. Michael Stouffer, Deputy Secretary, Operations
Susan D. Dooley, Director of Financial Services
Patricia A. Moore, Director, Administrative Services

Patricia Vale, Regional Executive Director, South Region
Kathleen Green, Warden, Eastern Correctional Institution
Joan Gordy, Fiscal Services Chief II, South Region
Joseph M. Perry, Inspector General



Department of Public Safety and Correctional Services

Eastern Correctional Institution

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July 09, 2012

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FACILITY ADMINISTRATOR ANNEX

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FACILITY ADMINISTRATOR
PHPRU/REGIONAL

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 June 21, 2012 covering the examination of the accounts and records of the Eastern Shore Region for the period beginning July 16, 2008 and ending October 2, 2011. Corrective action has been or will be taken to address all of the agreed upon findings as delineated below:

Finding 1:

The Region did not always adhere to State Procurement Regulations and policies when procuring certain goods.

Recommendation 1:

We recommend that the Region

- a. comply with DPSCS' *Financial Operations Manual* by obtaining competitive bids for commissary purchases;**
- b. comply with the procurement delegation authority established by the DPSCS Office of the Secretary;**
- c. comply with the State Procurement Regulations by obtaining written solicitations and posting these solicitations on eMaryland Marketplace, as required; and**
- d. verify that the quantity of goods paid for were actually received.**

We agree in part, disagree in part.

The Region:

- a. Disagrees with the first recommendation. While the DPSCS' *Financial Operations Manual (FOM)* indicates commissary purchases are to be acquired through a competitive bid process "whenever possible", it does not make the competitive bid process mandatory. This is an important clarification,

because selecting a vendor for commissary purchases typically involves scheduling, delivery and intensive security challenges as well as cost considerations, making it very difficult to always obtain bids. Further, it should be noted that the FOM commissary procurement procedures exceed the requirements of COMAR Title 21.01.03.01.A.(9), which states that “Procurement in support of enterprise activities for purposes of direct resale...” are exempt from those regulations. Therefore, the Region should not be cited for not obtaining commissary purchase bids. Finally, the Department issued an RFP on June 15 for privatization of all its commissary operations. Once the commissary operations are privatized, ECI will no longer be responsible for commissary purchases;¹

Effective immediately, the Region agrees to:

- b. comply with the procurement delegation authority established by the DPSCS Office of the Secretary; and
- c. comply with State Procurement Regulations by obtaining written solicitations and posting these solicitations on eMaryland Marketplace, as required; and
- d. verify that the quantity of goods paid for were actually received.

Finding 2:

Inmate account balances were not always reconciled with the State Comptroller’s records in a timely manner.

Recommendation 2:

We recommend that the Region complete the aforementioned reconciliations in a timely manner, investigate differences noted, and take appropriate corrective action (repeat).

We agree. The Region will complete the aforementioned reconciliations on a monthly basis, investigate differences noted, and take appropriate corrective action.

Finding 3:

Procedures and controls over the Region’s commissary materials and supplies inventories were not adequate.

Recommendation 3:

We recommend that the Region comply with the requirements of the DGS *Inventory Control Manual*. Specifically, we recommend that the Region

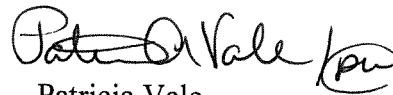
- a. document investigations of variances between the perpetual inventory records and the physical inventory counts, and,**
- b. accurately maintain perpetual inventory records.**

¹**Auditor’s Comment:** In its response, the Department disagreed with the first recommendation and indicated that Departmental policy regarding commissary purchases is more stringent than the requirements of COMAR (State Procurement Regulations) and its policy does not make the competitive bid process mandatory for such purchases. Our finding, as related to commissary purchases, was based on the Department’s policy and not COMAR. Furthermore, we noted that the policy requires a competitive bid process for those purchases whenever possible. Although the response stated certain reasons why the use of a competitive process is difficult, we were not provided with documentation during the course of the audit to substantiate the Region’s attempts to obtain bids or the reasons why bidding was not possible. Nevertheless, the response did indicate that the Department issued a Request for Proposal for the privatization of its commissary operations. If the commissary operations are privatized, the Region would no longer be responsible for commissary purchases, and the related recommendation would no longer be applicable.

We agree. The Region will comply with the requirements of the Department of General Services (DGS) *Inventory Control Manual*. Effective immediately, the Region will:

- a. document investigations of variances between the perpetual inventory records and the physical inventory counts; and
- b. accurately maintain perpetual inventory records.

Sincerely,

A handwritten signature in black ink, appearing to read "Patricia Vale" followed by a stylized monogram or initials.

Patricia Vale
Executive Director, South Region

cc: G. Lawrence Franklin, Deputy Secretary, Administration
Susan D. Dooley, Director of Financial Services
Farid Keshavarz, Deputy Director of Financial Services
Patricia A. Moore, Director, Administrative Services
William Johnson, Assistant Director, Administrative Services
Aubrey Bascombe, Finance Administrator, South/Central Regions
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Joan Gordy, Fiscal Services Chief II, South Region
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