

Audit Report

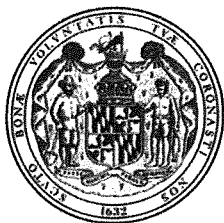
**Department of Public Safety and Correctional Services
Central Region Finance Office**

August 2012



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

August 6, 2012

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Executive Director

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 Department of Public Safety and Correctional Services (DPSCS) – Central Region Finance Office (CRFO) for the period beginning July 1, 2010 and ending August 21, 2011. CRFO was established by DPSCS through a consolidation of the fiscal operations of DPSCS's Baltimore Region, Jessup Region, Maryland Correctional Pre-Release System, Patuxent Institution, and Women's Facilities. CRFO processes all fiscal transactions, such as those relating to cash receipts, disbursements, payroll, and inmate funds, and maintains the related accounting records for those entities. This report represents the results of our first audit of CRFO. Prior to the consolidation, separate audits were conducted and reports issued for the Baltimore Region, Jessup Region, Maryland Correctional Pre-Release System, and Patuxent Institution and Women's Facilities. We have audited the fiscal activities of these entities for various periods before the establishment of CRFO as indicated in the Audit Scope, Objectives, and Methodology section of this report.

Our audit disclosed that CRFO's records of inmate funds were not reconciled with the corresponding State records, and that procedures had not been established to ensure the timely disposition of the funds and accounts of former inmates. We also noted certain deficiencies with regard to record keeping for equipment.

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

Respectfully submitted,

A handwritten signature in dark ink, reading "Thomas J. Barnickel III".

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 Central Region Finance Office (CRFO) is a separate budgetary program within the Department of Public Safety and Correctional Services (DPSCS) – Division of Correction Headquarters. CRFO was established by DPSCS through a consolidation completed in May 2010 of the fiscal operations of DPSCS’s Baltimore Region, Jessup Region, Maryland Correctional Pre-Release System, Patuxent Institution, and Women’s Facilities. The primary purpose of the consolidation was to improve fiscal oversight and record keeping. Specifically, CRFO processes essentially all fiscal transactions, such as those relating to cash receipts, disbursements, payroll, and inmate funds, and maintains the related accounting records for those entities, which include the following maximum, minimum, or multi-level security facilities and institutions:

- Baltimore City Correctional Center
- Baltimore Pre-Release Unit
- Brockbridge Correctional Facility
- Central Maryland Correctional Facility
- Central Transport Unit
- Eastern Pre-Release Unit
- Jessup Correctional Institution
- Jessup Pre-Release Unit
- Maryland Correctional Adjustment Center
- Maryland Correctional Institution – Jessup
- Maryland Correctional Institution for Women
- Maryland Correctional Pre-Release System General Administration
- Maryland Reception, Diagnostic and Classification Center
- Metropolitan Transition Center
- Patuxent Institution
- Southern Maryland Pre-Release Unit

Although the consolidation was completed in May 2010, a budget amendment approved in fiscal year 2011 formally established CRFO as a separate budgetary program within DPSCS’s Division of Correction Headquarters effective July 1, 2010. This report represents the results of our first audit of CRFO. Previously, we conducted separate audits and issued separate reports on the Baltimore Region, Jessup Region, Maryland Correctional Pre-Release System, and Patuxent Institution and Women’s Facilities. Separate audits of these entities will no longer be conducted because of the establishment of CRFO.

According to the State's records, fiscal year 2011 expenditures for CRFO and the aforementioned entities totaled approximately \$379 million. In addition, according to DPSCS records, those facilities and institutions housed approximately 9,000 inmates as of June 30, 2011.

Status of Findings From Preceding Audit Reports

Our audit included a review to determine the status of the 22 findings in our preceding audit reports for DPSCS's Baltimore Region dated October 29, 2010 (10 findings), Jessup Region dated July 13, 2010 (4 findings), Maryland Correctional Pre-Release System dated June 8, 2009 (5 findings), and Patuxent Institution and Women's Facilities dated April 9, 2009 (3 findings). As previously mentioned, CRFO now processes the fiscal transactions and maintains accounting records for those entities. We determined that CRFO satisfactorily addressed 18 of the 22 findings. The remaining 4 findings are repeated as 2 findings in this report.

Findings and Recommendations

Inmate Funds

Background

The Department of Public Safety and Correctional Services – Central Region Finance Office (CRFO) maintains inmate funds, which are non-budgeted funds initially deposited with the State Treasurer and recorded in the inmate's personal account on the Maryland Offender Banking System (MOBS). MOBS serves as a record of each inmate's account activity, including funds received and disbursed, as well as the available balance. Inmate funds can be saved, provided directly to inmates in certain circumstances, such as upon their release, or inmates can direct the institutions to disburse these funds to third parties. According to CRFO's records, inmate fund collections and disbursements in fiscal year 2011 totaled \$4.8 million and \$2.7 million, respectively.

Finding 1

CRFO had not fully reconciled its inmate fund records with the corresponding records maintained by the Comptroller of Maryland.

Analysis

CRFO has been unable to fully reconcile the aggregate balance of inmate accounts recorded on its records (MOBS) with the corresponding records of the Comptroller of Maryland. Although CRFO performed monthly reconciliations between current activity posted to MOBS and to the Comptroller's records, CRFO has been unable to resolve the aggregate recurring difference between the two records, which totaled approximately \$309,000 as of June 30, 2011.

Since the June 30, 2011 adjusted MOBS balance of \$2,862,214 exceeded the corresponding balance of \$2,553,204 in the Comptroller's records, the difference is of particular concern, because it implies that inmate funds on deposit with the Comptroller may not be sufficient to cover the aggregate balance of inmate accounts in MOBS. This condition was commented upon in our three preceding audit reports on the Baltimore Region and in our preceding report on the Jessup Region. CRFO believes that the difference relates to undetermined prior years and that it may not be able to resolve the difference. Consequently, the resolution of this difference will require the involvement of certain control agencies such as, the Comptroller's General Accounting Division and the Department of Budget and Management.

Recommendation 1

We recommend that CRFO

- a. on a periodic basis, reconcile the aggregate balance of individual inmate accounts in MOBS with the corresponding records of the Comptroller of Maryland, including the investigation and resolution of all differences (repeat); and**
- b. consult with the Comptroller's General Accounting Division and the Department of Budget and Management as to the proper disposition of the aforementioned difference of \$309,000 if the difference cannot be resolved.**

Finding 2

CRFO had not established procedures to ensure the timely disposition of accounts of former inmates.

Analysis

CRFO had not established procedures to ensure the timely disposition of accounts of former inmates. Specifically, CRFO did not ensure that delinquent inmate accounts (that is, accounts with deficit balances) were submitted to the Department of Budget and Management's Central Collection Unit (CCU) for collection or abatement, or the funds pertaining to unclaimed accounts were forwarded to the Comptroller of Maryland, as required.

After we brought this matter to its attention, beginning on September 28, 2011 CRFO referred 891 delinquent accounts totaling approximately \$87,000 to CCU for collection, including 281 accounts totaling approximately \$27,000 relating to inmates that were released prior to October 2009. In addition, on September 30, 2011 CRFO transferred unclaimed accounts totaling approximately \$223,000 to the Comptroller including, for example, 40 accounts belonging to inmates from the Baltimore Region who had been released in calendar year 2007 or earlier.

A delinquent account balance may arise when charges to an inmate account (for example, an inmate is charged for damage he or she caused to State property) exceed the funds available and the amount owed remains uncollected after the inmate's release. State regulations generally require agencies to transfer delinquent accounts to CCU within 75 days. An unclaimed account balance may arise when, for example, funds are received for an inmate after their release and attempts to remit the funds to the inmate are unsuccessful. State law provides that certain personal property that remains unclaimed for more than three years shall be presumed abandoned and transferred to the Comptroller of Maryland.

Recommendation 2

We recommend that CRFO establish procedures to ensure the timely disposition of accounts of former inmates.

Equipment

Finding 3

Equipment records were not adequately maintained, and certain individuals had unnecessary access to adjust the records.

Analysis

Equipment records were not adequately maintained, and certain individuals had unnecessary access to adjust the records. According to CRFO's records, the aggregate book value of equipment maintained by the facilities served by the CRFO totaled approximately \$13.9 million as of June 30, 2011. Specifically, we noted the following deficiencies:

- Equipment on hand was not always recorded in the detail records. Our test of 15 items sighted at various facilities disclosed 4 items (cameras) that could not be located in the detail equipment records. In addition, our test of 5 equipment purchases totaling \$73,494 disclosed that a purchase totaling \$9,282 (commercial lawn mower) had not been posted to the detail records.
- Equipment items recorded in the detail records could not always be located. Our test of 10 equipment items totaling \$89,618 and recorded in the detail records disclosed that 2 items (camcorder) totaling \$2,143 could not be located.
- User access to update equipment records on CRFO's automated system was not always removed when users no longer needed such access. We noted three individuals with system update capabilities who no longer needed this access for their job responsibilities. In addition, four former employees still had update access according to CRFO's records.

The DGS *Inventory Control Manual* requires that equipment detail records be properly maintained on a current basis. In addition, the *Manual* requires that all capital equipment be recorded in the detail records. Furthermore, access to the automated equipment records should be granted only to current employees who require it for their job responsibilities. Similar conditions relating to the

maintenance of equipment records were commented upon in our three preceding audit reports on the Baltimore Region and in our preceding report on the Jessup Region.

Recommendation 3

We recommend that CRFO

- a. comply with the requirements of the *Inventory Control Manual* by properly maintaining all equipment records on a current basis (repeat),**
- b. ensure that access to the equipment records is provided only to employees who require such access for their job responsibilities, and**
- c. update the equipment records for unrecorded items and investigate the disposition of the missing equipment items.**

Audit Scope, Objectives, and Methodology

We have audited the Department of Public Safety and Correctional Services (DPSCS) – Central Region Finance Office (CRFO). CRFO was established to consolidate the fiscal operations of DPSCS’s Baltimore Region, Jessup Region, Maryland Correctional Pre-Release System, Patuxent Institution, and Women’s Facilities. Previously, we examined those operations through separate audits of those entities and issued separate reports on each (Patuxent Institution and Women’s Facilities were examined in a combined audit). Separate audits of those entities will no longer be conducted. This audit of CRFO included the activity of those entities for the following periods:

Central Region Finance Office – July 1, 2010 to August 21, 2011

Baltimore Region – July 1, 2009 to June 30, 2010

Jessup Region – September 22, 2009 to June 30, 2010

Maryland Correctional Pre-Release System – December 24, 2008 to June 30, 2010

Patuxent Institution and Women’s Facilities – October 1, 2008 to June 30, 2010

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 CRFO’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 contained in our preceding audit reports for the Baltimore Region, Jessup Region, Maryland Correctional Pre-Release System, and Patuxent Institution and Women’s Facilities.

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 cash receipts, procurement and disbursements, equipment, materials and supplies, payroll, and inmate funds. Our audit procedures included inquiries of appropriate personnel, inspections of documents and records, and observations of CRFO’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.

CRFO'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 CRFO'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 CRFO that did not warrant inclusion in this report.

The response from DPSCS, on behalf of CRFO, 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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CORRECTIONAL TRAINING
COMMISSION

MARYLAND PAROLE
COMMISSION

CRIMINAL INJURIES
COMPENSATION BOARD

EMERGENCY NUMBER
SYSTEMS BOARD

SUNDRY CLAIMS BOARD

INMATE GRIEVANCE OFFICE

August 1, 2012

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 Legislative Audit Report dated July 2012 for the Central Region Finance Office (CRFO). The Department appreciates the constructive recommendations that were made as the result of this audit.

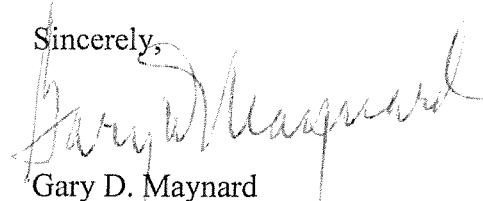
I am pleased that the Legislative Auditors found that the CRFO has satisfactorily addressed 18 of the 22 findings from the previous audits, which included 10 findings from the Baltimore Region, 4 findings from the Jessup Region, 5 findings from MCPRS, and 3 findings from the Patuxent Institution and Women's Facilities. I believe this Draft Legislative Audit Report totally validates the Department's decision to consolidate the fiscal operations of the aforementioned regions and institutions into the CRFO.

Attached is Administrative Services Director Patricia Moore's response to the Draft Legislative Audit Report, with which I concur. Ms. Moore will continue to implement corrective action to address all of the audit findings, and will closely monitor the status in order to prevent any repeat audit findings in the next audit.

August 1, 2012

I trust that this response adequately addresses the findings and recommendations contained in the Draft Legislative Audit Report. If you have any questions regarding the Department's response, please contact me.

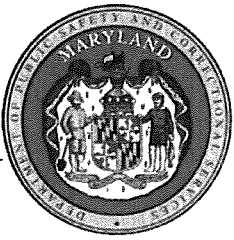
Sincerely,



Gary D. Maynard
Secretary

Attachment

cc: G. Lawrence Franklin, Deputy Secretary, Administration
J. Michael Stouffer, Deputy Secretary, Operations
Susan D. Dooley, Director of Financial Services
Patricia Moore, Director of Administrative Services
Jon P. Galley, Director, Northern Region
Wendell M. France, Director, Central Region
Patricia Vale, Director, South Region
Aubrey Bascombe, Program Manager III
Joseph M. Perry, Inspector General



Department of Public Safety and Correctional Services

Office of the Deputy Secretary, Operations

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STATE OF MARYLAND

MARTIN O'MALLEY
GOVERNOR

August 1, 2012

ANTHONY G. BROWN
LT. GOVERNOR

GARY D. MAYNARD
SECRETARY

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

G. LAWRENCE FRANKLIN
DEPUTY SECRETARY
ADMINISTRATION

J. MICHAEL STOUTER
DEPUTY SECRETARY
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Via

DAVID N. BEZANSON
ASSISTANT SECRETARY
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WENDELL M. FRANCE
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CENTRAL REGION

PATRICIA VALE
DIRECTOR
SOUTHERN REGION

Dear Secretary Maynard:

PATUXENT INSTITUTION

MARYLAND COMMISSION
ON CORRECTIONAL
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COMMISSION

MARYLAND PAROLE
COMMISSION

CRIMINAL INJURIES
COMPENSATION BOARD

EMERGENCY NUMBER
SYSTEMS BOARD

SUNDRY CLAIMS BOARD

INMATE GRIEVANCE OFFICE

Attached are the responses to the Draft Legislative Audit Report dated July 2012, covering the examination of the accounts and records of the Central Region Finance Office (CRFO) for the period beginning July 1, 2010 and ending August 21, 2011. Corrective action will be taken for all the findings noted by the Legislative Auditor as delineated below:

Finding 1:

CRFO had not fully reconciled its inmate fund records with the corresponding records maintained by the Comptroller of Maryland.

Recommendation 1:

We recommend that CRFO

- a. on a periodic basis, reconcile the aggregate balance of individual inmate accounts in MOBS with the corresponding records of the Comptroller of Maryland, including the investigation and resolution of all differences (repeat); and
- b. consult with the Comptroller's General Accounting Division and the Department of Budget and Management as to the proper disposition of the aforementioned difference of \$309,000 if the difference cannot be resolved.

We agree.

- a. The Region will, on a monthly basis, reconcile the aggregate balance of individual inmate accounts in MOBS with the corresponding records of the Comptroller of Maryland, including the investigation and resolution of all differences.
- b. The Department will consult with the Comptroller's General Accounting Division and the Department of Budget and Management as to the proper disposition of the aforementioned difference of \$309,000 if the difference cannot be resolved by June 30, 2013.

Finding 2:

CRFO had not established procedures to ensure the timely disposition of accounts of former inmates.

Recommendation 2:

We recommend that CRFO establish procedures to ensure the timely disposition of accounts of former inmates.

We agree.

Procedures have been established to ensure the timely disposition of accounts of former inmates.

Finding 3:

Equipment records were not adequately maintained, and certain individuals had unnecessary access to adjust the records.

Recommendation 3:

We recommend that CRFO

- a. **comply with the requirements of the *Inventory Control Manual* by properly maintaining all equipment records on a current basis (repeat),**
- b. **ensure that access to the equipment records is provided only to employees who require such access for their job responsibilities, and**
- c. **update the equipment records for unrecorded items and investigate the disposition of the missing equipment items.**

We agree. Effective immediately,

- a. the Region will comply with the requirements of the *Inventory Control Manual* by properly maintaining all equipment records on a current basis;

- b. the Region will ensure that access to the equipment records is provided only to employees who require such access for their job responsibilities; and
- c. the Region will update the equipment records for unrecorded items and investigate the disposition of the missing equipment items.

Sincerely,

A handwritten signature in black ink, appearing to read "Patricia A. Moore". The signature is fluid and cursive, with the first name "Patricia" and last name "Moore" clearly distinguishable.

Patricia A. Moore
Director, Administrative Services

cc: G. Lawrence Franklin, Deputy Secretary, Administration
Susan D. Dooley, Director of Financial Services
Farid Keshavarz, Deputy Director of Financial Services
Patricia Vale, Director, Southern Region
Wendell M. France, Director, Central Region
Jon P. Galley, Director, Northern Region
Aubrey Bascombe, Program Manager III
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