Audit Report

Department of Public Safety and Correctional Services

Baltimore Region

November 2006

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

Bruce A. Myers, CPA
Legislative Auditor

November 27, 2006

Senator Nathaniel J. McFadden, Co-Chair, Joint Audit Committee
Delegate Charles E. Barkley, Co-Chair, Joint Audit Committee
Members of Joint Audit Committee
Annapolis, Maryland

Ladies and Gentlemen:

We have audited the Baltimore Region of the Department of Public Safety and Correctional Services for the period beginning March 20, 2002 and ending January 31, 2006.

Our audit disclosed that, since June 1999, the Region had not renegotiated the daily rate established to obtain reimbursement for the costs of housing federal inmates which resulted in unrecovered State costs estimated at $3.5 million for the period covering fiscal years 2003 to 2006.

Our audit also disclosed that the Region had not established or enforced adequate controls to ensure proper accountability over inmate fund accounts. Procedures to control the related collections, disbursements, and reconciliations were virtually nonexistent.

In addition, the Region had not established sufficient internal controls to help ensure that only authorized purchases and disbursements were made, that only authorized payroll entries were processed, and that accountability for materials, supplies, and equipment was established.

Respectfully submitted,

Bruce A. Myers, CPA
Legislative Auditor

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

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Executive Summary

Legislative Audit Report on the Department of Public Safety and Correctional Services – Baltimore Region
November 2006

- **The daily billing rate established in April 1999 to recover the Region's costs to temporarily house federal prisoners had not been renegotiated as allowed by contract, resulting in as much as $3.5 million of unrecovered State costs.**

  The Region should immediately evaluate its costs to hold federal prisoners and renegotiate the contractual billing rate annually, if necessary, to ensure full recovery of its costs.

- **The Region did not establish adequate control and accountability over inmate fund accounts. Procedures over collections, disbursements, and reconciliations for these funds were virtually nonexistent. For example, the total of the inmate accounts, as reflected in the Region's records, exceeded the State's balance by $429,574, certain checks were issued without being signed by authorized check signers, and numerous counterfeit checks were presented for payment.**

  The Region, in collaboration with the Department, should immediately investigate the conditions of the inmate fund accounts at the Region and establish proper controls over collections, disbursements, and reconciliations for inmate accounts. Furthermore, the Region should seek help from the Department to ensure that the established controls are fully complied with on an ongoing basis.

- **Proper internal controls were not established over certain disbursement transactions as three employees could both initiate and approve these transactions and a critical logonid was shared among employees.**

  The Region should fully use the security features available on the Financial Management Information System (FMIS) to ensure that only properly authorized disbursement transactions are processed. Also, the Region should ensure that unique FMIS logonids are not shared with other employees at any time.

- **Proper internal controls were not established over certain payroll functions.**

  The Region should ensure that supervisory personnel document their review of adjustments recorded on the electronic payroll timekeeping reports. In addition, supervisors should document their approvals for employees to work overtime. Also, the Region should ensure that a unique logonid is used by each employee responsible for entering payroll data into the system.

- **The Region did not promptly cancel corporate purchasing card accounts of former employees, and did not retain vendor documentation to support certain purchases.**

  The Region should comply fully with the Comptroller of the Treasury's *Corporate Purchasing Card Program Policy and Procedures Manual* regarding timely cancellation of cards and maintaining proper vendor documentation to support purchases.

- **Numerous accountability and control deficiencies were noted with respect to the Region's materials and supplies and equipment inventories. For example, perpetual inventory records were not maintained for the Region's ammunition.**

  The Region should comply with all requirements of the Department of General Services *Inventory Control Manual* for all materials and supplies and equipment. The Region should also include ammunition in the perpetual inventory records and separate the duties of inventory custodians from that of inventory taking for ammunition.

Background Information

Agency Responsibilities

The Baltimore Region is a separate budgetary unit within the Division of Correction in the Department of Public Safety and Correctional Services (DPSCS) and consists of several units and facilities for adult male offenders.

Facilities Within the Division of Correction's Baltimore Region	
Facility	**Security Level or Mission**
Maryland Correctional Adjustment Center	Maximum Security
Maryland Reception, Diagnostic, and Classification Center	
Metropolitan Transition Center	Medium/Minimum Security
Baltimore City Correctional Center	Minimum Security
Baltimore Pre-Release Unit	
Home Detention Unit	Monitors inmates that are allowed to live in the community by using electronic surveillance and frequent contacts by correctional staff

As of May 15, 2006, according to its records, the Region had a total population of 3,405 inmates. According to the State's records, total Region expenditures were approximately $97.4 million during fiscal year 2005, and the Region's fiscal year 2006 appropriation provided for 1,369 employee positions, including 1,106 correctional officers.

Current Status of Findings From Preceding Audit Report

Our audit included a review to determine the current status of the eight fiscal/compliance findings contained in our preceding audit report dated September 30, 2002. We determined that the Region satisfactorily addressed three of these eight findings. The remaining five findings are repeated and appear as six findings in this report. In its response to our preceding audit report, the Department of Public Safety and Correctional Services, on behalf of the Region, generally agreed to implement the recommendations related to those findings.

Findings and Recommendations

Federal Inmate Housing

Finding 1
The daily rate, established in April 1999 to recover the Region's costs to hold federal prisoners, has not been renegotiated as allowed for by the contract. This resulted in approximately $3.5 million of unrecovered State expenditures during a four-year period.

Analysis
The daily rate of $132, established in April 1999 to recover the Region's costs to hold federal prisoners, has not been renegotiated as allowed by the contract, resulting in unrecovered State expenditures. The contract with the U.S. Department of Justice provides for the reimbursement of the costs for housing, safekeeping, and subsistence of federal prisoners, and may be renegotiated once per year.

Based on DPSCS records, we estimated that the Region's daily cost per inmate to house federal prisoners has increased during the audit period to $162 in fiscal year 2006. Based on cost data obtained from the State's records for fiscal years 2003 through 2006, we estimated that the unrecovered costs for all of these years totaled approximately $3.5 million (with fiscal year 2006 estimated to be $1.4 million).

Recommendation 1
We recommend that the Region immediately calculate its costs to hold federal prisoners and renegotiate the contractual daily housing rate annually, as necessary, to ensure full recovery of its costs.

Inmate Accounts

Background
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. Collections received by the Region on behalf of inmates totaled $2.1 million in fiscal year 2005 and $1.1 million during the first half of fiscal year 2006.

The conditions described below in Findings 2 through 5, when taken as a whole, indicate an almost complete lack of control and accountability over inmate funds by the Region. These conditions are highly conducive to fraudulent activity, although our testing did not disclose any specific fraudulent transactions by employees.

Finding 2
The Region had not reconciled the aggregate balance of inmate accounts with the corresponding records of the Comptroller of the Treasury, resulting in an unreconciled difference of approximately $430,000.

Analysis
The Region had not reconciled the aggregate balance of inmate accounts per its records (that is, the Maryland Offender's Banking System, or MOBS) with the corresponding records of the Comptroller of the Treasury. Although a reconciliation was attempted for June 2005, all differences were not identified, and differences that were identified were not resolved. As of January 31, 2006, the total of the individual inmate accounts per MOBS of $498,377 exceeded the Comptroller's balance of $68,803 by $429,574. A similar condition was commented upon during our preceding audit report. Specifically, as noted in our prior audit report, as of March 31, 2002, the total of the individual inmate accounts exceeded the Comptroller's balance of $262,000 by $124,000.

Recommendation 2
We again recommend that the Region periodically reconcile the aggregate balance of the individual inmate accounts with the corresponding records of the Comptroller of the Treasury, that all differences be investigated and resolved, and that these actions be documented and retained for future reference. Also, given the overall lack of adequate controls and accountability over inmate fund collections and the significance of the problems noted in this report, we recommend that appropriate DPSCS personnel conduct a thorough review and investigation of the issues and assist in developing appropriate procedures and controls to safeguard these funds.

Finding 3
The Region had not established adequate procedures to account for and reconcile inmate working funds and to ensure the propriety of all inmate funds checks presented to the bank for payment.

Analysis
The Region had not established adequate procedures to account for inmate working funds and to ensure the propriety of related check activity. Our review disclosed the following deficiencies:

- Reconciliations of the inmate working fund checking account and composition of funds analyses to account for the $65,800 of inmate working funds advanced from the Comptroller of the Treasury had not been completed since October 1999. Consequently, the Region's accounting records could not be relied upon to determine the accuracy of the Region's reported checking account balance. We attempted to perform a composition of funds, as of January 31, 2006, and we determined that the Region could not account for approximately $16,900 (or 26 percent) of the authorized advance.

- During our review of cancelled checks issued during the first half of fiscal year 2006, we identified twelve inmate working fund checks, totaling $586 that were issued and cashed without being signed by authorized check signers, as required, to ensure the propriety of the disbursements. Eight of these checks were not signed at all and the other four had the signature of an unauthorized person. Our review of the related supporting documentation indicated that these disbursements appeared proper.

- In a July 15, 2005 letter from its bank, the Region was advised that the inmate working fund checking account had been compromised. Specifically, numerous counterfeit checks had been presented for payment, totaling approximately $6,700 and, as a result, the bank recommended instituting Positive Pay.[1] The bank also indicated that it would no longer provide indemnification for counterfeit activity[2] without a preventive measure for the account. In response, the DPSCS Internal Investigation Unit investigated the situation and determined that the

[1] Positive Pay is a process whereby the bank is provided with a listing of all authorized checks at the time of their preparation, which is then compared by the bank to checks presented for payment to ensure their legitimacy.
[2] We were advised that at no time either before or after the receipt of the May 12, 2006 letter did the bank hold the Region responsible for payment of any counterfeit checks.

counterfeit checks were not the result of an internal problem and referred the matter to local police authorities. As of May 12, 2006, counterfeit checks were still being presented to the bank. Although the Region had not instituted Positive Pay, it did institute an alternative procedure whereby the Region reviewed the daily account activity recorded by the bank for counterfeit checks and notified the bank of any such checks. Although this process would detect counterfeit checks, it increases the risk for human error and is more labor-intensive than an automated Positive Pay process.

Due to the significant problems experienced by the Region concerning accountability over inmate working funds, beginning in June 2005, the DPSCS – Office of the Secretary finance personnel began assisting Region personnel with the reconciliations and the fund compositions. However, full and complete accounting for these funds had not yet been achieved as of May 2006.

According to the Region's records, during fiscal year 2005, inmate fund disbursements totaling $756,096 were processed through the inmate working fund checking and petty cash accounts. Fiscal year 2006 (through April 10, 2006) disbursements through the inmate work fund accounts totaled $633,197.

Recommendation 3
We recommend that the Region complete and document inmate working fund bank reconciliations and composition of funds analyses on a monthly basis, investigating and resolving any differences identified. We also recommend that the Region ensure that all checks issued are signed by authorized check signers, as required, and that a Positive Pay system for the checking account be instituted.

Finding 4
The Region has not established adequate procedures to investigate and resolve inmate accounts with negative balances.

Analysis
The Region had not investigated and resolved inmate accounts with negative balances, which represent debts owed to the State. Furthermore, the Region did not establish accounts receivable for inmate accounts with negative balances in order to ensure collection of these receivables upon the inmates' release.

Even though records indicate that the Region took action in July 2004 and April 2005 to investigate and to attempt to resolve certain accounts, significant negative balances continued to exist. The Region indicated that the primary reason for accounts having negative balances is that inmates are charged for State property they destroyed while incarcerated. As a result of the April 2005 investigation of selected accounts, the Region submitted 4 accounts, totaling $2,121, to the State's Central Collection Unit for collection efforts and 6 accounts, totaling $80, for abatement. A February 2006 report generated by the Region, which we did not verify, identified 7,422 inmate accounts with negative balances totaling $105,253, including 75 accounts with negative balances in excess of $100 that had been inactive from one to twelve years (for instance, one account had a negative balance of $1,296). A similar situation was commented upon in our preceding audit report in which we noted that an April 2002 report generated by the Region identified 2,581 inmate accounts with negative balances totaling approximately $28,000 that had been inactive for periods ranging from 1 to 9 years.

Recommendation 4
We again recommend that the Region investigate and resolve negative balances for inmate accounts in a timely manner. We also recommend that, when inmates with negative account balances are released, the Region establish accounts receivable and comply with CCU regulations for collection of these receivables.

Finding 5
The Region did not establish adequate controls over collections received on behalf of inmates.

Analysis
The Region did not establish adequate controls over collections received on behalf of inmates to reduce the risk of loss or misappropriation. The Region received inmate collections, which were recorded on pre-numbered receipt forms, at its finance office and at each of six institutions. Three of the institutions deposited the funds directly, while the other three forwarded them to the Region's finance office for subsequent deposit. As previously stated, collections received by the Region on behalf of inmates totaled approximately $2.1 million in fiscal year 2005 and approximately $1.1 million in fiscal year 2006 (as of December 31, 2005). Our review disclosed the following specific deficiencies:

- Certain deposit verifications were inadequate and were not always performed. For example, the validated deposit slips for collections initially received by three institutions and forwarded to the finance office were not compared to the pre-numbered receipt forms initially prepared by the applicable institutions.

Based on records maintained by the Finance Office, deposits from collections received by these three units during fiscal years 2005 and 2006 (through December 2005) totaled approximately $1.2 million and $600,000 respectively. A similar condition was commented upon in our two preceding audit reports.

- The pre-numbered receipt forms used by the finance office were not adequately accounted for as to issued, voided, or on hand. For example, the process used by the Region to account for pre-numbered receipts only tested certain receipts rather than accounting for all receipts, and even this process was not performed timely or consistently. As of April 20, 2006, the Region's most recent test was for pre-numbered receipts issued in September 2005, and this test had not determined that all receipts selected for review were properly accounted for. A similar condition was commented upon in our preceding audit report.

- There was no documentation evidencing the transfer of collections from two of the institutions to the finance office, and consequently, accountability over these receipts was not maintained.

- Checks received at one institution were not restrictively endorsed "for deposit only" immediately upon receipt. Rather, the checks were restrictively endorsed after being transferred to the finance office for deposit (which was sometimes not until the next business day).

Recommendation 5
We again recommend that appropriate controls and processes be established to account for collections. Specifically, we recommend that the Region perform an independent verification that all recorded collections are subsequently deposited by comparing all amounts recorded on the pre-numbered receipt forms with the validated deposit ticket, and that the Region periodically account for all pre-numbered receipt forms as to issued, voided, or on hand for all units. We also recommend that the Region ensure that documentation exists to support the transfer of cash receipts to the finance office, and that all checks are restrictively endorsed "for deposit only" immediately upon receipt.

Disbursements

Finding 6
Proper internal controls were not established over certain disbursement transactions.

Analysis
The Region did not fully use the security features available on the State's Financial Management Information System (FMIS) to establish proper internal controls over certain disbursement transactions, and a critical FMIS logonid was shared among employees. As a result of these internal control deficiencies, unauthorized transactions could be processed without detection. We noted the following specific conditions:

- Three Region employees could both initiate and approve certain disbursement transactions in which related invoices were not subject to an electronic matching with purchase orders and/or receiving reports. In addition, one of the employees could add vendors to the system. According to the State's accounting records, during fiscal year 2005, the Region processed $6.3 million of these disbursements, of which $2 million were both initiated and approved by the same employee. Similar conditions were commented upon in our three preceding audit reports.

- Employees who were responsible for recording vendor transactions into FMIS were, on occasion, provided a supervisor's FMIS logonid to process transactions after their logonids had expired. The supervisor had the ability in FMIS to initiate and approve certain disbursement transactions and to add vendors to the system. This sharing of logonids resulted in a loss of accountability over FMIS transactions, and in reduced assurance over the propriety of certain disbursement transactions processed by the Region.

Recommendation 6
We again recommend that the Region fully utilize the security features available on FMIS to ensure that only properly authorized disbursement transactions are processed for payment. We also recommend that the unique FMIS logonids assigned to each employee not be shared with other employees at any time.

Payroll

Finding 7
Proper internal control had not been established over the Region's payroll.

Analysis
Proper internal control over the Region's payroll had not been established. Specifically, the supervisory employees who approved the payroll timekeeping reports did not document that they had reviewed, for propriety and accuracy, the supporting documentation (such as overtime authorization forms) for payroll adjustments prior to their electronic release to the State's Central Payroll Bureau. Without verifying the propriety of payroll adjustments, errors and unauthorized adjustments could be processed without detection. For example, our test of overtime payments to ten employees for one pay period disclosed that overtime authorization forms were not available to support 191 hours (36 percent) of the 526 hours of overtime paid. In addition, two of the ten overtime payments tested were incorrectly calculated because the number of overtime hours paid did not agree to the total overtime hours shown on the time cards. We were advised that the Region later adjusted the employee's pay for these errors.

Also, three Region employees (including one supervisor) shared one logonid to record regular payroll entries, including overtime adjustments, into the State's payroll system. As a result, the accountability and propriety of regular payroll entries, including overtime adjustments, was not ensured.

According to the State's accounting records, regular employee payroll expenditures for the Region totaled approximately $48.6 million during fiscal year 2005, including approximately $2.9 million in overtime payments.

Recommendation 7
We recommend that supervisory personnel document their review of support for adjustments recorded on the electronic payroll timekeeping reports, at least on a test basis, and retain documentation of this review for future reference. We also recommend that overtime hours be paid only when properly documented authorization (such as a signed pre-authorization of overtime by the supervisor) exists and for the correct amount(s). Finally we recommend that a unique logonid be used by each employee responsible for recording payroll data.

Corporate Purchasing Cards

Finding 8
The Region did not promptly cancel corporate purchasing card accounts for terminated employees and did not retain vendor documentation to support certain purchases.

Analysis
The Region did not promptly cancel corporate purchasing card accounts for employees no longer working for the Region, and did not retain vendor documentation to support certain purchases:

- Four employees' cards remained active for periods ranging from 6 to 12 months after their employment with the Region ended. The Comptroller of the Treasury's *Corporate Purchasing Card Program Policy and Procedures Manual* states that purchasing cards must be cancelled immediately upon employee separation.

- Five transactions (totaling $8,160) out of 32 transactions (totaling $36,492) reviewed were not supported by adequate vendor documentation. The *Manual* requires that all purchasing card transactions be supported with a descriptive vendor document such as a sales slip, packing slip, repair order or invoice.

As of January 2006, 14 employees were issued corporate purchasing cards, and purchasing card expenditures totaled $999,428 during fiscal year 2005 according to the State's accounting records.

Recommendation 8
We recommend that the Region fully comply with the requirements of the Comptroller's *Corporate Purchasing Card Program Policy and Procedures Manual*, including the prompt cancellation of terminated employees' cards and the maintenance of proper vendor documentation to support every purchasing card transaction.

Materials and Supplies

Finding 9
Procedures and controls over the Region's materials and supplies inventory, including the issuance and accountability for ammunition, were inadequate.

Analysis
Procedures and controls over the Region's materials and supplies inventory, including the issuance and accountability for ammunition, were inadequate. For example, we noted the following deficiencies:

- Requisition forms issued from the Region's storerooms could be altered after the issuance of goods, and additional items could be removed without detection because the storeroom custodians had access to all three copies of the requisition forms before two copies were forwarded to the inventory clerk for updating the perpetual records. Additionally, we noted several instances in which the requisition forms were not approved by the warden, as required.

- Differences between perpetual inventory record balances and physical inventories were not investigated and resolved, and related adjustments that were recorded generally were not approved by management as required. That is, the perpetual inventory records were adjusted for differences without investigation as to the cause or need for the adjustment. In addition, our physical count of 15 inventory items disclosed 7 differences totaling $3,867 between the physical quantities on hand and the quantities per the perpetual inventory records. The Region could not explain these differences. Similar conditions were commented upon in our preceding audit report.

- Perpetual inventory records were not maintained for ammunition. Rather, monthly physical counts of ammunition were conducted and recorded on an Armory Inventory/Inspection Sheet; however, the counts were conducted by an individual who had unrestricted access to the ammunition and, therefore, was not independent. Furthermore, an independent verification of the accuracy of the counts by the security chief was not performed. Finally, required written authorizations from the warden for withdrawals of ammunition from stock were not obtained. Consequently, our test counts found differences between the physical quantities on hand and the Inventory/Inspection Sheets. For example, the January 2006 Inventory/Inspection Sheet indicated that there were 1,075 more rounds of shotgun shells than the actual quantity on hand at the time of our count, and there were no records to indicate any authorized use subsequent to the date of the Inventory/Inspection Sheet.

As a result of the aforementioned deficiencies, the Region's management may not readily detect any misappropriations or irregularities involving its materials and supplies inventories, including ammunition. The Department of General Services (DGS) *Inventory Control Manual* establishes certain requirements regarding internal controls and related recordkeeping to be followed by State agencies. While the *Manual* does not specifically address recordkeeping requirements for ammunition, we were advised by DGS personnel that recording ammunition quantities in the Region's perpetual inventory would be an appropriate means of maintaining accountability. The Region spent approximately $2.1 million during fiscal year 2005 for materials and supplies, including approximately $30,000 for ammunition, and reported an on-hand book value of $975,653 as of June 30, 2005.

Recommendation 9
We again recommend that the Region comply with the requirements of the DGS *Inventory Control Manual*. Specifically, we recommend that inventory clerks who maintain the perpetual inventory records periodically compare the requisition copies used for inventory posting to the copies provided to the employees receiving the goods, at least on a test basis, and ensure that all required signatures are present. We also again recommend that differences between the physical quantities on hand and the related perpetual records be investigated and resolved by an employee who does not have access to the materials and supplies stock and that inventory adjustments be reviewed and approved by supervisory personnel, as required. Finally, we recommend that the Region include ammunition in the perpetual inventory records, and establish appropriate accountability and separation of duties between access and recordkeeping.

Equipment

Finding 10
Adequate control and accountability over equipment, including security items such as bulletproof vests, was not established.

Analysis
The Region had not established proper controls over its equipment inventory and had not complied with the requirements of the DGS *Inventory Control Manual*. As of June 30, 2006, the book value of the Region's equipment, as reflected in the State's records, totaled approximately $6.9 million. Specifically, we noted the following deficiencies:

- The Region did not maintain an equipment control account independent from the detail inventory records, nor did it periodically reconcile the control account to the detail records. The unreconciled difference as of January 31, 2006 totaled $1,776,523 (that is, the total per the detail records exceeded the control account balance). A control account provides a continuing summary of transactions and a total dollar value control over amounts recorded in the capital equipment detail records. The DGS *Inventory Control Manual* requires that an independent equipment control account be maintained and reconciled, at least quarterly, with the aggregate balance of the related detail records.

- As of February 23, 2006, the results of the physical inventories conducted during September 2005 had been investigated, but had not been fully resolved. The Region had determined that 1,427 missing items, valued at $470,819, had been lost or stolen; however, these items had not been reported to DGS for disposal authorization. Per the DGS *Inventory Control Manual,* a Report of Missing or Stolen Personal State Property shall be forwarded to DGS within 10 working days of discovery of the loss.

- The detail records did not include equipment items that were to be controlled. For example, three equipment purchases, totaling $60,563 (consisting of a car, 92 bullet-proof vests, and assorted riot gear), of six equipment purchases tested, totaling $151,979, were not recorded in the detail records. Also, 2 of 15 assets sighted on the Region's premises (including a rifle) could not be found in the detail records. Finally, 3 of 15 items selected from the detail records (including a 32 inch TV) could not be physically located by Region personnel.

Similar conditions regarding the maintenance of a control account were commented upon in our four preceding audit reports. The remaining conditions were also commented upon in our preceding audit report.

Recommendation 10
We again recommend that the Region establish proper controls over equipment and comply with the requirements of the DGS *Inventory Control Manual*.

Audit Scope, Objectives, and Methodology

We have audited the Baltimore Region of the Department of Public Safety and Correctional Services for the period beginning March 20, 2002 and ending January 31, 2006. The audit was conducted in accordance with generally accepted government auditing standards.

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 current 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. 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.

Our audit scope was limited with respect to the Region's cash transactions because the Office of the State Treasurer was unable to reconcile the State's main bank accounts during the audit period. Due to this condition, we were unable to determine, with reasonable assurance, that all the Region's cash transactions were accounted for and properly recorded on the related State accounting records as well as the banks' records.

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 relating 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.

Department of Public Safety and Correctional Services

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November 21, 2006

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 November 2, 2006, draft audit report of the **Baltimore Region**, which consists of six **Division of Correction (DOC)** units and facilities for adult male offenders including: the **Maryland Correctional Adjustment Center (MCAC)**, the **Maryland Reception, Diagnostic, and Classification Center (MRDCC)**, the **Metropolitan Transition Center (MTC)**, the **Baltimore City Correctional Center (BCCC)**, the **Baltimore Pre-Release Unit (BPRU)**, and the **Home Detention Unit (HDU)** for the period beginning March 20, 2002 and ending January 31, 2006. The Region, as well as the Department, strives to ensure that the complex business functions and operations of all the facilities/units are managed properly. Accordingly, we acknowledge the importance of each audit finding and appreciate the constructive recommendations that were made as a result of this audit. In fact, as a result of the Region's commitment to improve the efficiency and effectiveness of their operations, steps were taken to implement several of the auditor's recommendations prior to the issuance of this report to ensure the utilization of proper internal controls.

It should be noted that during or subsequent to this audit period, there have been significant initiatives and achievements by the Region that were designed to improve customer service to Maryland's citizens by increasing economy and efficiency, creating safer communities, and enhancing relationships with local governments and other stakeholders that share a mutual vision. The following is a brief synopsis of some of the initiatives/achievements made:

- Additional security equipment and/or the replacement of existing security equipment was made a priority purchase in order to ensure the safety of employees, the public, and inmates. The equipment includes Stab Vests, for correctional officers who work within the institutions, Hand-Scanners, and Secure Scan. Secure Scan is located at the front entrances of MRDCC and is a more sophisticated technology for detecting contraband such as drugs, tobacco products, cell phones, and weaponry.

- Volunteers continue to provide programs and reentry resources to inmates assigned to MTC. An intensive drug treatment program helps chronic users focus on, and change, their addictive behaviors. This program, provided to inmates through private funding, also ensures after care services to individuals upon their release.

- The Man Alive Methadone Program provides clinical administration of methadone to inmates with histories of heroin addiction who indicate that they would benefit from this treatment. This program also provides after care services and follows prisoner's progress when they are released.

- The Living Classroom Foundation provides marketable skills and training to former inmates to assist with the revitalization of their communities. Inmates that are released to high crime areas are selected and given employment opportunities, counseling services, training sessions, individual sessions, and are also provided with support group assistance.

Attached is Assistant Commissioner France's response to the draft audit report, with which I concur. Corrective action has been or will be implemented for all audit findings and recommendations. I trust that this responds to your request. If you have any questions concerning this correspondence, please contact me.

Sincerely,

Mary Ann Saar

Mary Ann Saar
Secretary

Attachment

c: Mary L. Livers, Ph.D., Deputy Secretary for Operations, DPSCS
G. Lawrence Franklin, Deputy Secretary for Administration, DPSCS
John A. Rowley, Acting Commissioner, DOC
Wendell France, Assistant Commissioner, DOC
Felicia Hinton, Warden, MRDCC
Lehrman Dotson, Warden, MCAC
Wayne Hill, Warden, MTC
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Department of Public Safety and Correctional Services

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DIVISION OF CORRECTION

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DIAGNOSTIC AND
CLASSIFICATION CENTER

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November 21, 2006

The Honorable Mary Ann Saar
Secretary of the Department of Public Safety & Correctional Services
300 East Joppa Road - Suite 1000
Towson, Maryland 21286-3020

via

Mr. John A. Rowley JR
Acting Commissioner
Division of Correction
Plaza Office Center - Suite 310
6776 Reisterstown Road
Baltimore, Maryland 21215-2342

Re: Legislative Audit for the Division of Correction - Baltimore Region

Dear Secretary Saar:

Attached are the responses to the draft Legislative Audit report dated November 2, 2006 covering the examination of the accounts and records of the Baltimore Region for the period beginning March 20, 2002 and ending January 31, 2006. Corrective action will be taken for all the findings noted by the Legislative Auditor as delineated below:

Finding #1 - The daily rate, established in April 1999 to recover the Region's costs to hold federal prisoners, has not been renegotiated as allowed for by the contract. This resulted in approximately $3.5 million of unrecovered State expenditures during a four-year period.

We agree. The Department will evaluate the costs incurred to house federal prisoners and investigate the feasibility of annually renegotiating the contractual per diem rate to ensure full recovery of its costs. The Region will ensure that any renegotiated rates are properly used when billing the federal government and fully collected.

Finding #2 - The Region had not reconciled the aggregate balance of inmate accounts with the corresponding records of the Comptroller of the Treasury, resulting in an unreconciled difference of approximately $430,000.

We agree. The Region will periodically reconcile the aggregate balance of the individual inmate accounts with the corresponding records of the Comptroller of the Treasury and all differences will be investigated and resolved. These reconciliations will be documented and retained for future reference. Finally, to improve the controls and accountability over inmate fund collections, the Department will conduct a review of inmate fund issues and ensure the development of appropriate procedures and controls.

Finding #3 - The Region had not established adequate procedures to account for and reconcile inmate working funds and to ensure the propriety of all inmate funds checks presented to the bank for payment.

We agree. The Region will properly complete and document inmate working fund bank reconciliations and composition of funds analyses on a monthly basis. In addition, the Region will immediately investigate and resolve any differences identified as a result of these reconciliations and composition of funds analyses. All documentation, including investigation results will be retained for future reference. The Region will also ensure that no checks are issued without being properly signed by an authorized check signer, and that a Positive Pay system for the checking account is instituted.

Finding #4 - The Region has not established adequate procedures to investigate and resolve inmate accounts with negative balances.

We agree. The Region will investigate and resolve, as practicable, negative balances for inmate accounts in a timely manner. When inmates with negative account balances are released, the Region will establish an accounts receivable and comply with CCU regulations for collection of these receivables. When collection is not deemed feasible or amounts are immaterial, the Region will request approval from CCU to properly write-off the negative balances.

Finding #5 - The Region did not establish adequate controls over collections received on behalf of inmates.

We agree. Appropriate controls and processes will be established to account for collections. Specifically, the Region will perform an independent verification that all recorded collections are subsequently deposited by comparing all amounts recorded on the pre-numbered receipt forms with the validated deposit ticket. The Region will periodically account for all pre-numbered receipt forms as to issued, voided, or on hand for all units.

Additionally, the Region will ensure that documentation exists to support the transfer of cash receipts to the finance office, and also that all checks are restrictively endorsed “for deposit only” immediately upon receipt.

Finding #6 - Proper internal controls were not established over certain disbursement transactions.

We agree. The Region will fully utilize the security features available on FMIS to ensure that only properly authorized disbursement transactions are processed for payment. The unique FMIS logon IDs assigned to each employee will not be shared with other employees at any time.

Finding #7 - Proper internal control had not been established over the Region’s payroll.

We agree. Supervisory personnel will document their review of support for adjustments recorded on the electronic payroll timekeeping reports, at least on a test basis, and documentation of this review will be retained for future reference. In addition, overtime hours will be paid only when properly documented authorization exists and for the correct amount(s). Finally, a unique logon ID will be used by each employee responsible for recording payroll data.

Finding #8 - The Region did not promptly cancel corporate purchasing card accounts for terminated employees and did not retain vendor documentation to support certain purchases.

We agree. The Region will fully comply with the requirements of the Comptroller’s *Corporate Purchasing Card Program Policy and Procedures Manual*, including the prompt cancellation of terminated employees’ cards and the maintenance of proper vendor documentation to support every purchasing card transaction.

Finding #9 - Procedures and controls over the Region’s materials and supplies inventory, including the issuance and accountability for ammunition, were inadequate.

We agree. The Region will comply with the requirements of the DGS *Inventory Control Manual*. Specifically, the inventory clerks who maintain the perpetual inventory records will periodically compare the requisition copies used for inventory posting to the copies provided to the employees receiving the goods, at least on a test basis, and ensure that all required signatures are present. Also, the differences between the physical quantities on hand and the related perpetual records will be investigated and resolved by an employee who does not have access to the materials and supplies stock. Additionally, inventory adjustments will be reviewed and approved by supervisory personnel, as required. Finally, the Region will include ammunition in the perpetual inventory records, and establish appropriate accountability and separation of duties between access and recordkeeping.

Finding #10 - Adequate control and accountability over equipment, including security items such as bullet-proof vests, was not established.

We agree. The Region will establish proper controls over equipment and comply with the requirements of the DGS *Inventory Control Manual*.

Sincerely Yours,

Wendell France
Assistant Commissioner
Division of Correction

cc: Mary L. Livers, Ph.D., Deputy Secretary
G. Lawrence Franklin, Deputy Secretary
Susan D. Dooley, Director, Division of Financial Services, DPSCS
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