

Audit Report

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**Department of Public Safety and Correctional Services  
Maryland Correctional Enterprises**

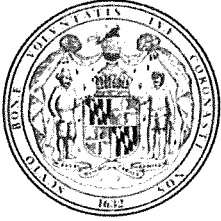
January 2012

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**OFFICE OF LEGISLATIVE AUDITS**  
DEPARTMENT OF LEGISLATIVE SERVICES  
MARYLAND GENERAL ASSEMBLY

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Karl S. Aro  
Executive Director

DEPARTMENT OF LEGISLATIVE SERVICES  
OFFICE OF LEGISLATIVE AUDITS  
MARYLAND GENERAL ASSEMBLY

Bruce A. Myers, CPA  
Legislative Auditor

January 24, 2012

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 Maryland Correctional Enterprises (MCE) for the period beginning January 5, 2009 and ending July 31, 2011. MCE, which is a unit within the Department of Public Safety and Correctional Services (DPSCS), provides programs that provide work experience or rehabilitation for eligible Division of Correction inmates.

Our audit disclosed that MCE did not ensure that inmates, who processed physician claims under the State's Medicaid program on behalf of the Department of Health and Mental Hygiene, were prohibited from accessing the personal information of others (such as, social security numbers), as required by State law.

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

Respectfully submitted,

A handwritten signature in black ink that reads "Bruce A. Myers".

Bruce A. Myers, CPA  
Legislative Auditor



## **Background Information**

### **Agency Responsibilities**

The Maryland Correctional Enterprises (MCE) is organized under the State of Maryland's Department of Public Safety and Correctional Services (DPSCS) and is a unit within the Department's Division of Correction. MCE operates under the provisions of the Correctional Services Article of the Annotated Code of Maryland. The Code provides, in part, that MCE develop programs that provide work experience or rehabilitation for eligible Division of Correction inmates. The Code also provides that MCE be financially self-supporting. The goods produced (for example, license plates, furniture, meat products, printing) and services offered (for example, data entry) by MCE are available to State and federal agencies, political subdivisions, and any charitable, civic, educational, fraternal, or religious agency, association, or institution (for their own use and not for resale to others), or as otherwise indicated in the law.

According to the State's records, MCE's fiscal year 2011 operating revenue and operating expenses were \$50.5 million and \$49.2 million, respectively, and its net operating income for fiscal year 2011 totaled \$1.3 million.

### **Financial Statement Audits**

For fiscal years 2011, 2010, and 2009, MCE engaged an independent accounting firm to perform the audit of MCE's financial statements. In the related audit reports, the firm stated that MCE's financial statements presented fairly, in all material respects, the financial position of MCE and the results of its operations and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

### **Federal Fund Settlement**

The United States Department of Health and Human Services (HHS) conducted an analysis of MCE's working capital reserve (retained earnings) for fiscal years 2007, 2008, and 2009. HHS concluded that MCE was not in compliance with the requirements of the federal Office of Management and Budget (OMB) *Circular A-87*. According to OMB *Circular A-87*, internal service funds that bill for goods and services involving federal funds are allowed to retain a working capital reserve of up to 60 days cash expenditures and the federal fund share of any excess funds must be reverted to HHS. Since MCE is an internal service fund that bills other State agencies for goods and services, and those agencies may use federal funds for payment, it must comply with this OMB requirement.

As a result of the HHS analysis, an independent consulting firm under contract with the Department of Budget and Management (DBM) was hired to review MCE and departmental records to investigate this matter and negotiate with HHS to obtain a resolution. On September 2, 2011, HHS issued a determination requiring MCE to refund the federal share of the excess reserves and related interest totaling \$391,945. This amount was calculated by DBM's consulting firm and represented the federal share of excess reserves in MCE's fund as of June 30, 2009. MCE agreed with this amount and paid HHS on September 7, 2011. We were advised that HHS is conducting a similar analysis for fiscal years 2010 and 2011; however, the results had not been finalized as of the end of our audit.

### **Status of Finding From Preceding Audit Report**

Our audit included a review to determine the status of the finding contained in our preceding audit report dated April 8, 2009. We determined that the Office satisfactorily addressed this finding.

## **Findings and Recommendations**

### **Inmate Access to Personal Information**

#### **Finding 1**

**Maryland Correctional Enterprises (MCE) did not ensure that inmates were prohibited from accessing the personal information of others, as required by State law.**

#### **Analysis**

MCE did not ensure that inmates were prohibited from accessing the personal information of others (such as, social security numbers), as required by State law. On behalf of the Department of Health and Mental Hygiene (DHMH), MCE used inmates to enter claims submitted by physicians under the State's Medicaid program into DHMH's Medicaid Management Information System (MMIS II). Specifically, DHMH provided the health insurance claim forms to MCE which used a computer program to redact social security numbers before providing them to inmates for data entry into MMIS II. However, we noted that only those social security numbers located on the top right side of the forms were redacted, and our review disclosed that, although infrequently, social security numbers for the recipient and/or the provider appeared in other locations on the forms. Since these social security numbers were not redacted, they remained accessible to the inmates responsible for data entry. MCE was unaware of this situation until we

brought it to its attention. Although MCE was unable to readily provide a total number of health insurance claim forms entered into MMIS II by inmates for fiscal year 2011, our review disclosed that, for two days in July 2011, inmates entered approximately 3,000 claim forms.

Effective June 1, 2011, State law prohibits programs conducted by MCE from allowing an inmate to have access to the personal information of others, such as an individual's social security number.

### **Recommendation 1**

**We recommend that MCE ensure that inmates are prohibited from accessing the personal information of others, as required by State law.**

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

We have audited the Maryland Correctional Enterprises (MCE), a unit within the Department of Public Safety and Correctional Services (DPSCS), for the period beginning January 5, 2009 and ending July 31, 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 MCE'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 finding 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. The areas addressed by the audit included purchases and disbursements, cash receipts, accounts receivable, payroll, materials and supplies, and equipment. Our audit procedures included inquiries of appropriate personnel, inspections of documents and records, and observations of MCE'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.

MCE'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 the 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.

Our audit did not disclose any conditions that we consider to be significant deficiencies in the design or operation of internal control that could adversely affect MCE's ability to maintain reliable financial records, operate effectively and efficiently, and/or comply with applicable laws, rules, and regulations. This report includes a finding regarding a significant instance of noncompliance with applicable laws, rules, or regulations. Another less significant finding was communicated to MCE that did not warrant inclusion in this report.

DPSCS' response, on behalf of MCE, 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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STANDARDS

CORRECTIONAL TRAINING  
COMMISSION

MARYLAND PAROLE  
COMMISSION

CRIMINAL INJURIES  
COMPENSATION BOARD

EMERGENCY NUMBER  
SYSTEMS BOARD

SUNDRY CLAIMS BOARD

STATE GRIEVANCE OFFICE

January 19, 2012

Mr. Bruce A. Myers, CPA  
Legislative Auditor  
Office of Legislative Audits  
Room 1202  
301 West Preston Street  
Baltimore, Maryland 21201

Dear Mr. Myers:

The Department of Public Safety and Correctional Services has reviewed the January 9, 2012 draft audit report for the Department's Maryland Correctional Enterprises (MCE) for the period beginning January 5, 2009 and ending July 31, 2011. The Department acknowledges the importance of the finding, appreciates the constructive recommendation, and has taken steps to address it.

It should be noted that a review of the finding contained in the legislative auditor's April 8, 2009 audit report shows that MCE satisfactorily resolved that finding. The Department believes that this demonstrates its commitment to implement the necessary corrective action to resolve all identified findings.

Attached is Chief Executive Officer Stephen Shiloh's response to the draft audit report, with which I concur. I trust that this responds to your request. 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 for Administration, DPSCS
- J. Michael Stouffer, Deputy Secretary of Operations, DPSCS
- Susan D. Dooley, Director, Office of Financial Services, DPSCS
- Patricia A. Moore, Director, Administrative Services, DPSCS
- Stephen M. Shiloh, Chief Executive Officer, MCE
- Joseph M. Perry, Inspector General, DPSCS



## Department of Public Safety and Correctional Services

### Maryland Correctional Enterprises

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OPERATIONS

STEPHEN M. SHILOH, CCE  
CHIEF EXECUTIVE OFFICER

January 18, 2012

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 is the Maryland Correctional Enterprises (MCE) response to the draft Legislative Audit report dated January 9, 2012, covering the examination of MCE's financial transactions, records and internal controls, and the evaluation of compliance with applicable State laws, rules, and regulations for the period beginning January 5, 2009 and ending July 31, 2011. Corrective action has been implemented for the one finding mentioned in the report

**Finding 1 – Maryland Correctional Enterprises (MCE) did not ensure that inmates were prohibited from accessing the personal information of others, as required by State law.**

**Recommendation 1 – We recommend that MCE ensure that inmates are prohibited from accessing the personal information of others, as required by State law.**

### MCE Response

**We agree.** MCE cannot ensure that personal information will not be accessible to inmates when entering claims submitted by physicians into the Department of Health and Mental Hygiene's Medicaid Management Information System. Therefore, MCE notified DHMH on 11/01/11 that it would be necessary for MCE to immediately cease providing data entry services for the aforementioned physician claims.

Gary D. Maynard, Secretary  
January 18, 2012  
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MCE would like to acknowledge the cooperation and professionalism demonstrated by the Office of Legislative Audits during this audit, and also thank them for the positive dialogue and recommendations that they made to enhance MCE's commitment to excellence.

Sincerely,

A handwritten signature in black ink, appearing to read "Shiloh", written in a cursive style.

Stephen M. Shiloh, CCE  
Chief Executive Officer

Cc: G. Lawrence Franklin, Deputy Secretary, DPSCS  
Susan D. Dooley, Director, Office of Financial Services, DPSCS  
Patricia A. Moore, Director, Administrative Services, DPSCS  
Joseph M. Perry, Inspector General, DPSCS  
Shirley A. Sipe, Chief Administrative Officer, MCE  
Mark K. Rowley, Chief Financial Officer, MCE

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