

Audit Report

Maryland Correctional Enterprises

April 2009



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

April 8, 2009

Delegate Steven J. DeBoy, Sr., Co-Chair, Joint Audit Committee
Senator Verna L. Jones, 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 December 1, 2005 and ending January 4, 2009. MCE provides programs that provide work experience or rehabilitation for eligible Division of Correction inmates.

Our audit disclosed that MCE's procedures and controls over cash receipts from the sale of goods and services need improvement. MCE's cash receipts totaled approximately \$5.7 million during fiscal year 2008.

The Department of Public Safety and Correctional Services' response, 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,

Bruce A. Myers, CPA
Legislative Auditor

Background Information

Agency Responsibilities

MCE is organized under the State of Maryland's Department of Public Safety and Correctional Services 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 its 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 2008 operating revenue and operating expenses were \$51.5 million and \$46.9 million, respectively, and its operating income for fiscal year 2008 totaled \$4.6 million.

Financial Statement Audits

For fiscal years 2008, 2007 and 2006, 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.

Findings and Recommendations

Cash Receipts

Finding 1

Procedures and controls over cash receipts need improvement.

Analysis

Procedures and controls over cash receipts need improvement. Specifically, the employee who was responsible for initially receiving and recording cash receipts and preparing the receipts for deposit also had access to the related accounts

receivable records. Consequently, errors or irregularities could occur without timely detection. MCE's receipts totaled approximately \$5.7 million during fiscal year 2008.

Recommendation 1

We recommend that the employee who processes cash receipts not have access to the related accounts receivable records.

Audit Scope, Objectives, and Methodology

We have audited the Maryland Correctional Enterprises (MCE) for the period beginning December 1, 2005 and ending January 4, 2009. 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.

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 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.

This report includes a finding related to a condition that we consider to be a significant deficiency 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. Our audit did not disclose any significant instance of noncompliance with applicable laws, rules, or regulations. Other less significant findings were communicated to MCE that did not warrant inclusion in this report.

The Department of Public Safety and Correctional Services' 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 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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April 3, 2009

STATE OF MARYLAND

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LT. GOVERNOR

GARY D. MAYNARD
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COMMISSION

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INMATE GRIEVANCE OFFICE

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 March 25, 2009, draft audit report for the Department's Maryland Correctional Enterprises (MCE) for the period beginning December 1, 2005, and ending January 4, 2009. The Division of Correction and MCE, as well as the Department, strive to ensure that the complex business functions and operations of all the facilities are managed properly, and we acknowledge the importance of the one MCE audit finding and appreciate the constructive recommendation that was made as a result of this audit.

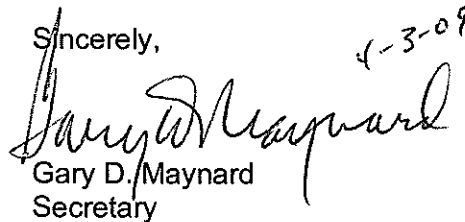
It should also be noted that during this audit period, MCE has undertaken some significant initiatives that were designed to improve customer service to Maryland's citizens by increasing economy and efficiency, creating safer communities, and enhancing relationships with local governments and other stakeholders that share a mutual vision. The Department is proud of MCE's record of accomplishments and continues to strongly support its ongoing efforts to develop, administer, and deliver quality services to the people it serves. Some significant recent accomplishments/initiatives include:

- In fiscal year 2008, MCE had record revenues of \$51.5 million, net operating income of \$4.56 million, and employed an all-time high 1,890 inmates which resulted in over 2.13 million hours of inmate employment/training.
- MCE's direct and indirect economic contribution (through salaries, wages, and purchases of private sector goods and services) to the State's economy was approximately \$91.3 million in fiscal year 2008.
- In February 2009 the American Correctional Association (ACA) performed a technical assessment of MCE's operations. MCE was found to be in total compliance and will receive ACA accreditation.

- MCE contributed an inmate crew from Hagerstown in September 2007 for planting trees and park maintenance at Antietam National Battlefield in an historic effort to restore the battlefield to its original landscape. Additionally, on April 2, 2008, (Arbor Day) MCE inmates planted another 150 trees, and prior to the end of FY2008 MCE inmates planted an additional 1700 trees.
- Starting in FY2008 and continuing into FY2009, MCE developed several projects to help Maryland increase environmental "green" initiatives and contribute to the DPSCS goal of planting 1,000,000 trees. The first initiative was to begin growing shoreline grasses by collecting native seeds, cultivating them, and planting the grasses to prevent erosion of the Chesapeake Bay shoreline. A greenhouse was erected in Hagerstown to facilitate this program. Another initiative was to grow trees for reforestation of land that was disturbed because of the Inter County Connector project. Both of these projects will assist in the required mitigation of environmental degradation concerns and will contribute to a healthier and environmentally sound Maryland.
- On July 1, 2008, the MCE Continuing Allocation of Re-Entry Services (CARES) was initiated to assist inmate employees in transitioning to civilian employment upon release. MCE inmate employees nearing release were identified and transferred to the Central Laundry Facility to work in the commercial laundry and participate in the CARES program which began with the "Thinking for a Change" curriculum.

Attached is Chief Executive Officer Stephen Shiloh's response to the draft audit report, with which I concur. I trust that this adequately responds to your request. If you have any questions concerning this correspondence, please contact me.

Sincerely,

 4-3-09
Gary D. Maynard
Secretary

Attachment

c: G. Lawrence Franklin, Deputy Secretary, DPSCS
J. Michael Stouffer, Commissioner, DOC
Stephen M. Shiloh, CCE, Chief Executive Officer, MCE
Susan Dooley, Director, Office of Financial Services, DPSCS
Joseph M. Perry, Inspector General, DPSCS



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GARY D. MAYNARD
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J. MICHAEL STOFFER
COMMISSIONER

STEPHEN M. SHILOH, CCE
CHIEF EXECUTIVE OFFICER

Department of Public Safety and Correctional Services

Division of Correction

Maryland Correctional Enterprises

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April 3, 2009

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, Commissioner
Division of Correction
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 March 25, 2009, 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 December 1, 2005 and ending January 4, 2009. Corrective action has been implemented for the one finding mentioned in the report.

Finding #1 – Procedures and controls over cash receipts need improvement.

We agree. The employee who processes cash receipts will not have access to the related accounts receivable records. The referenced employee's security level was not properly updated upon his promotion. However, it should be noted that MCE has confirmed, via a computer generated report, that the employee had not accessed the accounts receivable function since his promotion. On March 10, 2009, the employee's security level was updated to remove all accounts receivable access.

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
Kevin Patten, Deputy Director, Office of Financial Services, DPSCS
Patricia A. Moore, Director of Finance, Division of Correction
Joseph M. Perry, Inspector General, DPSCS
Andrea Hawkins, Chief Financial Officer, MCE

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