

Audit Report

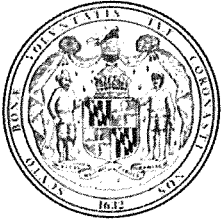
**Department of Public Safety and Correctional Services
Criminal Injuries Compensation Board**

February 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

February 13, 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 Criminal Injuries Compensation Board (CICB) of the Department of Public Safety and Correctional Services (DPSCS) for the period beginning April 22, 2008 and ending February 21, 2011. CICB provides financial aid to innocent victims of crime or to their families.

Our audit disclosed that certain CICB award payments to claimants did not appear to have been made in compliance with applicable State laws and CICB policy. For several claims tested, required supporting documentation was not available for consideration during the award determination process, which could impact award decisions. Furthermore, awards were often not made within the 90-day statutory time limit.

CICB also did not adequately restrict access to its electronic claims database, which could allow unauthorized changes to be made to electronic claimant case files without detection, and it did not request claimants to provide social security numbers. Social security numbers aid in determining if awards should be reduced for other assistance received, as required by law. Finally, our audit disclosed internal control and record keeping deficiencies with respect to award recoveries from offenders.

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

Respectfully submitted,

A handwritten signature in black ink that reads "Bruce A. Myers". The signature is written in a cursive style.

Bruce A. Myers, CPA
Legislative Auditor

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Background Information

Agency Responsibilities

The Criminal Injuries Compensation Board (CICB) makes financial aid awards to innocent victims of crime or to their families. To be eligible for such aid, the victim must have sustained a physical injury or death, or suffered psychological injury, as a direct result of a crime and must have had a minimum of \$100 in unreimbursed expenses and/or lost at least two continuous weeks of earnings or support. CICB is a unit of the Department of Public Safety and Correctional Services (DPSCS).

State law established the Criminal Injuries Compensation Fund as a special non-lapsing fund to be used for the payment of criminal injury awards and related administrative costs. The Fund is administered by CICB. Awards are granted based on available funding received primarily through fees collected by the State courts and through federal funds. CICB makes awards in accordance with the schedule of benefits and the degree of disability specified in State law. The awards granted to claimants may be settled by lump sum or paid in periodic installments that generally cannot exceed \$45,000. In instances where the claimant is determined to be permanently and totally disabled, the claimant is eligible for an additional \$25,000 award at the discretion of the Board. The Board consists of five members whose primary responsibility is to make award decisions. According to the *CICB Annual Report*, approximately 950 claims were approved during fiscal year 2010. According to the State's accounting records, approximately \$6.1 million was deposited into the Fund during the period from July 2010 to June 2011, and disbursements from the Fund during that period (which included claim payments and CICB operating expenditures), totaled approximately \$6 million.

Fund Financial Status

According to the Department of Legislative Services and the April 2010 *Joint Chairmen's Report*, during fiscal years 2002 through 2004, CICB increased the number of awards made to crime victims to create a more victim-friendly environment and to better address the needs of Maryland's crime victim population. This was achieved by operational improvements put into place by CICB, which included the installation of a new electronic claims database tracking system, increased staffing, and a more aggressive outreach effort. Because of CICB's additional funding needs, CICB's special fund expenditures exceeded its revenues for fiscal years 2005 through 2009. By fiscal year 2010, the special fund balance had been fully depleted. In accordance with Chapter

482, 2010 Laws of Maryland, CICB received a deficiency federal fund appropriation totaling \$570,638, as of April 10, 2010, which was funded from the American Recovery and Reinvestment Act.

According to the State's accounting records, as of June 30, 2011, the Criminal Injuries Compensation Fund had a special fund balance of \$177,726. According to the Department of Legislative Services, in its analysis of the CICB fiscal year 2012 annual budget, CICB recognized that the special fund balance was being depleted and has pursued certain options in an attempt to replenish the Fund. For example, legislation was introduced during the 2011 legislative session of the General Assembly to increase the fees collected by the State courts and paid into the Fund. However, the legislation was not passed by the General Assembly.

Accordingly, we were advised by DPSCS Division of Finance personnel that, as of June 30, 2011, there existed a backlog of 382 awards, totaling approximately \$2.6 million, that had been approved but were unpaid. CICB management personnel advised us that payments to these claimants are being prioritized primarily based upon the award approval dates.

Findings and Recommendations

Claims Processing

Finding 1

The processing of claims was not always conducted in accordance with existing procedures and/or State law. Specifically, necessary documents supporting awards were often missing from the files and award determinations were not always made timely.

Analysis

Based on our review of the case files for 20 award payments made during fiscal years 2009 through 2011, totaling \$508,745, we determined that required documentation justifying the awards was not always present, and that awards were not always made timely in accordance with State law. Upon receipt of a claim application, a claims examiner is responsible for reviewing the submission for required documentation in accordance with the Criminal Injuries Compensation Board (CICB) procedures manual and the related State law. According to State law, once a completed application is received, the CICB is required to make a determination of an award within 90 days.

- For six awards tested, totaling \$122,464, we noted that required supporting documentation for payments totaling \$82,377 was not obtained or was not available in the related case files for the Board's review. Missing documents included statements from medical professionals linking the claimed injury to the criminal activity, police reports, death certificates, and determinations of pre-existing medical insurance (which would reduce any CICB medical award). The lack of such documentation, which is required by the CICB procedures and/or State law to support the claim, could impact award decisions made by the Board. For example, one claimant was compensated \$25,000 for permanent partial vision loss in one eye, which was allegedly suffered during an assault; however, there was no documentation on file from a medical professional, as required, to substantiate that the victim had incurred permanent partial vision loss as a result of the assault. In this instance, we were advised that the substantiation of the claimant's assertion was based solely on verbal representations made by an attorney with the State's Attorney's Office familiar with the case. Additionally, according to the case file, the claimant had incurred prior trauma and surgery to the same eye; however, there was no documentation as to whether this was considered in the award decision.

- Nine of the awards tested totaling \$256,253 were made more than 90 days after the receipt of a completed application. For example, seven awards from fiscal year 2011 had delays ranging from 25 to 297 days beyond the 90-day limit. Similar issues with award delays have been commented upon in several recent Department of Legislative Services' (DLS) analyses of the CICB annual budget. Most recently, in the analysis of the fiscal year 2012 budget, based on Executive Department information, DLS stated that, while CICB was making efforts to improve performance, the majority of claims still significantly exceeded the 90-day statutory time limit.

Recommendation 1

We recommend that CICB

- a. ensure that all required documentation is obtained and included in each case file prior to submitting a claim to the Board for determination of an award, and**
- b. continue efforts to reduce the average processing time for award determinations to within the statutory time frame.**

Finding 2

CICB did not adequately restrict access to its electronic claims database, and payment verification procedures need improvement.

Analysis

Seven CICB employees, who were not responsible for claims processing, had the capability to make changes to claimant case files in the electronic claims database. One of these seven employees was responsible for transmitting the list of individual awards to the Department of Public Safety and Correctional Services—Division of Finance for payment processing. Furthermore, all six CICB claims examiners had the capability to make changes to any claimant case file, including those cases they were not assigned to. Improper changes to the electronic claimant case files (such as changing a payee or deleting critical documents) could potentially result in award payments being made to unauthorized individuals without detection.

Although CICB periodically compared output reports of payments processed by the Division of Finance to information contained in the electronic claims database, this comparison may not detect improper payments resulting from unauthorized changes made to the database because supporting documentation in the paper claim file (such as the victim's medical bills) was not included in this review process.

Recommendation 2

We recommend that CICB

- a. restrict the capability of employees to modify the electronic claims database to only those individuals who require such capabilities to perform their normal job duties, and restrict the ability of claims examiners to modify only those cases to which they are assigned; and**
- b. independently verify output reports of award payments processed to supporting documentation in the paper claim files, and document these verifications in writing.**

Finding 3

In November 2010, CICB changed its procedures and no longer requested social security numbers from claimants, potentially hampering the review of the claim application.

Analysis

Consistent with its intent to become more victim-friendly, as previously mentioned, CICB ceased requiring social security numbers from individuals applying for awards. According to a November 2010 revision to CICB's procedures manual, the claims examiners cannot require individuals (a victim or a victim's family) applying for awards to provide their social security numbers. Correspondingly, the claims award application was revised by CICB to delete the request for the applicant to provide a social security number. We discussed this issue with the CICB's legal counsel who informally advised us that there is no statutory prohibition preventing CICB from requiring applicants to provide a social security number.

CICB's decision not to obtain social security numbers could result in awards being made to claimants in excessive amounts. A social security number can be used as an identifier for other assistance and, in accordance with State law, the receipt of certain types of assistance by a victim or victim's family member (such as public assistance, workers' compensation, and private insurance) would reduce a CICB award amount. For example, most public assistance programs use social security numbers as a means of participant identification. Without social security numbers, CICB could not readily confirm other assistance received by the applicants.

Also, informal advice from CICB's legal counsel stated that CICB award payments are subject to the State's payment intercept program. Comptroller of Maryland management personnel advised us that the absence of a taxpayer ID number or social security number would prevent it from intercepting payments

(through the vendor offset process) to vendors (which would include award payments made to victims or claimants) who have prior unpaid debts and taxes owed the State.

Recommendation 3

We recommend that CICB

- a. revise its procedures and the claims award application to require that a valid social security number be requested for all applicants, and**
- b. ensure that the social security number is used as an aid in verification of applicant submitted information.**

Revenue Recovery

Finding 4

Controls over revenue recovery billings and payments were inadequate.

Analysis

CICB did not maintain adequate accounts receivable records for revenue recovery payments deposited into the Criminal Injuries Compensation Fund and did not properly segregate the record keeping and cash handling duties related to the collection of these payments. For example, CICB's electronic claims database did not reflect the outstanding balances owed by each offender and a control account was not properly maintained. Furthermore, an employee responsible for sending billings to offenders also handled the related collections and recorded collections in the database. State law permits the recovery of claim payments, which is handled either by the Department of Public Safety and Correctional Services Division of Parole and Probation, for court-ordered restitution, or by CICB when there is no court-ordered restitution.

The Comptroller of Maryland's *Accounting Procedures Manual* requires the maintenance and periodic reconciliation of appropriate records to account for billings and related collections.

Recommendation 4

We recommend that CICB

- a. establish and periodically reconcile appropriate detail and control accounts for its revenue recovery activity, and**
- b. ensure that the record keeping and collection functions are adequately segregated.**

We advised CICB on accomplishing the necessary separation of duties using existing personnel.

Audit Scope, Objectives, and Methodology

We have audited the Criminal Injuries Compensation Board (CICB) of the Department of Public Safety and Correctional Services (DPSCS) for the period beginning April 22, 2008 and ending February 21, 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 CICB'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. The areas addressed by the audit included claims processing, revenue recovery, and payroll. Our audit procedures included inquiries of appropriate personnel, inspection of documents and records, and observations of CICB'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 did not include certain support services provided to CICB by the Department of Public Safety and Correctional Services – Office of the Secretary. These support services (such as payroll, purchasing, maintenance of accounting records and related fiscal functions) are included within the scope of our audits of the Office of the Secretary.

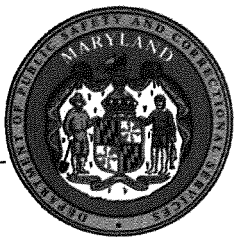
CICB's management is responsible for establishing and maintaining effective internal control. Internal control is a process designed to provide reasonable assurance that objectives pertaining to the reliability of financial records, effectiveness and efficiency of operations including safeguarding of 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 CICB'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 CICB that did not warrant inclusion in this report.

The response from DPSCS, on behalf of CICB, 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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MARYLAND PAROLE
COMMISSION

CRIMINAL INJURIES
COMPENSATION BOARD

EMERGENCY NUMBER
SYSTEMS BOARD

SUNDRY CLAIMS BOARD

INMATE GRIEVANCE OFFICE

February 10, 2012

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

Re: Criminal Injuries Compensation Board Audit Response

Dear Mr. Myers:

The Department of Public Safety and Correctional Services has reviewed the draft audit report for the Criminal Injuries Compensation Board (CICB), dated January 2012. The Department appreciates the constructive recommendations that were made as the result of this audit. Be assured that appropriate corrective actions have been or will be implemented to ensure full compliance with each recommendation.

Attached is Acting Executive Director Patrick Cheney's response to the draft audit report. I concur with Mr. Cheney's response. Mr. Cheney 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.

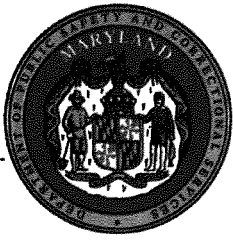
I trust that these responses adequately address the findings and recommendations contained in the draft audit report. If you have any questions regarding the Department's responses, please do not hesitate to contact me at 410-339-5005.

Sincerely,

Gary D. Maynard
Secretary

Attachment

c: Deputy Secretary G. Lawrence Franklin
Deputy Secretary J. Michael Stouffer
Chairman Sandy A. Roberts, CICB
Acting Executive Director Patrick Cheney, CICB
Inspector General Joseph M. Perry, DPSCS
Director Susan Dooley, Finance, DPSCS



Department of Public Safety and Correctional Services

Criminal Injuries Compensation Board

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STATE OF MARYLAND

February 10, 2012

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SANDY A. ROBERTS
CHAIRMAN
CRIMINAL INJURIES
COMPENSATION BOARD

Gary D. Maynard, Secretary
Department of Public Safety and Correctional Services
300 East Joppa Road, Suite 1000
Towson, MD 21286

Via

G. Lawrence Franklin, Deputy Secretary *GLF*
Department of Public Safety and Correctional Services
300 East Joppa Road, Suite 1000
Towson, MD 21286

Dear Secretary Maynard:

Below is the Criminal Injuries Compensation Board's response to the draft legislative audit report dated January 2012. The audit covered the period from April 22, 2008 to February 21, 2011, and included a review of the agency's claims processing, revenue recovery, and financial management functions.

Finding 1:

The processing of claims was not always conducted in accordance with existing procedures and/or State law. Specifically, necessary documents supporting awards were often missing from the files and award determinations were not always made timely.

Recommendation 1:

We recommend that CICB

- a. ensure that all required documentation is obtained and included in each case file prior to submitting a claim to the Board for determination of an award; and**
- b. continue efforts to reduce the average processing time for award determinations to within the statutory time frame.**

We agree.

- a. CICB will ensure that necessary documentation is obtained and included in each case file to support each decision. This change has been implemented; and

- b. CICB will continue efforts to comply with the statutory time limits for processing claims (i.e., within 90 days after the receipt of a claim and all necessary supporting material) to the extent that funding is available. Open claims will periodically be reviewed by the claims examiner together with the supervisory personnel to ensure that needed information is requested promptly.

Finding 2:

CICB did not adequately restrict access to its electronic claims database, and payment verification procedures need improvement.

Recommendation 2:

We recommend that CICB

- a. **restrict the capability of employees to modify the electronic claims database to only those individuals who require such capabilities to perform their normal job duties, and restrict the ability of claims examiners to modify only those cases to which they are assigned; and**
- b. **independently verify output reports of award payments processed to supporting documentation in the paper claim files, and document these verifications in writing.**

We agree.

- a. The Department will evaluate the ability of all CICB employees to modify or change the electronic claims database. If deemed necessary, CICB will add additional access controls to ensure that unauthorized changes are not made to critical information. Claims examiners are already restricted to editing the claims to which they are assigned. The evaluation process and implementation of any necessary changes will be completed by April 30, 2012; and
- b. The award payments will be independently verified to supporting documentation in the claim file by a supervisor prior to the request for payment being sent to the Division of Finance. This change has been implemented. Such verifications are being performed by the Administrator of Claims Examination and the Acting Executive Director. These verifications will be documented in hard copy and retained.

Finding 3:

In November 2010, CICB changed its procedures and no longer requested social security numbers from claimants, potentially hampering the review of the claim application.

Recommendation 3:

We recommend that CICB

- a. **revise its procedures and the claims award application to require that a valid social security number be requested for all applicants; and**

- b. ensure that the social security number is used as an aid in verification of applicant submitted information.**

We agree.

- a. By March 15, 2012, CICB will revise its procedures and the claims award application to require that a valid social security number be requested for all applicants; and
- b. Based upon advice of counsel, CICB will ensure that any social security number that is provided is used solely for the purpose of determining if the claimant owes the State money for unpaid taxes. This will be implemented as soon as the social security numbers are included on the claims applications.

Finding 4:

Controls over revenue recovery billings and payments were inadequate.

Recommendation 4:

We recommend that CICB

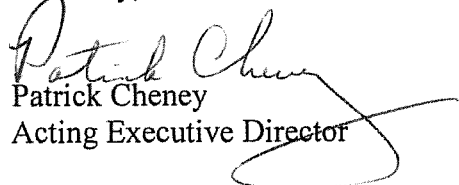
- a. establish and periodically reconcile appropriate detail and control accounts for its revenue recovery activity; and**
- b. ensure that the record keeping and collection functions are adequately segregated.**

We agree.

- a. Detailed accounts receivable records that provide a current outstanding balance for each offender will be maintained. A control account will be maintained independently from the detail records, and the control account will be periodically reconciled to the total of the detail records. These controls will be implemented by April 30, 2012; and
- b. CICB will ensure that an adequate segregation of duties is established and maintained between the record keeping and collection functions. This procedure will be implemented immediately.

Please advise if you have any questions about the agency's response to the audit report.

Sincerely,


Patrick Cheney
Acting Executive Director

cc: G. Lawrence Franklin, Deputy Secretary
Joseph M. Perry, Inspector General
Sandy A. Roberts, Chairman, CICB

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