

Audit Report

Executive Department

**Office of the Governor
Boards, Commissions, and Offices
Governor's Office for Children
Office of the Deaf and Hard of Hearing**

August 2012



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

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DEPARTMENT OF LEGISLATIVE SERVICES
OFFICE OF LEGISLATIVE AUDITS
MARYLAND GENERAL ASSEMBLY

Karl S. Aro
Executive Director

August 13, 2012

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 following units of the Executive Department for the period beginning April 1, 2009 and ending December 31, 2011.

Office of the Governor
Boards, Commissions, and Offices
Governor's Office for Children
Office of the Deaf and Hard of Hearing

The Department provides oversight, guidance, and coordination to units within the Executive Department and to other budgetary units within the Executive Branch of State government.

Our audit disclosed internal control and record keeping deficiencies relating to equipment and cash receipts. For example, independent verifications were not performed at certain units to ensure that collections were deposited, and certain equipment inventory requirements were not complied with.

The Executive Department's response to this audit is included as an appendix to this report. We wish to acknowledge the cooperation extended to us during our audit by the Executive Department.

Respectfully submitted,

Thomas J. Barnickel III, CPA
Acting Legislative Auditor

Background Information

Agency Responsibilities

The Executive Department – Governor provides oversight, guidance, and coordination to units within the Executive Department and to other budgetary units within the Executive Branch of the State government. The Department also provides the public with information about the Governor’s policies and goals, and about the functions of State government. According to the State’s accounting records, the Office of the Governor’s expenditures were approximately \$9.5 million for fiscal year 2011.

The Boards, Commissions, and Offices unit consists of various entities, including the Governor’s Office of Community Initiatives (GOCI), and the Governor’s Office of Crime Control and Prevention (GOCCP), which were created by statute or executive order to provide planning and coordination for Executive Branch functions. According to the State’s accounting records, these entities’ expenditures were approximately \$112.3 million during fiscal year 2011.

The Governor’s Office for Children promotes the State’s vision for a stable, safe, and healthy environment for children and families and, according to the State’s accounting records, this Office’s expenditures were approximately \$1.5 million during fiscal year 2011.

The Office of the Deaf and Hard of Hearing advocates for and promotes the general welfare of individuals who are deaf or hard of hearing, and provides, advocates for, and coordinates the adoption of public policies, regulations, and programs that will benefit deaf and hard of hearing individuals. According to the State’s accounting records, this Office’s expenditures were approximately \$308,000 during fiscal year 2011.

Organizational Changes

Chapter 324, Laws of Maryland 2010, effective July 1, 2010, established the Public School Labor Relations Board as an independent unit of State government. This law provides that the Board shall share an executive director with the Higher Education Labor Relations Board and the State Labor Relations Board, which are component units of the Executive Department – Boards, Commissions, and Offices.

Chapter 356, Laws of Maryland 2011, effective July 1, 2011, transferred the administration and assets of the State's Sexual Assault Crisis Programs and the Domestic Violence Programs from the Department of Human Resources – Office of the Secretary to the GOCCP, which is a component unit of the Executive Department – Boards, Commissions, and Offices.

Status of Findings From Preceding Audit Report

Our audit included a review to determine the status of the two findings contained in our preceding audit report dated February 2, 2010. We determined that the Department did not satisfactorily address these findings and they are repeated in this report.

Findings and Recommendations

Cash Receipts

Finding 1

Internal controls over collections were not sufficient to ensure that all collections were deposited.

Analysis

Collections received by the Governor's Office of Community Initiatives (GOCI) and the Governor's Office of Crime Control and Prevention (GOCCP) – both units under Boards, Commissions, and Offices – as well as the Governor's Finance Office (GFO) were not adequately controlled. Collections were initially received by the various units of the Executive Department, including GOCI and GOCCP, and forwarded to the GFO. The GFO was responsible for recording these receipts in the State's accounting records and for depositing the receipts into the State's bank account. According to Department records, the GFO processed cash receipts totaling approximately \$785,000 during fiscal year 2011, of which approximately \$244,000 and \$71,000 related to GOCI and GOCCP, respectively. We noted the following conditions:

- Independent verifications were not adequately performed at GOCI and GOCCP to ensure that collections were forwarded to and received by the GFO for deposit and that the collections had been recorded in the State's accounting records. In addition, the employees who maintained the accounts receivable records at these two units also had access to the related cash receipts. A similar condition at GOCI was commented on in our two preceding audit reports.
- The individual at the GFO who performed the deposit verification also had cash handling and recordation duties. Additionally, the deposit verification performed was not adequately documented to indicate who performed this duty, such as with the employee's initials or signature.
- Checks received by the GOCCP were not restrictively endorsed immediately upon receipt. Instead, cash receipts were forwarded to another employee before this function was performed.

The Comptroller of Maryland's *Accounting Procedures Manual* dictates that there be segregation of the cash receipts handling duties from the cash receipts and accounts receivable record keeping functions. The *Manual* also states that the

reconciliation of cash receipts to deposit be performed using source documentation by an employee independent of the cash receipts functions. Furthermore, the *Manual* requires the restrictive endorsement of checks immediately upon receipt.

Recommendation 1

We recommend that

- a. employees without access to the collections verify that all recorded collections were received by the GFO for deposit and recordation (repeat);**
- b. employees without access to collections maintain the related accounts receivable records (repeat);**
- c. cash handling, recordation, and verification duties at the GFO be adequately segregated and independent verifications performed be adequately documented; and**
- d. checks be restrictively endorsed immediately upon receipt.**

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

Equipment

Finding 2

Record keeping and physical inventory procedures were not in compliance with certain requirements.

Analysis

Record keeping and physical inventory procedures at the Department were not in compliance with certain provisions of the Department of General Services (DGS) *Inventory Control Manual*. The Governor's Finance Office (GFO) is responsible for providing various support services to units of the Executive Department, including the maintenance of equipment records. According to the Department's records, as of June 30, 2011, the value of the equipment for all of these units totaled approximately \$4.6 million, including the Governor's Office equipment of approximately \$1.4 million. Our review disclosed the following conditions:

- There was an inadequate segregation of duties at 8 of the 19 units within the Executive Department. Specifically, the employees responsible for conducting the physical inventory at these units also maintained the related

detail records. A similar condition was commented upon in our preceding audit report.

- The Department could not provide documentation, such as inventory count sheets, that a physical inventory had been conducted of the Governor's Office sensitive equipment for fiscal years 2010 and 2011. A similar situation was commented upon in our two preceding audit reports.
- An independent control account was not maintained for any of the Executive Department units, as required by the *Manual*. A control account helps to maintain accountability over equipment and to ensure that all transactions have been properly recorded. A similar situation was commented upon in our preceding audit report.
- The detail equipment records for the Governor's Office were not adequately maintained. For example, our test of 15 equipment items totaling \$49,430 that were recorded in the detail records disclosed that 5 items totaling \$20,760 (including a laptop and printer) could not be physically located by the Governor's Office property officer. A similar situation was commented upon in our two preceding audit reports.

The DGS *Inventory Control Manual* requires an adequate segregation of duties between equipment record keeping and physical inventory duties. The *Manual* also states that the physical inventories be documented, that a record of the inventories be maintained, and that the results of the physical inventories be reconciled to the detail records. Finally, the *Manual* requires each agency to maintain detail equipment records and an independent control account, which are to be maintained on a current basis and are to be periodically reconciled.

Recommendation 2

We recommend that the Department comply with the provisions of the aforementioned DGS *Inventory Control Manual* (repeat). We also recommend that the Department investigate the aforementioned missing equipment and take appropriate corrective action.

Audit Scope, Objectives, and Methodology

We have audited the following units of the Executive Department for the period beginning April 1, 2009 and ending December 31, 2011. At the request of the Executive Department – Governor, the units were audited concurrently and one audit report is being issued.

Office of the Governor
Boards, Commissions, and Offices
Governor's Office for Children
Office of the Deaf and Hard of Hearing

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 the Department's financial transactions, records and internal control, and to evaluate its compliance with applicable State laws, rules, and regulations. We also determined the status of the findings contained in our preceding audit 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 cash receipts, equipment, appropriations, and federal funds. Our audit procedures included inquiries of appropriate personnel, inspections of documents and records, and observations of the Department'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 included various support services (such as payroll, processing vendor payment transmittals) provided by the Executive Department – Governor on a centralized basis to certain units and agencies within the Executive and Administrative Control area of State Government (such as the Secretary of State), as well as to the Maryland State Board of Contract Appeals. As previously requested by the Governor's Office, our audit also included activities related to

the operation and maintenance of Government House (for example, inventory record keeping), although the Department of General Services receives an appropriation for and performs these activities.

Our audit did not include an evaluation of internal controls for federal financial assistance programs and an assessment of the Department's compliance with federal laws and regulations pertaining to those programs because the State of Maryland engages an independent accounting firm to annually audit such programs administered by State agencies, including the Department.

The Department'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 related to conditions that we consider to be significant deficiencies in the design or operation of internal control that could adversely affect the Department'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 Department that did not warrant inclusion in this report.

The Executive Department's response 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



STATE OF MARYLAND
OFFICE OF THE GOVERNOR

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GOVERNOR

STATE HOUSE
100 STATE CIRCLE
ANNAPOLIS, MARYLAND 21401-1025
(410) 974-3901
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TTY USERS CALL VIA MD RELAY

August 8, 2012

Mr. Bruce A. Meyers, CPA
Legislative Auditor
Office of Legislative Audits
301 W. Preston Street, Room 1202
Baltimore, MD 21201

Dear Mr. Meyers:

Attached please find our responses, prepared by the appropriate Executive Department staff, to the draft report dated July 2012 of the audit of the Office of the Governor; Executive Department Boards, Commissions and Offices; Office for Children; and Office of the Deaf and Hard of Hearing. The responses are in the same order as presented in the draft report.

Thank you for the opportunity to respond to the draft audit report. If you or your staff has any questions concerning the responses, please do not hesitate to contact Deputy Chief of Staff Peggy Watson or the Director of Financial Administration, Larry Myers.

Sincerely,

A handwritten signature in black ink, appearing to read 'M. D. Gallagher'.

Matthew D. Gallagher
Chief of Staff

encl.

cc: Peggy J. Watson, Deputy Chief of Staff
Lawrence J. Myers, Director of Financial Administration



Recommendation 1

We recommend that

- a. employees without access to the collections verify that all recorded collections were received by the GFO for deposit and recordation (repeat);**
- b. employees without access to collections maintain the related accounts receivable records (repeat);**
- c. cash handling, recordation, and verification duties at the GFO be adequately segregated and independent verifications performed be adequately documented; and**
- d. checks be restrictively endorsed immediately upon receipt.**

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

AGENCY RESPONSE: We concur with the recommendation. The Governor's Office of Community Initiatives, the Governor's Office of Crime Control & Prevention and the Governor's Office of Financial Administration have all developed, documented and implemented the recommended revisions to cash collection procedures to address each of the specific deficiencies mentioned in this report. The Governor's Office of Financial Administration will periodically verify consistent adherence to these modified procedures.

Recommendation 2

We recommend that the Department comply with the provisions of the aforementioned DGS *Inventory Control Manual* (repeat). We also recommend that the Department investigate the aforementioned missing equipment and take appropriate corrective action.

AGENCY RESPONSE: We concur with the overall recommendation and will work to ensure that our inventory procedures comply with the provisions of the DGS Inventory Control Manual, including the appropriate segregation of duties, the proper documentation of physical inventories, the maintenance of and reconciliation to an independent control account, and the timely recording of items into the inventory system upon acquisition.

Two individuals were hired within the Governor's Office whose responsibilities include restructuring and organizing the process to account for and control fixed assets in the Executive Department. They have been charged with developing and implementing corrective procedures to address the deficiencies addressed in this report. Several of the recommended enhancements, including the implementation of the independent control account, have already been implemented. The Governor's Office of Financial Administration will monitor all efforts to achieve full compliance with the DGS Inventory Control Manual to assure successful implementation of corrective action.

We have investigated the property items identified as missing during the audit. Two of the five items were found immediately following the audit. These items were also observed during our June 2012 physical inventory. The remaining items were missing and were approved for disposition by DGS on March 1, 2012.

AUDIT TEAM

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