

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**

February 2010



OFFICE OF LEGISLATIVE AUDITS
DEPARTMENT OF LEGISLATIVE SERVICES
MARYLAND GENERAL ASSEMBLY

-
- This report and any related follow-up correspondence are available to the public through the Office of Legislative Audits at 301 West Preston Street, Room 1202, Baltimore, Maryland 21201. The Office may be contacted by telephone at 410-946-5900, 301-970-5900, or 1-877-486-9964.
 - Electronic copies of our audit reports can be viewed or downloaded from our website at <http://www.ola.state.md.us>.
 - Alternate formats may be requested through the Maryland Relay Service at 1-800-735-2258.
 - The Department of Legislative Services – Office of the Executive Director, 90 State Circle, Annapolis, Maryland 21401 can also assist you in obtaining copies of our reports and related correspondence. The Department may be contacted by telephone at 410- 946-5400 or 301-970-5400.
-



DEPARTMENT OF LEGISLATIVE SERVICES
OFFICE OF LEGISLATIVE AUDITS
MARYLAND GENERAL ASSEMBLY

February 2, 2010

Karl S. Aro
Executive Director

Bruce A. Myers, CPA
Legislative Auditor

Senator Verna L. Jones, Co-Chair, Joint Audit Committee
Delegate Steven J. DeBoy, Sr., 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 January 17, 2007 and ending March 31, 2009.

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 certain internal control and record keeping deficiencies related to the Department's cash receipts and equipment. For example, independent verifications were not performed at certain units to ensure that collections were forwarded to and received by the Governor's Finance Office for deposit and duties related to the Department's equipment were not always adequately segregated.

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,

Bruce A. Myers, CPA
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 million for fiscal year 2009.

The Boards, Commissions, and Offices unit consists of various entities, including the Office of Crime Control and Prevention, 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 \$114 million during fiscal year 2009.

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, had expenditures of approximately \$3 million during fiscal year 2009.

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, 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 \$280,000 during fiscal year 2009.

Organizational Changes

Chapter 521, Laws of Maryland 2008, effective July 1, 2008, established the Governor’s Office of Community Initiatives (GOCI) as a separate budgetary program within the Executive Department – Boards, Commissions, and Offices. This law also transferred to GOCI the Commission on Indian Affairs from the Department of Human Resources and the Commission on African American History and Culture from the Department of Planning. Furthermore, the law moved the activities of the Governor’s Office of Service and Volunteerism to GOCI. Finally, this law transferred responsibility of the Banneker-Douglas Museum from the Department of Planning to the Commission on African American History and Culture within GOCI.

Transfer of Funds

Chapter 87, Laws of Maryland 2008, effective July 1, 2008, transferred the administration of the School Bus Safety Enforcement Fund from the Department of State Police to the Governor's Office of Crime Control and Prevention. In addition, Chapter 515, Laws of Maryland 2008, effective July 1, 2008, transferred the administration of the State Aid for Police Protection Fund from the Department of State Police to the Governor's Office of Crime Control and Prevention.

Status of Findings From Preceding Audit Report

Our audit included a review to determine the status of the seven findings contained in our preceding audit report dated October 5, 2007. We determined that the Department satisfactorily addressed five of these findings. The remaining two findings are repeated in this report.

Findings and Recommendations

Cash Receipts

Finding 1

Internal controls over collections at two units were not adequate

Analysis

Collections received by the State Ethics Commission and Volunteer Maryland – both units under Boards, Commissions and Offices – were not adequately controlled. According to the records of the Governor's Finance Office (GFO), collections deposited by these two units totaled approximately \$466,000 for fiscal year 2009. Specifically, independent verifications were not performed at either unit to ensure that collections were forwarded to and received by the GFO for deposit, or that the collections had been recorded in the State's accounting records. Furthermore, the Volunteer Maryland employee who maintained the accounts receivable records also had access to the related cash receipts.

A similar situation was commented upon in our preceding audit report.

Recommendation 1

We recommend that

- a. employees without access to the collections verify that all recorded collections were received by the GFO for deposit (repeat), and**
- b. an employee without access to collections maintain the related accounts receivable records (repeat).**

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

Equipment

Finding 2

Proper controls were not established over the Department's equipment.

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 GFO is responsible for various support services to units of the Executive Department, including the maintenance of the equipment records. According to the Department's records, as of June 30, 2008, the value of the equipment for all of these units totaled approximately \$4.1 million, including the Governor's Office equipment of approximately \$1.6 million. Our review disclosed the following conditions:

- There was an inadequate segregation of duties at 7 of the 17 units within the Executive Department. Specifically, the employee responsible for conducting the physical inventory at these units also maintained the related detail records.
- Although the Department advised us that an annual physical inventory had been conducted of the Governor's Office equipment, it did not maintain support, such as inventory count sheets, to document that the inventory had been conducted and the results of the physical inventory had been reconciled to the detail records. A similar condition was commented upon in our preceding audit report.
- Detail equipment records at three Department units did not agree with the value of inventory reported to DGS on the Annual Report of Fixed Assets. For example, the balance of the Governor's Office detail records (\$1,581,103) exceeded the balance reported to DGS (\$1,384,116) by \$196,987 as of June

30, 2008. In addition, an independent control account was not maintained for any of the Executive Department units, as required.

- Effective July 2008, the Governor's Office of Community Initiatives, assumed administrative responsibility for the Banneker Douglas Museum. However, detail equipment records had not been established for all items in the museum (including fine art).
- The detail equipment records for the Governor's Office were not adequately maintained. For example, our test of 5 equipment purchases that included 71 equipment items totaling \$86,589 disclosed that 13 items (including 12 computers) totaling \$25,454 were not recorded in the detail equipment records. In addition, of the 20 items selected for testing from the detail records, 8 items valued at \$18,889 (including laptops and a digital camera) could not be physically located by the Governor's Office property officer. A similar condition was commented upon in our preceding audit report.
- The detail records were not updated in a timely manner for missing or stolen items. Specifically, items noted as missing/stolen during calendar years 2007, 2008 and 2009 totaling \$451,000 were not submitted to DGS for approval to remove them from the inventory records, until August 10, 2009. When reporting these items to DGS, the Department stated that many of the items were very old (obsolete equipment) and had been upgraded, but the original assets had not been removed from the equipment records.

DGS' *Inventory Control Manual* requires that the responsibility for inventory record keeping, inventory custody and physical inventory taking be segregated whenever possible. The *Manual* also states that the physical inventory be documented, that a record of the physical inventory be maintained, and that the results of the physical inventory be reconciled to the detail records. Furthermore, 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 *Inventory Control Manual* (repeat).

Audit Scope, Objectives, and Methodology

We have audited the following units of the Executive Department for the period beginning January 17, 2007 and ending March 31, 2009. 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. The areas addressed by the audit included cash receipts, equipment, corporate purchasing cards, and federal funds. 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. 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, payroll for staff, 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. This report also includes a finding regarding a significant instance 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

MARTIN O'MALLEY
GOVERNOR

STATE HOUSE
100 STATE CIRCLE
ANNAPOLIS, MARYLAND 21401-1925
(410) 974-3901
(TOLL FREE) 1-800-811-8336

TTY USERS CALL VIA MD RELAY

January 28, 2010

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 January 2010 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 Administration, Robert Platky.

Sincerely,

A handwritten signature in black ink, appearing to read "Matt D. Gallagher".

Matthew D. Gallagher
Chief of Staff

MDG:kt

encl.

cc: Peggy J. Watson, Deputy Chief of Staff
Robert A. Platky, Director of Administration



Cash Receipts - Recommendation 1

We recommend that

- a. employees without access to the collections verify that all recorded collections were received by the GFO for deposit (repeat), and**
- b. an employee without access to collections maintain the related accounts receivable records (repeat).**

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

AGENCY RESPONSE: We agree. While each agency had established procedures for logging and verifying the depositing and posting of deposits in the State's accounting system, they each lacked sufficient segregation of duties in certain areas. Both agencies have developed, documented and implemented revisions to their procedures to address the noted deficiencies and will be periodically monitored by the Governor's Office of Financial Administration.

Equipment - Recommendation 2

We recommend that the Department comply with the provisions of the *Inventory Control Manual* (repeat).

AGENCY RESPONSE: We agree 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. We anticipate that most, if not all, of the identified deficiencies will be resolved with the submission of the FY2010 year-end inventory reports.

Towards that end, all Executive Department agencies have submitted Inventory Functional Designation forms to document the appropriate segregation of duties among staff and a mid-year physical inventory of each agency is being conducted to assist in reconciling all accounts. Seven of the eight items cited as missing in the Governor's Office have been located and, as noted, many previously-disposed items have been submitted to DGS for approval and are being deleted from the department's records. In addition, the Banneker-Douglass Museum capital improvement accounts have been transferred from the Department of Housing and Community Development to the Governor's Office of Community Initiatives.

AUDIT TEAM

William R. Smith, CPA
Audit Manager

Richard L. Carter, CISA
Information Systems Audit Manager

Elaine D. Portnoy
Senior Auditor

Amanda L. Roller
Information Systems Senior Auditor

Rick E. Pyles
Ryan P. Stecher
Staff Auditors

Jacquelyn M. Tindall
Information Systems Staff Auditor

Eoghan J. Doherty
Brett M. Sheppard
Staff Auditor Interns