

Audit Report

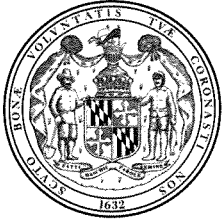
Maryland Food Center Authority

April 2014



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

Karl S. Aro
Executive Director

April 8, 2014

Thomas J. Barnickel III, 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 Maryland Food Center Authority (MFCA) for the period beginning July 20, 2010 and ending August 6, 2013. MFCA is responsible for establishing, maintaining, operating, and promoting consolidated food markets within the State, and owns and operates the Maryland Wholesale Produce and Seafood Markets, which are located in Jessup, Maryland.

Our audit disclosed that independent deposit verifications were not performed for certain collections. In addition, MFCA did not solicit competitive bids and written price quotes, as required, for certain construction services.

MFCA's response 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 MFCA.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Thomas J. Barnickel III".

Thomas J. Barnickel III, CPA
Legislative Auditor

Background Information

Agency Responsibilities

The Maryland Food Center Authority (MFCA) is an instrumentality of the State of Maryland and a public corporation. The primary purpose of MFCA is to establish, maintain, operate, and promote consolidated food markets within the State. MFCA owns and operates the Maryland Wholesale Produce and Seafood Markets which are located in Jessup, Maryland.

MFCA receives no State general funds and its operations are primarily funded through entrance and registration fees and rental income that are generated from the operation of the produce and seafood markets. According to its audited financial statements, MFCA's operating revenues and expenses totaled \$4.5 million and \$4.1 million, respectively, for the fiscal year ended June 30, 2013.

Financial Statement Audits

MFCA engaged an independent accounting firm to perform audits of its financial statements for the fiscal years ended June 30, 2011, 2012, and 2013. In the related audit reports, the firm stated that MFCA's financial statements presented fairly, in all material respects, the financial position of MFCA, and the respective changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Status of Findings From Preceding Audit Report

Our audit included a review to determine the status of the four findings contained in our preceding audit report dated March 2, 2011. We determined that MFCA satisfactorily addressed three of the findings. The remaining finding is repeated in this report.

Findings and Recommendations

Cash Receipts

Finding 1
Independent deposit verifications were not performed for certain collections.

Analysis

Independent deposit verifications were not performed for collections received at the Maryland Food Center Authority's (MFCA) Administration building. Specifically, the deposit verifications were performed by an employee who also had routine access to collections and the check log used as the initial point of recordation. This employee also maintained the related accounts receivable records. Consequently, collections could be misappropriated without detection. According to MFCA's records, collections totaled approximately \$4.5 million during fiscal year 2013, of which \$4.1 million were received at the MFCA's Administration building. The remaining collections were received at produce and seafood markets operated by the MFCA.

Recommendation 1

We recommend that

- a. an employee independent of the cash receipts function perform the deposit verifications, and**
- b. employees who have access to cash receipts not also have access to the related accounts receivable records.**

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

Procurement

Finding 2
MFCA procured certain construction services without obtaining competitive bids and written price quotes, as required by its procurement policy.

Analysis

MFCA procured certain construction services without obtaining competitive bids and written price quotes, as required. Our test of 12 procurements totaling approximately \$1.9 million, disclosed 2 procurements, totaling \$74,292, were procured without obtaining competitive bids or written price quotes. MFCA

management personnel advised us that these procurements were awarded based on the vendors' prior performance on other contracts and positive feedback from market tenants. A similar condition was commented upon in our preceding audit report.

Although MFCA is exempt from State Procurement Regulations, it has established its own written procurement policy. MFCA's procurement policy generally requires that written price quotes be obtained for purchases greater than \$5,000. Competitive bids must be obtained for all construction services. Without obtaining competitive bids and written quotes, there is no assurance that MFCA received the best price for the services purchased.

Recommendation 2

We recommend that MFCA procure services in accordance with its procurement policy (repeat).

Audit Scope, Objectives, and Methodology

We have audited the Maryland Food Center Authority (MFCA) for the period beginning July 20, 2010 and ending August 6, 2013. 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 MFCA's financial transactions, records and internal controls, and to evaluate its compliance with applicable State laws, rules, and regulations. We also determined the status of the findings included 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, procurements and disbursements, accounts receivable, and payroll.

To accomplish our audit objectives, our audit procedures included inquiries of appropriate personnel, inspections of documents and records, observations of MFCA's operations, and tests of transactions. We also performed various data

extracts of pertinent information from the State's Financial Management Information System (such as revenue and expenditure data) and the State's Central Payroll Bureau (payroll data), as well as from the contractor administering the State's Corporate Purchasing Card Program (credit card activity). The extracts are performed as part of ongoing internal processes established by the Office of Legislative Audits and were subject to various tests to determine data reliability. We determined that the data extracted from these various sources were sufficiently reliable for the purposes the data were used during the audit. Finally, we performed other auditing procedures that we considered necessary to achieve our audit objectives. The reliability of data used in this report for background or informational purposes was not assessed.

MFCA'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 condition that we consider to be a significant deficiency in the design or operation of internal control that could adversely affect MFCA's ability to maintain reliable financial records, operate effectively and efficiently, and/or comply with applicable laws, rules, and regulations. Our report also includes a finding regarding a significant instance of noncompliance with applicable laws, rules, or regulations. Other less significant findings were communicated to MFCA that did not warrant inclusion in this report.

MFCA'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 MFCA regarding the results of our review of its response.



APPENDIX

7801 Oceano Avenue
Jessup, Maryland 20794
Tel: 410.379.5760
Fax: 410.379.5773

March 19, 2014

Mr. Thomas J. Barnickel III, CPA
Legislative Auditor
Department of Legislative Services
Office of Legislative Audits
Maryland General Assembly
301 W. Preston Street - Room 1202
Baltimore, Maryland 21201

Dear Mr. Barnickel:

We have received the draft Legislative Auditor's report for the period beginning July 20, 2010 and ending August 6, 2013.

After review of the Auditor's comments regarding two findings, the following steps have been included in the Maryland Food Center Authority's (MFCALogomark) procedures to address these concerns.

Cash Receipts: The Director of Facilities, an employee independent of the cash receipts function, will verify that all recorded cash receipts are deposited. She will acknowledge this verification by signing the deposit slip. In addition, accounts receivable records are not accessible by any employee who has access to cash receipts. This is accomplished by modifying the security settings in the accounts receivable system and the key to the safe which holds undeposited checks is held only by an employee without access to the accounts receivable records.

Procurement: MFCALogomark will ensure all staff is properly trained and follows MFCALogomark Procurement Procedures.

We appreciate the recommendations of the Legislative Auditor and the suggestions offered to bring the MFCALogomark in compliance with the Comptroller of the Treasury's Accounting Procedures Manual. In addition to the above mentioned changes, the MFCALogomark has implemented other procedures to further strengthen the Authority's internal control.

Best regards,



Donald J. Darnall

cc: Elizabeth Sandra Banthem, Chair

Elizabeth Sandra Banthem, *Chair*
Jeffrey M. Mowrey, *Vice Chair*
Joseph A. Rosier, Jr
Steven L. Fanaroff

John C. Guerriero
Michael T. Isen
Afra Vance-White

Hon. Peter Franchot, *Ex Officio*
Earl F. Hance, *Ex Officio*
Alvin C. Collins, *Ex Officio*
Cheng-i Wei, *Ex Officio*

Dr. Donald J. Darnall, *Executive Director*

AUDIT TEAM

Heather A. Warriner, CPA
Audit Manager

Erin D. Erdley, CPA
Senior Auditor