Audit Report

Department of General Services
Office of the Secretary and Other Units

August 2017

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

Warren G. Deschenaux
Executive Director

Thomas J. Barnickel III, CPA
Legislative Auditor

August 3, 2017

Senator Craig J. Zucker, Co-Chair, Joint Audit Committee
Delegate C. William Frick, Co-Chair, Joint Audit Committee
Members of Joint Audit Committee
Annapolis, Maryland

Ladies and Gentlemen:

We have conducted a fiscal compliance audit of the Office of the Secretary and other units of the Department of General Services (DGS) for the period beginning July 1, 2013 and ending May 30, 2016. The Office of the Secretary and other units provide professional and technical services for the planning, design, construction, and maintenance of most State facilities; manage and maintain multi-agency State facilities; and coordinate the State's real estate activities.

Our audit disclosed a lack of sufficient controls over collections totaling $23.6 million in fiscal year 2016 and certain non-cash credits to accounts receivable. In addition, DGS recorded improper budgetary closeout transactions totaling $968,000 and $425,000 at the close of fiscal years 2016 and 2014, respectively and, consequently, failed to revert these funds to the General Fund.

DGS had not established sufficient controls to ensure that all disbursement transactions were independently approved and that all commodities purchased were received. In addition, DGS awarded multiple contracts for roofing services to one contractor over a one-year period, totaling $629,000, without soliciting competitive bids, as required. Finally, DGS lacked adequate records and monitoring procedures to ensure that all real estate commission rebates were received and that only proper employee pay adjustments were processed.

DGS' 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 DGS.

Respectfully submitted,

Thomas J. Barnickel III, CPA
Legislative Auditor

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Background Information

Agency Responsibilities

The Department of General Services (DGS) consists of six units, including the Office of the Secretary. This audit included the operations of the following five units:

- Office of the Secretary
- Office of Facilities Security
- Office of Facilities Operation and Maintenance
- Office of Real Estate
- Office of Facilities, Planning, Design, and Construction

These five DGS units provide professional and technical services for the planning, design, construction, and maintenance of most State facilities; manage and maintain multi-agency State facilities; and coordinate the State's real estate activities. The remaining DGS unit (Office of Procurement and Logistics) is audited and reported upon separately. According to the State's records, the operating expenditures (excluding statewide capital project expenditures) for the five DGS units included in this audit totaled approximately $95.2 million during fiscal year 2016.

Status of Finding From Preceding Audit Report

Our audit included a review to determine the status of the finding contained in our preceding audit report dated October 8, 2014. We determined that DGS satisfactorily addressed this finding.

Findings and Recommendations

Cash Receipts and Non-Cash Credits

Finding 1
Controls over cash receipts and non-cash credits were not sufficient.

Analysis
The Department of General Services (DGS) had not established adequate controls over checks received in the mail, which totaled approximately $23.6 million during fiscal year 2016, as well as over non-cash credits posted to accounts receivable. The majority of checks were initially received by finance office employees, who restrictively endorsed and recorded them on a log, and deposited them using a remote deposit system. DGS' collections related primarily to renewable energy reimbursements and State auction sales proceeds, and also included rental payments for which accounts receivable records were maintained. As a result of these conditions, errors or other discrepancies could occur without timely detection.

- Checks received were not always accounted for and safeguarded through immediate recordation, secure storage, and timely deposit. Our review of 285 checks collected on 20 days during fiscal years 2015 and 2016, totaling approximately $13.5 million, disclosed that 103 checks totaling $2.2 million were recorded 1 to 6 business days after receipt (as determined by the date stamp on the envelope), and 230 checks totaling $8.3 million were deposited 2 to 14 business days after receipt. For example, 3 checks received in April 2016, totaling approximately $126,000, were not deposited for 14 days. Furthermore, although these checks were stored in a locked safe or cabinet prior to recordation and deposit, the checks were still accessible to several employees, two of whom had the capability to process non-cash credits in the automated accounts receivable records.

- Non-cash credits recorded in the accounts receivable records were not subject to independent on-line approval, nor were output reports generated for subsequent review by supervisory personnel. Nine employees, including the aforementioned two employees with access to collections, had online access capability to record non-cash credits. Non-cash credits posted to accounts receivable during fiscal year 2016 totaled approximately $800,000.

- Deposit verifications performed were not effective since the employee who initially recorded collections on the check log did not provide a copy of the log directly to the employee responsible for verifying recorded collections to deposit. Instead, the check log and the related checks were forwarded first to the employee who prepared the remote deposit. As a result, unauthorized changes could be made to the check log that would not be detected by the employee responsible for verifying the recorded checks to validated bank deposit documentation.

- Checks to be destroyed after being deposited through a remote deposit system were not first reconciled to the check log, as required, to ensure all checks were destroyed. Remote deposit is a process that scans the images of checks and electronically transmits those images to the bank for deposit.

The Comptroller of Maryland's *Accounting Procedures Manual* requires cash receipts to be immediately recorded and deposited within a day, as well as adequately safeguarded prior to deposit. The *Manual* also requires an independent verification of collections to deposit, which should be performed from the recordation of checks received. Finally, the *Manual* requires supervisory review and approval of non-cash credits to accounts receivable records and the segregation of cash receipts handling duties from the accounts receivable record keeping duties. The State Treasurer's *Policy on the Use of Remote Deposit Services by Maryland State Agencies* requires that agencies using remote deposit ensure that checks to be destroyed are first independently reconciled to the record of checks received.

Recommendation 1
We recommend that DGS

a. adequately account for and safeguard checks by recording, securing, and depositing them in accordance with the aforementioned *Manual* requirements;
b. ensure that non-cash credits to accounts receivable are subject to independent supervisory review and approval;
c. ensure that the initial record of checks received, or a copy thereof, is given directly to the independent employee responsible for verifying that all recorded collections were deposited; and
d. independently reconcile checks to be destroyed to the initial record of checks received.

Budgetary Closeout

Finding 2
DGS improperly recorded special fund revenues totaling $968,000 at the close of fiscal year 2016 and failed to revert these funds to the General Fund as required. Accrued expenditures totaling $425,000 were also improperly recorded to retain general funds at the close of fiscal year 2014.

Analysis
DGS improperly recorded deferred revenue totaling $968,000 to avoid reverting accumulated and unspent special fund revenues at the end of fiscal year 2016. DGS also improperly recorded general fund accrued expenditures totaling $425,000 at the end of fiscal year 2014 as a means to retain the funds for future maintenance projects.

- During its fiscal year 2016 closeout process, DGS improperly recorded as deferred revenue $968,000 in excess special fund fees received from vendors for DGS-controlled electronic procurement transactions. In August 2011, DGS received approval from the Board of Public Works to collect fees on these types of procurements to pay for the costs incurred to operate its electronic procurement system (*eMaryland Marketplace*). However, State law does not specify that these fees received in excess of costs incurred are to be retained in a nonlapsing fund, nor does the law dedicate the fees collected for any specific purpose. Accordingly, DGS did not have legal authority to retain the excess fees by classifying them as deferred revenue to offset future years' costs. The State's Department of Budget and Management advised us that DGS should have reverted these funds to the General Fund. As of February 23, 2017, these funds remained unspent.

- DGS improperly recorded accrued general fund expenditures totaling $425,000 during the fiscal year 2014 closeout process. We were advised by DGS management that the accrued expenditures were recorded as a means to carry forward funds to be used for a backlog of critical maintenance projects. However, the accrued expenditures did not represent goods or services that were received prior to fiscal year-end; therefore, these funds should have been reverted to the General Fund. DGS further advised us that these retained funds were, in fact, spent during fiscal year 2015 on critical maintenance projects.

The Comptroller of Maryland – General Accounting Division's closing instructions state that deferred revenue should be recorded only when revenue has been collected in the fiscal year, but will not be earned and recognized until the next fiscal year. The instructions further require that all fund balances carried into the next fiscal year be done so in accordance with State statute, regulation, or policy. Finally, the *State Policy on Accounts Payable, Accrued Expenditures, and Encumbrances,* which is included in these closing instructions, states that expenditures should be accrued only when goods or services have been received prior to fiscal year-end, but not invoiced.

Recommendation 2
We recommend that DGS

a. **record fiscal year-end transactions, including deferred revenue and accrued expenditures, only in accordance with the aforementioned instructions and policy; and**
b. **revert funds improperly retained to the General Fund.**

Procurements and Disbursements

Finding 3
DGS lacked sufficient controls to ensure that all disbursement transactions were independently approved and that all commodities purchased were received.

Analysis
DGS had not established sufficient controls to ensure that all disbursements processed on the State's Financial Management Information System (FMIS) were subject to independent approval, and that all commodities purchased were received prior to payment.

- Five employees had system access capabilities that allowed them to process certain disbursement transactions with no further independent on-line approval required. In lieu of an on-line approval process, which is available in FMIS, we were advised by DGS that independent employees were required to manually review supporting documentation prior to system release for payment; however, this manual approval process was not documented. These employees processed disbursements totaling approximately $50.3 million during our audit period. We reviewed approximately $1 million of these expenditures and found that documentation existed to support receipt of the related goods or services procured.

- DGS frequently did not use the appropriate payment method for commodity disbursement transactions. During our audit period, DGS processed 873 disbursements for commodity procurements totaling $2.2 million using a method that allowed for the payment of invoices without electronically matching them with the corresponding receiving reports. Rather than use this automated control, DGS required a manual match of receiving documentation to each invoice. However, our test of eight disbursements for commodities totaling approximately $918,000 disclosed that, for seven disbursements totaling $886,000, the required receiving documentation was not on file. Consequently, there was a lack of assurance that the purchased commodities were received.

The Department of Information Technology's *FMIS Internal Control and Security Policy and Procedures Manual* requires, when automated system approvals are not established, alternate approval processes be implemented outside of FMIS. Specifically, a documented review and approval of supporting documents for 100 percent of the transactions should be performed to ensure that the related goods or services were received. In addition, the *Manual* states that the automated matching feature should be used for the purchase of commodities. Implementing an automated control would help ensure that all purchases of commodities include a verification to adequate receiving documentation prior to payment.

Recommendation 3

We recommend that DGS

a. establish independent online approval requirements for all critical disbursement transactions, or if DGS elects to use alternate approval processes, comply with the applicable requirements of the *Manual*;

b. use the appropriate FMIS payment method to ensure that invoices are matched to the corresponding receiving reports prior to payment; and

c. investigate to ensure that the commodities relating to the aforementioned disbursements of $886,000 were received.

Finding 4

DGS awarded multiple contracts for roof repair and replacement services to a roofing contractor without soliciting bids, as required.

Analysis

DGS awarded multiple contracts for roof repair and replacement services to the same vendor without soliciting bids, as required. Specifically, during the period from July 2013 through September 2014, DGS awarded 27 contracts to one vendor, totaling approximately $1 million, with each contract ranging from $15,000 to $50,000. Our test of 14 of these contracts totaling approximately $629,000 disclosed that DGS did not solicit bids from multiple vendors as required for any of the 14 contracts. Further, we were advised that DGS contacted this vendor directly, rather than solicit bids on *eMaryland Marketplace* as required. Without obtaining competitive bids, there is no assurance that DGS received the best price for the services provided.

According to State procurement regulations, DGS procurements of construction projects valued between $15,000 and $50,000 require written solicitations to be posted to *eMaryland Marketplace* for at least three days before bids are due and responsive bids from at least two vendors should be obtained. If only one responsive bid is received, an award may be made to the bidder if the procurement officer determines the price submitted is fair and reasonable and the other vendors had reasonable opportunity to respond.

Recommendation 4
We recommend that DGS comply with the aforementioned State procurement regulations to help ensure DGS receives the best value for the goods or services.

Real Estate Commission Rebates

Finding 5
DGS lacked independent records and monitoring procedures to ensure that all commission rebates due for certain real estate transactions were received.

Analysis
DGS had not established independent records and monitoring procedures to ensure that it received all commission rebates due from a vendor it had contracted with to provide real estate brokerage services on behalf of State agencies. According to the contract between DGS and this vendor, the vendor was required to collect a commission from each landlord leasing property to State agencies and subsequently remit 28 percent of the commission to DGS as a rebate; the remainder of the commission was retained by the vendor as its compensation.

Although DGS received certain lease information and data from the vendor, such as property locations and commissions received, DGS did not maintain an independent record of all approved leases, and did not actively monitor the leases for commissions and rebates due. For example, DGS did not detect in a timely manner that rebates totaling approximately $430,000 relating to fiscal year 2015 commissions had not been paid as of December 2015. After being contacted by DGS, the vendor submitted rebate payments of $606,730 in January 2016; however, the vendor did not provide any supporting documentation with these payments. As of July 2016, DGS had not determined the specific leases and years to which these payments applied. Because DGS relied on the contractor to calculate and submit the required rebate payments, there was a lack of assurance that all rebates due were received.

In September 2014, DGS entered into a three-year contact, with two one-year renewal options with this vendor who was the incumbent contractor on the previous contract. During fiscal years 2014 through 2016, DGS received commission rebates totaling approximately $1.7 million.

Recommendation 5
We recommend that DGS

a. **maintain an independent record of all leases established under the contract and establish monitoring procedures to ensure that all rebates due are received in a timely manner, and**
b. **verify that all rebates due since July 1, 2013 have been received.**

Payroll

Finding 6
Adjustments to employee pay and leave balances were not subject to independent supervisory review and approval.

Analysis
Adjustments to employee pay and leave balances were not reviewed for propriety by independent supervisory personnel. Specifically, one employee was responsible for submitting a manual list of payroll adjustments to the Department of Budget and Management (DBM) for processing in the Statewide Personnel System (SPS). Although DGS advised us that the listing was reviewed by supervisory personnel prior to submission, there was no documentation that this occurred. In addition, DGS did not have a procedure in place to verify the propriety of leave balance adjustments that were processed by five employees in SPS. DGS did not use available system output reports of all payroll and leave adjustments recorded to ensure that only authorized adjustments had been processed. As a result, there was a lack of assurance that critical adjustments, such as payments for accumulated leave, were proper.

DGS began using SPS for employee time keeping and leave management on May 25, 2016. During the period from May 25, 2016 through December 6, 2016, 155 payroll adjustments and 240 leave balance adjustments were processed, which increased employee pay and leave balances by approximately $128,000 and

10,450 hours, respectively. According to State's records, DGS' payroll expenditures totaled approximately $42.8 million during fiscal year 2016.

Recommendation 6

We recommend that DGS

a. ensure that manual listings of payroll adjustments submitted to DBM for processing are first approved by independent supervisory personnel, and that this approval is documented; and

b. independently verify output reports of payroll and leave adjustments processed to initial supporting documentation, at least on a test basis.

Audit Scope, Objectives, and Methodology

We have conducted a fiscal compliance audit of the following units of the Department of General Services (DGS) for the period beginning July 1, 2013 and ending May 30, 2016:

- Office of the Secretary
- Office of Facilities Security
- Office of Facilities Operation and Maintenance
- Office of Real Estate
- Office of Facilities, Planning, Design, and Construction

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 DGS' 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 significance and risk. The areas addressed by the audit included capital projects, energy contracts, disbursements, real estate, cash receipts, payroll, and accounts receivable. Our audit also included support services (such as invoice processing and maintenance of accounting records) provided by DGS – Office of the Secretary to DGS – Office of Procurement and Logistics. In addition, our audit included similar services provided by DGS for certain capital projects authorized by law under the State's operating budget (that is, the Board of Public Works – Capital Appropriations) and the capital project budget (for example, Maryland Consolidated Capital Bond Loans). We also determined the status of the finding contained in our preceding audit report.

Our audit did not include certain support services provided by DGS – Office of Procurement and Logistics to the other DGS units. These support services (such as procurement and equipment management) are included within the scope of our audit of the Office of Procurement and Logistics. Our audit also did not include activities related to the operation and maintenance of Government House.

Although DGS receives an appropriation for these activities, these activities are audited as part of the Executive Department – Governor. In addition, our audit did not include an evaluation of internal controls over compliance with federal laws and regulations for federal financial assistance programs and an assessment of DGS' compliance with those laws and regulations because the State of Maryland engages an independent accounting firm to annually audit such programs administered by State agencies, including DGS.

To accomplish our audit objectives, our audit procedures included inquiries of appropriate personnel, inspections of documents and records, observations of DGS' operations, and tests of transactions. Generally, transactions were selected for testing based on auditor judgment, which primarily considers risk. Unless otherwise specifically indicated, neither statistical nor non-statistical audit sampling was used to select the transactions tested. Therefore, the results of the tests cannot be used to project those results to the entire population from which the test items were selected.

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). These 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 sources were sufficiently reliable for the purposes the data were used during this audit. We also extracted data from the Statewide Personnel System (SPS) for the purpose of testing certain payroll and leave transactions, including the conversion of employee data to SPS. We performed various tests of the relevant data and determined that the data 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 objectives. The reliability of data used in this report for background or informational purposes was not assessed.

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

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

APPENDIX

Larry Hogan
Governor

Boyd K. Rutherford
Lt. Governor

Ellington E. Churchill, Jr.
Secretary

MARYLAND DEPARTMENT OF GENERAL SERVICES
OFFICE OF THE SECRETARY

August 1, 2017

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

Dear Mr. Barnickel:

Enclosed are the Department of General Services' (DGS) responses to each item addressed in your draft audit report on the Department of General Services – Office of the Secretary and Other Units for the period beginning July 1, 2013 and ending May 30, 2016. As required, a copy of our responses will be sent electronically to your office.

If you should have any questions or require additional information, please contact me or Karen Tolley, Fiscal Services Director, at 410-767-4279 or via email at Karen.Tolley@maryland.gov.

Sincerely,

Nelson E. Reichart
Nelson E. Reichart
Deputy Secretary

c: Ellington E. Churchill, Jr.
Karen Tolley

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Cash Receipts and Non-Cash Credits

Finding 1 **Controls over cash receipts and non-cash credits were not sufficient.**

OLA's Recommendation 1

We recommend that DGS:

a. adequately account for and safeguard checks by recording, securing, and depositing them in accordance with the aforementioned Manual requirements;

b. ensure that non-cash credits to accounts receivable are subject to independent supervisory review and approval;

c. ensure that the initial record of checks received, or a copy thereof, is given directly to the independent employee responsible for verifying that all recorded collections were deposited; and

d. independently reconcile checks to be destroyed to the initial record of checks received.

Corrective Actions Taken or Planned:

a. DGS concurs with the finding. Recommended action completed. A locked bag has been obtained and access is restricted to appropriate authorized personnel.

b. DGS concurs with the finding. FMIS security access will be reviewed for the individuals cited and access restricted as the system allows to comply with the recommendation to be completed before December 2017.

c. DGS concurs with the finding. Recommended action completed. An independent person has been assigned this task.

d. DGS concurs with the finding. Recommended action completed. An independent person has been assigned this task.

Budgetary Closeout

Finding 2
DGS improperly recorded special fund revenues totaling $968,000 at the close of fiscal year 2016 and failed to revert these funds to the General Fund as required. Accrued expenditures totaling $425,000 were also improperly recorded to retain general funds at the close of fiscal year 2014.

OLA's Recommendation 2
We recommend that DGS:
a. record fiscal year-end transactions, including deferred revenue and accrued expenditures, only in accordance with the aforementioned instructions and policy; and
b. *revert funds improperly retained to the General Fund.*

Corrective Actions Taken or Planned:

a. DGS concurs with the finding. DGS intends to fully comply with all General Accounting Divisions closing instructions.

b. DGS concurs with the finding. Recommended action completed. DGS reverted $968,000 to the General Fund in Fiscal Year 2017.

Procurements and Disbursements

Finding 3
DGS lacked sufficient controls to ensure that all disbursement transactions were independently approved and that all commodities purchased were received.

OLA's Recommendation 3
We recommend that DGS:

a. *establish independent online approval requirements for all critical disbursement transactions, or if DGS elects to use alternate approval processes, comply with the applicable requirements of the Manual;*

b. *use the appropriate FMIS payment method to ensure that invoices are matched to the corresponding receiving reports prior to payment; and*

c. *investigate to ensure that the commodities relating to the aforementioned disbursements of $886,000 were received.*

Corrective Actions Taken or Planned:

a. DGS concurs with the finding. Recommended action completed. DGS has immediately implemented an alternate approval process that complies with State applicable requirements.

b. DGS concurs with the finding. Recommended action completed. DGS will continue a manual match process but require all signed receiving reports from across the Agency to be sent to the Finance Office to properly match to invoices before payment. Standard Operating Procedures will be revised and an internal review will be periodically conducted to ensure compliance.

c. DGS concurs with the finding. Recommended action completed. DGS has investigated through inventory reports that the eight test disbursements for commodities in question have been received and utilized in State service.

Finding 4
DGS awarded multiple contracts for roof repair and replacement services to a roofing contractor without soliciting bids, as required.

OLA's Recommendation 4
We recommend that DGS comply with the aforementioned State procurement regulations to help ensure DGS receives the best value for the goods or services.

Corrective Actions Taken or Planned:

DGS concurs with the finding. All contracts discovered by DLS occurred prior to January of 2015 and were conducted by staff that have since retired or been transferred to other roles within DGS. DLS did sample small procurements conducted after January 2015 and found evidence that this issue had been corrected. Small procurements made since these staffing changes took effect have complied and will continue to comply with the State procurement regulations.

In addition the division implemented new internal procedures in January of 2015 for unexpected projects. Per COMAR emergency project regulations start at $25,000. DGS believes most of the 14 contracts referenced by DLS were emergency in nature, but below this COMAR emergency threshold, hence did emergency documentation in the project files. To correct this, beginning in January of 2015, the division requires a letter from the requesting entity for any unplanned/emergency/unexpected project regardless of dollar value explaining the urgent nature of the project. A response letter from DGS is then generated accepting or rejecting the emergency request. These letters are retained for future reference.

Real Estate Commission Rebates

Finding 5
DGS lacked independent records and monitoring procedures to ensure that all commission rebates due for certain real estate transactions were received.

OLA's Recommendation 5
We recommend that DGS:
a. maintain an independent record of all leases established under the contract and establish monitoring procedures to ensure that all rebates due are received in a timely manner, and
b. verify that all rebates due since July 1, 2013 have been received.

Corrective Action Taken or Planned:

a. DGS has implemented a rebate tracking system which is independent of the Sales Force system maintained by its broker. On a monthly basis DGS updates and maintains a spreadsheet which includes the following: a listing of leases approved by the Board of Public Works; the commission amount agreed to in the Commission Rate Agreement executed between the broker and the landlord; the required rebate amount; and the date the rebate check is received. Rebate checks should be received within 90 days of BPW approval or the effective date of the lease. The brokers are queried monthly on outstanding rebate checks, and whether in lieu of a lump sum, installment payments have been agreed to which would result in a delay in DGS receiving the required rebate fees.

b. Rebate fees not received by DGS from July 1, 2013 to the present are a result of non-payment by the landlord to the broker. The DGS AG's Office has reviewed the current broker contract dated 9/1/14 and has advised that if the landlord does not pay the commission, DGS is nevertheless entitled to be paid the agreed rebate percentage regardless of whether the broker tries to collect the commission from the landlord. The rebate is due when the commission is "earned" or when the lease is approved by the Board of Public Works. Based upon this information, DGS is consulting with the AG's Office on the best way to seek restitution for the unpaid rebate fees. This could include requesting the State agency located in the leased space to withhold the outstanding rebate amount from future lease payments to the landlord.

Payroll

Finding 6
Adjustments to employee pay and leave balances were not subject to independent supervisory review and approval.

OLA's Recommendation 6

We recommend that DGS:

a. ensure that manual listings of payroll adjustments submitted to DBM for processing are first approved by independent supervisory personnel, and that this approval is documented; and

b. independently verify output reports of payroll and leave adjustments processed to initial supporting documentation, at least on a test basis.

Corrective Actions Taken or Planned:

a. DGS concurs with the finding. Recommended action completed. Payroll will forward input file to Fiscal Services Director or Fiscal Services Deputy Director who will verify adjustments to approved Statewide Personnel System (SPS) transactions. All processes will be documented for audit retention and reviewed on a test basis.

b. DGS concurs with the finding. Recommended action completed. Payroll Clerks will provide a leave balance report per pay period to Payroll Supervisor who will independently review and verify report to SPS transactions. All processes will be documented for audit retention and reviewed on a test basis.

AUDIT TEAM

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