

Audit Report

**Department of General Services
Office of the Secretary and Other Units**

October 2014



**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

October 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 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 March 9, 2010 and ending June 30, 2013. 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 that DGS had not established proper internal controls over its purchasing transactions.

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,

A handwritten signature in black ink that reads "Thomas J. Barnickel III".

Thomas J. Barnickel III, CPA
Legislative Auditor

Background Information

Agency Responsibilities

The Department of General Services (DGS) consists of the Office of the Secretary and five other units. This audit includes the operations of the following 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 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 unit of DGS (Office of Procurement and Logistics) is audited and reported upon separately.

According to the State's records, DGS' operating expenditures (excluding statewide capital project expenditures) for the five units included in this audit totaled approximately \$87.5 million during fiscal year 2013.

Status of Findings From Preceding Audit Report

Our audit included a review to determine the status of six of the seven findings contained in our preceding audit report dated January 6, 2011. We determined that DGS satisfactorily addressed these findings. The status of the remaining finding, which related to equipment, was addressed in our audit of DGS – Office of Procurement and Logistics.

Findings and Recommendations

Purchases

Finding 1

Proper internal controls were not established over purchasing transactions.

Analysis

The Department of General Services (DGS) did not adequately restrict user access capabilities to prevent unauthorized purchasing transactions in the State's

Financial Management Information System (FMIS). We identified 19 employees who were assigned system capabilities that allowed them to initiate and process purchasing transactions without independent approval. In addition, certain of these employees also manually approved the related invoices which were subsequently processed for payment through FMIS. Our review identified 34 purchase orders totaling \$1.7 million that were processed during fiscal years 2011 through 2013 without independent approval. We tested 11 invoices totaling \$101,000 from these purchase orders, and noted that two invoices totaling \$9,313 were approved by the same employee who initiated and processed the related purchase order.

According to the State's accounting records, during fiscal year 2013, DGS used FMIS to process purchases totaling approximately \$19 million.

Recommendation 1

We recommend that DGS establish independent online approval requirements for all critical purchasing transactions.

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 March 9, 2010 and ending June 30, 2013:

- 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 energy performance contracts, real estate, facilities planning/design and construction, expenditures, cash receipts, accounts receivable, and payroll. We also determined the status of the findings contained in our preceding audit report.

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. 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). 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 this 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.

The DGS – Office of the Secretary provides certain support services (for example, invoice processing and maintenance of accounting records) for the DGS – Office of Procurement and Logistics. In addition, similar services are provided 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). These support services are included within the scope of the audit.

The DGS – Office of Procurement and Logistics provides procurement-related services and equipment management for the other DGS units. These services 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, they are audited as part of the Executive Department – Governor.

Our audit did not include an evaluation of internal controls for federal financial assistance programs and an assessment of DGS' 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 DGS.

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 a condition that we consider to be a significant deficiency 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 audit did not disclose any 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



Martin O'Malley
Governor

Anthony G. Brown
Lt. Governor

Alvin C. Collins
Secretary

MARYLAND DEPARTMENT OF GENERAL SERVICES OFFICE OF THE SECRETARY

October 7, 2014

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

Re: Audit of Department of General Services (DGS)
Office of the Secretary (TSO)
Report Date: September 16, 2014
Period of Audit: March 9, 2010 and ending June 30, 2013
Agency Report Due October 3, 2014

Dear Mr. Barnickel:

The Department of General Services (DGS) has made a complete review of the Office of Legislative Audit, of the DGS Office of the Secretary, dated September 16, 2014.

DGS had only one finding on this audit and responds as follows:

Finding #1: Proper internal controls were not established over purchasing transactions.

Response:

The Department of General Services made changes to the Financial Management Information System (FMIS) immediately upon notification by the auditors. With this correction employees will not be able to initiate and process purchasing transactions without independent approval.

This Department extends our thanks to the Audit team for their professionalism during this audit.

Sincerely,

A handwritten signature in black ink, appearing to read 'Alvin C. Collins'.

Alvin C. Collins
Secretary

cc: Bart L. Thomas
Karen Tolley



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