Audit Report

Department of Juvenile Services

May 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

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Legislative Auditor

May 15, 2014

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 Department of Juvenile Services (DJS) for the period beginning October 19, 2009 and ending November 4, 2012. DJS is the central administrative agency for juvenile intake, detention authorization, probation, protective supervision, and aftercare services. In addition, DJS provides residential care, diagnosis, training, education, and rehabilitation to juveniles in State facilities, and supervises community facilities operated under contractual agreements.

Our audit disclosed that, in a number of financial areas, DJS had not established proper internal controls to ensure that financial transactions were properly authorized and supported. For example, DJS did not adequately separate duties pertaining to paying vendor invoices and distributing restitution collections. Instead of using available online features to ensure individuals could not both initiate and approve transactions, DJS elected to use alternative manual processes, which we found were ineffective or untimely. DJS also did not establish effective controls over corporate purchasing card transactions, which allowed one employee to make unauthorized purchases totaling $91,000.

Our audit also disclosed that DJS did not adequately monitor the submission of financial statements from youth care contractors as required, and did not perform timely audits to identify overpayments. DJS also needs to improve access and monitoring controls over its automated case management system to properly protect sensitive data.

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An Executive Summary of our findings can be found on page 5. DJS' 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 DJS.

Respectfully submitted,

Thomas J. Barnickel III, CPA
Legislative Auditor

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* **Denotes item repeated in full or part from preceding audit report**

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Executive Summary

Legislative Audit Report on the
Department of Juvenile Services (DJS)
May 2014

- **DJS had not established adequate internal controls over disbursement transactions (Finding 1) and did not verify that payments for certain electronic monitoring services totaling $2.3 million for the period January 2010 through October 2012 were proper (Finding 2). In addition, DJS did not adhere to State procurement regulations for certain purchases (Finding 3).**

  DJS should ensure that all disbursements are properly supported and approved. DJS should also comply with State procurement regulations when purchasing goods and services.

- **DJS did not ensure that youth care contractors submitted financial statements as required nor did DJS conduct timely audits of youth care contract expenditures. We noted that approximately 53 percent of financial statements reviewed were submitted to DJS after the required due date and 34 percent of the required audits were not completed within one year after receiving the financial statements as required by DJS' policy (Finding 4).**

  DJS should ensure that all required financial statements are submitted and the related audits are conducted timely.

- **DJS did not establish adequate controls over certain payroll adjustments and time and attendance data entries for a certain timekeeping system (Findings 5 and 6).**

  DJS should ensure that critical payroll transactions and time records are subject to independent supervisory review and take other recommended corrective actions to establish adequate controls over payroll processing and timekeeping.

- **Access to the restitution accounts receivable system was not adequately controlled and critical transactions were not reviewed timely. These deficiencies allowed overpayments totaling $134,000 to occur without timely detection (Finding 7).**

DJS should appropriately restrict employee access to the restitution accounts receivable system and should verify that only authorized transactions have been recorded.

- **DJS' supervisors did not review cases determined to be ineligible for federal fund reimbursement to ensure these determinations were proper. During calendar years 2011 and 2012, 1,909 cases were determined to be ineligible for federal fund reimbursement out of 2,204 total cases (Finding 8).**

  DJS' supervisors should verify, at least on a test basis, the propriety of cases determined to be ineligible.

- **Internal control and record keeping deficiencies were noted with respect to corporate purchasing cards (Finding 9), information systems security and control (Findings 10 and 11), and equipment (Finding 12).**

  DJS should take the recommended actions to improve internal controls and record keeping in the aforementioned areas.

Background Information

Agency Responsibilities

The Department of Juvenile Services (DJS) is the central administrative agency for juvenile intake, detention authorization, probation, protective supervision, and aftercare services. In addition, DJS provides residential care, diagnosis, training, education, and rehabilitation to juveniles in State facilities, and supervises community facilities operated under contractual agreements. DJS' responsibilities also include the collection and disbursement of restitution payments on behalf of individuals or organizations that have sustained damages caused by juvenile offenders. DJS had approximately 2,110 permanent and 160 contractual positions. According to the State's records, DJS' expenditures totaled approximately $281.9 million during fiscal year 2013.

DJS has a headquarters office located in Baltimore City and 32 field offices located throughout the State. As shown in Table 1, DJS regionalized and integrated residential and community functions into six regions. These regionalized functions include juvenile intake, probation, aftercare treatment, community detention, treatment operations, and certain fiscal support services (such as payroll and invoice processing). During our audit, we conducted site visits to the Metro, Central, and Western Regions and conducted audit procedures regarding certain aspects of the fiscal support services performed at these locations.

According to DJS' records, the number of intake cases (including detention programs, committed programs, probation, and aftercare) during fiscal year 2013 totaled approximately 27,510. In addition, the average daily population of youths under its supervision (in both State and contractual facilities) totaled approximately 2,160 for the same period.

Table 1 Department of Juvenile Services Regional Operations[1]				
Region	**Maryland Jurisdictions Included in Region**	**State Residential Youth Facilities**	**Fiscal Year 2013 Expenditures (in millions)**	**Average Daily Population at Regional Facilities in Fiscal Year 2013**
Baltimore City Region	Baltimore City	Baltimore City Juvenile Justice Center, William Donald Schaefer House, and the Maryland Youth Residential Center	$63.4	96
Metro Region	Montgomery and Prince George's Counties	Cheltenham Youth Facility and the Alfred D. Noyes Children's Center	$58.4	139
Central Region	Baltimore, Carroll, Harford, and Howard Counties	Charles H. Hickey Jr. School	$35.9	49
Western Region	Allegany, Frederick, Garrett, and Washington Counties	Victor Cullen Academy, Western Maryland Children's Center, and four Youth Centers (Backbone, Greenridge, Meadow Mountain, and Savage Mountain)	$43.0	224
Southern Region	Anne Arundel, Calvert, Charles, and St. Mary's Counties	Thomas J. S. Waxter Children's Center	$26.4	29
Eastern Shore Region	Caroline, Cecil, Dorchester, Kent, Queen Anne's, Somerset, Talbot, Wicomico, and Worcester Counties	J. DeWeese Carter Center and the Lower Eastern Shore Children's Center	$22.4	34
Totals			**$249.5**	**571**

Source: State Budget Books and DJS' Statistical Reports on Youth Population

Status of Findings From Preceding Audit Report

Our audit included a review of the status of the 14 findings included in our preceding audit report dated September 29, 2010. We determined that DJS satisfactorily addressed 10 of these findings. The remaining four findings are repeated in this report.

[1] In addition to juveniles housed at the regional facilities, DJS also serves an average daily population of approximately 1,589 juveniles through contractual facilities, evening reporting centers, evidence based services, and community detention services.

Findings and Recommendations

Purchases and Disbursements

Background
The Department of Juvenile Services (DJS) uses the State's Financial Management Information System (FMIS) to process purchasing and disbursement transactions. Purchases for all units of DJS are processed on a centralized basis by DJS headquarters. Disbursements are processed at various locations, depending on where the goods and services are used. According to the State's records, during fiscal year 2012, DJS used FMIS to process disbursements totaling $115.7 million.

Finding 1
Proper internal controls were not established over the processing of disbursement transactions.

Analysis
DJS did not adequately restrict user access capabilities to prevent unauthorized disbursement transactions in the State's Financial Management Information System (FMIS) and evidence was lacking to ensure that the alternate approval process established by DJS was effectively performed. As a result, numerous employees could process critical transactions without independent approval. Our review disclosed that 17 employees had the capability to initiate and approve certain disbursement transactions without independent approval. These 17 employees processed disbursements totaling approximately $8 million in fiscal year 2012. The lack of independent on-line approvals was commented upon in our three preceding audit reports dating back to 2003.

In response to our previous audit report recommendations, DJS established an alternative approval process consisting of a review of paper copies of invoices and supporting documents in lieu of online approval paths. However, our review disclosed that this alternate approval process was not always documented for disbursements processed at DJS headquarters. Specifically, our test of 15 invoices totaling approximately $855,000 which were processed at this location, disclosed that for 9 invoices totaling approximately $472,000 there was no documentation indicating that these invoices had been reviewed and approved prior to payment. Consequently, unauthorized transactions may not be readily detected.

According to the Department of Information Technology's *FMIS Internal Control and Security Manual*, when online approvals are not established, alternate approval processes should be implemented outside of FMIS. Specifically, persons doing the approval should carefully review supporting documents for 100 percent of the transactions to ensure that the related goods or services were received, and their review should be evidenced on the underlying documents.

Recommendation 1
We recommend that DJS establish independent online approval requirements for all critical disbursement transactions (repeat). If DJS elects to use alternate approval processes, we recommend that DJS comply with the applicable requirements of the *Manual*.

Finding 2
DJS did not ensure the propriety of payments for certain electronic monitoring services.

Analysis
DJS did not have adequate procedures in place to verify the accuracy of billings totaling approximately $2.3 million which were paid between January 2010 and October 2012 for electronic monitoring (EM) services provided by one contractor. As a result, there was a lack of assurance that DJS paid only for services actually received. EM services are provided as part of a program sponsored by DJS called Alternatives to Detention. The program is intended to allow youths to continue working or attending school, while remaining under supervision. Lower risk youths are usually placed on EM (such as GPS monitoring) by either DJS' intake staff or by the juvenile courts. The contractor is responsible for monitoring the activities of the youths using EM equipment and submitting to DJS a detailed spreadsheet of EM activity along with each invoice. Billings from this contractor are based on the number of days the equipment was used.

Our review disclosed that the employee responsible for monitoring this contract and approving the related invoices did not verify the accuracy of the detailed charges submitted by the contractor by independently comparing it to DJS' records of youths receiving EM services. We were advised by DJS' management that although this information was recorded in individual case files maintained at the regions, it was not recorded in DJS' Automated Statewide Support Information System Tool (ASSIST), which tracks vital legal and demographic information pertaining to youths under DJS' jurisdiction. Therefore, ASSIST was not capable of generating an aggregate report of EM activity for use in verifying the billings, and caseworkers were not contacted to confirm EM activity for individual cases.

There was no documentation that the contract monitor had verified any of the 4 payments we selected for testing totaling $196,739. These payments were made to the contractor between February 2011 and October 2012. For example, for one invoice totaling $55,468, there was no indication that vendor charges, which included monitoring equipment and related services for approximately 300 youths, had been substantiated by contacting caseworkers to confirm the information for selected youths.

Recommendation 2
We recommend that DJS

- **a. determine the feasibility of having caseworkers record a youth's participation in the EM program and the length of participation in ASSIST,**
- **b. verify the propriety of EM billings either by using information recorded in ASSIST or by confirming billing information for individual youths by contacting caseworkers, and**
- **c. maintain documentation of this verification process.**

Finding 3
DJS did not adhere to State procurement regulations.

Analysis
DJS did not always follow State procurement regulations when procuring goods and services. Specifically, our tests of selected procurement transactions made during fiscal years 2010 through 2013 disclosed the following:

- DJS routinely used several vendors for individual small purchases of various goods (such as uniforms and food products) and services (such as sign language interpretation and salon services) without obtaining competitive bids. Specifically, we identified six vendors that DJS paid approximately $2.3 million (which individually ranged from approximately $185,000 to $604,000) during fiscal years 2010 through 2012 without bidding out services on an agency-wide or regional basis. Consequently, there is a lack of assurance that the State obtained these goods and services at the lowest possible cost.

- DJS split certain maintenance contracts to circumvent procurement oversight and documentation requirements. Specifically, we identified two projects totaling approximately $146,000 that should have been approved by the Department of General Services (DGS) because they exceeded the $50,000 delegation threshold for facility maintenance contracts. DJS did not process the related requisitions for the project as a whole, but instead split each individual project into smaller amounts.

- A construction project to repave and repair a parking lot at one facility totaling approximately $38,000 was not adequately supported by a contract or related documentation. In addition, disbursements related to this project were made without documentation supporting the completion of the project.

State procurement regulations generally specify that statewide contracts be used when available for commodity purchases. In the absence of a statewide contract, the regulations require a formal written procurement process (such as competitive sealed bidding) for procurements that are reasonably expected to exceed $5,000 and that these procurements be supported by a written contract. In addition, these regulations prohibit procurements from being intentionally split to circumvent procurement requirements. Finally, the regulations require approval from DGS for maintenance contracts in excess of $50,000.

Recommendation 3
We recommend that DJS

a. comply with State procurement regulations by obtaining competitive bids for goods and services as required,
b. discontinue splitting certain projects to circumvent procurement oversight,
c. ensure that all procurements are supported by adequate documentation and that this documentation is available to individuals approving invoices for payment, and
d. ensure that documentation is maintained supporting that goods and services were received prior to payment.

Youth Care Contracts

Finding 4
Procedures to monitor and perform audits of youth care contractor expenditures were insufficient.

Analysis
DJS lacked sufficient procedures for monitoring and performing audits of youth care contractors who provide services (such as education, mental health, therapy, vocational services, and counseling) to youths placed in non-residential or licensed residential facilities. State regulations require DJS to perform periodic audits of the accounts and records of all contractors providing care for youths to determine if funds were spent in accordance with the contracts and if the reported revenue and expenditure data are consistent with the approved contract operating budgets. Accordingly, contractors are required to submit to DJS annual audited financial statements indicating whether State funds were used for allowable contract expenditures and identifying any overpayments. Specifically, we noted the following conditions:

- DJS did not ensure audited financial statements were submitted by youth care contractors within the required 150 days after the fiscal year ending date, and did not adequately follow up with contractors to obtain the financial statements. Specifically, our review of DJS' records disclosed that 96 of 180 financial statements were submitted from 32 to 832 days late. In addition, although reminder letters were sent to contractors that failed to submit timely financial statements, initial letters were sent out approximately seven months after the due date. A similar condition was commented on in our preceding audit report.

- DJS did not conduct all required audits on a timely basis. According to DJS' records, 56 out of 162 required audits during fiscal years 2010 and 2011 were not completed within one year of receiving the financial statements as required by DJS' policy. In addition, as of May 15, 2013, audits of fiscal year 2011 financial statements still had not been completed for 4 contractors who were paid approximately $1.6 million in fiscal year 2011.

According to DJS' records, DJS paid approximately $58.3 million for services related to 86 youth care contracts during fiscal year 2011. Audits of contractor financial statements covering this same period identified approximately $400,000 in overpayments related to 17 contracts.

Recommendation 4
We recommend that DJS

a. **obtain financial statements within the required timeframes and follow up with contractors that are delinquent in submitting financial statements on a timely basis (repeat), and**
b. **conduct the required audits within the established time intervals.**

Payroll

Finding 5
Payroll adjustments were not always subject to supervisory review and approval.

Analysis
DJS' procedures for verifying the propriety of payroll adjustments were not sufficient. As a result, there was a lack of assurance that critical adjustments, such as payments to employees in an acting capacity and payments to former employees for accumulated leave, were proper. Specifically, the employees at DJS headquarters and a certain region who were responsible for approving and submitting automated time reports to the Comptroller of Maryland's Central Payroll Bureau for processing, did not review supporting documentation for payroll adjustments included on the reports. Our test of 42 payments to employees for other earnings totaling approximately $612,000 during fiscal years 2010 through 2013, disclosed that DJS could not provide us with documentation of supervisory approval for 13 payments totaling $220,000.

According to the State's records, DJS' payroll expenditures totaled approximately $93.7 million for calendar year 2012 (through November 4, 2012). During this same period, adjustments to payroll totaled approximately $1.5 million.

Recommendation 5
We recommend that DJS ensure that critical payroll adjustments are verified to supporting documentation and approved by supervisory personnel.

Time and Attendance System

Finding 6
Access to the automated time and attendance system used by certain DJS facilities was not adequately restricted and documentation supporting certain payroll activity and costs was not properly maintained.

Analysis
User access to the automated time and attendance system implemented at three facilities during our audit period was not adequately restricted and documentation supporting certain payroll activity and costs was not maintained, as required. As of May 2013, 585 employees utilized this system to record their daily work hours and to generate electronic timesheets. Employees recorded their time each day through a biometric fingerprint scan. Supervisors approved the time recorded and also had the capability to adjust the time and attendance records.

Our review of this system disclosed that as of May 2013, 10 supervisors had the capability to initiate and approve adjustments to their own time and attendance records without independent approval. Our review of attendance entries for the period December 2011 to January 2012 disclosed that three of these supervisors manually entered and approved time-in and time-out for themselves on certain days. One supervisor entered and approved 170.5 work hours over an 18-day period, earning compensatory time valued at approximately $4,600. No supporting documentation was available to determine if these work hours were proper.

In addition, data stored on this system supporting payroll activity and costs at these facilities were not retained. DJS' management advised us that the automated back-up process was inadvertently discontinued on January 9, 2012, during the course of a system upgrade. DJS was unaware of this until November 2012 when they attempted to restore the back-up data following a server crash. All data processed during this time period, such as time-in and time-out, as well as supervisor notes, was subsequently lost. Consequently, DJS could not support payroll costs for these facilities related to this time period.

According to the State of Maryland *Disaster Recovery Guidelines*, back-up procedures should be occurring daily. DJS is currently backing up this system on a daily basis. According to the State records, payroll expenditures for these facilities totaled approximately $17.7 million in calendar year 2012 (through November 4, 2012).

Recommendation 6
We recommend that DJS ensure

a. **that the critical functions of recording and approving time and attendance data in the timekeeping system are adequately segregated, and**
b. **records supporting payroll activity and costs (such as supervisor notes justifying overtime and attendance times) are retained, as required.**

Restitution

Finding 7
Access to the automated restitution accounts receivable system was not adequately controlled. In addition, adequate record keeping procedures had not been established for restitution accounts receivable.

Analysis
Access to the automated restitution accounts receivable system was not adequately controlled and DJS had not established adequate record keeping procedures for restitution accounts. DJS maintains this automated system for processing restitution amounts due from juvenile offenders or their legal guardians. Restitution payments are normally submitted and deposited to a lockbox bank account. Based on information received from the bank, DJS records payments in the restitution system and subsequently forwards payments to the applicable individuals or organizations that have sustained damages by the juvenile offenders. According to DJS' records, during fiscal year 2012, restitution collections and payments totaled $713,000 and $800,000, respectively. As of December 7, 2012 there were approximately 17,400 open restitution accounts totaling approximately $10.3 million. Specifically, we noted the following conditions:

- Five employees had unrestricted access to the restitution accounts receivable system. These employees had the capability to add and update restitution case data (including the individual or organization receiving the restitution), post payments to individual accounts, and make adjustments to accounts receivable amounts without supervisory review and approval. Additionally, one of these employees was also responsible for reconciling the restitution lockbox account to ensure that all accounts receivable payments were properly posted to the restitution account, and the reconciliation was not independently approved. Because posting payments automatically creates a restitution payment advice, employees who can establish case data and make adjustments should not be able to post payments. Consequently, these employees could alter accounts receivable records and initiate improper disbursements. In addition, errors could occur and go undetected. A similar condition was commented upon in our three preceding audit reports.

As a compensating control for the improper access issues noted above, DJS established a procedure in 2012 for an independent supervisor to review critical transactions (payments, adjustments) on a test basis. However, our review disclosed that this procedure was not performed timely. Specifically, DJS reviewed selected calendar year 2012 transactions in April 2013. In addition, none of the transactions processed in calendar year 2013 had been reviewed as of July 2013.

- DJS had not reconciled its record of unmatched payment activity with the corresponding balance on the State Comptroller's records since January 1997. As of April 4, 2013, the balance of the unmatched payments fund on DJS' records (approximately $97,000) exceeded the fund balance on the Comptroller's records (approximately $31,000) by $66,000. The unmatched payment activity balance represents payments that have not been identified to a specific case. According to DJS' records, the balance of the unmatched payments fund includes 1,064 payments, dating back to December 7, 1993. A lack of critical reconciliations was commented upon in our three preceding audit reports.

During our audit fieldwork, DJS determined that certain collections had been improperly posted to the restitution accounts multiple times resulting in overpayments totaling $134,000 to 106 victims. The internal control deficiencies noted above allowed these errors to occur without being readily detected. According to management, DJS was attempting to recover these overpayments.

Recommendation 7
We recommend that

a. DJS restrict restitution system access to ensure that employees with the capability to establish or adjust case data do not also have the capability to post and initiate payments on the system (repeat) or ensure an independent supervisor performs a documented review to determine the propriety of all critical transactions posted to the restitution system on a timely basis (that is, monthly),

b. an independent employee conduct reconciliations of DJS' restitution records with corresponding records maintained by the bank and by the State Comptroller (repeat) and investigate and resolve any differences, and

c. DJS pursue recovery of the above identified overpayments.

Federal Funds

Finding 8
DJS' supervisory personnel did not review the propriety of cases determined to be ineligible for federal fund reimbursement.

Analysis
Determinations made by DJS' caseworkers as to whether certain youths met the eligibility requirements for federal funding were not always reviewed by supervisory personnel. Although supervisors reviewed caseworkers' determinations for all youths deemed eligible for federal funding, determinations for youths deemed ineligible were not reviewed. As a result, if eligibility was not properly determined, DJS may have lost federal fund reimbursements.

Through a federal program (Title IV-E of the Social Security Act), DJS may obtain federal revenue for costs incurred when eligible youths are placed in certain out-of-home settings, such as State-licensed foster care homes. Once a youth is determined eligible for participation, 50 percent of the costs of foster care (including food, shelter, clothing, and administrative costs) are reimbursed by the federal government. If a youth is determined to be ineligible for the program, the State pays 100 percent of the costs.

According to DJS' records, during calendar years 2011 and 2012, 295 youths were determined to be eligible for Title IV-E funding and 1,909 youths were determined to be ineligible. DJS received Title IV-E funding totaling $6.6 million in fiscal years 2011 and 2012.

Recommendation 8
We recommend that DJS verify, at least on a test basis, the propriety of youths determined to be ineligible for Title IV-E funds.

Corporate Purchasing Cards

Finding 9
Corporate purchasing card transactions were not always verified for propriety as required.

Analysis
DJS did not thoroughly review and approve corporate purchasing card transactions. As a result, unauthorized purchases could be made without detection. According to the bank's records as of October 24, 2012, corporate purchasing cards had been issued to 53 employees. Fiscal year 2012 expenditures totaled approximately $5 million. Our test of 133 credit card purchases totaling approximately $202,000 made by various cardholders at DJS headquarters and certain regions during our audit period disclosed the following conditions:

- For 40 of the purchases tested totaling approximately $81,000 there was no documentation indicating that the goods or services were actually received, yet the related activity logs had been approved by DJS' supervisors. DJS' policy requires that documentation such as packing slips, receiving reports, or a signature from the receiving employee, be reviewed by supervisors when approving purchasing card transactions.

- Monthly purchasing card activity logs were not always properly approved as required. We noted that 4 of the 55 monthly activity logs tested were not signed by the cardholder's immediate supervisor. These four logs included purchases totaling approximately $27,000. The Comptroller of Maryland's *Corporate Purchasing Card Program Policy and Procedures Manual* requires cardholder activity logs to be approved by the cardholder's supervisor.

We noted similar deficiencies regarding DJS' corporate purchasing card transactions during our performance audit of the State Corporate Purchasing Card Program. In our resulting report dated March 26, 2014, we identified numerous questionable purchases made by a DJS employee which were referred to DJS for further investigation. DJS' investigation identified approximately $91,000 in unauthorized purchases made by this employee during a one-year period. Evidence of supervisory approval and supporting documentation for this employee's purchases was not consistently maintained. The employee was ultimately allowed to resign in lieu of termination. Furthermore, this former employee was prosecuted by the Office of the Attorney General – Criminal Division. The employee pleaded guilty to theft and was sentenced to serve 15 years in prison, with 14 years suspended, and is required to pay $94,868 in restitution.

Recommendation 9
We recommend that DJS ensure purchasing card activity logs and appropriate supporting documentation are reviewed and approved by the cardholder's supervisor in compliance with the requirements of the *Corporate Purchasing Card Program Policy and Procedures Manual.*

Information Systems Security and Control

Background

The DJS Office of Information Technology (OIT) provides information technology services to all units of DJS. The OIT staff operates and maintains the DJS network and critical applications, including the Automated Statewide Support Information System Tool (ASSIST), which is a case management system that tracks vital legal and demographic information pertaining to youths under DJS' jurisdiction. DJS operates a wide area network that connects to field offices and State residential youth facilities at over 45 locations and provides connectivity to approximately 2,500 workstations.

Finding 10
Controls over the ASSIST database were not sufficient to properly protect critical data.

Analysis
Access and monitoring controls over the ASSIST database were inadequate. Specifically, we noted the following conditions:

- Three users had unnecessary system privileges that could allow unauthorized modification of critical database tables.

- Four users were improperly included in the local administrators group on the ASSIST database server and accordingly had unnecessary, direct modification access to critical database directories and system files.

- Direct modifications of critical database tables and use of system privileges were not logged.

- A database activity report, which summarized critical database security related events, did not include events related to certain critical system privileges and events associated with numerous users. As a result, these events were not subject to management's review.

- We were advised that reviews of the aforementioned activity report were performed weekly. However, for three out of five reports tested, documentation evidencing a review of these reports did not exist.

As a result, unauthorized or inappropriate activities (affecting the integrity of the production database information), could occur and go undetected by management. The State of Maryland Department of Information Technology *Information Security Policy,* states that agencies must ensure that only authorized individuals have access to confidential information and that such access is strictly controlled, audited, and configured to achieve a "least privilege" security strategy that grants privileges only needed to perform assigned tasks.

Recommendation 10
We recommend that DJS

a. **restrict access to system privileges, that could allow unauthorized modification of critical database tables to only those users requiring such access,**
b. **restrict modification access to critical database directories and system files to only those users requiring such access,**
c. **enable logging of direct modifications to critical database tables and system privileges,**
d. **revise the database activity report to include all critical events performed by all users, and**
e. **document all reviews of these activity reports and retain this documentation for subsequent audit verification.**

Finding 11
The malware protection system was not configured to properly protect the DJS network.

Analysis
The malware protection central management server used by DJS allowed certain users to disable their malware protection. Accordingly, for 700 computers, assurance was lacking that these computers were adequately protected from malware because users could disable such protection. Furthermore, for an additional 1,800 computers, the aforementioned management server allowed users to disable application device control settings specified by management. This allowed users to disable any hardware device restrictions or rules for controlling applications specified by management.

Recommendation 11
We recommend that DJS disable the settings which allow users to render the malware security controls established by management inoperative.

Equipment

Finding 12
Physical inventories of equipment were not conducted at required intervals and record keeping was deficient.

Analysis
DJS did not adequately account for its equipment. Specifically, the physical inventory and record keeping procedures were inadequate and were not in accordance with the Department of General Services' (DGS) *Inventory Control Manual*.

- Physical inventories were not completed as required. As of June 2013, DJS had not conducted a complete and documented physical inventory of all sensitive and non-sensitive equipment, including a reconciliation to detail records, since 1993. According to agency personnel, an inventory of all equipment was completed in February 2013, but documentation supporting this process and the resulting adjustments to the detail records was unavailable.

- DJS did not report the value of its property to DGS during our current audit period or our previous audit period (fiscal years 2003 through 2012), as required.

- An equipment control account was not maintained as required. A control account is a continuous summary of transactions and serves as a total dollar value control over amounts in the detail records.

- The detail equipment records were not properly maintained. Our test of 70 equipment items included in DJS' detail equipment records totaling $375,700 disclosed that DJS could not locate 11 items (including computers) totaling $33,000. In addition, 14 of 55 equipment items we sighted at DJS headquarters and various regional facilities were not listed in the detail records. Furthermore, our test of 22 purchases, consisting of multiple equipment items totaling $309,000, disclosed that 42 items costing $218,000 were not recorded in the detail records.

According to DJS' records, as of June 30, 2013, DJS' equipment totaled approximately $19.4 million. Similar deficiencies related to physical inventories and equipment record maintenance have been commented upon in our preceding audit reports dating back to 1989.

The DGS *Inventory Control Manual* requires that a physical inventory of sensitive equipment be conducted every year and an inventory of non-sensitive equipment be conducted every three years. Additionally, the *Manual* states that the property value must be submitted annually to DGS. Furthermore, the *Manual* also requires that a control account be maintained for each category of property and that the aggregate balance of the related detail records be periodically reconciled with the control account balance.

Recommendation 12

We recommend that DJS comply with the requirements of the DGS *Inventory Control Manual* (repeat).

Audit Scope, Objectives, and Methodology

We have audited the Department of Juvenile Services (DJS) for the period beginning October 19, 2009 and ending November 4, 2012. 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 DJS' 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 procurements and disbursements, payroll, equipment, federal fund reimbursements, youth care contracts, restitution accounts, and critical information systems.

To accomplish our audit objectives, our audit procedures included inquiries of appropriate personnel, inspections of documents and records, observations of DJS' 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 this 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.

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

DJS' 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 DJS' 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 DJS that did not warrant inclusion in this report.

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

APPENDIX

MARYLAND
Department of Juvenile Services

Successful Youth • Strong Leaders • Safer Communities

One Center Plaza
120 West Fayette Street
Baltimore, MD 21201

Anthony G. Brown
Lt. Governor

Martin O'Malley
Governor

Sam Abed
Secretary

May 13, 2014

Thomas J. Barnickel III, CPA
Legislative Auditor
Office of Legislative Audits
301 West Preston Street – Room 1202
Baltimore, MD 21201

Dear Mr. Barnickel:

Attached are the responses to the Draft Audit Report, issued on April 28, 2014, in connection with your fiscal compliance audit of the Department of Juvenile Services for the period beginning October 19, 2009 and ending November 4, 2012.

As requested, we are sending both a paper copy and an electronic copy of our response. If you have any questions, or require additional information, please do not hesitate to call me at 410-230-3101.

Sincerely,

Sam Abed
Secretary

Attachment

Recommendation 1

We recommend that DJS establish independent online approval requirements for all critical disbursement transactions (repeat). If DJS elects to use alternate approval processes, we recommend that DJS comply with the applicable requirements of the *Manual*.

The Department agrees with the recommendation and has elected to use the alternative approval processes for critical disbursement transactions. DJS will comply with the applicable requirements of the *FMIS Internal Control and Security Manual.* Related procedures were sent to all staff involved with accounts payable in March 2012 and were sent again October 24, 2013. Procedures include the following:

- all invoices must be reviewed and initialed prior to approving and releasing from the 32 screen (100% review)
- all transmittals must be stamped and signed with " All invoices reviewed prior to transmittal"
- copies of the approved invoices must be kept with the archive copy
- Periodic reviews of documentation will be completed by the Director of Accounting or designee

Recommendation 2

We recommend that DJS

a. determine the feasibility of having caseworkers record a youth's participation in the EM program and the length of participation in ASSIST,

b. verify the propriety of EM billings either by using information recorded in ASSIST or by confirming billing information for individual youths by contacting caseworkers, and

c. maintain documentation of this verification process.

The Department agrees with the recommendations. (a) Rapid Response workers (Community Detention Officers) began entering EM admission and subsequent discharge dates in ASSIST as standard protocol in January 2014. (b) A report is currently in development that will provide "days of service" using admission/discharge data from the ASSIST database. The report is expected to go into production by July 2014. (c) The verification of documentation supporting the EM billings will be maintained in the approving official's file with the related billing documents.

Recommendation 3

We recommend that DJS

a. comply with State procurement regulations by obtaining competitive bids for goods and services as required,

b. discontinue splitting certain projects to circumvent procurement oversight,

c. ensure that all procurements are supported by adequate documentation and that this documentation is available to individuals approving invoices for payment, and

d. ensure that documentation is maintained supporting that goods and services were received prior to payment.

The Department agrees with the recommendations. (a) DJS Procurement shall obtain competitive bids for all contracts/purchase orders for commodities and services as required. (b) Splitting orders to avoid submission of the procurement to control agencies (DBM, DoIT, and DGS) will be prohibited. All procurements above our agency's delegation will be submitted to our control agency for review and approval. (c) Quotes from vendors for all procurements above $5,000.00 in value shall be maintained in the Office of Procurement. Contract documents will be physically maintained by the Office of Procurement and also electronically on the agency's shared drive. (d) Where appropriate, procurement activity will be documented in FMIS and available for review by individuals approving invoices for payment. Receiving documentation will be maintained electronically using the matching functions available in the ADPICS component of FMIS. If electronic matching/receipt documentation is not available through ADPICS, written approval/documentation will be maintained with the related invoice.

Recommendation 4

We recommend that DJS

a. **obtain financial statements within the required timeframes and follow up with contractors that are delinquent in submitting financial statements on a timely basis (repeat), and**
b. **conduct the required audits within the established time intervals.**

The Department agrees with the recommendations. (a) Beginning November 2011, vendors who have youth care contracts (providers) with DJS can submit their financial statements to the Internal Audit Unit (IA) electronically at a mailbox that was created for this purpose. Starting in the fall of 2012 (FY 2013), the Department instituted a procedure that includes taking corrective action against providers who do not submit their information timely and have not requested, and been granted, an extension. Since the corrective action procedure did not start until FY 2013, IA had no recourse when providers would not submit their financial statements. All financial statements that were due in December 2013 (FY 2013 required submissions) have been received, except those for providers who have a fiscal year ending in December (due June 2014) or for those providers who have requested, and been granted, an extension. Documentation is available upon request. (b) As of this date, all required audits have been completed for fiscal years 2010, 2011, and 2012. Audits of fiscal year 2013, except for audits of those providers who have requested, and been granted, an extension are also complete. Documentation is available upon request. Beginning in FY 2013, an IA Team Leader manages the youth care contracts database, maintained by IA, to ensure that financial statements are received, and audits are completed, on a timely basis.

Recommendation 5

We recommend that DJS ensure that critical payroll adjustments are verified to supporting documentation and approved by supervisory personnel.

The Department agrees with the recommendation. In October 2013, new procedures were sent to all timekeepers. Procedures require that all documents in reference to adjustments made to an employee's pay (acting, retro-active pay, leave payout, etc.) be maintained on file. Supervisors must review and sign all documents indicating they have reviewed the documentation prior to approving and releasing payroll. Periodic review will be completed by the Director of Accounting or designee.

Recommendation 6

We recommend that DJS ensure

a. that the critical functions of recording and approving time and attendance data in the timekeeping system are adequately segregated, and

b. records supporting payroll activity and costs (such as supervisor notes justifying overtime and attendance times) are retained, as required.

The Department agrees with the recommendations. (a) In August 2013 a review of the automated timekeeping system was completed and corrections were made as necessary to ensure adequate segregation. (b) Supporting documentation is being maintained, as required.

Recommendation 7

We recommend that

a. DJS restrict restitution system access to ensure that employees with the capability to establish or adjust case data do not also have the capability to post and initiate payments on the system (repeat) or ensure an independent supervisor performs a documented review to determine the propriety of all critical transactions posted to the restitution system on a timely basis (that is, monthly),

b. an independent employee conduct reconciliations of DJS' restitution records with corresponding records maintained by the bank and by the State Comptroller (repeat) and investigate and resolve any differences, and

c. DJS pursue recovery of the above identified overpayments.

The Department agrees with the recommendations. (a) Access to the restitution system has been restricted, and there is only one person at HQ who now has full access. An independent supervisor is currently reviewing critical transactions that have been posted. The review is has been completed as of March 2014 and is being documented. (b) An independent employee has been assigned to conduct a reconciliation of DJS' records with corresponding records of the bank and Comptroller's Office. The review will be documented and completed on a monthly basis. The staff assigned is currently in training and the reconciliation process is expected to be complete by October 2014 and monthly thereafter. The reconciliation will be reviewed by supervisory staff and the review will be documented. (c) Overpayments that were identified are currently being pursued for reimbursement from the individuals who received them. Where appropriate, individuals will be referred to the CCU for collections.

Recommendation 8
We recommend that DJS verify, at least on a test basis, the propriety of youths determined to be ineligible for Title IV-E funds.

The Department agrees with the recommendation. DJS will initiate a documented process as follows:

- A query will be pulled of youth determined to be Title IV-E ineligible. This query will include the ineligible code for each case.
- Youth Assistance Unit management team will review at least a combined 10% test sample of the list of cases determined to be ineligible due to failure to meet AFDC requirements.
- Youth Assistance Unit management team will review at least a 10% test sample of the list of the cases ineligible due to not meeting legal sufficiency requirements, or having no foster care placements.
- Ineligible cases reviewed otherwise during the review cycle (i.e. expedited eligibility determinations) shall count towards the 10% review requirement.

Recommendation 9
We recommend that DJS ensure purchasing card activity logs and appropriate supporting documentation are reviewed and approved by the cardholder's supervisor in compliance with the requirements of the *Corporate Purchasing Card Program Policy and Procedures Manual.*

The Department agrees with the recommendation. DJS has internal controls in place to validate and certify all credit card transactions. Credit card holders complete a monthly activity log, which documents each purchase, and forward the log to their immediate supervisor for review and approval. This review is documented. The activity logs are then forwarded to the fiscal officer for additional review/approval, in compliance with the related Manual.

Recommendation 10
We recommend that DJS

a. restrict access to system privileges, that could allow unauthorized modification of critical database tables to only those users requiring such access,
b. restrict modification access to critical database directories and system files to only those users requiring such access,
c. enable logging of direct modifications to critical database tables and system privileges,
d. revise the database activity report to include all critical events performed by all users, and
e. document all reviews of these activity reports and retain this documentation for subsequent audit verification.

The Department agrees with the recommendations. (a) DJS IT has reviewed the accounts and corrected the accesses. The four identified user accounts were restricted from critical accesses by removing the associated role that granted the access. The users will make changes in their own environment, and changes to production environment are restricted to Database Administrators, and they must have documented Program Manager/Deputy CIO/CIO approval prior to implementation. (b) DJS IT has reviewed the accounts and corrected the accesses. The four identified user accounts were restricted from critical accesses. A new group was established with only essential members in that group. (c) DJS IT has analyzed the methodology recommended for storing an audit log and will be implementing a plan meeting the required recommendations. The new process should be documented, trained and implemented by November 2014. Additionally, the DBA report has been modified as recommended. A review of the reports is being conducted. The report, along with the documentation of the review, is being maintained. (d) DJS IT reviewed the reports and developed additional reports to ensure all the necessary events in all environments are covered. The review process is currently being revised to utilize online tools to review events in a more efficient manner. The reports will still be maintained and utilized as a secondary tool when needed. Also, there will be documentation that establishes the review was completed. The new process should be documented, trained and implemented by November 2014. DJS IT concluded that the review process needs to be applied more consistently. Therefore, business practices that are established for consistent regular reviews has been reinforced. The time allotted for reviews have been given a greater priority to ensure compliance. Also, management is regularly auditing the timeliness of reviews. (e) All reviews will be documented and retained.

Recommendation 11
We recommend that DJS disable the settings which allow users to render the malware security controls established by management inoperative.

The Department agrees with the recommendation. Those specific settings were disabled during the discovery phase of the audit and have remained in effect from that point in time.

Recommendation 12
We recommend that DJS comply with the requirements of the DGS *Inventory Control Manual* (repeat).

The Department agrees with the recommendation. Completed physical inventories as required by the Manual have been completed. Adjustments to detail records and control accounts are in process. Adjusting entries are anticipated by the close of FY 2014 2014. Property values for FY 2013 were reported to DGS as required and will be reported annually as required. Control accounts have been established and are being maintained currently. Quarterly reviews of equipment purchases have been instituted to ensure proper accounting for new equipment. The Department anticipates being in full compliance with the Manual by the close of calendar year 2014.

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