

Audit Report

Military Department

May 2013



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

May 30, 2013

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Executive Director

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Legislative Auditor

Senator James C. Rosapepe, Co-Chair, Joint Audit Committee
Delegate Guy J. Guzzone, Co-Chair, Joint Audit Committee
Members of Joint Audit Committee
Annapolis, Maryland

Ladies and Gentlemen:

We have audited the Military Department for the period beginning September 17, 2009 and ending May 13, 2012. The Department maintains the Maryland National Guard within the State of Maryland and, through the Maryland Emergency Management Agency, coordinates Statewide efforts in the event of emergencies and disasters that are beyond the capabilities of local authorities. The Department also administers loan and grant programs that provide funding to volunteer fire companies for facilities and equipment.

Our audit disclosed that the Department recorded federal fund revenues at the end of fiscal year 2012 to cover expenditures incurred even though the federal grantor agency previously denied requests for these funds. Also, the Department did not recover certain indirect costs associated with Maryland Emergency Management Agency grants for fiscal years 2010 and 2011. We further noted that the Department did not adequately address certain issues regarding the use of State grants. For example, the Department did not withhold funds from jurisdictions for volunteer fire companies that failed to meet minimum expenditure levels pertaining to funds from sources other than State grant funds.

Additional internal control and record keeping deficiencies were noted relating to collections, corporate purchasing cards, equipment, and State vehicles. For example, the Department did not use available data to monitor purchasing card activity allowing questionable purchases made by one employee to remain undetected for approximately three years.

The Department's response to this audit is included as an appendix to this report. We wish to acknowledge the cooperation extended to us during our audit by the Department.

Respectfully submitted,

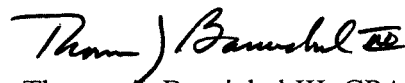

Thomas J. Barnickel III, CPA
Legislative Auditor

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Executive Summary

Legislative Audit Report on the Military Department May 2013

- **Federal fund revenues of \$701,318 were recorded at year-end to cover expenditures incurred as of June 30, 2012 even though the federal grantor agency previously denied requests for these funds. If the Department is unable to recover these federal grant funds, general fund appropriations or deficiency appropriations may be needed to eliminate the resulting deficit. In addition, the Department did not recover Military Department indirect costs for its work associated with Maryland Emergency Management Agency grants for fiscal years 2010 and 2011, as required.**

The Department should ensure that all year-end accrued revenues are properly supported, pursue the feasibility of recovering the aforementioned funds, and report amounts determined to be uncollectible to the appropriate executive and legislative oversight entities. The Department should also recover all indirect costs on federal grants, as required.

- **The Department did not withhold Senator William H. Amoss Fire, Rescue, and Ambulance Fund funding from jurisdictions that did not meet certain minimum expenditure levels, as required by State law. In addition, the Department did not establish progressive actions to be taken when fire departments used Amoss funds for ineligible expenditures and had not established separate bank accounts for the funds.**

The Department should enforce the minimum expenditure requirements associated with Amoss fund distributions. The Department should also establish the progressive actions that should be taken when deficiencies with the use and maintenance of Amoss funds are identified (such as requiring corrective action and withholding funds).

- **The Department did not obtain and review detailed disbursement information from the Maryland State Firemen's Association to ensure that annual grants to the Association were spent as intended.**

The Department should establish procedures to ensure that grants to the Association were spent as intended.

- **Questionable corporate purchasing card purchases by one employee remained undetected for up to three years.**

The Department should incorporate the use of detailed purchasing data during its supervisory review of activity to help ensure the propriety of corporate purchasing card activity.

- **Internal control deficiencies were noted with respect to cash receipts, equipment, and State vehicles.**

The Department should take the recommended actions to improve internal controls in these areas.

Background Information

Agency Responsibilities

The Military Department maintains the Maryland National Guard within the State of Maryland, including its 32 armories and numerous other facilities used by the Army and Air National Guard. In addition, the Department, through its Maryland Emergency Management Agency, coordinates Statewide efforts in the event of emergencies and disasters that are beyond the capabilities of local authorities. Furthermore, it coordinates disaster preparedness activities with its federal and local counterparts and, through mitigation services, strives to reduce or eliminate the impact of future disasters. The Department also administers loan and grant programs that provide funding to volunteer fire companies for facilities and equipment.

According to the State's records, during fiscal year 2012, the Department's operating expenditures total approximately \$140.1 million, consisting of federal, general, and special fund expenditures of approximately \$116.5 million, \$12.0 million, and \$11.6 million, respectively.

Status of Findings From Preceding Audit Report

We reviewed the status of the four findings included in our preceding audit report dated March 23, 2010. We determined that the Department satisfactorily addressed three of these findings. The remaining finding is repeated in this report.

Findings and Recommendations

Federal Funds

Finding 1

The Department recorded federal fund revenues of approximately \$700,000 during fiscal year 2012 even though the federal grantor agency previously denied requests for these federal funds.

Analysis

The Department recorded federal fund revenues of \$701,318 for the 2012 fiscal year budget closeout even though requests for these federal funds had previously been denied by the federal grantor agency. These accrued revenues related to requests for federal reimbursement for National Guard expenditures dating back to fiscal year 2010 that were denied for payment by the federal granting agency. Department management advised us that the accruals were recorded to eliminate federal deficits at year-end and that similar accruals were made at year-end for fiscal years 2010 and 2011.

Since federal fund reimbursement requests for these accruals were denied, general fund appropriations in subsequent years (or deficiency appropriations) may be needed to eliminate the resulting deficit. In this regard, we were advised by Department management that it believes it will ultimately be able to obtain federal funding to cover certain of these accruals. However, there was no documentation to support that any attempts had been made as of November 27, 2012 to recover the funding related to these denied claims.

Recommendation 1

We recommend that the Department

- a. ensure that all accrued revenues are properly supported;**
- b. attempt to recover the aforementioned funds from the federal granting agency; and**
- c. report any amounts determined to be uncollectible, and its plan for funding any related deficits, to the appropriate executive and legislative oversight entities (such as the Department of Budget and Management and legislative budget committees).**

Finding 2**The Department did not recover certain indirect costs as required.****Analysis**

The Department did not recover certain indirect costs, as required. Specifically, the Department did not recover indirect costs for Military headquarters personnel associated with Maryland Emergency Management Agency (MEMA) federal grants during fiscal years 2010 and 2011. Consequently, a portion of the federal funds received for MEMA grants, which could have been used to cover certain indirect costs of administering these grants, was instead used for direct program costs. The Department could not determine the extent of indirect costs that were not recovered; however, it estimates that the annual indirect costs for fiscal years 2010 and 2011 would be comparable to the \$250,000 recovered during fiscal year 2012.

The Department of Budget and Management's (DBM) annual *Operating Budget Submission Requirements* provide that all agencies receiving federal funds must determine whether the funds are eligible for indirect cost recovery. Once such eligibility is established, the agency must initiate, negotiate, and establish an indirect cost recovery rate with the federal government. A similar condition regarding the failure to recover indirect costs has been commented upon in our four preceding audit reports where we noted that the Department had not prepared indirect cost allocations plans and recovered indirect costs for certain MEMA federal grants since at least 2001. Total federal fund expenditures applicable to MEMA grants totaled \$74.8 million during fiscal year 2012.

Recommendation 2**We recommend that the Department comply with DBM requirements regarding the recovery of indirect costs on federal grants (repeat).****Senator William H. Amoss Fire, Rescue, and Ambulance Fund****Background**

State law established the Senator William H. Amoss Fire, Rescue, and Ambulance Fund to promote the delivery of effective and high quality fire protection, rescue, and ambulance services to the citizens of the State and to increase the financial support for the related fire, rescue, and ambulance companies in local governments. The Department is responsible for disbursing and monitoring the use of the funds. During fiscal years 2010 through 2012, the Department awarded grants to all 24 local jurisdictions from the Fund totaling \$10 million annually.

Finding 3

The Department did not withhold funding or otherwise penalize jurisdictions that did not meet certain minimum expenditure levels, as required by State law.

Analysis

The Department did not withhold funding or otherwise penalize jurisdictions that did not meet certain minimum expenditure levels, as required by State law. Each year, the Department obtained financial information from each jurisdiction and determined whether it spent the minimum amount of local funds on fire protection for the preceding year. However, when the minimum spending requirements were not met, the Department did not withhold funding or penalize the jurisdictions, as specified in State law.

Our review disclosed that the Department did not withhold funding nor penalize the 11 jurisdictions that, based on expenditure data they reported, did not meet the funding requirements during fiscal year 2011. These jurisdictions received \$5.2 million in Amoss funds during fiscal year 2011. Based on our calculations, these jurisdictions, at least, should have been penalized \$585,000 for failing to meet the funding requirements. These funds would then have been available for reallocation to the compliant jurisdictions. Similar shortfalls were noted for fiscal year 2010 with no withholding or adjustments to the amount of Amoss funds provided to the jurisdictions.

State law specifies that, in each fiscal year, each jurisdiction shall make expenditures for fire protection from sources other than the Fund in an amount that is at least equal to its average amount of expenditures for fire protection during the three preceding fiscal years. The law further specifies that a jurisdiction that fails to satisfy the aforementioned funding requirements either may not receive any Amoss funds for that year or may receive funds subject to a penalty equal to the percentage by which the jurisdiction failed to meet its funding requirements. These penalties are to be redistributed to counties who met the funding requirements.

Recommendation 3

We recommend that the Department enforce the minimum expenditure requirements associated with Amoss Fund distributions. Specifically, we recommend that the Department

- a. pursue the recovery of amounts improperly disbursed during the audit period and the reallocation of the funds to the compliant jurisdictions; and**

- b. in the future, either withhold Amoss funds or penalize jurisdictions that fail to comply with minimum funding requirements and reallocate recovered funds to compliant jurisdictions.**

Finding 4

The Department did not establish progressive actions to be taken when fire departments used Amoss funds for ineligible expenditures and failed to establish separate bank accounts for the funds.

Analysis

The Department did not establish the progressive actions that should be taken when fire departments did not use or maintain Amoss funds in accordance with State law and Department policy. Each year, the Department requested documentation to support the use of the Amoss grant funds for that year from eight jurisdictions (so that each jurisdiction's grant activity would be reviewed on a triennial basis). Any deficiencies noted by the Department were reported to the local jurisdiction and were included in the Department's annual report to the Governor on the Fund. However, the Department did not expand testing for other years for the applicable fire departments with deficiencies, require the departments to develop corrective action plans to address the related cause(s), nor withhold funds for improper or unsupported expenditures. The Department's reviews for fiscal years 2011 and 2012 (which covered fiscal years 2009 and 2010), as reported to the Governor, disclosed the following conditions:

- Certain fire departments used the funds for ineligible expenditures or could not support the use of the funds. The Department's fiscal year 2011 report disclosed that expenditures totaling \$596,843, representing 18 percent of the Amoss grant expenditures for the eight jurisdictions reviewed, were made for purposes not allowed by law. For example, the Department noted that one fire department spent \$8,000 for the purchase of non-protective station uniforms and two other fire departments used Amoss funds to purchase office computers. The Department's fiscal year 2012 report disclosed that 8 percent of the Amoss grant expenditures reviewed, totaling \$339,489, were made for purposes not allowed by law, including two unsupported payments made by one fire department totaling \$24,000 made payable to "cash."
- Certain fire departments did not maintain the funds in a separate bank account as required by State law. For example, during the fiscal year 2011 review, the Department noted 10 fire departments (from four jurisdictions) that did not maintain the Amoss funds in a separate account as required.

- Certain fire departments invested Amoss funds in unsecured stock brokerage accounts. For example, during the fiscal year 2012 review, the Department noted one fire department invested funds totaling \$131,987 in an unsecured stock brokerage account. The instructions provided to grant fund recipients state that funds must be in FDIC insured institutions.

State law requires that Amoss funds be used only to acquire or rehabilitate fire or rescue equipment, acquire or rehabilitate capital equipment used in connection with fire or rescue equipment, and rehabilitate facilities used primarily to house fire and rescue equipment. The law further specifies that Amoss funds are to be maintained by fire departments in a separate bank account. Finally, State law provides that the Department may withhold funds, in the next fiscal year, from a jurisdiction that does not comply with these requirements after providing notice and an opportunity for a hearing. The Department provided the jurisdictions with instructions specifying these legal requirements.

Recommendation 4

We recommend that the Department establish the progressive actions that should be taken (such as expanding expenditure testing, requiring corrective action plans, and withholding funds) when deficiencies with the maintenance and use of Amoss funds are identified.

Maryland State Firemen’s Association Grants

Finding 5

The Department did not ensure that annual grants to the Maryland State Firemen’s Association were spent as intended.

Analysis

The Department did not ensure that annual grants to the Maryland State Firemen’s Association (MSFA) were spent as intended. Each year, the Department is appropriated \$200,000 for grants to the MSFA for its administrative costs and \$275,000 for grants for the Trustee’s Relief Account (Widows and Orphans Fund). The Department disburses these funds to MSFA in a single payment each year.

Our review disclosed that the Department did not obtain sufficient information (such as detailed disbursements) from MSFA to determine whether the funds were spent as intended. Rather, at the end of the year, the MSFA reported its expenditures, in total, by type of expenditure (such as monthly benefit payments).

In addition, the Department did not have any procedures to review MSFA accounting records and/or documentation supporting the grant expenditures. As a result, there was a lack of assurance that the funds were used as intended.

Upon our request, MSFA obtained grant accounting records for the Trustee's Relief Account grant, which indicated that MSFA only disbursed \$264,640 of the \$275,000 in grant funds received during fiscal year 2012 and according to the Trustee, the MSFA Trustee Relief Account had a balance of \$311,185 as of June 30, 2012. State law does not address whether MSFA has the authority to retain these unspent grant funds.

Recommendation 5

We recommend that the Department

- a. obtain an accounting of MSFA grant activities,**
- b. ensure that grant funds were spent as intended, and**
- c. determine the appropriateness of allowing unspent funds to be retained.**

Corporate Purchasing Cards

Finding 6

Monitoring of corporate purchasing card activity was not comprehensive, allowing questionable purchases by one employee totaling \$107,493 to remain undetected for up to three years.

Analysis

The Department's monitoring procedures did not include the use of available Level-3 purchasing card data to help determine the propriety of corporate purchasing card (CPC) transactions. This level of data, when reported by the merchants, provides detailed purchasing information, including invoice-level line item details (such as item descriptions and item quantities). The failure to use the Level-3 data is significant because it would have helped identify certain questionable purchases made by one of the Department's cardholders more timely.

Specifically, during a special review of federal grant expenditures in February 2011, the Department identified multiple transactions for which the related goods were delivered to this cardholder's home address. The Department initiated an investigation of these CPC transactions and other questionable purchases made by this cardholder. As a result, the Department identified 372 questionable purchases totaling \$107,493 made by the cardholder from February 2008 to October 2010.

In many instances, the cardholder purchased personal items such as home electronics, clothing, and gift cards and then prepared fictitious invoices using a legitimate item to avoid detection. Although documentation supporting CPC expenditures was reviewed by the designated supervisors on a monthly basis, this cardholder's activity would have been more readily detected had the Department used the Level-3 purchasing card data during the review. For example, the cardholder purchased gift cards and submitted fictitious invoices indicating the purchases were for office supplies. The Level-3 data indicated that the purchases were for gift cards which would have alerted the Department to the questionable transactions.

Based on the results of its initial investigation, the Department terminated this individual's employment in February 2011. In March 2011, at the direction of the Attorney General – Criminal Division, the Department referred the matter to federal law enforcement for further investigation. On January 31, 2013, the employee pleaded guilty in federal court and was awaiting sentencing.

According to the bank's records, as of May 13, 2012, corporate purchasing cards were issued to 27 employees, and the related expenditures totaled approximately \$780,300 during fiscal year 2012.

Recommendation 6

We recommend that the Department incorporate the use of Level-3 purchasing card data in the supervisory review of the activity logs to help ensure the propriety of CPC activity.

Cash Receipts

Finding 7

The Department did not adequately control collections processed using remote deposit and did not perform deposit verifications timely.

Analysis

The Department did not adequately control collections processed using remote deposit and did not perform deposit verifications in a timely manner. During fiscal year 2010, the Department began processing its collections using remote deposit, which scans the images of checks and money orders and electronically transmits the images to the State's bank for deposit. The Department's fiscal year 2012 collections totaled approximately \$2.8 million, the majority of which were collected for Volunteer Fire Company Assistance Fund loan repayments and armory facility rentals. Our review disclosed the following conditions:

- The Department did not void checks after they were scanned into the remote deposit system, did not safeguard the checks after scanning, and did not destroy the checks as required. Rather, the Department maintained the scanned checks without voiding them in an unsecured storage location. As of July 18, 2012, the Department had not destroyed any of these checks since it began using the system in September 2009. The Office of the State Treasurer’s *Policy on the Use of Remote Deposit Services by Maryland State Agencies* provides that scanned and transmitted checks are to be voided after the bank has accepted the scanned images, stored in a secure location, and destroyed within 30 days.
- Independent verifications of collections to amounts deposited were not conducted in a timely manner. Specifically, our test of collections totaling \$1.3 million for 15 days during the audit period disclosed that independent verifications of amounts deposited were performed from 46 to 323 days after the initial recordations. As a result, cash receipts could be lost or misappropriated without timely detection.

Recommendation 7

We recommend that the Department

- a. comply with the State Treasurer’s *Policy on the Use of Remote Deposit Services by Maryland State Agencies*; and**
- b. perform independent deposit verifications timely, such as on a daily basis.**

Equipment

Finding 8
Adequate controls and records were not maintained for certain equipment.

Analysis

Adequate controls had not been established over MEMA equipment. According to the Department’s records, the book value of MEMA equipment as of June 30, 2009 (the most recent date available during our audit) totaled approximately \$2.7 million. For example, we noted the following conditions:

- The Department did not maintain an equipment control account for MEMA equipment as required by the Department of General Services (DGS) *Inventory Control Manual*. A control account is a continuous summary of transactions and serves as a total dollar value control over amounts in the detail records to help ensure all equipment is properly recorded.

- The Department did not conduct a physical inventory of sensitive and non-sensitive MEMA equipment items during our audit period. As a result, there was a lack of assurance that all equipment was accounted for in the detail records for control purposes. Our test of 15 equipment items totaling \$54,378 recorded in MEMA’s detail records disclosed that 8 information technology equipment items (such as laptop computers) totaling \$29,830 could not be located.
- The Department did not report the value of MEMA equipment to DGS during our audit period. Although the Department submitted annual reports of fixed assets to DGS as required, the report did not include the value of MEMA equipment.

The *Inventory Control Manual* requires that a control account be maintained on a current basis and be periodically reconciled with the detail records and that a physical inventory be conducted for sensitive items on an annual basis and non-sensitive items on a triennial basis. Finally, the *Manual* requires State agencies to report the value of fixed assets to DGS on or before July 15 each year. According to the Department’s records, the value of its equipment, excluding MEMA, totaled approximately \$3.2 million as of June 30, 2011.

Recommendation 8

We recommend that the Department comply with the requirements of the DGS *Inventory Control Manual* with respect to MEMA equipment.

Specifically, we recommend that the Department

- maintain a control account and periodically reconcile the control account to the related detail records,**
- conduct physical inventories of equipment as required,**
- investigate and resolve the aforementioned missing items, and**
- report the value of fixed assets to DGS on or before July 15 of each year.**

State Vehicles

Finding 9

The Department did not maintain adequate records of MEMA vehicle assignments and related usage.

Analysis

The Department did not maintain adequate records of MEMA vehicle assignments and related usage. Specifically, our review disclosed the following conditions:

- The Department did not record all MEMA vehicle assignments in the Department of Budget and Management's (DBM) fleet management database. Specifically, the Vehicle Data Report (VDR) we obtained from the fleet database as of August 8, 2012 indicated that only one of the 19 MEMA vehicles was assigned to an employee. However, based on our inquiries with MEMA management, we determined that 13 employees were assigned State vehicles, but the VDR had not been updated to reflect the assignments as required.
- The Department did not ensure that employees maintained monthly vehicle mileage logs, as required. Specifically, our review of the logs for five MEMA employees assigned State vehicles (as previously discussed) disclosed that two of the employees did not prepare the logs as required. Rather, these employees just recorded the total monthly mileage without any description of the daily usage. For example, during July 2012 these employees recorded that they drove 2,697 and 2,021 miles, respectively, without any description of the daily usage.

DBM's *State Vehicle Fleet Policies and Procedures Manual* requires that all vehicle assignments be recorded in the fleet management database at the time of assignment. The *Manual* further requires that vehicle mileage logs, indicating all destinations by official and commute mileage, be maintained in each vehicle on a monthly basis.

Recommendation 9

We recommend that the Department strictly comply with the *State Vehicle Fleet Policies and Procedures Manual*. Specifically, we recommend that the Department properly report MEMA vehicle assignments on the VDR and ensure employees maintain complete and accurate mileage logs.

Audit Scope, Objectives, and Methodology

We have audited the Military Department for the period beginning September 17, 2009 and ending May 13, 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 the Department's 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, cash receipts, equipment, federal fund reimbursements, and accounts receivable. Our audit procedures included inquiries of appropriate personnel, inspections of documents and records, and observations of Department operations. We also tested transactions and performed other auditing procedures that we considered necessary to achieve our objectives. Data provided in this report for background or informational purposes were deemed reasonable, but were not independently verified.

Our audit did not include an evaluation of internal controls for federal financial assistance programs and an assessment of the Department's compliance with federal laws and regulations pertaining to those programs because the State of Maryland engages an independent accounting firm to annually audit such programs administered by State agencies, including the Department.

The Department's management is responsible for establishing and maintaining effective internal control. Internal control is a process designed to provide reasonable assurance that objectives pertaining to the reliability of financial records, effectiveness and efficiency of operations including safeguarding of assets, and compliance with applicable laws, rules, and regulations are achieved.

Because of inherent limitations in internal control, errors or fraud may nevertheless occur and not be detected. Also, projections of any evaluation of internal control to future periods are subject to the risk that conditions may change or compliance with policies and procedures may deteriorate.

Our reports are designed to assist the Maryland General Assembly in exercising its legislative oversight function and to provide constructive recommendations for improving State operations. As a result, our reports generally do not address activities we reviewed that are functioning properly.

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

The Department's response to our findings and recommendations is included as an appendix to this report. As prescribed in the State Government Article, Section 2-1224 of the Annotated Code of Maryland, we will advise the Department regarding the results of our review of its response.



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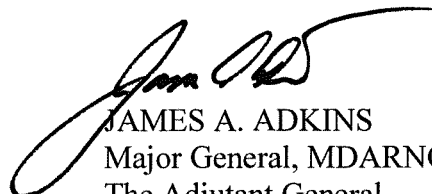
May 16, 2013

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

Dear Mr. Barnickel:

Please find attached the response to the draft audit report on the Maryland Military Department for the period beginning September 17, 2009 and ending May 13, 2012. The Department has taken corrective actions for the nine audit recommendations included in the draft report. In addition, per your request, an electronic version of our response has been e-mailed to response@ola.state.md.us.

If you or your staff have any questions or require additional information, please do not hesitate to contact me or Mr. John S. Nickerson, Director of Finance and Administration at (410) 234-3818.



JAMES A. ADKINS
Major General, MDARNG
The Adjutant General

Enclosures

Cc: Mr. Kenneth Mallette, Director Emergency Management Agency (MEMA)

Federal Funds

Finding 1

The Department recorded federal fund revenues of approximately \$700,000 during fiscal year 2012 even though the federal grantor agency previously denied requests for these federal funds.

Recommendation 1

We recommend that the Department

- a. ensure that all accrued revenues are properly supported;**
- b. attempt to recover the aforementioned funds from the federal granting agency; and**
- c. report any amounts determined to be uncollectible, and its plan for funding any related deficits, to the appropriate executive and legislative oversight entities (such as the Department of Budget and Management and legislative budget committees).**

AGENCY RESPONSE:

- A. The Department **concurs** with the auditor's recommendation. Corrective action has been taken and procedures have been established to ensure that accrued revenues are properly supported. On August 2, 2012 the Department established a Cooperative Agreement Resource Management sub-committee that meets on a monthly basis with representatives from the federal grantor agency to specifically monitor and resolve issues associated with federal fund revenues.
- B. The Department **concurs** with the auditor's recommendation. The Department has obtained federal approval to be reimbursed for the \$701,318 in accrued federal revenue. It is anticipated that cash reimbursement for the entire \$701,318 will be processed by the federal government and received by the Department prior to June 30, 2013.
- C. The Department **concurs** with the auditor's recommendation. If necessary, any amounts determined to be uncollectible will be reported to the appropriate executive and legislative oversight entities. As indicated in the Department's response to recommendation B, federal approval has been obtained to reimburse the Department for the \$701,318 in accrued federal revenue.

Finding 2

The Department did not recover certain indirect costs as required.

Recommendation 2

We recommend that the Department comply with DBM requirements regarding the recovery of indirect costs on federal grants (repeat).

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AGENCY RESPONSE:

The Department **concurs** with the auditor's recommendation. Currently, the Department has an approved indirect cost agreement for MEMA grants through FY14. When the FY15 indirect cost agreement is renegotiated with the federal government, the Department will include the recovery of costs for Military Department headquarters personnel as part of the agreement. For FY13 and FY14, as was done in FY12, the Department will continue to recover Military headquarters personnel as direct support costs.

Senator William H. Amoss Fire, Rescue, and Ambulance Fund

Finding 3

The Department did not withhold funding or otherwise penalize jurisdictions that did not meet certain minimum expenditure levels, as required by State law.

Recommendation 3

We recommend that the Department enforce the minimum expenditure requirements associated with Amoss Fund distributions. Specifically, we recommend that the Department

- a. pursue the recovery of amounts improperly disbursed during the audit period and the reallocation of the funds to the compliant jurisdictions; and**
- b. in the future, either withhold Amoss funds or penalize jurisdictions that fail to comply with minimum funding requirements and reallocate recovered funds to compliant jurisdictions.**

AGENCY RESPONSE:

The Department **partially concurs** with the auditor's recommendations for enforcing certain minimum expenditure levels. Although the State Law contains penalty provisions to enforce certain minimum expenditure levels, the Department recently received an OAG Letter of Advice indicating that State Law cannot be followed in a manner consistent with the actual language in the statute. Therefore, the Department is currently unable to implement the penalty provisions and recommendations A & B. However, the Department will forward the auditors finding and recommendations to the Workgroup that was established in the 2013 Legislative Session by Senate Bill 899 to Study the Laws and Policies Related to the Distribution of Money to Volunteer and Career Companies. The Workgroup is required by State Law to submit a final

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report of its findings and recommendations to the Governor and Senate Budget and Taxation Committee and the House Appropriations Committee by December 1, 2013.¹

Finding 4

The Department did not establish progressive actions to be taken when fire departments used Amoss funds for ineligible expenditures and failed to establish separate bank accounts for the funds.

Recommendation 4

We recommend that the Department establish the progressive actions that should be taken (such as expanding expenditure testing, requiring corrective action plans, and withholding funds) when deficiencies with the maintenance and use of Amoss funds are identified.

AGENCY RESPONSE:

The Department **partially concurs** with the auditor's findings and recommendation to establish progressive actions when deficiencies with the maintenance and use of AMOSS funds are identified. The Department has worked with the applicable counties and all items of non-compliance noted within the auditor's findings have been fully resolved and/or corrected.

In addition, to the extent resources are available; the Department will expand testing and require corrective action plans of the counties when deficiencies are noted. Currently, the Department has 1 (FTE) performing all of the work related to the fire funding (i.e., AMOSS & VCAF) to include the testing of expenditures in each county on a rotating three year cycle and monitoring corrective action plans.

In regards to withholding funds, the Department recently received an OAG Letter of Advice indicating that the Department may withhold funding from the counties when not compliant with the statute. However, there is no provision within the statute that will allow the Department to withhold funding from the fire companies. Since the counties receive AMOSS funding directly

¹ **Auditor's Comment:** The Department stated it is currently unable to implement the penalty provisions and related recommendations, citing an advice it received from the Office of the Attorney General (OAG). The OAG's advice, dated May 15, 2013, concludes that the provisions in State law (cited in the audit report) requiring the Department to either withhold Amoss funds completely or penalize the jurisdictions by withholding a portion of the Amoss funds cannot be applied in a manner consistent with the language in statute. Specifically, the advice stated that it would not be possible to withhold funds since the minimum expenditure requirements cannot be determined until year end, after the funds have been disbursed to the jurisdictions, and the remedy would be to amend the language in the statute to meet what appears to be the intent of the General Assembly. The advice also cites another statute applicable to the Amoss Fund that permits the Department to withhold money from the jurisdictions in the subsequent year, which could be used to comply with the audit recommendations. Accordingly, we continue to believe that the Department should use its legal authority to effectuate the intent of the statute to ensure jurisdictions provide the minimum funding required by law.

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from the Department, we will continue to work with the counties to resolve future fire department deficiencies and may withhold funding from the counties when not compliant with the statute.

The Department will forward the auditors finding and recommendation to the Workgroup that was established in the 2013 Legislative Session by Senate Bill 899 to Study the Laws and Policies Related to the Distribution of Money to Volunteer and Career Companies. The Workgroup is required by State Law to submit a final report of its findings and recommendations to the Governor and Senate Budget and Taxation Committee and the House Appropriations Committee by December 1, 2013.

Maryland State Firemen's Association Grants

Finding 5

The Department did not ensure that annual grants to the Maryland State Firemen's Association were spent as intended.

Recommendation 5

We recommend that the Department

- a. obtain an accounting of MSFA grant activities,**
- b. ensure that grant funds were spent as intended, and**
- c. determine the appropriateness of allowing unspent funds to be retained.**

AGENCY RESPONSE:

- A. The Department **concurs** with the auditor's recommendation. A procedure has been established that requires MSFA to provide copies of bank statements for each month from the prior year with all future budget requests. The bank statements will provide a detailed accounting of revenue and expenditure transactions for MSFA grant activities.
- B. The Department **concurs** with the auditor's recommendation. The Department has established a procedure to review the bank statements submitted by MSFA to ensure that grant funds were spent as intended. Upon request by the Department, MSFA has agreed to provide source documents (e.g., invoice) for each individual transaction reviewed.
- C. The Department **concurs** with the auditor's recommendation. The Department has requested the OAG to provide legal advice on the appropriateness of allowing unspent funds to be retained.

Corporate Purchasing Cards

Finding 6

Monitoring of corporate purchasing card activity was not comprehensive, allowing questionable purchases by one employee totaling \$107,493 to remain undetected for up to three years.

Recommendation 6

We recommend that the Department incorporate the use of Level-3 purchasing card data in the supervisory review of the activity logs to help ensure the propriety of CPC activity.

AGENCY RESPONSE:

The Department **concur**s with the auditor's recommendation. The Comptroller of MD's CPC Policy and Procedure Manual does not require agencies to perform a level-3 review. However, the Department concurs with the benefit of a level-3 review. Therefore, in addition, to the control procedures previously in place, the Department has revised its CPC procedures to include a Level-3 review of purchasing card data for all CPC cards on a monthly basis by the Finance Office.

Cash Receipts

Finding 7

The Department did not adequately control collections processed using remote deposit and did not perform deposit verifications timely.

Recommendation 7

We recommend that the Department

- a. comply with the State Treasurer's Policy on the Use of Remote Deposit Services by Maryland State Agencies; and**
- b. perform independent deposit verifications timely, such as on a daily basis.**

AGENCY RESPONSE:

- A. The Department **concur**s with the auditor's recommendation. The Department has implemented procedures to fully comply with the State Treasurer's Policy on the Use of Remote Deposit Services. Specifically, scanned checks are stamped void after the deposit is transmitted and subsequently accepted by the bank. In addition, checks that have been transmitted are stored in a locked filing cabinet between five (5) and thirty (30)

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days and then destroyed (i.e., shredded) unless the bank notifies the department of an issue.

- B. The Department **concurs** with the auditor's recommendation. The Department has updated its remote deposit procedures and verifications are now being performed on a daily basis by an independent employee.

Equipment

Finding 8

Adequate controls and records were not maintained for certain equipment.

Recommendation 8

We recommend that the Department comply with the requirements of the DGS *Inventory Control Manual* with respect to MEMA equipment. Specifically, we recommend that the Department

- a. maintain a control account and periodically reconcile the control account to the related detail records,**
- b. conduct physical inventories of equipment as required,**
- c. investigate and resolve the aforementioned missing items, and**
- d. report the value of fixed assets to DGS on or before July 15 of each year.**

AGENCY RESPONSE:

The Department **concurs** with the auditor's recommendations and MEMA has taken corrective action and implemented procedures to ensure compliance with the DGS Inventory Control Manual with respect to equipment.

- A. MEMA has established a control account which is reconciled to the related detailed records on a monthly basis.
- B. Physical inventories will be conducted as required by the DGS Inventory Control Manual. MEMA is conducting a physical inventory of all sensitive and non-sensitive equipment items with an anticipated completion date prior to the end of the current fiscal year.
- C. Of the eight equipment items identified by the auditors as missing, four (4) of the items have been located. The disposition of the remaining four (4) items will be investigated as part of the current physical inventory with an anticipated completion date prior to the end of the current fiscal year.
- D. After the completion of the current physical inventory, the detailed equipment records will be updated and the value of all fixed assets reported to DGS on or before July 15 for the current and future fiscal years.

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State Vehicles

Finding 9

The Department did not maintain adequate records of MEMA vehicle assignments and related usage.

Recommendation 9

We recommend that the Department strictly comply with the *State Vehicle Fleet Policies and Procedures Manual*. Specifically, we recommend that the Department properly report MEMA vehicle assignments on the VDR and ensure employees maintain complete and accurate mileage logs.

AGENCY RESPONSE:

The Department **concurs** with the auditor's recommendation. MEMA has taken corrective action and implemented procedures to ensure compliance with the State Vehicle Fleet Policies and Procedures Manual. Specifically, MEMA VDR data has been updated to reflect current vehicle assignments. In addition, all employees who drive vehicles are required to maintain complete and accurate mileage logs.

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