Audit Report

Department of Public Safety and Correctional Services
Division of Pretrial Detention and Services

April 2008

OFFICE OF LEGISLATIVE AUDITS
DEPARTMENT OF LEGISLATIVE SERVICES
MARYLAND GENERAL ASSEMBLY

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DEPARTMENT OF LEGISLATIVE SERVICES
OFFICE OF LEGISLATIVE AUDITS
MARYLAND GENERAL ASSEMBLY

Karl S. Aro
Executive Director

Bruce A. Myers, CPA
Legislative Auditor

April 10, 2008

Senator Verna L. Jones, Co-Chair, Joint Audit Committee
Delegate Steven J. DeBoy, Sr., Co-Chair, Joint Audit Committee
Members of Joint Audit Committee
Annapolis, Maryland

Ladies and Gentlemen:

We have audited the Division of Pretrial Detention and Services (DPDS) of the Department of Public Safety and Correctional Services for the period beginning June 3, 2004 and ending June 13, 2007.

Our audit disclosed that DPDS did not adequately monitor certain service agreements to ensure that payments were consistent with services received. Furthermore, one service agreement did not include specific payment terms and deliverables, and DPDS could not document that it adhered to Department procedures to obtain temporary employees at the lowest available cost.

Our audit also disclosed internal control and recordkeeping deficiencies in certain areas, such as payment processing, corporate purchasing card transactions, payroll, budget closeout, property, and materials and supplies.

Respectfully submitted,

Bruce A. Myers, CPA
Legislative Auditor

Table of Contents

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

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Executive Summary

Legislative Audit Report on Division of Pretrial Detention and Services (DPDS)
April 2008

- **DPDS did not adequately monitor its service agreements to ensure payments were consistent with services received. In addition, an agreement with a State's Attorney Office did not include payment terms and specific deliverables; related payments totaled $794,100 during fiscal year 2007. Furthermore, a contract for temporary office help was not properly managed to ensure that such employees were obtained at the lowest available hourly rates.**

  DPDS should monitor its service agreements to ensure that requirements are met and invoices are approved. In addition, DPDS should ensure that its agreements include the payment terms and specific deliverables. Furthermore, DPDS should ensure that temporary employees hired under the temporary office contract are obtained at the lowest available hourly rate.

- **Proper internal control was not established over certain disbursement transactions.**

  DPDS should fully use the available FMIS security features by establishing independent online approval requirements for all critical disbursement transactions.

- **Certain corporate purchasing card transactions were artificially split into smaller purchases to avoid individual transaction spending limits. In addition, certain purchases were not adequately documented and certain equipment items purchased were not adequately accounted for.**

  DPDS should comply with the Comptroller of the Treasury's *Corporate Purchasing Card Program Policy and Procedures Manual* and establish adequate controls over the corporate purchasing card transactions.

- **DPDS lacked documentation that certain fraudulent acts discovered were promptly reported to authorities.**

  DPDS should promptly inform the appropriate authorities of instances of possible criminal or unethical conduct.

- **Internal control and recordkeeping deficiencies were noted in the areas of payroll, budget closeout, property, materials and supplies, and accounts receivable.**

  DPDS should take the recommended actions to improve controls in these areas.

Background Information

Agency Responsibilities

The Division of Pretrial Detention and Services (DPDS) consists of an administrative unit, the Pretrial Release Services Program, the Baltimore Central Booking and Intake Center, and the Baltimore City Detention Center. DPDS is directed by a Commissioner who is appointed by the Secretary of the Department of Public Safety and Correctional Services.

The Pretrial Release Services Program is responsible for presenting pretrial release recommendations to various courts and for supervising all defendants released to its custody. The Baltimore Central Booking and Intake Center is a centralized booking facility for Baltimore City. In addition, this facility and the Baltimore City Detention Center house persons committed to the custody of DPDS while awaiting trial in Baltimore City or for service of a sentence of usually one year or less. We were advised that, as of June 30, 2007, these two units had a combined population of 4,150 detainees. In addition, according to the State's records, the DPDS fiscal year 2007 appropriation provided for 1,596 employee positions, including 1,223 correctional officers, and DPDC expenditures totaled approximately $154 million during fiscal year 2007.

Current Status of Findings From Preceding Audit Report

We reviewed the current status of the ten findings from our preceding audit report dated February 23, 2005. We determined that DPDS satisfactorily addressed five of these items. The remaining five findings are repeated in this report.

Findings and Recommendations

Service Agreements

Finding 1
An agreement with a State's Attorney Office did not include sufficient specifications.

The agreement between the Division of Pretrial Detention Services (DPDS) and a State's Attorney Office (SAO) for an agreed-upon Quality Case Review (QCR) process excluded critical elements, such as specific deliverables to assess the effectiveness of the QCR process, and payment terms, including amounts. According to the related agreement, the QCR process is designed to provide a systematic approach—coordinating efforts of DPDS with the SAO and the Office of the Public Defender—to reduce the number of defendants held in the Baltimore Central Booking and Intake Center and the number of hearings held for each case. The systematic approach should include screening pretrial detainee cases and identifying cases for dismissal and charge reductions.

According to DPDS budget documents, the annual appropriation approved for payments to the SAO was $708,512 for each of the fiscal years 2005, 2006, and 2007; however, no documentation could be provided to indicate how that amount was determined. Furthermore, although the basis for payment was not specified in the agreement, quarterly invoices from the SAO included a list of employees and total related salaries and benefits. We were advised by DPDS management that there was no verification performed to ensure that the invoices were for the actual costs of the QCR program. In addition, other documentation was not available, such as the number of cases screened, to enable DPDS to assess the impact of the QCR process. During fiscal years 2006 and 2007, SAO payments totaled $786,145 and $794,100, respectively.

Recommendation 1
We recommend that DPDS modify the SAO agreement to include the payment terms and deliverables. We further recommend that DPDS ensure that payments are made consistent with the revised agreement.

Finding 2
Service agreements were not adequately monitored to ensure payments were made in accordance with terms of the agreements and that all requirements were met.

Analysis
Our review disclosed that DPDS was not adequately monitoring certain service agreements, as noted below:

- Oversight of payments related to a three-year contract for off-site housing for inmates who do not have a history of violent crimes was not sufficient. The $4 million contract included base payments of $3.5 million and per diem payments of $500,000. Our test of three invoices, totaling $121,600, disclosed that, for two of the three invoices for per diem housing charges totaling $24,662, the related daily census reports were not signed by the DPDS contract monitor, as required by the contract, and all three invoices were paid without evidence of supervisory approval. Therefore, assurance was lacking that these services were actually received and that the billed amounts were accurate.

- The contract to provide inmate food also required the contractor to provide the first $800,000 of related annual maintenance costs (such as for the kitchen and serving equipment) and required that these costs be documented. However, DPDS did not verify that such costs were provided. Since DPDS paid maintenance costs over this amount to be provided by the contractor (for example, DPDS paid $765,030 in fiscal year 2007), monitoring of this contractual provision is necessary. During the contract year covering the period from February 2006 through January 2007, $496,475 of the contractor's costs were payments to an outside vendor to monitor and oversee the maintenance function; however, we were advised by DPDS management that it did not obtain documents to support these payments. Although copies of invoices from the outside vendor were subsequently provided after our inquiry, the invoices did not specify what services were provided. Consequently, there was a lack of assurance that the contractor paid the required amount of annual maintenance costs.

  The contract also required the contractor to provide an annual inventory of related food service equipment and to replace any missing equipment. During our field work, DPDS was unable to provide us with any evidence that the required physical inventories had been conducted since the contract began in

2003. Subsequently, DPDS provided copies of recent physical inventories; however, there was no documentation that these physical inventories had been reconciled with the related equipment records to determine if any items were missing.

- DPDS could not adequately document that it was adhering to procedures established by the Department of Public Safety and Correctional Services (DPSCS) to ensure that temporary employees were obtained at the lowest available costs. Specifically, DPSCS entered into a department-wide contract with nine vendors for temporary employees. The contract required that DPSCS units needing temporary employee services first contact the lowest cost vendor and continue to contact each subsequently higher cost vendor, as necessary, to obtain the needed services. Although DPDS management indicated that they followed the required procedures, there was inadequate documentation maintained that this was done. Furthermore, our discussions with several of the lower cost vendors identified one vendor who stated that it had always had an available employee for the position we inquired about (office secretary – advanced word processing). For this position, this firm charged $11.55 an hour; the firms used by DPDS, which were ranked as having the two highest costs of the nine vendors, charged $16.75 and $24.50 an hour. In two cases, the same temporary employees were employed by the vendor charging $16.75 an hour and immediately thereafter by the vendor charging $24.50 an hour to perform the same DPSCS jobs. During fiscal years 2006 and 2007, DPDS temporary personnel expenditures totaled $888,116 and $893,305, respectively.

Recommendation 2
We recommend that the DPDS adequately monitor its service agreements. Specifically, we recommend that DPDS ensure that all requirements are met and all invoices are approved by appropriate supervisory personnel prior to payment. In addition, we recommend that the DPDS improve the management of its temporary employee contract and ensure that lower cost vendors are used for all placements of temporary employees, if available, as required by the contract, and that this process be documented.

Purchases and Disbursements

Finding 3
Proper internal control was not established over the processing of certain disbursement transactions.

Analysis
DPDS did not fully use the security features available on the State's Financial Management Information System (FMIS) to establish proper internal control over certain disbursement transactions. As a result, unauthorized transactions could be processed which may not be readily detected. According to the State's accounting records, during fiscal year 2007, DPDS used FMIS to process disbursements totaling approximately $29.4 million.

Specifically, five DPDS employees could both initiate and approve certain disbursement transactions without being subject to independent online review and approval. In addition, one of these employees could also add vendors to the system. During fiscal year 2007, disbursement transactions initiated and approved by the same employee totaled approximately $10 million.

In addition, DPDS paid certain invoices without verifying that the related goods or services were received. Specifically, our test of seven payments made during fiscal years 2005 through 2007, totaling approximately $145,000, disclosed that five payments, totaling approximately $97,000, lacked documentation to support that the related goods and services were received (such as a signed receiving report). For example, DPDS paid $18,000 for ammunition without a receiving report or other documentation that the goods were received.

A similar condition pertaining to the lack of full use of FMIS security features was commented upon in our four preceding audit reports dating back to 1996.

Recommendation 3
We again recommend that DPDS fully use the available FMIS security features by establishing independent online approval requirements for all critical disbursement transactions. Specifically, employees who initiate disbursement transactions should not also have the capability to approve them. We also recommend that DPDS establish procedures to ensure that documentation supporting the receipt of goods and services is received prior to processing related vendor invoices.

Finding 4
The DPDS had not established adequate control over certain corporate purchasing card transactions.

Analysis
DPDS had not established adequate control over certain corporate purchasing card (CPC) transactions. Our test of 103 items purchased with corporate purchasing cards during the period from July 2005 through June 2007 totaling $69,000 disclosed the following deficiencies:

- Based on our test of 50 items totaling $15,073, 14 items valued at $3,883 (including air conditioners and televisions), could not be located on the DPDS premises.

- DPDS appears to have split three CPC purchases, totaling $10,082, into eight smaller purchases to circumvent the single transaction limit of $2,500, and to avoid more stringent procurement requirements. A similar condition was commented on in our preceding audit report.

- Supporting documentation (such as, invoice and/or receipt) was not always adequate or on file for 24 individual charges tested. For example, for 21 transactions totaling $16,875, either the invoices did not provide sufficient detail to determine what was being purchased or the amount of hourly labor costs or individual supplies was not detailed.

The Comptroller of the Treasury's *Corporate Purchasing Card Program Policy and Procedures Manual* states that equipment purchased with corporate purchasing cards is to be accounted for following the Department of General Services guidelines. In addition, the *Manual* establishes maximum limits on individual transaction purchases to facilitate agency control over the use of the cards. Furthermore, documentation is required for all transactions. According to the bank's records, fiscal year 2007 CPC activity totaled $1.1 million.

Recommendation 4
We recommend that DPDS comply with the provisions of the Comptroller of the Treasury's *Corporate Purchasing Card Program Policy and Procedures Manual*. Specifically, we recommend that DPDS record and account for equipment items purchased with the CPC. In addition, we again recommend

that purchasing card transactions not be split to circumvent the single transaction limit. We also recommend that DPDS maintain appropriate documentation for all corporate card purchases.

Payroll

Finding 5
Supervisory review of supporting documentation for payroll adjustments was not documented.

Analysis
Supervisory employees who approved the payroll timekeeping reports did not document that they had reviewed, for propriety and accuracy, the documentation (such as time sheets and overtime authorization forms) for payroll adjustments recorded in the State's payroll system prior to electronically releasing the entries to the State's Central Payroll Bureau. Without verifying the propriety of payroll adjustments, errors and unauthorized adjustments could be processed without detection. According to the State's records, during fiscal year 2007, the DPDS payroll expenditures totaled approximately $72.8 million, including approximately $8.8 million in employee overtime. A similar condition was commented upon in our preceding audit report.

Recommendation 5
We again recommend that supervisory personnel document their verification of payroll adjustments to source documents (time sheets and overtime authorization forms).

Budget Closeout

Finding 6
DPDS did not maintain documentation to support certain fiscal year 2006 accrued expenditures. Additionally, journal entries processed on the State's accounting system effectively allowed DPDS to use funds provided by fiscal year 2006 accruals to fund fiscal year 2007 expenditures.

Analysis
DPDS did not maintain proper documentation to support certain fiscal year 2006 accrued expenditures. Additionally, journal entries processed on the State's

accounting system effectively allowed DPDS to use funds provided by fiscal year 2006 accruals to fund fiscal year 2007 expenditures. Fiscal year 2006 general fund accrued expenditures totaled $2.9 million. Our review disclosed the following conditions:

- Our test of six fiscal year 2006 accrued expenditures totaling $652,500 disclosed that, for three accruals totaling $295,000, there was inadequate supporting documentation for the accruals or the documentation indicated that the accrual was improper. For example, we were advised by DPDS management that one fiscal year 2006 accrual for $126,390 related to an unpaid invoice; however, we noted that the invoice had previously been paid. Therefore, this item was not a valid accrual. The amounts improperly accrued should be reverted to the State's General Fund.

- DPDS routinely processed journal entries after year-end that had the potential effect of allowing it to use the funds provided by a prior year accrual to fund current year expenditures. This practice, which was used with respect to its $2.9 million accruals as of June 30, 2006, was not consistent with the Comptroller of the Treasury — General Accounting Division's *Accounting Procedures Manual*. This guidance provides that, when paid, expenditures should be charged to the year the funds were appropriated. Furthermore, because of this practice, expenditures were not identified by appropriation year and it could not be readily determined if accruals were liquidated. In the event that an accrual was not fully liquidated (as would be the case with the $126,390 above), funds that should be reverted to the General Fund would not be readily identified and would be available to DPDS to supplement the current year appropriation.

The aforementioned *Accounting Procedures Manual* requires that agencies maintain supporting documentation for its accrued expenditures. It also recommends that expenditure transactions related to accruals be charged to the same appropriation year as the accrual entry.

Recommendation 6
We recommend that DPDS comply with Comptroller of the Treasury – General Accounting Division's *Accounting Procedures Manual* by maintaining proper documentation to support accrued expenditure entries and by discontinuing the aforementioned practice relating to year-end accruals. Finally, we recommend that DPDS analyze its accrual entries and related liquidation, and revert any unliquidated accruals, as well as the aforementioned $126,390, to the General Fund.

Property

Finding 7
Property records were not adequately maintained, and DPDS did not reconcile its physical inventory with its related detail records.

Analysis
Property records were not maintained in compliance with certain requirements of the Department of General Services (DGS) *Inventory Control Manual*. As of June 30, 2007, the reported book value of DPDS equipment totaled approximately $5 million. Our review of DPDS recordkeeping and inventory procedures disclosed the following deficiencies:

- A physical inventory conducted in July 2007 was not reconciled with the existing detail records. Rather the physical inventory conducted was used as the basis for new detail records intended to be maintained by the agency. However, we noted that, as of August 2007, these records did not include values for many items. Furthermore, without a reconciliation of the results of the physical inventory with the existing detail records, DPDS lacked assurance that all items had been accounted for. For example, our review of the June 2007 detail records identified 99 washers and dryers; however, the new detail records included only 48 washers and dryers. Agency management could not explain this discrepancy.

- 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.

- DPDS detail property records were not adequately maintained. Our test of 32 equipment items purchased during fiscal years 2006 and 2007, at a cost of $9,200, disclosed that only 8 of the 32 items were recorded in the detail records.

- The annual report of fixed assets was not submitted to DGS for fiscal year 2006, as required. Additionally, although the DPDS submitted the annual report of fixed assets for fiscal year 2007, the amount reported was not reliable as DPDS reported that many equipment items did not reflect an acquisition cost in the records.

Similar record keeping deficiencies have been commented upon in our four preceding audit reports dating back to November 1996. The DGS *Inventory Control Manual* requires that a control account and detail records be properly maintained for all categories of property, and that the detail records be reconciled with the related control account balance. The *Manual* further provides that the results of physical inventories are to be reconciled with the related detail records.

Recommendation 7
We again recommend that DPDS comply with the aforementioned requirements of the DGS *Inventory Control Manual*.

Materials and Supplies

Finding 8
Procedures and controls over the DPDS' materials and supplies inventory were inadequate.

Analysis
Procedures and controls over the materials and supplies inventory in the DPDS central storeroom were inadequate. Specifically, we noted the following deficiencies:

- DPDS management advised us that, during January 2007, new materials and supplies perpetual inventory records were created for items in the central storeroom because the previous records were either non-existent or not adequately maintained. Differences between these perpetual inventory record balances and physical inventories performed at the end of June 2007 were not adequately investigated and resolved. Rather, the records were adjusted to reflect the physical inventory counts and the differences between the actual physical inventory counts and the perpetual inventory records had not been investigated as of August 31, 2007. For example, the total value of uniforms according to the inventory records ($219,000) exceeded the value according to the physical inventory counts ($191,000) by approximately $28,000. In addition, these adjustments generally were not reviewed and approved by supervisory personnel.

- The value of DPDS materials and supplies had not been reported to DGS for fiscal years 2006 and 2007, as required.

As a result of the aforementioned deficiencies, DPDS management may not readily detect any misappropriations or irregularities involving its materials and supplies inventories. The DGS *Inventory Control Manual* establishes certain requirements regarding internal controls and related recordkeeping to be followed by State agencies. During fiscal year 2006, DPDS spent approximately $3.1 million for materials and supplies and, as of June 30, 2007, the materials and supplies located at the central storeroom (which excluded maintenance supplies and ammunition) had a value of $666,359 according to the physical inventory of these items.

Recommendation 8
We recommend that the DPDS comply with the requirements of the DGS *Inventory Control Manual*. Specifically, we recommend that differences between the physical quantities on hand and the related perpetual records be investigated and resolved by an employee who does not have access to the materials and supplies inventory and related adjustments be reviewed and approved by supervisory personnel, as required. Additionally, we recommend that the investigations and adjustments be documented and retained for future reference. We also recommend that DPDS report the fiscal year-end materials and supplies balances to DGS, as required.

Accounts Receivable

Finding 9
DPDS had not executed a lease with an entity that had been using DPDS facilities for an extended period. Furthermore, no requests for rent payments had been made since December 2005.

Analysis
DPDS had not entered into a new lease agreement with a nonprofit entity that occupied space in a DPDS facility. Specifically, the lease agreement, originally executed in 1992, had lapsed and no subsequent lease agreement had been executed. Furthermore, DPDS had not attempted to collect rent from the entity for the period from January 2006 through December 2007, and an outstanding balance for the prior period remained unpaid. Specifically, the entity had an

outstanding receivable balance of $27,606 related to billings from April 2005 through December 2005, which was forwarded to the State's Central Collection Unit for collection, according to DPDS records. No subsequent billings were issued.

We were informed that the entity previously rented office space in a DPDS facility for $3,744 per month. As a result of water damage, that office became uninhabitable, and DPDS provided the entity with alternative office space to continue offering its services (such as drug counseling to the public). Since the entity had to move to the new location and limit its services, DPDS did not hold it to the prior lease agreement; however, a new lease agreement was not executed. We were advised by DPDS management that, as of December 2007, the entity ceased to operate from this location.

State law requires that leases of State-owned real property be approved by the Board of Public Works (BPW).

Recommendation 9
We recommend that the DPDS, in conjunction with the Assistant Attorney General, determine lease amounts owed, but unbilled, and follow-up to collect amounts due. We also recommend that any future uses of DPDS facilities be supported by a lease agreement that has been approved by BPW.

Referrals to Authorities

Finding 10
There was a lack of documentation that certain fraudulent acts discovered by DPDS were immediately reported to authorities.

Analysis
There was a lack of documentation that certain fraudulent acts discovered by DPDS were immediately reported to the Office of the Attorney General – Criminal Division (CD) and the Chief Counsel to the Governor. DPDS administrative investigations, which were completed in May and June 2007, disclosed that three employees presented fraudulent medical documentation to justify their absences from duty and that another employee failed to properly report time worked. As a result of these investigations, DPDS advised that one employee was terminated and the other three resigned. However, there was a lack of documentation that DPDS forwarded the results of these administrative

investigations to the Attorney General – Criminal Division (CD) and the Chief Counsel to the Governor. Rather, the referral letters were received by these units in October 2007, subsequent to our inquiry. According to DPDS records, the monetary loss to the State for two of these cases may be more than $18,000.

A February 2007 Executive Order issued by the Governor states that all departments and agencies of the State shall immediately refer to the Assistant Attorney General of the Department or Agency or to the Deputy Attorney General with supervisory responsibility for the Attorney General's Criminal Division, any instance of possible criminal or unethical conduct by any employee or contractor of this State, for such action as the Office of the Attorney General deems appropriate. All departments and agencies shall also immediately advise the Chief Legal Counsel to the Governor of any such referrals.

A similar condition was commented on in our preceding audit report.

Recommendation 10
We again recommend that, in the future, DPDS promptly inform the appropriate authorities of instances of possible criminal or unethical conduct in accordance with the requirements of the aforementioned Executive Order.

Audit Scope, Objectives, and Methodology

We have audited the Division of Pretrial Detention and Services (DPDS) of the Department of Public Safety and Correctional Services for the period beginning June 3, 2004 and ending June 13, 2007. The audit was conducted in accordance with generally accepted government auditing standards.

As prescribed by State Government Article, Section 2-1221 of the Annotated Code of Maryland, the objectives of this audit were to examine DPDS's financial transactions, records and internal control, and to evaluate its compliance with applicable State laws, rules, and regulations. We also determined the current status of the findings included in our preceding audit report.

In planning and conducting our audit, we focused on the major financial related areas of operations based on assessments of materiality and risk. Our audit procedures included inquiries of appropriate personnel, inspections of documents and records, and observations of DPDS 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 scope was limited with respect to DPDS's cash transactions because the Office of the State Treasurer was unable to reconcile the State's main bank accounts during a portion of the audit period. Due to this condition, we were unable to determine, with reasonable assurance, that all DPDS cash transactions prior to July 1, 2005 were accounted for and properly recorded on the related State accounting records as well as the banks' records.

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

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

APPENDIX

Department of Public Safety and Correctional Services

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April 7, 2008

Mr. Bruce A. Myers, CPA
Legislative Auditor
Office of Legislative Audits
Room 1202
301 West Preston Street
Baltimore, Maryland 21201

Dear Mr. Myers:

The Department of Public Safety and Correctional Services has reviewed the draft audit report for the Department's **Division of Pretrial Detention and Services (DPDS)** for the period beginning June 3, 2004, and ending June 13, 2007. The DPDS, as well as the Department, strive to ensure that the complex business functions and operations of all the DPDS facilities are managed properly. Accordingly, we acknowledge the importance of each finding and appreciate the constructive recommendations that were made as a result of this audit. In fact, as a result of the DPDS' commitment to improve the efficiency and effectiveness of its operations, I am pleased that Commissioner Ray reports that steps were taken to implement several of the auditor's recommendations prior to the issuance of this report.

It should also be noted that during this audit period, the Division has undertaken some significant initiatives that were designed to improve customer service to Maryland's citizens by increasing economy and efficiency, creating safer communities, and enhancing relationships with local governments and other stakeholders that share a mutual vision. The Department is proud of the Division's record of accomplishments and continues to strongly support its ongoing efforts to develop, administer, and deliver quality services to the people it serves. Some significant recent accomplishments/initiatives include:

- DPDS has developed a violence reduction process that involves a bi-weekly analysis of incidents by a management committee and continuous adjustments and corrective actions to reduce assaults on both detainees and staff. This process has been successful in reducing the number of assaults in the Baltimore Central Booking and Intake Center from a high of 352 in FY 2005 to 206 in FY 2007.

- In January 2007, the Department entered into a consent agreement with the Department of Justice (DOJ) over the conditions of confinement at the Baltimore City Detention Center (BCDC). DOJ representatives and subject experts have already acknowledged that substantive progress has been made in achieving compliance with that agreement, especially in the areas of fire safety, sanitation, special education, adult and juvenile corrections, and medical/mental health.

- DPDS, with the assistance of the University of Maryland, has developed and implemented a program for juveniles in its custody based on the therapeutic community model. This program is showing good results to date.

- DPDS has implemented a series of programs aimed at bringing outside agencies and organizations into the facilities to provide transitional services for detainees, thereby making the necessary connections to assist them in the community when they are released.

Attached is Commissioner Howard Ray, Jr.'s itemized response to the draft audit report, with which I concur. I trust that this adequately responds to your request. If you have any questions concerning this correspondence, please contact me.

Sincerely,

Gary D. Maynard
Secretary

Attachment
c: G. Lawrence Franklin, Deputy Secretary, DPSCS
Howard Ray, Jr., Commissioner, DPDS
Benjamin Brown, Deputy Commissioner, DPDS
Susan Dooley, Director, Financial Services, DPSCS
Joseph M. Perry, Inspector General, DPSCS

Department of Public Safety and Correctional Services

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4 April 2008

Gary D. Maynard, Secretary
Department of Public Safety and Correctional Services
300 East Joppa Road, Suite 1000
Towson, MD 21286-3020

Dear Secretary Maynard:

This is the Division of Pretrial Detention and Services' (DPDS) response to the Report of the Legislative Auditor for the audit period beginning 3 June 2004 and ending 13 June 2007. DPDS has begun, and will continue, to take the necessary steps to ensure complete implementation of the agreed-upon recommendations of the Legislative Auditor's Report.

Finding #1 - An agreement with a State's Attorney Office did not include sufficient specifications.

Recommendation #1 - We recommend that DPDS modify the SAO agreement to include the payment terms and deliverables. We further recommend that DPDS ensure that payments are made consistent with the revised agreement.

We agree. DPDS will draft a new agreement with the State's Attorney Office (SAO) that includes appropriate payment terms and specifies the services to be provided. We expect to have a suitable agreement in place by 1 July 2008. In addition, DPDS will review each invoice received from the SAO and verify that it contains appropriate documentation to support the services provided, as specified in the new agreement. This verification process shall be in place by 1 September 2008 or at the time of the first payment under the new agreement, whichever occurs first.

Finding #2 - Service agreements were not adequately monitored to ensure payments were made in accordance with terms of the agreements and that all requirements were met.

Recommendation #2 - We recommend that the DPDS adequately monitor its service agreements. Specifically, we recommend that DPDS ensure that all requirements are met and all invoices are approved by the appropriate supervisory personnel prior to payment. In addition, we recommend that the DPDS improve the management of its temporary employee contract and ensure that lower cost vendors are used for all

placements of temporary employees, if available, as required by the contract, and that this process be documented.

We agree. The payment approval process for service agreements will be modified to require identification of the contracted critical service requirements, acknowledgement that requirements have been met during the invoiced period, and formal authorization of payment by the contract monitor, using a form prepared for each contract. This revised process has been in place since 1 April 2008. The process for temporary employee placements has been modified to use a form prepared for each placement request to properly document efforts to obtain the lower cost vendors as directed in the contract.

Finding #3 - Proper internal control was not established over the processing of certain disbursement transactions.

Recommendation #3 - We again recommend that DPDS fully use the available FMIS security features by establishing independent online approval requirements for all critical disbursement transactions. Specifically, employees who initiate disbursement transactions should not also have the capability to approve them. We also recommend that DPDS establish procedures to ensure that documentation supporting the receipt of goods and services is received prior to processing related vendor invoices.

We agree. The FMIS security authorizations were corrected on 19 July 2007 to ensure that employees initiating disbursement transactions could not also approve them. Formal accountability was established to ensure that appropriate documentation for receipt of goods and services is available at the time invoices are processed initially for payment.

Finding #4 - The DPDS had not established adequate control over certain corporate purchasing card transactions.

Recommendation #4 - We recommend that DPDS comply with the provisions of the Comptroller of the Treasury's *Corporate Purchasing Card Program Policy and Procedures Manual*. Specifically, we recommend that DPDS record and account for equipment items purchased with the CPC. In addition, we again recommend that purchasing card transactions not be split to circumvent the single transaction limit. We also recommend that DPDS maintain appropriate documentation for all corporate card purchases.

We agree. The CPC (Corporate Purchasing Card) authorization process has been changed to ensure that the Property Officer receives a copy of the approved requisition form for all equipment purchased with a CPC. Service contracts are being appropriately established to preclude the appearance of transactions being split. Monthly CPC statements are reviewed to identify any potential split transactions and individual card holders will be held accountable for prohibited transactions. Formal accountability was established to ensure that proper CPC purchases documentation is received and maintained.

Finding #5 - Supervisory review of supporting documentation for payroll adjustments was not documented.

Recommendation #5 - We again recommend that supervisory personnel document their verification of payroll adjustments to source documents (time sheets and overtime authorization forms).

We agree. Procedures to ensure proper documentation of payroll adjustments were changed in July 2007. Additional steps were taken recently to implement the requirements of Secretary's Department Directive 115-1 (Staffing Analysis and Overtime Management) and to provide for management verification of specific areas of concern.

Finding #6 - DPDS did not maintain documentation to support certain fiscal year 2006 accrued expenditures. Additionally, journal entries processed on the State's accounting system effectively allowed DPDS to use funds provided by fiscal year 2006 accruals to fund fiscal year 2007 expenditures.

Recommendation #6 - We recommend that DPDS comply with Comptroller of the Treasury – General Accounting Division's *Accounting Procedures Manual* by maintaining proper documentation to support accrued expenditure entries and by discontinuing the aforementioned practice relating to year-end accruals. Finally, we recommend that DPDS analyze its accrual entries and related liquidation, and revert any unliquidated accruals, as well as the aforementioned$126,390, to the General Fund.

We agree in part, disagree in part. DPDS will comply with Comptroller of Maryland – General Accounting Division's *Accounting Procedures Manual* and will maintain proper documentation to support accrued expenditure entries. In addition, DPDS will submit to the Office of the Secretary, Division of Financial Services, a complete listing of accrued expenditures and related documentation with the year end closing package.

However, the Department disagrees that the practice of preparing adjusting journal entries to move the accrued expenditure reversing entries from the prior Appropriation Year to the current Appropriation Year in order to ensure that the reversing entry properly offsets the expenditure when it is paid *during the normal course of business,* is not consistent with the requirements of the Comptroller.

Finally, DPDS agrees to revert the $126,390 referenced by the auditor during the fiscal year 2008 closing. However, DPDS does not have adequate resources to analyze fiscal year 2006 accrued expenditures and related liquidations, because all available fiscal office staff are required to handle the current workload and process current transactions.

Finding #7 - Property records were not adequately maintained, and DPDS did not reconcile its physical inventory with its related detail records.

Recommendation #7 - We again recommend that DPDS comply with the aforementioned requirements of the DGS *Inventory Control Manual*.

We agree. DPDS will comply with the requirements of the DGS *Inventory Control Manual*. The physical inventory taken in July 2007 has been reconciled to the existing detail records and the appropriate *Missing, Lost, or Stolen Reports* prepared for submission to DGS. The control accounts were confirmed and are being maintained as required. The detail property records are properly maintained in 4 newly established data bases for DPDS using software purchased by the Department for this purpose. The required annual physical inventory of fixed assets will be completed by 30 June 2008. The annual report of fixed assets will be filed with DGS for fiscal year 2008 in August 2008, using the confirmed records. Appropriate management accountability has been established and will be verified by 31 May 2008.

Finding #8 - Procedures and controls over the DPDS' materials and supplies inventory were inadequate.

Recommendation #8 - We recommend that the DPDS comply with the requirements of the DGS *Inventory Control Manual*. Specifically, we recommend that differences between the physical quantities on hand and the related perpetual records be investigated and resolved by an employee who does not have access to the materials and supplies inventory and related adjustments be reviewed and approved by supervisory personnel, as required. Additionally, we recommend that the investigations and adjustments be documented and retained for future reference. We also recommend that DPDS report the fiscal year-end materials and supplies balances to DGS, as required.

We agree. DPDS will comply with the requirements of the Department of General Services' *Inventory Control Manual*. The differences between the physical quantities on hand and the related perpetual records have been investigated and resolved by an employee who does not have access to the materials and supplies stock, and the inventory adjustments were reviewed and approved by supervisory personnel, as required. The investigations and adjustments have been documented and retained for future reference. Manual inventory records maintained by DPDS were converted to electronic spreadsheets to eliminate arithmetic discrepancies noted during the audit. Additional required inventory records will be established in specific areas by 30 May 2008. DPDS will report the fiscal year end materials and supplies balance to DGS in August 2008, based on the required inventory records and physical inventory.

Finding #9 - DPDS had not executed a lease with an entity that had been using DPDS facilities for an extended period. Furthermore, no requests for rent payments had been made since December 2005.

Recommendation #9 - We recommend that the DPDS, in conjunction with the Assistant Attorney General, determine lease amounts owed, but unbilled, and follow-up to collect amounts due. We also recommend that any future uses of DPDS facilities be supported by a lease agreement that has been approved by BPW.

We agree. DPDS is currently working with its Assistant Attorney General to determine the lease amounts owed, but not billed. Initial estimates indicate that the receivables previously forwarded to the Central Collection Unit are sufficient to cover the lease amounts for the period in question. Further review of this issue will be completed by 15 May 2008. DPDS does not expect to approve use of its facilities by outside organizations in the future, except those allied agencies that are an integral part of its operations; however, should such approval be granted, this use will be supported by an appropriate lease agreement approved by the Board of Public Works.

Finding #10 - There was a lack of documentation that certain fraudulent acts discovered by DPDS were immediately reported to authorities.

Recommendation #10 - We again recommend that, in the future, DPDS promptly inform the appropriate authorities of instances of possible criminal or unethical conduct in accordance with the requirements of the aforementioned Executive Order.

We agree. DPDS changed its procedures in July 2007 to ensure timely and proper documentation of its referrals to the appropriate authorities of instances of possible criminal or unethical conduct in accordance with the requirements of the Executive Order and the appropriate Secretary's Department Directive. DPDS conducts annual training for all managers with direct accountability for compliance with the requirements of the Executive Order and the appropriate Secretary's Department Directive.

Please advise me if you have any questions about our responses or intended corrective actions or if you need additional information about any of the audit issues.

Very sincerely yours,

Howard Ray, Jr.
Commissioner

cc: G. Lawrence Franklin, Deputy Secretary for Administration
Susan Dooley, Director of Financial Services
Joseph M. Perry, Inspector General
Benjamin F. Brown, Deputy Commissioner
Renard E. Brooks, Assistant Commissioner

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