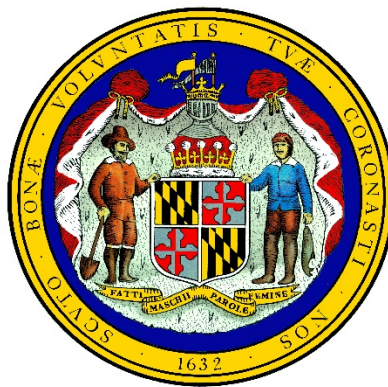


Audit Report

**Department of Public Safety and Correctional Services
Maryland Correctional Enterprises**

June 2024



OFFICE OF LEGISLATIVE AUDITS
DEPARTMENT OF LEGISLATIVE SERVICES
MARYLAND GENERAL ASSEMBLY

Joint Audit and Evaluation Committee

Senator Clarence K. Lam, M.D. (Senate Chair)	Delegate Jared Solomon (House Chair)
Senator Joanne C. Benson	Delegate Steven J. Arentz
Senator Paul D. Corderman	Delegate Andrea Fletcher Harrison
Senator Katie Fry Hester	Delegate Steven C. Johnson
Senator Shelly L. Hettleman	Delegate Mary A. Lehman
Senator Cheryl C. Kagan	Delegate David Moon
Senator Cory V. McCray	Delegate Julie Palakovich Carr
Senator Justin D. Ready	Delegate Stephanie M. Smith
Senator Bryan W. Simonaire	Delegate M. Courtney Watson
Senator Craig J. Zucker	One Vacancy

To Obtain Further Information

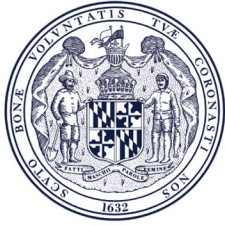
Office of Legislative Audits
The Warehouse at Camden Yards
351 West Camden Street, Suite 400
Baltimore, Maryland 21201
Phone: 410-946-5900
Maryland Relay: 711
TTY: 410-946-5401 · 301-970-5401
E-mail: webmaster@ola.state.md.us
Website: www.ola.state.md.us

To Report Fraud

The Office of Legislative Audits operates a Fraud Hotline to report fraud, waste, or abuse involving State of Maryland government resources. Reports of fraud, waste, or abuse may be communicated anonymously by a toll-free call to 1-877-FRAUD-11, by mail to the Fraud Hotline, c/o Office of Legislative Audits, or through the Office's website.

Nondiscrimination Statement

The Department of Legislative Services does not discriminate on the basis of age, ancestry, color, creed, marital status, national origin, race, religion, gender, gender identity, sexual orientation, or disability in the admission or access to its programs, services, or activities. The Department's Information Officer has been designated to coordinate compliance with the nondiscrimination requirements contained in Section 35.107 of the United States Department of Justice Regulations. Requests for assistance should be directed to the Information Officer at 410-946-5400 or 410-970-5400.



DEPARTMENT OF LEGISLATIVE SERVICES
OFFICE OF LEGISLATIVE AUDITS
MARYLAND GENERAL ASSEMBLY

Victoria L. Gruber
Executive Director

Gregory A. Hook, CPA
Legislative Auditor

June 20, 2024

Senator Clarence K. Lam, M.D., Senate Chair, Joint Audit and Evaluation Committee
Delegate Jared Solomon, House Chair, Joint Audit and Evaluation Committee
Members of Joint Audit and Evaluation Committee
Annapolis, Maryland

Ladies and Gentlemen:

We have conducted a fiscal compliance audit of the Maryland Correctional Enterprises (MCE) for the period beginning April 1, 2019 and ending June 30, 2023. MCE, which is a unit within the Department of Public Safety and Correctional Services (DPSCS), provides work and job training for incarcerated individuals of the Maryland correctional system.

Our audit disclosed that MCE did not adequately pursue the collection of delinquent accounts receivable. As of June 2023, \$7 million of MCE's \$12.9 million in accounts receivable were outstanding over 90 days. Our testing disclosed that MCE had not issued any dunning notices to three of five delinquent accounts from State agencies which had been outstanding for periods ranging from 261 days to 414 days.

We would also like to highlight that we were advised by the State's Central Collection Unit (CCU) that based on State regulations, MCE cannot refer State agencies to CCU for collection action. This is notable because 96 percent (\$6.7 million) of MCE's accounts receivable outstanding over 90 days were from State agencies and without the ability to send State agencies' accounts receivable to CCU, MCE was unable to effectively collect the amounts due.

Our audit also included a review to determine the status of the finding contained in our preceding audit report. We determined that MCE satisfactorily addressed this finding.

DPSCS' response to this audit, on behalf of MCE, is included as an appendix to this report. We reviewed the response to our finding and related

recommendations, and have concluded that the corrective actions identified are sufficient to address all audit issues.

We wish to acknowledge the cooperation extended to us during the audit by MCE. We also wish to acknowledge DPSCS' and MCE's willingness to address the audit issues and implement appropriate corrective actions.

Respectfully submitted,

A handwritten signature in black ink that reads "Gregory A. Hook". The signature is written in a cursive, flowing style.

Gregory A. Hook, CPA
Legislative Auditor

Background Information

Agency Responsibilities

The Maryland Correctional Enterprises (MCE) is organized under the State of Maryland's Department of Public Safety and Correctional Services (DPSCS). MCE operates under the provisions of the Correctional Services Article of the Annotated Code of Maryland. The Correctional Services Article provides, in part, that MCE develop programs that provide work experience or rehabilitation for eligible incarcerated individuals. The Correctional Services Article also provides that MCE be financially self-supporting. The goods produced (for example, furniture, metal products, mattresses, and printing) and services offered (for example, incarcerated individuals' laundry) by MCE are available to State and federal agencies, political subdivisions, and any charitable, civic, educational, fraternal, or religious agency, association, or institution (for their own use and not for resale to others), or as otherwise indicated in the law.

According to MCE's audited financial statements, MCE's fiscal year 2023 operating revenue and operating expenses were approximately \$51.4 million and \$50 million, respectively, and its net operating income for fiscal year 2023 totaled \$1.4 million. As of June 30, 2023, MCE's net position totaled \$34.7 million.

Figure 1, on the following page, shows MCE's expenditures for fiscal year 2023 according to the State's accounting system.¹ Figure 1 also shows MCE's authorized positions. As of June 30, 2023, approximately 18.1 percent of MCE's positions were vacant.

¹ MCE management was unable to explain why the expenditure total recorded in the State's accounting system was 5.4 percent greater than the expenditure total recorded in the audited financial statements. MCE management advised that this variance has been the case for years.

Figure 1
MCE Positions, Expenditures, and Funding Sources

Full-Time Equivalent Positions as of June 30, 2023		
	Positions	Percent
Filled	149	81.9%
Vacant	33	18.1%
Total	182	
Fiscal Year 2023 Expenditures		
	Expenditures	Percent
Salaries, Wages, and Fringe Benefits	\$14,686,827	27.9%
Technical and Special Fees	392,029	0.7%
Operating Expenses	37,624,087	71.4%
Total	\$52,702,943	
Fiscal Year 2023 Funding Sources		
	Funding	Percent
Special Fund	\$52,702,943	100.0%
Total	\$52,702,943	

Source: State financial and personnel records

Financial Statement Audits

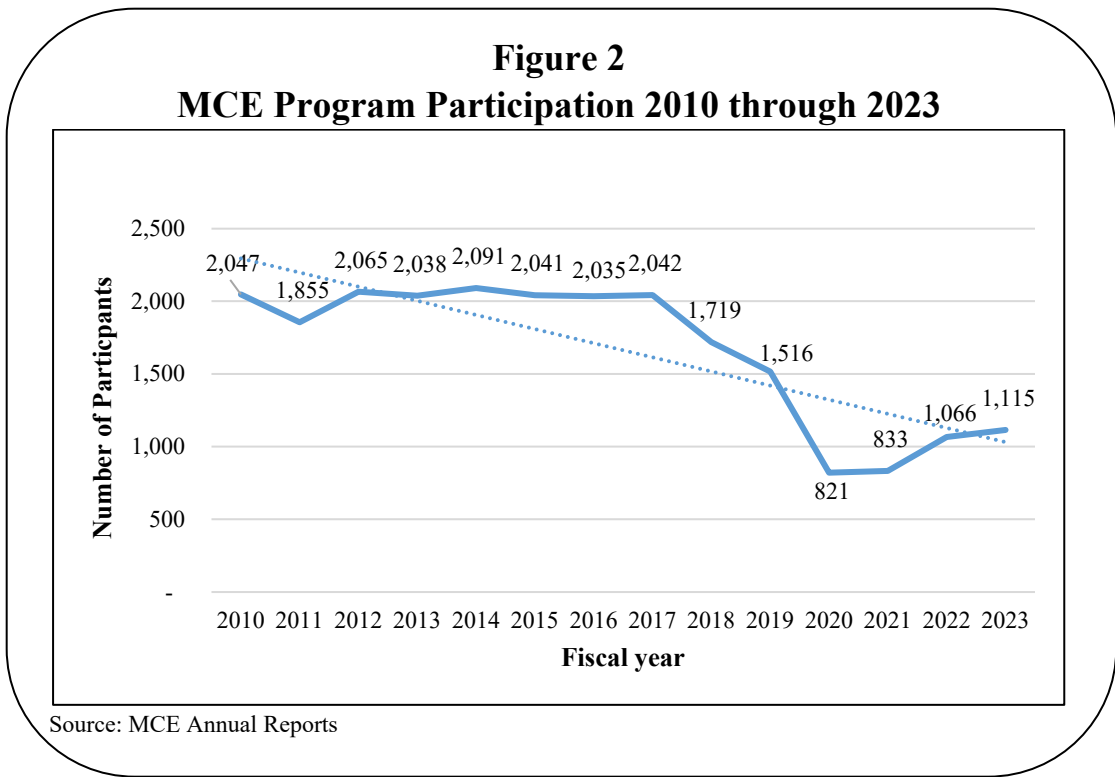
For fiscal years 2019, 2020, 2021, 2022, and 2023 MCE engaged an independent accounting firm to perform the audit of MCE’s financial statements. In the related audit reports, the firm stated that MCE’s financial statements presented fairly, in all material respects, the respective financial position of MCE and the respective changes in its financial position and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Number of Incarcerated Individuals Employed by MCE Has Declined

MCE’s *Fiscal Year 2020 and 2023 Annual Reports*, submitted to the Governor, disclosed that the number of incarcerated individuals employed in its enterprise programs has decreased significantly since 2010 when there were 2,047

incarcerated individuals employed. As noted in Figure 2, incarcerated individual employment dropped to a low of 821 in fiscal year 2020 but subsequently increased to 1,115 incarcerated individuals employed in 2023.² MCE’s 2024 *Managing for Results Annual Performance Report* noted its objective was to employ 1,200 incarcerated individuals by 2027.

During the fiscal year 2023 legislative session, DPSCS, on behalf of MCE, advised the General Assembly’s budget committees that it is working to increase program participation. However, it has encountered numerous operational interruptions with regard to the safety of participants as well as supply chain issues, which impact program participation rates.



Status of Finding From Preceding Audit Report

Our audit included a review to determine the status of the finding contained in our preceding audit report dated October 31, 2019. We determined that MCE satisfactorily addressed this finding.

² The average daily population of incarcerated individuals at DPSCS has declined by approximately 4,500 since 2010. Further MCE’s employment of incarcerated individuals was significantly reduced for health reasons during the COVID public health emergency in 2020 and 2021.

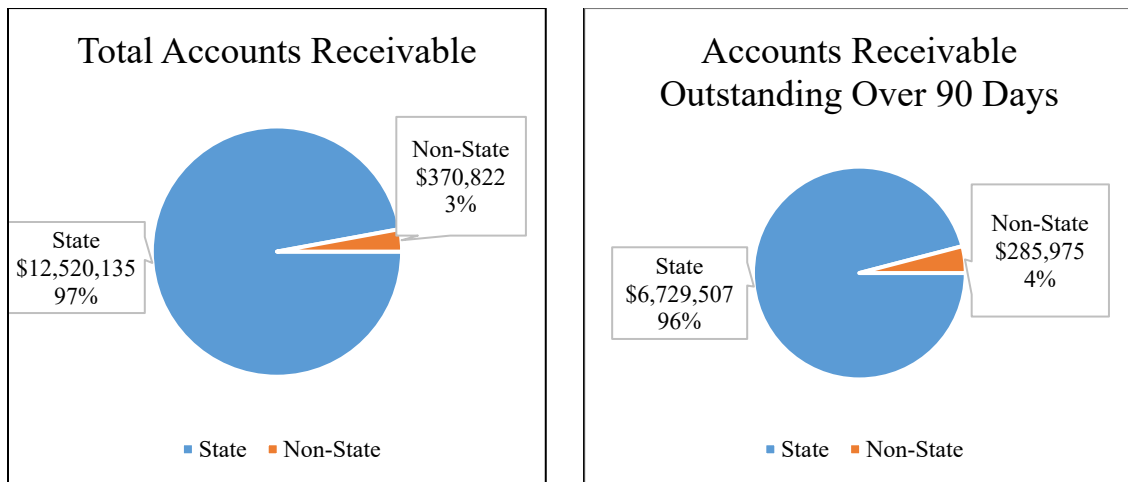
Findings and Recommendations

Accounts Receivable

Background

Maryland Correctional Enterprises (MCE) maintains accounts receivable records for amounts due for goods and services provided by MCE to State agencies and non-State entities, such as local governments. According to MCE's records, as of June 2023, the accounts receivable balance from its 26 business units in 10 correctional facilities and 1 administrative facility totaled approximately \$12.9 million, of which \$7 million (54 percent) was outstanding over 90 days. The vast majority of both the total accounts receivable and accounts outstanding over 90 days related to amounts due from State agencies. See Figure 3 below. Accounts are considered delinquent if they are not paid within 30 days of the invoice date.

Figure 3
State and Non-State Agency Accounts Receivable
as of June 30, 2023



Source: MCE records

Finding 1**MCE did not adequately pursue the collection of delinquent accounts receivable.****Analysis**

MCE did not adequately pursue the collection of delinquent accounts receivable. Specifically, for accounts receivable due from State agencies, MCE did not always send out dunning notices, as required by its procedures, and for non-State customers MCE did not refer delinquent accounts to the State's Central Collection Unit (CCU).

- MCE did not take adequate action to pursue delinquent accounts due from State agencies. Our test of five State agency accounts outstanding over 90 days as of June 30, 2023, totaling approximately \$532,500,³ disclosed that three accounts totaling \$70,700 had been outstanding for periods ranging from 261 days to 414 days; however, MCE had not issued dunning notices as required. For example, no dunning notices were sent to the Department of Public Safety and Correctional Services' Office of the Secretary for an invoice totaling \$44,500 dated July 25, 2022 (aged 414 days as of our test). For the other two accounts tested, we noted that MCE had sent dunning notices and one account was eventually paid after being outstanding for 443 days. The other account was still delinquent (aged 564 days) as of our test date.

We were advised by CCU management that based on State regulations, MCE cannot refer State agencies to CCU. CCU further advised that MCE needs to work out repayment plans with other State agencies, including issuing dunning notices and escalating the issues to senior leadership at the related agency and to other Executive Branch oversight agencies, as needed. MCE advised that as of December 2023, it had not discussed delinquent accounts receivable with senior leadership at the related agencies nor with other Executive Branch agencies such as the Governor's Office. Moreover, MCE continued to provide goods and services to the State agencies despite their longstanding delinquent accounts.

- MCE did not refer delinquent accounts from non-State customers to CCU as required. According to CCU's records, MCE had not referred any delinquent accounts since August 2018. CCU regulations, as amended for MCE, generally require delinquent accounts to be referred to CCU 120 days after the invoice date. MCE was unable to provide us with a report of accounts

³ Our test items were selected from 1 of the 26 business units which accounted for 75 percent of the accounts receivable over 90 days.

receivable that were outstanding for 120 days but according to MCE's records, accounts receivable for non-State agencies that were outstanding for 90 days or more was approximately \$286,000. Our review of five of the accounts, totaling \$7,915, included in MCE's records of accounts outstanding for 90 days or more as of June 30, 2023 disclosed that these accounts had been outstanding for periods ranging from 270 days to 774 days.

Recommendation 1

We recommend that MCE

- a. pursue collection of accounts receivable due from State agencies in accordance with its policy and confer with senior leadership at the related agency and other Executive Branch oversight agencies (such as the Governor's Office) for agencies that continue to have delinquent accounts; and**
- b. refer delinquent accounts receivable balances of non-State agencies to CCU in accordance with CCU regulations, as amended for MCE.**

Audit Scope, Objectives, and Methodology

We have conducted a fiscal compliance audit of the Maryland Correctional Enterprises (MCE), a unit within the Department of Public Safety and Correctional Services (DPSCS), for the period beginning April 1, 2019 and ending June 30, 2023. 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 MCE's financial transactions, records, and internal control, and to evaluate its compliance with applicable State laws, rules, and regulations.

In planning and conducting our audit, we focused on the major financial-related areas of operations based on assessments of significance and risk. The areas addressed by the audit included purchases and disbursements, cash receipts, accounts receivable, materials and supplies, and equipment. We also determined the status of the finding contained in our preceding audit report.

Our audit did not include certain support services provided to MCE by the DPSCS – Central Operations. These support services (such as processing of human resource transactions and procurement of certain information technology related contracts) are included within the scope of our audit of the DPSCS – Central Operations.

Our assessment of internal controls was based on agency procedures and controls in place at the time of our fieldwork. Our tests of transactions and other auditing procedures were generally focused on the transactions occurring during our audit period of April 1, 2019 to June 30, 2023, but may include transactions before or after this period as we considered necessary to achieve our audit objectives.

To accomplish our audit objectives, our audit procedures included inquiries of appropriate personnel, inspections of documents and records, test of transactions, and to the extent practicable, observations of MCE’s operations. Generally, transactions were selected for testing based on auditor judgement, which primarily considers risk, the timing or dollar amount of the transaction, or the significance of the transaction to the area of operation reviewed. As a matter of course, we do not normally use sampling in our tests, so unless otherwise specifically indicated, neither statistical nor non-statistical audit sampling was used to select the transactions tested. Therefore, unless sampling is specifically indicated in a finding, the results from any tests conducted or disclosed by us cannot be used to project those results to the entire population from which the test items were selected.

We also performed various data extracts of pertinent information from the State’s Financial Management Information System (such as revenue and expenditure data). The extracts are performed as part of ongoing internal processes established by the Office of Legislative Audits and were subject to various tests to determine data reliability. We determined that the data extracted from this source were sufficiently reliable for the purposes the data were used during this audit. We also extracted data from MCE’s financial and manufacturing management system for the purpose of selecting test items and assessing user access. We performed various tests of the relevant data and determined that the data were sufficiently reliable for the purposes the data were used during the audit. Finally, we performed other auditing procedures that we considered necessary to achieve our objectives. The reliability of data used in this report for background or informational purposes was not assessed.

MCE’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. As provided in *Government Auditing Standards*, there are five components of internal control: control environment, risk assessment, control activities, information and communication, and monitoring. Each of the five components, when significant to the audit objectives, and as applicable to MCE, were considered by us during the course of this audit.

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

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

This report includes a finding relating to a condition that we consider to be a significant deficiency in the design or operation of internal control that could adversely affect MCE's ability to maintain reliable financial records, operate effectively and efficiently, and/or comply with applicable laws, rules, and regulations. This finding is also considered a significant instance of noncompliance with applicable laws, rules, or regulations. Other less significant findings were communicated to MCE that did not warrant inclusion in this report.

The response from DPSCS, on behalf of MCE, to our finding 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 DPSCS regarding the results of our review of its response.

APPENDIX

Department of Public Safety and Correctional Services

Office of the Secretary

6776 Reisterstown Road, Baltimore, Maryland 21215
410-585-3346 – TOLL FREE 877-379-8636 • www.dpscs.maryland.gov



STATE OF MARYLAND

WES MOORE
GOVERNOR

ARUNA MILLER
LT. GOVERNOR

CAROLYN J. SCRUGGS
SECRETARY

ANTHONY A. GASKINS
CHIEF OF STAFF

JOSEPH SEDTAL
DEPUTY SECRETARY
ADMINISTRATION

ANNIE D. HARVEY
DEPUTY SECRETARY
OPERATIONS

ANGELINA GUARINO
ASSISTANT SECRETARY
DATA, POLICY AND GRANTS

RENARD E. BROOKS
ASSISTANT SECRETARY
PROGRAMS, TREATMENT &
RE-ENTRY SERVICES

June 12, 2024

Gregory A. Hook, CPA
Legislative Auditor
Office of Legislative Audits
Department of Legislative Services
The Warehouse at Camden Yards
351 West Camden Street, Suite 400
Baltimore, Maryland 21201

Dear Mr. Hook,

We have reviewed the May 2024 Draft Legislative Audit Report for the Department of Public Safety and Correctional Services' (DPSCS) Maryland Correctional Enterprises (MCE), and we are pleased that the finding from the last audit has been satisfactorily addressed. The Department appreciates the constructive recommendations that were provided as the result of this audit.

Attached is MCE Chief Executive Officer Stephen Sanders' response to the Draft Audit Report. Mr. Sanders will continue to implement corrective action to resolve the audit finding, and the Office of the Inspector General will conduct periodic follow up audits to verify the status of compliance.

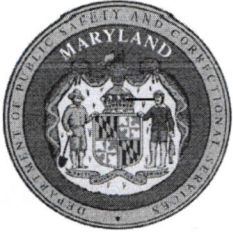
If you have any questions regarding this response, please contact me.

Sincerely,

Carolyn J. Scruggs
Secretary

Attachments

Cc: Adam Flasch, Deputy Chief of Staff for Public Safety and Homeland Security



Department of Public Safety and Correctional Services

Office of the Secretary

6776 Reisterstown Road, Baltimore, Maryland 21215
410-585-3346 – TOLL FREE 877-379-8636 • www.dpscs.maryland.gov

STATE OF MARYLAND

WES MOORE
GOVERNOR

ARUNA MILLER
LT. GOVERNOR

CAROLYN J. SCRUGGS
SECRETARY

ANTHONY A. GASKINS
CHIEF OF STAFF

JOSEPH SEDTAL
DEPUTY SECRETARY
ADMINISTRATION

ANNIE D. HARVEY
DEPUTY SECRETARY
OPERATIONS

ANGELINA GUARINO
ASSISTANT SECRETARY
DATA, POLICY AND GRANTS

RENARD E. BROOKS
ASSISTANT SECRETARY
PROGRAMS, TREATMENT &
RE-ENTRY SERVICES

MARYLAND CORRECTIONAL
ENTERPRISES

STEPHEN SANDERS
CHIEF EXECUTIVE OFFICER

June 10, 2024

The Honorable Carolyn J. Scruggs, Secretary
Department of Public Safety & Correctional Services
6776 Reisterstown Road, Baltimore, Maryland 21215

Via

Annie D. Harvey
Annie D. Harvey, Deputy Secretary of Operations
Department of Public Safety & Correctional Services
6776 Reisterstown Road, Baltimore, Maryland 21215

Attached is the Maryland Correctional Enterprises (MCE) response to the Draft Legislative Audit report dated May 2024, covering the period of April 1, 2019 through June 30, 2023. MCE will implement corrective action to resolve the finding mentioned in the report.

MCE would like to acknowledge the cooperation and professionalism demonstrated by the Office of Legislative Audits during the course of this audit.

Sincerely,

Stephen Sanders
Chief Executive Officer

Cc: Joseph Sedtal, Deputy Secretary for Administration
Joseph M. Perry, Inspector General
J. Philip Morgan, Commissioner
Mark K. Rowley, Chief Administrative Officer
Sadi Abrar, Chief Financial Officer

Department of Public Safety and Correctional Services Maryland Correctional Enterprises

Agency Response Form

Accounts Receivable

Finding 1

MCE did not adequately pursue the collection of delinquent accounts receivable.

We recommend that MCE

- a. pursue collection of accounts receivable due from State agencies in accordance with its policy and confer with senior leadership at the related agency and other Executive Branch oversight agencies (such as the Governor’s Office) for agencies that continue to have delinquent accounts; and**
- b. refer delinquent accounts receivable balances of non-State agencies to CCU in accordance with CCU regulations, as amended for MCE.**

Agency Response			
Analysis			
Please provide additional comments as deemed necessary.			
Recommendation 1a	Agree	Estimated Completion Date:	8/15/24
Please provide details of corrective action or explain disagreement.	<p>MCE will perform a review of the aged receivables report within five days after the end of each month to identify past due invoices (invoices older than 30 days). A member of the MCE Accounts Receivable (A/R) Department will send a past due notice to the agency and make a collection call; the response will be documented. If an invoice remains unpaid for 60 days, another past due notice will be sent to the agency’s fiscal supervisor and another collection call will be made. If an invoice remains unpaid for 90 days, MCE will contact the DPSCS Office of the Secretary for assistance. MCE will then work with the Secretary’s Office to confer with senior leadership at the related agency and other Executive Branch oversight agencies (such as the Governor’s Office) for agencies that continue to have delinquent accounts.</p>		

**Department of Public Safety and Correctional Services
Maryland Correctional Enterprises**

Agency Response Form

Recommendation 1b	Agree	Estimated Completion Date:	8/15/24
Please provide details of corrective action or explain disagreement.	MCE will perform a review of the aged receivables report within five days after the end of each month to identify past due invoices (invoices older than 30 days). A member of the A/R Department will send a past due notice to the customer and make a collection call; the response will be documented. If an invoice remains unpaid for 60 days, a second past due notice will be sent and another collection call will be made. A hold will be placed on the account, and no further orders will be processed for the customer until all past due invoices are paid. If an invoice reaches 80 days past due, a final notice will be sent to the customer demanding immediate payment. If an invoice remains unpaid for 90 days, the account will be sent to CCU to collect the past due balance.		

AUDIT TEAM

Catherine M. Clarke, CPA, CIA, CFE
Audit Manager

John B. Wachter, CFE
Senior Auditor

Timothy Moon
Staff Auditor