Audit Report

Maryland School for the Deaf

October 2002

Office of Legislative Audits
Department of Legislative Services
Maryland General Assembly
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October 10, 2002

Senator Nathaniel J. McFadden, Co-Chair, Joint Audit Committee
Delegate Samuel I. Rosenberg, Co-Chair, Joint Audit Committee
Members of Joint Audit Committee
Annapolis, Maryland

Ladies and Gentlemen:

We have audited the Maryland School for the Deaf for the period beginning
November 5, 1999 and ending June 30, 2002.

Our audit disclosed that the School had not established adequate controls over the
processing of purchase and disbursement transactions. We also noted control and
record keeping deficiencies with respect to certain materials and supplies
inventories and equipment.

Respectfully submitted,

Bruce A. Myers, CPA
Legislative Auditor
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* Denotes item repeated in full or part from preceding audit report.
Background Information

Agency Responsibilities

The Maryland School for the Deaf provides a comprehensive educational program for school-age deaf students. Tuition is charged only to non-State residents. The School also provides a Family Education/Early Intervention program, through cooperative agreements with local health departments, that involves working with young deaf children and their families in the development of early language skills. The School, with campuses located in Frederick and Columbia, is governed by a 19 member Board of Trustees appointed by the Governor.

Current Status of Findings From Preceding Audit Report

Our audit included a review to determine the current status of the three fiscal/compliance findings contained in our preceding audit report dated May 30, 2000. We determined that the School satisfactorily addressed one of these findings. The remaining two findings are repeated in this report.
Findings and Recommendations

Purchases and Disbursements

Finding 1
Internal controls over the processing of purchase and disbursement transactions were inadequate.

Analysis
The School did not fully use the security features available on the State’s Financial Management Information System (FMIS) to restrict user access and prevent unauthorized purchase and disbursement transactions. Specifically, four employees could both initiate and approve certain purchase or disbursement transactions without being subject to further independent on-line approval, and one of these employees could also establish vendors on FMIS. Although the School advised us that it relied on manual reviews to verify the propriety of vendor invoices, no documentation was maintained that such reviews were performed.

Similar conditions were commented upon in our two preceding audit reports. During fiscal year 2002, the School used FMIS to process disbursement transmittals totaling approximately $2 million.

Recommendation 1
We again recommend that the School fully use the available FMIS security features by establishing independent on-line approval requirements for all critical purchase and disbursement transactions. We advised the School on accomplishing the necessary separation of duties using existing personnel.

Materials and Supplies

Finding 2
 Numerous control and record keeping deficiencies existed over certain materials and supplies inventories.

Analysis
Numerous control and record keeping deficiencies existed over the School’s materials and supplies inventories. Specifically, we noted the following:
• Two employees with unrestricted access to the general storerooms also maintained the related perpetual inventory records. Furthermore, one of these employees was responsible for comparing the physical inventory results to the perpetual records, performing investigations of significant variances, and making adjustments to the perpetual records that were not subject to supervisory approval.

• The School did not maintain perpetual inventory records for items maintained in its dietary storerooms and, at one campus, did not keep the walk-in freezer locked allowing unrestricted access to that storeroom.

As a result of these deficiencies, the School’s management may not readily detect irregularities related to these inventories. The Department of General Services’ Inventory Control Manual requires that the duties of inventory record keeper and custodian be segregated. Furthermore, the Manual requires that perpetual inventory records be maintained on a current basis and that access to the inventory should be limited to authorized personnel. During fiscal year 2002, materials and supplies expenditures totaled approximately $551,000 and included dietary expenditures of approximately $195,000.

Recommendation 2
We recommend that the School comply with the aforementioned requirements of the Inventory Control Manual. We advised the School on accomplishing the necessary separation of duties using existing personnel.

Equipment

Finding 3
Equipment records were not adequately maintained and a complete physical inventory had not been conducted since July 1996.

Analysis
The School did not properly maintain its equipment records and conduct physical inventories at the required intervals. Specifically, we noted the following:

• Equipment control accounts, while maintained, were inadequate since they were based on postings to the related detailed equipment records rather than from an independent source.

• The control accounts were not periodically reconciled with the related detail records. Our comparison of the equipment detail and control records as of
June 30, 2002 disclosed that the aggregate control account balances of $3,312,114 exceeded the related aggregate balances of the detail records of $3,247,562 by $64,552.

- As of August 6, 2002, a complete physical inventory of the School’s sensitive and non-sensitive equipment items had not been conducted since July 1996.

The aforementioned conditions were commented upon in our preceding audit report. The Department of General Services' *Inventory Control Manual* requires the maintenance of independent control accounts for equipment and the periodic reconciliation of detail records with the related control accounts. The *Manual* also requires that a physical inventory of all non-sensitive equipment items costing $100 or more be conducted at least once every three years and that all sensitive items costing $50 or more be inventoried at least once every year.

**Recommendation 3**

We again recommend that the School comply with the aforementioned requirements of the *Inventory Control Manual*. 
Audit Scope, Objectives, and Methodology

We have audited the Maryland School for the Deaf for the period beginning November 5, 1999 and ending June 30, 2002. The audit was conducted in accordance with generally accepted government auditing standards.

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 School’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 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. Our audit procedures included inquiries of appropriate personnel, inspection of documents and records, and observation of the School’s operations. We also tested transactions and performed other auditing procedures that we considered necessary to achieve our objectives.

The School’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 the School’s ability to maintain reliable financial records, operate effectively and efficiently, and/or comply with applicable laws, rules, or regulations. Our report also includes findings regarding significant instances of noncompliance with applicable laws, rules, or regulations.
The School’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 School regarding the results of our review of its response.
APPENDIX

October 8, 2002

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

Dear Mr. Myers,

Attached are the responses on the findings for the audit conducted on the Maryland School for the Deaf for the period beginning November 5, 1999 and ending June 30, 2002.

If you have any questions regarding these responses, please contact Suzanne Schwertman at 301-360-2010.

Sincerely,

James E. Tucker
Superintendent
Finding 1
Internal controls over the processing of purchase and disbursement transactions were inadequate.

Recommendation 1
We again recommend that the School fully use the available FMIS security features by establishing independent on-line approval requirements for all critical purchase and disbursement transactions. We advised the School on accomplishing the necessary separation of duties using existing personnel.

Agency Response:
Due to limited staff, the School cannot utilize available FMIS security features and must maintain an independent manual review. The School has initiated procedures to document the independent review process that was already in existence. Though similar conditions were commented upon in preceding audit reports, the specific details of those exceptions had been addressed. The specifics of this comment are different and have also been addressed.

Finding 2
Numerous control and record keeping deficiencies existed over certain materials and supplies inventories.

Recommendation 2
We recommend that the School comply with the aforementioned requirements of the Inventory Control Manual. We advised the School on accomplishing the necessary separation of duties using existing personnel.

Agency Response:
We concur. The School has restricted access to the general storeroom to employees who do not maintain perpetual inventory records. The School is requesting an exemption on maintaining perpetual inventory records for the dietary department. The dollar amount of these items and the length of time the items remain in the storeroom do not warrant the time and effort to maintain perpetual records.

Finding 3
Equipment records were not adequately maintained and a complete physical inventory had not been conducted since July 1996.

Recommendation 3
We again recommend that the School comply with the aforementioned requirements of the Inventory Control Manual.

Agency Response:
We concur. A complete physical inventory will be performed and the issues related to the independent control accounts have been addressed.
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