

Audit Report

Maryland Environmental Service

January 2020



OFFICE OF LEGISLATIVE AUDITS
DEPARTMENT OF LEGISLATIVE SERVICES
MARYLAND GENERAL ASSEMBLY

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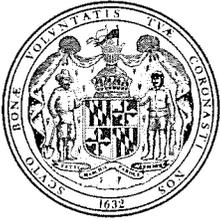
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DEPARTMENT OF LEGISLATIVE SERVICES
OFFICE OF LEGISLATIVE AUDITS
MARYLAND GENERAL ASSEMBLY

Victoria L. Gruber
Executive Director

Gregory A. Hook, CPA
Legislative Auditor

January 31, 2020

Senator Clarence K. Lam, M.D., Senate Chair, Joint Audit and Evaluation Committee
Delegate Shelly L. Hettleman, 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 Environmental Service (MES) for the period beginning March 24, 2015 and ending March 10, 2019. MES provides water supply, wastewater treatment, and waste management services to public and private entities. As of June 2019, MES administered 645 projects, of which 249 projects were operated at State-owned facilities.

Our audit disclosed that MES had not established formal written agreements with State agencies to clarify its responsibilities for services it performed for 69 State-owned water and wastewater facilities, as required by a 1979 Board of Public Works advisory. During fiscal year 2018, MES had collected approximately \$14 million from State agencies to operate and maintain these 69 facilities. Additionally, MES did not always comply with State regulations related to service contracts. Specifically, MES obtained services from two vendors totaling \$8.4 million using a sole source procurement method without necessary MES Board approval to waive its competitive procurement procedures, and a formal written agreement was not established with one of the two vendors.

MES had not established effective controls over its processing of invoice payments, cash collections, payroll and personnel transactions, and did not adequately restrict user access to its financial management systems. For example, invoice payments, as well as human resources and payroll transactions, were not subject to independent supervisory review.

Finally, our audit included a review to determine the status of the five findings contained in our preceding audit report. We determined that MES satisfactorily

addressed three of these five findings. The remaining two findings are repeated in this report.

MES' response to this audit is included as an appendix to this report. We reviewed the response and noted general agreement to our findings and related recommendations, and we will advise the Joint Audit and Evaluation Committee of any outstanding issues that we cannot resolve with MES.

We wish to acknowledge the cooperation extended to us during the audit by MES and its 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 style with a large, prominent initial "G".

Gregory A. Hook, CPA
Legislative Auditor

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Background Information

Agency Responsibilities

The Maryland Environmental Service (MES) was created as an instrumentality of the State and a public corporation to provide water supply, wastewater treatment, and waste management services to public and private entities. MES constructs, operates, and maintains various water, sewer, and solid waste plant facilities under contracts with the State of Maryland, its political subdivisions, and private enterprises. Additional services offered include sludge and dredged materials management. According to its records, MES administered 645 projects¹ as of June 2019, of which 249 projects were operated at State-owned facilities. According to its fiscal year 2018 audited financial statements, MES' operating expenditures (including salaries, wages, and fringe benefits) totaled approximately \$152.8 million and MES received revenue totaling approximately \$155.3 million, of which approximately \$148.6 million was received from State and local government entities.

MES is governed by a nine-member Board of Directors, which includes the Director, Deputy Director, Secretary, and Treasurer of MES. The remaining five members are appointed to the Board by the Governor with the advice and consent of the Maryland Senate.

Financial Statement Audits

In accordance with the Natural Resources Article, Section 3-126 of the Annotated Code of Maryland, MES engaged an independent accounting firm to audit its financial statements annually. In the related audit reports, the firm stated that the financial statements presented fairly, in all material respects, the financial position of MES as of June 30, 2016, 2017, and 2018, and the 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.

¹ MES advised us that it considers the number of projects to be much higher than the stated 645, as many of those projects consist of definable multiple sub-projects.

Status of Findings From Preceding Audit Report

Our audit included a review to determine the status of the five findings contained in our preceding audit report dated April 7, 2016. As disclosed in the following table, we determined that MES satisfactorily addressed three of these findings. The remaining two findings are repeated in this report.

Status of Preceding Findings

Preceding Finding	Finding Description	Implementation Status
Finding 1	MES did not maintain documentation to support the need for the full amount of funding advances received for certain State projects.	Not Repeated
Finding 2 (Policy Issue)	A 1979 Board of Public Works policy, which addresses the services provided by MES to State agencies for reimbursable projects, may no longer be the appropriate mechanism for establishing the contractual relationships between those parties.	Not Repeated
Finding 3	Internal controls over collections were not adequate and cash receipts and account receivable duties were not adequately separated.	Repeated (Current Finding 4)
Finding 4	Human resources and payroll system user capabilities were not adequately restricted. In addition, independent documented reviews of personnel and payroll transactions were not performed.	Repeated (Current Finding 5)
Finding 5	MES had not established adequate controls to ensure the propriety of access capabilities assigned to users of its automated financial management system.	Not Repeated

Findings and Recommendations

State Projects

Background

Maryland Environmental Service (MES) performs project services (such as environmental cleanup and recycling program management) for State agencies. Some of the projects are for a short duration, such as scrap tire clean-up. MES enters into a contract with each agency for these projects. During fiscal year 2018, expenditures related to 162 State-related contractual projects totaled approximately \$68.6 million. As provided for in the contracts, MES may require advance payments from agencies to cover project expenditures. Any interest earned on the advances is credited to the individual projects to offset expenditures. According to MES, the necessity and amount of an advance are based on the duration and size of the project. As of January 31, 2019, MES was holding 19 advances for State contractual projects totaling \$12 million.

In addition to project services, other MES projects represent long-term operational commitments by MES, in accordance with an Executive Order issued in 1971, to operate and maintain all State-owned water, wastewater, and solid waste management facilities. The funding for these State reimbursable projects is established through the State budgetary process, during which annual estimates of costs for the projects are submitted by MES to the Department of Budget and Management for inclusion in the annual budget request. MES is reimbursed by State agencies on a monthly basis consistent with the annual estimate. During fiscal year 2018, MES collected approximately \$25.3 million from State agencies for 76 reimbursable projects, which includes 69 State-owned water and wastewater facilities.

Finding 1

MES lacked formal written agreements with State agencies for 69 facilities to clarify responsibilities of the services it performed, as required.

Analysis

MES lacked formal written agreements with State agencies for 69 State-owned water and wastewater facilities to clarify responsibilities of the services it performed, as required. Specifically, a 1979 Board of Public Works (BPW) advisory required State agencies to prepare detailed working agreements and descriptions of the scope of responsibility assigned to MES and the other State agency for each facility. MES advised us that formal written agreements are unnecessary for State projects because MES prepares annual reports and submits them to the applicable agency for each project.

This differs from MES' practices for State project services and operational projects for local government agencies for which MES establishes comprehensive agreements. For example, the agreements between MES and local government agencies included critical provisions to describe processes for various aspects of the facility management and operation, such as emergency repairs and sub-contractors.

Furthermore, the applicability of this BPW advisory was the subject of an audit finding in our preceding audit report on MES. MES consulted with its legal counsel as recommended in our preceding report, but its legal counsel declined to provide formal written advice. However, MES' legal counsel did state that MES should have in place written agreements with State agencies for which it provides services, if the services are not clearly covered by the Executive Order and the BPW advisory. We continue to believe that the BPW advisory is applicable and that formal written agreements with agencies should be prepared by MES.

According to its records, MES had received approximately \$14 million during fiscal year 2018 from State agencies to operate and maintain these 69 facilities.

Recommendation 1

We recommend MES comply with the BPW advisory and enter into formal written agreements with agencies for all State facilities that it operates. The agreements should clarify the various responsibilities of each party.

Procurements and Disbursements

Finding 2

MES obtained services from two vendors totaling approximately \$8.4 million using a sole source procurement method without necessary MES Board approval to waive its competitive procurement procedures. Furthermore, MES did not have a written contract with one of the vendors.

Analysis

MES did not always comply with State regulations related to service contracts. Specifically, MES obtained services from two vendors totaling \$8.4 million using a sole source procurement method without required MES Board approval to waive its competitive procurement procedures, and a formal written agreement was not established with one of the two vendors.

Our review of six contracts totaling approximately \$26.1 million disclosed that MES used a sole source procurement method for two local government contracts

totaling \$8.4 million, but could not provide evidence that its Board of Directors approved a waiver for these non-competitive procurements as required. According to the State regulations for MES, procurements exceeding \$25,000 on behalf of a client are exempt from competitive procurement if the client requests MES to waive its procedures and the Board of Directors formally agrees to waive its procedures. While MES stated that the local government clients requested MES to use specific vendors, MES could not provide evidence that the Board approved waivers.

In addition, MES lacked a written contract for one of these contracts for general labor services at a materials recycling facility that totaled \$8 million. MES advised us that it had issued blanket purchase orders for the services; however, the blanket purchase orders were not signed by the vendor nor did they include the terms and conditions, as would a formal contract. Consequently, MES was not in a position to ensure the accuracy and propriety of payments to this vendor. State regulations for MES require that service contracts exceeding \$5,000 shall be in writing.

Recommendation 2

We recommend MES

- a. competitively procure all contracts, unless a requested waiver is approved by its Board of Directors, in accordance with State regulations; and**
- b. execute formal written contracts, as required.**

Finding 3

MES had not established effective controls over the processing of invoice payments.

Analysis

MES had not established effective internal control over the processing of invoice payments. Specifically, although MES established a supervisory review within the Finance Office for invoice payments greater than \$5,000, the review was not independent since the source of this review was a summary report that was generated by the two individuals responsible for processing the invoice payments. Additionally, invoice payments valued at \$5,000 or less were not subject to this review. Instead, the related checks for the invoice payments valued at \$5,000 or less were processed and mailed by the two individuals responsible for processing the invoice payments. Although each invoice was required to contain departmental approvals prior to submission to the Finance Office, supervisory

review at the time of processing by the Finance Office is necessary to ensure invoice payments were proper and without error.

Our test of 22 payments totaling approximately \$1 million disclosed that 19 of the 20 payments valued at \$5,000 or less, collectively totaling \$90,900, were not subject to supervisory Finance Office review, including 5 payments totaling approximately \$24,700 that also lacked the required departmental approval. The remaining 2 payments valued greater than \$5,000 were not subject to an independent supervisory review.

According to MES' records, during the period from March 2015 to May 2019, approximately 54,700 payments were processed totaling \$533 million, including approximately 46,000 payments totaling \$44.9 million valued at \$5,000 or less.

Recommendation 3

We recommend MES perform documented independent supervisory reviews of all invoice payments, at least on a test basis, to ensure the payments are supported and contain proper departmental approvals.

Cash Receipts and Accounts Receivable

Finding 4

MES check receipt and deposit procedures were inadequate and duties related to cash receipts and accounts receivable were not properly segregated.

Analysis

Controls over the collection and deposit of checks were not adequate and duties related to cash receipts and accounts receivable were not properly segregated. According to MES records, during fiscal year 2018, check receipts collected totaled approximately \$54.6 million which were all processed using the remote deposit system, a process that scans the images of checks and electronically transmits those images to the bank for deposit.

- Certain checks were not recorded and restrictively endorsed immediately upon receipt. Rather, these collections were handled by at least two employees prior to being recorded on prenumbered receipt forms and endorsed.
- Two MES employees shared one username and password to access the bank's remote deposit system, precluding individual accountability. In addition, the

remaining three user IDs were assigned to employees who did not need access to the bank's remote deposit system to perform their job duties.

- Checks were not safeguarded after remote deposit. Checks were maintained in an unlocked drawer accessible to four employees, including those who performed accounts receivable transactions. In addition, certain deposited checks were retained longer than 30 days.
- MES had not properly segregated cash handling duties from cash receipts and accounts receivable recordation duties. Specifically, the employee who performed the remote deposit also could record certain cash receipts and adjust the related receivable account.

As a result of the above conditions, checks could be misappropriated without detection. The Office of the State Treasurer's *Policy on the Use of Remote Deposit Services by Maryland State Agencies* requires that checks be restrictively endorsed and logged in upon receipt, deposited checks be stored in a secure location for no longer than 30 days before destruction, and remote deposit system users be assigned individual user IDs to a limited number of staff with segregated duties.

Similar conditions were commented upon in our preceding audit report.

Recommendation 4

We recommend that MES establish adequate accountability and control over check collections received in accordance with the Office of the State Treasurer's *Policy on the Use of Remote Deposit Services by Maryland State Agencies*. Specifically, we recommend that MES

- a. restrictively endorse and record all checks immediately upon receipt (repeat);**
- b. assign unique usernames and passwords to employees with access to the bank's remote deposit system (repeat), and restrict access to only to those necessary to perform these duties;**
- c. ensure that checks processed through the bank's remote deposit system are safeguarded and are destroyed in a timely manner (repeat); and**
- d. ensure proper segregation of duties over cash receipts and accounts receivable functions (repeat).**

Human Resources and Payroll

Finding 5

Human resources and payroll system user capabilities were not adequately restricted, and independent documented reviews of personnel and payroll transactions were not performed.

Analysis

MES had not established adequate controls over its personnel and payroll processing. According to State records, MES employed approximately 800 employees as of June 30, 2018, and payroll expenditures totaled approximately \$51.7 million for the fiscal year.

- Critical human resources and payroll system access capabilities, such as those allowing the changing of employee direct deposit information and the recordation, review, and approval of payroll-related information, were not adequately restricted. Our review of five critical functions related to human resources and payroll disclosed that three system users were assigned access to one of these functions even though they did not need the access to perform their assigned duties. In addition, another user had access to both enter employee time for payroll and submit the final payroll for payment without independent approval. As a result, there is an increased risk of improper transactions going undetected.
- MES did not perform an independent review of system processed personnel and payroll transactions to ensure that the transactions were correct and appropriate. Specifically, transactions, such as editing the bi-weekly time and payroll reports, were manually approved prior to being recorded in the system by the same two employees performing the review. In addition, these employees also performed changes to an employee's direct deposit information, which were also not subject to independent verification. As a result, there is an increased risk of improper transactions being processed.

Similar conditions were commented upon in our preceding audit report.

Recommendation 5

We recommend that MES

- limit human resources and payroll system access to employees who need access for their job duties;**
- establish a proper separation of duties over payroll functions (repeat);**
and

- c. **perform a documented independent supervisory review of critical personnel and payroll transactions processed, at least on a test basis (repeat).**

Information Systems Security and Control

Finding 6

MES did not ensure that user access capabilities assigned to employees on its financial management systems were adequately restricted.

Analysis

MES did not ensure that user access capabilities assigned to employees to record critical cash receipt, procurement, and disbursement transactions on its financial management systems were adequately restricted. We noted numerous instances in which employees had access capabilities that were unnecessary for their job duties or were incompatible since they resulted in inadequate segregation of critical duties. For example, five users could record cash receipts, adjust the related receivable accounts, and approve these transactions without independent approval. In addition, our review of access to five critical functions related to procurement and disbursement processing disclosed that six users could both create a purchase order and add or change vendor data. Of these six users, four did not need the ability to add or change a vendor and the other two did not need the ability to create a purchase order in order to perform their job duties. Under these circumstances, errors or other discrepancies could occur without timely detection.

According to the State of Maryland *Information Technology Security Manual*, agencies should configure the security settings of information technology products to the most restrictive mode consistent with operational requirements and to restrict access to provide the least functionality necessary.

Recommendation 6

We recommend MES assign user access capabilities to only those employees who require such capabilities to perform their normal job duties and in a manner that ensures a proper segregation of duties, including the users identified above.

Audit Scope, Objectives, and Methodology

We have conducted a fiscal compliance audit of the Maryland Environmental Service (MES) for the period beginning March 24, 2015 and ending March 10, 2019. 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 MES' 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 cash receipts, procurements and disbursements, payment advances from project participants, and project cost accounting. We also determined the status of the findings included in our preceding audit report.

MES engaged an independent accounting firm to audit its financial statements annually. In the related audit reports, the firm stated that the financial statements presented fairly, in all material respects, the financial position of MES as of June 30, 2016, 2017, and 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America. We have relied on the work of the independent accounting firm to provide audit coverage of certain aspects of MES' operations (such as, internal controls and testing for debt financing, and certain accounts receivable activities). Our audit procedures in these areas were generally limited, therefore, to obtaining a sufficient basis for that reliance.

To accomplish our audit objectives, our audit procedures included inquiries of appropriate personnel, inspections of documents and records, observations of the MES' operations, and tests of transactions. Generally, transactions were selected for testing based on auditor judgement, which primarily considers risk. Unless otherwise specifically indicated, neither statistical nor non-statistical audit sampling was used to select the transactions tested. Therefore, the results of the tests 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 MES' financial management system (such as revenue and expenditure data). 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.

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

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

APPENDIX



Larry Hogan GOVERNOR

Boyd K. Rutherford LT. GOVERNOR

Roy McGrath DIRECTOR/CEO

January 6, 2020

Gregory A Hook, CPA, Legislative Auditor
Department of Legislative Services
Office of Legislative Audits
301 West Preston Street, Room 1202
Baltimore, Maryland 21201

RE: Maryland Environmental Service Responses to OLA Draft Report

Dear Mr. Hook:

Enclosed for your review, please find copies of Maryland Environmental Service's responses to the draft audit report issued on December 18, 2019. I would be happy to discuss these responses in more detail, or should you have questions, please contact me, or Michael Harris, Managing Director, Finance, at (410) 729-8200.

Sincerely,

A handwritten signature in black ink, appearing to be "R. McGrath", written in a cursive style.

Roy McGrath, IOM, CAE
Director

Enclosures

cc: Victoria Gruber, Executive Director, Department of Legislative Services, OLA
Michael Harris, Managing Director, Finance, MES

Maryland Environmental Service

Agency Response Form

State Projects

Finding 1
MES lacked formal written agreements with State agencies for 69 facilities to clarify responsibilities of the services it performed, as required.

We recommend MES comply with the BPW advisory and enter into formal written agreements with agencies for all State facilities that it operates. The agreements should clarify the various responsibilities of each party.

Agency Response			
Analysis			
Please provide additional comments as deemed necessary.			
Recommendation 1	Agree	Estimated Completion Date:	12/31/2020
Please provide details of corrective action or explain disagreement.	MES will establish omnibus agreements with additional State agencies when appropriate and applicable, to ensure there are clearly defined scopes of work. The agreements will include descriptions, responsibilities, and specific services offered by MES for each entity.		

Maryland Environmental Service

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Procurements and Disbursements

Finding 2
MES obtained services from two vendors totaling approximately \$8.4 million using a sole source procurement method without necessary MES Board approval to waive its competitive procurement procedures. Furthermore, MES did not have a written contract with one of the vendors.

We recommend MES

- a. competitively procure all contracts, unless a requested waiver is approved by its Board of Directors, in accordance with State regulations; and
- b. execute formal written contracts, as required.

Agency Response			
Analysis			
Please provide additional comments as deemed necessary.	<p>The analysis highlights MES competitively procuring contracts, unless a waiver is approved by the Board of Directors. MES manages procurements on behalf of many clients. In some cases, there are sole source procurements due to the nature of the task and specialization required to complete customer requirements. MES in this case did in fact obtain Board approval, however, it did not attach the waiver. The procurement was client directed and critical for operations of their facility.</p> <p>The analysis also highlights there was a lack of a written contract with one vendor, the blanket purchase order (BPO) serves as a formal contractual agreement. MES initially signed a contract with the vendor mentioned in the analysis. However, in fact, to extend the agreement, there was an internal request generated extending the initial contract. Each year the extension was signed and based on the initial rates. When rates changed, the client emailed MES to advise of any rate adjustments.</p> <p>The auditor also noted MES was not in a position to ensure the accuracy and propriety of payments to the vendor. However, MES staff have extensive experience managing and providing oversight for contracts mentioned above. MES has several clients that utilize these particular contracts. MES staff evaluates invoices and backup documentation routinely to ensure vendor invoices are accurate and reflect the actual goods and services are received.</p>		
Recommendation 2a	Agree	Estimated Completion Date:	12/31/19
Please provide details of corrective action or explain disagreement.	MES revised procurements, ensuring they include the sole-source waiver if required for Board approval.		
Recommendation 2b	Agree	Estimated Completion Date:	N/A
Please provide details of corrective action or explain disagreement.	MES has and will continue to execute formal contracts with all vendors.		

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Finding 3

MES had not established effective controls over the processing of invoice payments.

We recommend MES perform documented independent supervisory reviews of all invoice payments, at least on a test basis, to ensure the payments are supported and contain proper departmental approvals.

Agency Response			
Analysis			
Please provide additional comments as deemed necessary.	The review by the accounting supervisor is independent. The supervisor transmits the positive pay file to the bank, which tracks every check payment processed by MES. The supervisor compares the file to over \$5,000 checks processed and uploads the check amounts along with the check numbers to a secure bank website.		
Recommendation 3	Agree	Estimated Completion Date:	1/31/2020
Please provide details of corrective action or explain disagreement.	MES will pull a random sample size of 12 payments for supervisory review to ensure there is sufficient documentation as well as proper departmental approvals. Additionally, MES implemented Workday, an ERP software, on July 1, 2019. The system electronically tracks all departmental approvals. Supervisors will also utilize this feature to ensure vendor payments have adequate support before payments are processed.		

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Cash Receipts and Accounts Receivable

Finding 4
MES check receipt and deposit procedures were inadequate and duties related to cash receipts and accounts receivable were not properly segregated.

We recommend that MES establish adequate accountability and control over check collections received in accordance with the Office of the State Treasurer's *Policy on the Use of Remote Deposit Services by Maryland State Agencies*. Specifically, we recommend that MES

- a. restrictively endorse and record all checks immediately upon receipt (repeat);
- b. assign unique usernames and passwords to employees with access to the bank's remote deposit system (repeat), and restrict access to only to those necessary to perform these duties;
- c. ensure that checks processed through the bank's remote deposit system are safeguarded and are destroyed in a timely manner (repeat); and
- d. ensure proper segregation of duties over cash receipts and accounts receivable functions (repeat).

Agency Response			
Analysis			
Please provide additional comments as deemed necessary.			
Recommendation 4a	Agree	Estimated Completion Date:	Complete
Please provide details of corrective action or explain disagreement.	Checks are being recorded and restrictively endorsed immediately upon receipt.		
Recommendation 4b	Agree	Estimated Completion Date:	Complete
Please provide details of corrective action or explain disagreement.	All users are assigned unique usernames and passwords with access to the banks remote deposit system. A few employees were incorrectly listed as having access to remote deposit, however did not. One employee will have limited access and will not be removed. This employee will serve as back-up for the remote deposit process.		

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Recommendation 4c	Agree	Estimated Completion Date:	Complete
Please provide details of corrective action or explain disagreement.	Checks are processed and destroyed in a rolling 30 days period. The checks referred to in this finding were deposited and were no longer live checks.		
Recommendation 4d	Agree	Estimated Completion Date:	Complete
Please provide details of corrective action or explain disagreement.	MES changed to Workday in 2019 the system restricts security for individuals not involved in specific areas of functionality. The employee mentioned in this finding no longer performs remote deposits. The Workday software produces an audit trail related to adjustments that occur within the system. All Accounts receivable balance adjustments must be approved by the Director, or Managing Director, Finance.		

Maryland Environmental Service

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Human Resources and Payroll

Finding 5
Human resources and payroll system user capabilities were not adequately restricted, and independent documented reviews of personnel and payroll transactions were not performed.

We recommend that MES

- a. limit human resources and payroll system access to employees who need access for their job duties;
- b. establish a proper separation of duties over payroll functions (repeat); and
- c. perform a documented independent supervisory review of critical personnel and payroll transactions processed, at least on a test basis (repeat).

Agency Response			
Analysis			
Please provide additional comments as deemed necessary.			
Recommendation 5a	Agree	Estimated Completion Date:	Complete
Please provide details of corrective action or explain disagreement.	Payroll system access is limited to two employees that process payroll. Workday sends alerts to employees and Managers if there is a change related to an employee's timesheet or any other payroll related information. Payroll has the ability to enter time into the system on behalf of employees. The time entered must be approved by the employee's manager.		
Recommendation 5b	Agree	Estimated Completion Date:	1/31/2020
Please provide details of corrective action or explain disagreement.	There will be a random sample of employees and the payroll department employees will be reviewed each payroll for accuracy and support. Workday gives employees the ability to change their direct deposit information. Payroll is available to assist employees if required.		
Recommendation 5c	Agree	Estimated Completion Date:	6/30/2020
Please provide details of corrective action or explain disagreement.	The similar conditions highlighted in the previous audit no longer apply. Workday requires approval for basic compensation adjustments. Transactions related to Human Resources requires approval by managers. The previous ERP software, E-1, was replaced with Workday in July 2019. Workday is a highly secured system as it relates to changes in employee information as well as pay. Therefore, the security findings in the preceding audit no longer apply.		

Maryland Environmental Service

Agency Response Form

Information Systems Security and Control

Finding 6
MES did not ensure that user access capabilities assigned to employees on its financial management systems were adequately restricted.

We recommend MES assign user access capabilities to only those employees who require such capabilities to perform their normal job duties and in a manner that ensures a proper segregation of duties, including the users identified above.

Agency Response			
Analysis			
Please provide additional comments as deemed necessary.			
Recommendation 6	Agree	Estimated Completion Date:	6/30/2020
Please provide details of corrective action or explain disagreement.	Our use of Workday now restricts users with critical functions to access their areas. For example, accounts payable will only have access to functions related to the payment of processed invoices. They no longer have access to procurement related functions. Also, critical processes require additional approval before items are approved for payment or posted to the general ledger. Roles and responsibilities will be reviewed by management on an annual basis to ensure proper user access capabilities.		

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