

(2022-001) CONFIDENTIAL

Title: Internal control over Department of Corrections procurement card procedures needs improvement

Prior Year Findings: None

State Department: Administrative and Financial Services (DAFS)
Corrections

State Bureau: Office of the State Controller, a Unit of DAFS

Type of Finding: Material weakness

Criteria: Governmental Accounting, Auditing, and Financial Reporting (GAAFR), Part 5, Section A: Internal Control; State Administrative and Accounting Manual (SAAM) Chapter 20; Department of Administrative and Financial Services Division of Procurement Services Procurement Card Policies & Procedures; Department of Corrections (DOC) Purchasing Policy 2.5

The GAAFR states that a comprehensive framework of internal control is required to obtain reasonable assurance over financial reporting.

In accordance with SAAM Chapter 20, comprehensive internal controls should provide reasonable assurance that entity objectives are being met, including effectiveness and efficiency of operations, reliability of financial reporting, and compliance with applicable laws and regulations. Effective internal controls prevent possible fraud, waste, and abuse from occurring.

DAFS Procurement Policy states that procurement cards may not be used to purchase from another vendor items that are available through an established statewide master agreement or as a method of circumventing the competitive bidding process. The individual transaction limit is \$4,999. Packing slips must be matched to the goods received. The policy also states that the cardholder and an approver must review procurement card receipts for accuracy and appropriateness including: excessive freight, shipping or handling charges, and transactions that appear to be higher than one would normally pay.

DOC Purchasing Policy states that simultaneous or frequent purchases made in an attempt to circumvent spending limits or the procurement rules are prohibited. This policy also states that justification for purchases should be documented and approved.

Condition: DOC uses State procurement cards to purchase goods and services. An Internal Exchange Transaction (IETM) for Central Service Billings Document is generated by the AdvantageME system based on an interface of procurement card transaction data with the financial institution administering the card. The Department is responsible for attaching supporting documentation and reviewing it for accuracy and appropriateness. The Department then sends the IETM documents to the Corrections Service Center (CSC) for payment processing.

The Office of the State Auditor (OSA) identified routine and ongoing procurement card purchases by a single cardholder that fell just below the \$4,999 transaction limit as established by DAFS Procurement Policy. OSA further identified that these transactions involved vendors with different business names but were registered to the same individual owner. This vendor activity resulted in 61 transactions totaling approximately \$302,000 in fiscal year 2022. Upon further investigation, OSA noted that this vendor activity has persisted on a routine and consistent basis since fiscal year 2014. A typical transaction consists of approximately \$4,500 of goods and approximately \$500 in freight shipping charges, which brings the total single transaction amount to just under \$4,999. In fiscal year 2022, freight costs totaled approximately \$29,000. The Department did not attach documentation to IETMs verifying that any goods were received.

The vendors involved in this activity sell the same products. The company websites are nearly identical and have the same product images, which appear to be clipped from an unrelated website. The websites do not have functionality to purchase items. The companies are registered and appear to be located in Florida; however, items being purchased from these out-of-state companies are readily available in Maine.

OSA also noted that the supporting documentation for these purchases does not consistently demonstrate proper segregation of duties between the person requesting, ordering, purchasing and receiving goods.

The Department did not consistently follow policies and procedures which require:

- review and approval of IETMs and supporting documentation for accuracy and appropriateness,
- signatures indicating review and approval by someone other than the cardholder,
- evaluating purchases for excessive freight charges,
- documentation supporting that the goods were received, and
- justification for the purchases on the Agency Purchase Order/Requisition form.

OSA's preliminary investigation of this activity identified approximately \$1.8 million in questionable purchasing activity between fiscal year 2018 and 2022 to multiple related vendors. None of the vendors underwent the required competitive bidding process or had a master agreement in place with the State of Maine. Estimated shipping costs based on patterns in the transactions total approximately \$162,000 for the five year period. There is an ongoing investigation into this matter and forthcoming results and details of that investigation will be released in a separate report.

Context: In fiscal year 2022, the Department's procurement card purchases totaled approximately \$1.9 million. The cardholder identified in the Condition was responsible for approximately \$553,000 of these purchases. Furthermore, between fiscal year 2018 and 2021, the Department's procurement card purchases totaled approximately \$5.9 million, and \$2.1 million of those purchases were made by that cardholder.

Cause:

- Circumventing State purchasing policies
- Lack of supervisory oversight

- Improper segregation of duties
- Management override of controls

Effect:

- Unauthorized procurement card expenditures paid to potentially non-existent companies
- Undetected waste and abuse
- Potential fraud

Recommendation: We recommend that OSC complete a thorough review of cardholders and related expenditures. We also recommend that OSC increase oversight, review, and monitoring of procurement card transactions. Increased oversight will aid in identifying simultaneous or frequent purchases made in an attempt to circumvent the spending limits or the procurement rules and ensure master agreements or competitive bidding methods are used when warranted.

We further recommend that the Department implement more stringent purchasing policies and increase oversight, implement independent review and approval of procurement card expenditures and related supporting documentation, and ensure that there is separation of duties in place.

Corrective Action Plan: See F-XX

Management's Response: This finding relates to an ongoing internal review. We are unable to confirm or dispute the factual accuracy of the audit results while our review is in process. Furthermore, we will not be able to respond to any recommendation or determine an appropriate corrective action plan until our review is complete.

Contact: Shirley Browne, Deputy State Controller, Office of the State Controller, 207-626-8423

(State Number: 22-0208-01)

(2022-001) Confidential finding, see below for more information

Title: _____ over _____ needs improvement

Pursuant to paragraph 6.63 of the U.S. Government Accountability Office's Government Auditing Standards (also known as the Yellow Book), we omitted details from this finding as they are confidential under the provisions of 5 MRSA 244-C (3). Though the content of this finding has been redacted, we provided the Department(s) with detailed information regarding the specific condition we identified, as well as the related criteria, context, causes, effects, and our specific recommendations for improvement.

Prior Year Findings: None

Type of Finding: Material weakness

Corrective Action Plan: See F-6

Contact: Shirley Browne, Deputy State Controller, Office of the State Controller, 207-626-8423

(State Number: 22-0208-01)

Initial Identification:

Purchase Card data for SFY2022 was requested for the purposes of performing data analytics to identify transactions that may be in violation of Department of Financial Services Procurement Card policies and procedures. Several transactions were identified that are marginally below the typical maximum single transaction limit of \$4,999. Further inspection of the data traced the transactions to one cardholder and three vendors:

Cardholder: Gerald Merrill

Vendors: Startite Supplies, Inc.

Service Industries, LLC.

Southern Source Industries, Inc.

* A to Z Chemical Supply

* ACS Solutions

* - Vendors later identified from historical Peard transactions going back to SFY2014

Vendors Are Related

Evidence has been discovered that **Startite Supplies** and **Southern Source Industries** are in fact owned by one individual, Melanie High. Additionally, it appears that **Service Industries** may be owned by a party related to Melanie High.

Websites Are Composed of Stolen Images/Artifacts

The websites for the vendors appear to be virtually identical. Based on an image search, the landing page picture is a photo of the Capital One Conference Center located in Plano, Texas. The products section is composed of edited/manipulated images taken from a chemicals production company in the Midwest, Athea Laboratories (linked below for reference). There exists no function on either website to add any products to the cart and actually make a purchase. The links in the 'Follow Us' section at the bottom of the webpages have a circular navigation path that returns the user to the main webpage.

Startite Supplies, Inc.: <https://startitesupply.com/>

Southern Source Industries, Inc.: <https://southernsource.org/>

Athea Laboratories: <https://www.athela.com/>

Issues With Supporting Documentation:

The invoices for the items purchased appear to be for 45 items at \$99.99 each (totaling \$4,499.55) or 9 items at \$499.50 each (totaling \$4,495.50) without much variation regardless of item type. Additionally, each invoice includes approximately \$500 of shipping and handling charges with minute variations which maintain the total charges below the maximum single transaction limit. It appears that Mr. Merrill signs as the purchase order approver, places the order, is the receiver in some cases, and serves as the payment approver.

G. Merrill Flagged Vendors & Total Purchase Card Amounts:

SFY	Flag'd Vendors	Total P-Card	Percentage
2014	\$ 6,078.89	\$ 36,029.26	16.87%
2015	\$ 37,908.88	\$ 161,393.48	23.49%
2016	\$ 73,423.64	\$ 324,374.30	22.64%
2017	\$ 187,009.96	\$ 419,593.97	44.57%
2018	\$ 338,920.60	\$ 488,593.74	69.37%
2019	\$ 424,238.88	\$ 595,871.21	71.20%
2020	\$ 431,442.84	\$ 576,583.88	74.83%
2021	\$ 273,524.30	\$ 478,486.25	57.16%
2022	\$ 291,720.85	\$ 535,533.34	54.47%
2023	\$ 329,325.74	\$ 624,794.01	52.71%
Grand Total	\$ 2,393,594.58	\$ 4,241,253.44	56.44%

Vendor	Total
A TO Z CHEMICAL SUPPLY	\$ 128,580.79
ACS SOLUTIONS LLC	\$ 186,375.89
SERVICE INDUSTRIES, LL	\$ 405,313.36
SOUTHERN SOURCE INDUST	\$ 298,635.10
SOUTHERN SOURCE INDUST	\$ 194,047.48
SOUTHERN SOURCE INDUSTRIE	\$ 405,303.23
SSI	\$ 69,070.68
STARLITE SUPPLIES	\$ 570,989.79
STARLITE SUPPLIES	\$ 135,278.26
Grand Total	\$ 2,393,594.58

Object Code Data Analysis:

Highlighted below are object codes from the accounting system in which the ratio of expenses charged to Departments 03D & 03E exceed the ratio identified using number of inmates as an allocation base. As a disclaimer, the figures for number of inmates for each facility originated from the best available sources, but they may not be the most up-to-date. SQFT may also be a good allocation base to use if accurate figures could be obtained.

Object Code/Name	Inmates	Corrections	State Prison	Corr Ctr	Downeast	Charleston	Long Creek	1.32%	16.44%	17.76%
		03A	03B	03C	03D	03E	03F	03D	03E	Total
4072~TRAINING SERVICES		\$ 98,489.36	\$ -	\$ -	\$ -	\$ -	\$ -	0.00%	0.00%	0.00%
4099~MISC PROF FEES & SPEC SRV		\$ 1,027,863.22	\$ 87,521.94	\$ 36,753.24	\$ 1,566.52	\$ 50,050.60	\$ 253,968.58	0.11%	3.43%	3.54%
4426~MISC VEHICLE EXPENSE		\$ 219.75	\$ 500.62	\$ 1,190.97	\$ -	\$ -	\$ -	0.00%	0.00%	0.00%
4536~OTHER UTILITIES		\$ -	\$ 7,367.76	\$ -	\$ 254.40	\$ 4.41	\$ 5,538.12	0.00%	0.03%	0.03%
4651~MISC RENTS		\$ 69,601.58	\$ 30,800.42	\$ 24,953.33	\$ -	\$ 6,330.07	\$ 8,001.70	0.18%	4.52%	4.71%
4701~REPAIRS TO ROADS AND GROU		\$ 1,250.00	\$ -	\$ -	\$ 4,983.80	\$ 6,588.62	\$ -	38.87%	51.38%	90.25%
4721~REPAIRS TO EQUIPMENT		\$ 71,481.82	\$ 94,294.53	\$ 34,719.75	\$ 5,753.44	\$ 135,858.18	\$ 86,187.78	1.34%	31.72%	33.06%
4911~POSTAGE		\$ 7,024.86	\$ 1,079.10	\$ 11,590.41	\$ -	\$ 1,454.64	\$ 768.71	0.00%	6.64%	6.64%
5111~MILK EGGS & DAIRY PRODUCE		\$ 768,584.23	\$ 2,686.56	\$ -	\$ -	\$ -	\$ -	0.00%	0.00%	0.00%
5151~MISC FOODSTUFFS		\$ 1,276,027.45	\$ 28,003.01	\$ 722.84	\$ -	\$ -	\$ -	0.00%	0.00%	0.00%
5531~GARAGE SHOP CONSTR EQUIPMENT		\$ 60,032.99	\$ 13,795.28	\$ 315.00	\$ -	\$ 1,682.10	\$ -	0.00%	2.22%	2.22%
5601~HOUSEHOLD SUPPLIES		\$ 51,375.51	\$ 388,012.09	\$ 247,453.05	\$ 73,495.94	\$ 246,489.99	\$ 18,529.25	7.17%	24.04%	31.21%
5612~PLANT OPERATION SUPPLIES		\$ 22,344.95	\$ 48,803.08	\$ 69,912.09	\$ 66,143.61	\$ 156,865.36	\$ 80,260.76	14.89%	35.30%	50.19%
5661~SAFETY/PROTECTIVE SUPPLIES		\$ 49,368.20	\$ 99,059.90	\$ 47,731.12	\$ 48,773.13	\$ 87,305.45	\$ -	14.68%	26.28%	40.96%
5661~PAINT SUPPLIES		\$ 26,016.75	\$ 38,322.60	\$ 2,598.74	\$ -	\$ 1,558.75	\$ 5,070.53	0.00%	2.12%	2.12%