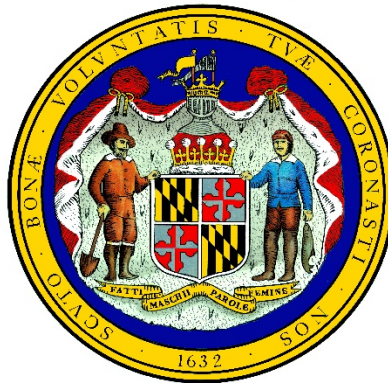


Audit Report

Military Department

June 2024



OFFICE OF LEGISLATIVE AUDITS
DEPARTMENT OF LEGISLATIVE SERVICES
MARYLAND GENERAL ASSEMBLY

Joint Audit and Evaluation Committee

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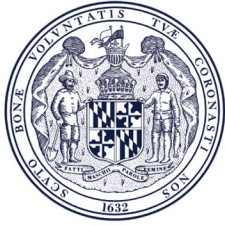
Office of Legislative Audits
The Warehouse at Camden Yards
351 West Camden Street, Suite 400
Baltimore, Maryland 21201
Phone: 410-946-5900
Maryland Relay: 711
TTY: 410-946-5401 · 301-970-5401
E-mail: webmaster@ola.state.md.us
Website: www.ola.state.md.us

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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

June 27, 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 Military Department for the period beginning May 21, 2019 and ending June 15, 2023. The Department performs various functions for the public, including maintaining Maryland National Guard locations.

Our audit disclosed that the Department divided purchases of certain goods and services in multiple procurements circumventing control agency approvals and cardholder single transactions limits. Consequently, the State's purchasing power was potentially not maximized. In addition, the Department did not submit requests for reimbursement of federal fund expenditures in a timely manner. Finally, the Department did not resolve timesheet discrepancies and independent reviews of adjustments to leave balances were not performed.

Our audit also included a review to determine the status of the three findings contained in our preceding audit report. We determined that the Department did not address those three findings, which are repeated in this report.

The Department's 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. Subsequent to the response receipt, but prior to the issuance of the final report, we contacted the Department and obtained verbal clarification that satisfactorily resolved all outstanding questions and issues. Consequently, we have concluded that the written responses and verbal clarification together indicate 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 the Department 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 prominent initial "G".

Gregory A. Hook, CPA
Legislative Auditor

Table of Contents

| | |
|--|----------|
| Background Information | 4 |
| Agency Responsibilities | 4 |
| Organizational Change | 5 |
| Status of Findings From Preceding Audit Report | 6 |
| Findings and Recommendations | 7 |
| Procurements | |
| * Finding 1 – The Military Department divided purchases of certain goods and services in multiple procurements circumventing control agency approvals and cardholder single transaction limits. Consequently, the State’s purchasing power was potentially not maximized. | 7 |
| Federal Funds | |
| * Finding 2 – The Department did not always submit requests for reimbursement of federal fund expenditures in a timely manner resulting in lost interest income totaling at least \$123,000 for the 10 transactions tested. | 8 |
| Payroll | |
| * Finding 3 – The Department did not ensure all outstanding timesheet discrepancies were resolved for the biweekly payroll, and that adjustments to employee leave balances were subject to independent review and approval. | 9 |
| Audit Scope, Objectives, and Methodology | 11 |
| Agency Response | Appendix |

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

Background Information

Agency Responsibilities

The Military Department maintains the Maryland National Guard within the State of Maryland, including its 31 readiness centers and numerous other facilities used by the Army and Air National Guard.

Prior to October 2021, the Department, through its Maryland Emergency Management Agency (MEMA), coordinated Statewide efforts in the event of emergencies and disasters that were beyond the capabilities of local authorities. MEMA also coordinated disaster preparedness activities with its federal and local counterparts and, through mitigation services, strived to reduce or eliminate the impact of future disasters. Additionally, MEMA was responsible for administering loan and grant programs that provide funding to volunteer fire companies for facilities and equipment. Effective October 1, 2021 legislation was enacted transferring the functional elements of MEMA to a new independent State agency, which will be subject to a separate audit by our Office.

According to the State's records, during fiscal year 2023, the Department's expenditures totaled approximately \$46.9 million, consisting of federal fund expenditures of \$25.7 million, general fund expenditures of \$13.5 million, and special fund expenditures of \$7.7 million (see Figure 1 on the following page).

Figure 1
Military Department
Positions, Expenditures, and Funding Sources

| Full Time Equivalent Positions as of June 30, 2023 | | |
|--|---------------------|---------|
| | Positions | Percent |
| Filled | 209 | 88.9% |
| Frozen ¹ | 1 | 0.4% |
| Vacant | 25 | 10.7% |
| Total | 235 | |
| Fiscal Year 2023 Expenditures | | |
| | Expenditures | Percent |
| Salaries, Wages, and Fringe Benefits | \$18,362,606 | 39.2% |
| Technical and Special Fees | 1,443,532 | 3.1% |
| Operating Expenses | 27,065,742 | 57.7% |
| Total | \$46,871,880 | |
| Fiscal Year 2023 Funding Sources | | |
| | Funding | Percent |
| General Fund | \$13,493,780 | 28.8% |
| Special Fund | 7,706,161 | 16.4% |
| Federal Fund | 25,671,939 | 54.8% |
| Total | \$46,871,880 | |

Source: State financial and personnel records

Organizational Change

Effective October 1, 2021, Chapter 287, Laws of Maryland 2021 created the Maryland Department of Emergency Management (MDEM), an executive branch agency of the State. The creation of MDEM transferred MEMA's various responsibilities and functions, such as the administration of Volunteer Company Assistance Fund (VCAF) and the coordination with federal and local counterparts for emergency and disaster preparedness, to MDEM. According to the State's records, as of September 30, 2021, the VCAF balance totaled approximately

¹ Prior to December 1, 2021, a hiring freeze resulted in certain positions being frozen. Agencies were not authorized to fill frozen positions according to budgetary instructions from the Department of Budget and Management. Any position that is currently marked as frozen has not been filled since the freeze was lifted; however, these positions now are available to be filled.

\$32.9 million consisting of notes receivable due from volunteer fire companies totaling \$19.7 million and cash totaling \$13.2 million. The activities of MEMA until the aforementioned date were subject to review in this audit. The activities of MDEM, beginning October 1, 2021, will be included in a separate audit of MDEM.

Status of Findings From Preceding Audit Report

Our audit included a review to determine the status of the three findings contained in our preceding audit report dated June 10, 2020. As disclosed in Figure 2 below, we determined that the Department did not satisfactorily address any of these prior findings all of which are repeated in this report.

**Figure 2
Status of Preceding Findings**

| Preceding Finding | Finding Description | Implementation Status |
|--------------------------|--|--|
| Finding 1 | The Military Department did not always submit requests for reimbursement of federal fund expenditures in a timely manner. | Repeated (Current Finding 2) |
| Finding 2 | The Department divided purchases of certain equipment maintenance services into multiple procurements and inflated the value of certain purchase orders. | Repeated (Current Finding 1) |
| Finding 3 | Supervisory reviews of adjustments to leave balances were not documented and were not performed by an independent employee. | Repeated (Current Finding 3) |

Findings and Recommendations

Procurements

Finding 1

The Department divided purchases of certain goods and services in multiple procurements circumventing control agency approvals and cardholder single transaction limits. Consequently, the State's purchasing power was potentially not maximized.

Analysis

The Department divided purchases of certain goods and services within the same geographic region into multiple procurements. Consequently, control agency approvals that would have been required of larger dollar value procurements were circumvented and the State's purchasing power was potentially not maximized. According to State records, in fiscal year 2022, the Department processed 39 blanket purchase orders totaling \$6 million and used corporate purchasing cards (CPCs) for approximately 3,100 purchases totaling \$1.4 million. We reviewed 18 blanket purchase orders totaling \$648,000, each valued between \$20,000 and \$50,000, with effective dates within our audit period. In addition, we reviewed 15 CPC purchases occurring during the audit period totaling \$44,000.

- The Department artificially divided four purchases of services in the same geographic region² totaling approximately \$312,000 into eight procurements that were individually less than \$50,000. For example, the Department procured maintenance services in its central Maryland region through two blanket purchase orders of \$47,496 (procured February 8, 2021) and \$47,376 (procured February 2, 2021), respectively, rather than attempt procurement of a broader blanket purchase order. As a result, the Department circumvented control agency approvals (such as the Department of General Services (DGS)), that would have been required for contracts over \$50,000³ and potentially did not maximize the State's purchasing power.
- The Department artificially divided 13 CPC purchases totaling \$34,000 for similar goods and maintenance services circumventing individual CPC

² According to Board of Public Works advice the Department received in May 2022, while it may not be feasible to consolidate procurements of similar goods and services in distant parts of the State, similar procurements within the same geographic region, such as central Maryland, should be consolidated.

³ Effective October 2023, the maximum dollar limit for small procurements increased from \$50,000 to \$100,000, except for DGS and Maryland Department of Transportation construction contracts where the limit increased to \$200,000.

transaction limits. For example, two individual purchases to a vendor totaling approximately \$8,700 were processed for gutter installation services that occurred on the same day at two separate buildings at the same armory. According to the Comptroller of Maryland's *Corporate Purchasing Card Policy and Procedures Manual*, CPC transactions may not be split to circumvent a card's \$5,000 transaction limit.

A similar condition regarding artificially divided purchases was noted in our previous audit report. In response to that report, the Department agreed to immediately implement our recommendation to discontinue the practice of dividing procurements and consolidate procurements of similar services to maximize purchasing power. During our current audit, we were advised that the Department is waiting to consolidate similar procurements within the same geographic region until the existing contracts expire, but as noted above continues to split procurements.

Recommendation 1

We recommend that the Department

- a. discontinue the practice of dividing procurements within the same geographic region and consolidate procurements to maximize State purchasing power (repeat), and**
- b. ensure CPC payments are made in accordance with the *Manual*.**

Federal Funds

Finding 2

The Department did not always submit requests for reimbursement of federal fund expenditures in a timely manner resulting in lost interest income totaling at least \$123,000 for the 10 transactions tested.

Analysis

The Department did not always submit requests for reimbursement of federal fund expenditures related to National Guard Bureau (NGB) grants in a timely manner. Federal guidelines for these grants permit reimbursements to be requested when expenditures are incurred. According to the State's records, between June 2019 and May 2023, NGB grant expenditures totaled \$90.1 million.

Based on materiality, we selected 10 NGB grant reimbursement requests totaling \$19.7 million that were processed between June 2019 and May 2023. Our testing disclosed that all 10 requests were submitted between 91 and 1,018 days after the expenditures were incurred. For example, one request for reimbursement of \$2.4

million that was incurred during September 2020 was not submitted until September 2022. We determined that the untimely recovery of these funds from the 10 grant reimbursement requests resulted in lost interest income to the State totaling approximately \$123,000.

A similar condition regarding untimely federal fund reimbursement requests was commented upon in our two preceding audit reports dating back to March 2016. In response to our prior audit report, the Department advised us that it had implemented periodic meetings to ensure all federal grant drawdown requests are submitted timely. During our current audit, we were advised that these meetings were discontinued because of staffing vacancies and because of added responsibilities resulting from the COVID-19 public health emergency.

Recommendation 2

We recommend that the Department submit federal fund reimbursement requests in a timely manner (repeat).

Payroll

Finding 3
The Department did not ensure all outstanding timesheet discrepancies were resolved for the biweekly payroll, and that adjustments to employee leave balances were subject to independent review and approval.

Analysis

The Department did not ensure all outstanding timesheet discrepancies were resolved, and that adjustments to employee leave balances were subject to independent review and approval. According to the State’s records, the Department’s payroll expenditures totaled approximately \$19.5 million in fiscal year 2022.

Timesheet Discrepancies Were Not Resolved

The Department did not investigate and resolve all timesheet discrepancies. To assist in biweekly payroll processing, the State’s Statewide Personnel System (SPS) generates several reports to help State agencies identify, investigate, and correct timesheet errors and other discrepancies, such as employee timesheets with no time entered, submitted, or approved. If errors and discrepancies are not resolved by the deadline for submission to the Department of Budget and Management’s Office of Personnel Services and Benefits, the payroll must still be submitted and the related pay will be processed but agencies must go back and address any unresolved items.

We generated SPS reports that identified all unresolved timesheets discrepancies within our audit period as of June 2023, such as revisions to timesheets that were not approved. Specifically, the reports identified 102 employees with 2,283 hours that were not approved.

Our test of 10 of these employees disclosed that 8 employees revised their timesheets by 256.5 hours after the timesheets were initially approved and those subsequent revisions had not been approved, as of June 2023 for periods ranging between 14 and 45 months. Such an extended delay in approving timesheets calls into question the adequacy of the review.

Leave Balance Adjustments Were Not Reviewed

Independent reviews of adjustments to leave balances were not performed. According to State records, during the audit period the Department processed 920 leave adjustments that increased employee leave balances by 30,280 hours. Our review disclosed that the Department did not have a process to independently review the adjustments made to ensure they were proper. Our test of 10 leave adjustments that increased employee leave balances by 1,150 hours for pay periods ending between August 2019 and December 2023 did not identify any improper adjustments.

A similar condition was commented upon in our preceding audit report where we noted that the review was not performed by an independent employee and was not documented. In response to that report, the Department indicated that it modified its procedures to require a documented independent review of leave adjustments. However, as noted above, this review is no longer performed. We were advised by Department personnel that although a report of leave adjustments is generated, documentation supporting the adjustments was not readily available to verify the accuracy of the adjustments.

Recommendation 3

We recommend that the Department

- a. develop procedures to ensure that all outstanding payroll discrepancies are timely resolved;**
- b. resolve the payroll discrepancies identified on the reports, including those noted in this finding; and**
- c. perform a documented independent review of leave adjustments, at least on a test basis, to ensure that only authorized adjustments have been processed (repeat).**

Audit Scope, Objectives, and Methodology

We have conducted a fiscal compliance audit of the Military Department for the period beginning May 21, 2019 and ending June 15, 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 the Department'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 federal fund reimbursements, cash receipts, payroll, procurements and disbursements, and equipment. We also determined the status of the findings contained in our preceding audit report.

Our audit did not include an evaluation of internal controls over compliance with federal laws and regulations for federal financial assistance programs and an assessment of the Department's compliance with those law and regulations because the State of Maryland engages an independent accounting firm to annually audit such programs administered by State agencies, including the Department.

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 May 21, 2019 to June 15, 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, tests of transactions, and to the extent practicable, observations of the Department's operations. Generally, transactions were selected for testing based on auditor judgment, 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) and the State's Central Payroll Bureau (payroll data), as well as from the contractor administering the State's Corporate Purchasing Card Program (credit card activity). 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 these sources were sufficiently reliable for the purposes the data were used during this 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.

The Department'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 the Department, 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.

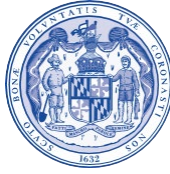
Our reports are designed to assist the Maryland General Assembly in exercising its legislative oversight function and to provide constructive recommendations for improving State operations. As a result, our reports generally do not address activities we reviewed that are functioning properly.

This report includes findings related to conditions that we consider to be significant deficiencies in the design or operation of internal control that could adversely affect the Department'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 the Department that did not warrant inclusion in this report.

The Department'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 Department regarding the results of our review of its response.

APPENDIX



WES MOORE
GOVERNOR
COMMANDER-IN-CHIEF

STATE OF MARYLAND
MILITARY DEPARTMENT
FIFTH REGIMENT ARMORY
BALTIMORE, MARYLAND 21201-2288

JANEEN L. BIRCKHEAD
MAJOR GENERAL
THE ADJUTANT GENERAL

June 20, 2024

Mr. Gregory A. Hook, CPA
Legislative Auditor
Office of Legislative Audits
Suite 400, 351 West Camden Street
Baltimore, MD 21201

Dear Mr. Hook:

Enclosed are the responses to the draft audit report of the Military Department for the period beginning May 21, 2019, and ending June 15, 2023.

While I appreciate the audit team for their efforts in bringing conditions within the Military Department that require corrective action to my attention, it should be noted that I was appointed as Adjutant General in April 2023. The “significant deficiencies in the design or operation of internal control and the Department’s ability to maintain reliable financial records, operate effectively and efficiently, and/or comply with applicable laws, rules, and regulations” did not occur under my leadership.

The Military Department will move forward with corrective actions to ensure the effectiveness and efficiency of its operations and compliance with applicable laws, rules, and regulations.

If there are any questions or additional information is desired, please contact Dr. Linda Weaver at (443) 500-8667 or linda.weaver3@maryland.gov.

Sincerely,

A handwritten signature in black ink that reads "Janeen L. Birckhead". The signature is written in a cursive style with a large initial 'J'.

Janeen L. Birckhead
Major General, MDARNG
The Adjutant General

cc:

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

Brigadier General Andrew Collins, Deputy Adjutant General

Mr. Richard Turcot, Acting Chief of Staff

Military Department

Agency Response Form

Procurements

Finding 1

The Department divided purchases of certain goods and services in multiple procurements circumventing control agency approvals and cardholder single transaction limits. Consequently, the State's purchasing power was potentially not maximized.

We recommend that the Department

- a. discontinue the practice of dividing procurements within the same geographic region and consolidate procurements to maximize State purchasing power (repeat), and
- b. ensure CPC payments are made in accordance with the *Manual*.

| Agency Response | | | |
|--|--|-----------------------------------|---------------|
| Analysis | Factually Accurate | | |
| Please provide additional comments as deemed necessary. | MMD concurs with the finding. | | |
| Recommendation 1a | Agree | Estimated Completion Date: | June 30, 2025 |
| Please provide details of corrective action or explain disagreement. | MMD undertakes corrective action by contracting by region and not by individual armory location. MMD will utilize the State of Maryland's Small Business Reserve Program for smaller procurements when possible. | | |
| Recommendation 1b | Agree | Estimated Completion Date: | Sept 30, 2024 |
| Please provide details of corrective action or explain disagreement. | MMD will establish a new policy to ensure CPC users complies with the MD State CPC Policy and Procedures Manual, including loss of the CPC and disciplinary action for repeat violations. MMD will conduct training for CPC holders on the new policy and procedures and update their position descriptions to include CPC responsibilities. | | |

Military Department

Agency Response Form

Federal Funds

Finding 2

The Department did not always submit requests for reimbursement of federal fund expenditures in a timely manner resulting in lost interest income totaling at least \$123,000 for the 10 transactions tested.

We recommend that the Department submit federal fund reimbursement requests in a timely manner (repeat).

| Agency Response | | | |
|---|--|-----------------------------------|---------------|
| Analysis | Factually Accurate | | |
| Please provide additional comments as deemed necessary. | MMD concurs with the finding. | | |
| Recommendation 2 | Agree | Estimated Completion Date: | June 30, 2025 |
| Please provide details of corrective action or explain disagreement. | MMD received Over-the-Target funding to purchase a software system that will automate the reimbursement process. | | |

Military Department

Agency Response Form

Payroll

Finding 3

The Department did not ensure all outstanding timesheet discrepancies were resolved for the biweekly payroll, and that adjustments to employee leave balances were subject to independent review and approval.

We recommend that the Department

- a. develop procedures to ensure that all outstanding payroll discrepancies are timely resolved;
- b. resolve the payroll discrepancies identified on the reports, including those noted in this finding; and
- c. perform a documented independent review of leave adjustments, at least on a test basis, to ensure that only authorized adjustments have been processed (repeat).

| Agency Response | | | |
|---|--|-----------------------------------|--------------|
| Analysis | | | |
| Please provide additional comments as deemed necessary. | There is no guidance or policy from SPS on the frequency for running the payroll processing, No Time Entered, Unsubmitted and Unapproved reports. However, MMD does run the reports bi-weekly to ensure all discrepancies are cleared before payroll is processed. | | |
| Recommendation 3a | Agree | Estimated Completion Date: | Dec 31, 2024 |
| Please provide details of corrective action or explain disagreement. | To ensure process improvement, MMD will implement an SOP which will outline the appropriate steps to minimize changes to timesheets post completion of payroll. | | |
| Recommendation 3b | Agree | Estimated Completion Date: | Oct 31, 2024 |
| Please provide details of corrective action or explain disagreement. | MMD will ensure all authorized adjustments have been resolved by implementing a dual review process before payroll is submitted. | | |
| Recommendation 3c | Agree | Estimated Completion Date: | Oct 31, 2024 |
| Please provide details of corrective action or explain disagreement. | MMD will implement a review two-step process SOP. All authorized leave adjustments will be reviewed by a timekeeper and a timekeeper approver. | | |

AUDIT TEAM

Heather A. Warriner, CPA
Audit Manager

Patrick J. Cavanaugh, CPA
Senior Auditor

Jammie A. Brown
Yuvaraj N. Sharma
Etai D. Stern
Staff Auditors