



DEPARTMENT OF LEGISLATIVE SERVICES  
OFFICE OF LEGISLATIVE AUDITS  
MARYLAND GENERAL ASSEMBLY

April 4, 2017

Warren G. Deschenaux  
Executive Director

Thomas J. Barnickel III, CPA  
Legislative Auditor

Senator Edward J. Kasemeyer, Chair  
Senate Budget and Taxation Committee  
Miller Senate Office Building, 3 West Wing  
11 Bladen Street  
Annapolis, Maryland 21401

Delegate Maggie McIntosh, Chair  
House Appropriations Committee  
House Office Building, Room 121  
6 Bladen Street  
Annapolis, Maryland 21401

Dear Senator Kasemeyer and Delegate McIntosh:

The Office of Legislative Audits (OLA) has conducted a review of the actions taken by the Department of Human Resources (DHR) – Local Department Operations (LDO) to resolve five repeat findings in our July 24, 2015 audit report. This review was conducted in accordance with a requirement specified in the April 2016 *Joint Chairmen's Report* (JCR), page 81. The JCR required that, prior to the release of \$100,000 of its administrative appropriation for fiscal year 2017, DHR must report on the corrective actions taken with respect to all repeat findings on or before January 1, 2017. The JCR language further provided that OLA submit a report to the budget committees listing each repeat audit finding along with an assessment of the corrective actions taken by DHR for each repeat finding. The OLA report is required to be submitted to allow 45 days for the budget committees to review and release the funds prior to the end of the fiscal year.

The LDO audit report dated July 24, 2015 contained five repeat findings (findings 1, 4, 5, 7, and 8). In accordance with the April 2016 JCR requirement, DHR provided a report to OLA, dated January 1, 2017, detailing the corrective actions that it had taken with respect to these repeat audit findings. We reviewed this report and related documentation, performed limited tests and analyses of the information, and held discussions with DHR personnel as necessary to assess the corrective actions taken for each finding. Our review did not constitute an audit conducted in accordance with generally accepted government auditing standards.

Exhibit 1 is DHR's January 1, 2017 status report, which indicated that corrective actions had been taken to address one finding and, for the remaining four findings, that corrective actions were ongoing. Our review determined that DHR had taken the necessary actions to satisfactorily address one of the five findings and is in the process of implementing corrective actions to address certain recommendations for the remaining four findings. A summary of OLA's assessment of the corrective actions taken by DHR for each of the repeat audit findings is included in the attached Exhibit 2.

The LDO findings contained in OLA's audit report were primarily based on findings contained in audit reports issued by DHR's Office of the Inspector General (OIG) which, in accordance with State law, performs a financial and compliance audit of each local department of social services (LDSS) at least once every three years. While DHR's status report and our review disclosed that new monitoring procedures were planned or in place to help resolve certain of these LDSS findings, the success of these new processes will not be fully known until each LDSS receives its first OIG audit after the implementation of these monitoring procedures. Over time, DHR's success in reducing LDSS audit findings will become clearer.

Exhibit 3 contains a summary of LDSS audit findings from reports issued by OIG subsequent to the period included in our last LDO audit. Specifically, OIG issued 15 LDSS audit reports during the period from January 2015 through December 2016. The OIG results for those LDSSs were comparable for both the total number of findings and repeat findings (30 percent) to those presented in our preceding audit report. As previously mentioned, most of the related OIG audit work occurred before DHR had implemented the recommended corrective actions from our LDO audit. We will formally assess the status of these findings in our next audit of LDO, which is scheduled to begin in fiscal year 2018.

After discussing our review results, DHR generally agreed with the accuracy of the information presented. We wish to acknowledge the cooperation extended to us by DHR during this review.

We trust our response satisfactorily addresses the JCR requirement. Please contact me if you need additional information.

Sincerely,

A handwritten signature in black ink, appearing to read "TJ Barnickel III", is written over a horizontal line.

Thomas J. Barnickel III, CPA  
Legislative Auditor

Enclosures

Senator Edward J. Kasemeyer, Chair  
Delegate Maggie McIntosh, Chair

-3-

April 4, 2017

cc: Senator Craig J. Zucker, Co-Chair, Joint Audit Committee  
Delegate C. William Frick, Co-Chair, Joint Audit Committee  
Joint Audit Committee Members and Staff  
Senator Thomas V. Mike Miller Jr., President of the Senate  
Delegate Michael E. Busch, Speaker of the House of Delegates  
Governor Lawrence J. Hogan, Jr.  
Comptroller Peter V.R. Franchot  
Treasurer Nancy K. Kopp  
Attorney General Brian E. Frosh  
David R. Brinkley, Secretary, Department of Budget and Management  
Lourdes R. Padilla, Secretary, Department of Human Resources  
William E. Johnson, Jr., Inspector General, Department of Human Resources  
Joan Peacock, Manager, Audit Compliance Unit, DBM  
Warren G. Deschenaux, Executive Director, Department of Legislative Services  
Jared S. Sussman, Policy Analyst, Department of Legislative Services  
Tonya D. Zimmerman, Policy Analyst, Department of Legislative Services

## Exhibit 1 to April 4, 2017 Letter to Joint Chairmen



### Maryland's Human Services Agency

Department of Human Resources | Larry Hogan, Governor | Boyd K. Rutherford, Lt. Governor | Gregory S. James, Acting Secretary

January 1, 2017

Thomas J. Barnickel III, CPA  
Legislative Auditor  
State of Maryland  
Office of Legislative Audits  
State Office Building, Room 1202  
301 West Preston Street  
Baltimore, Maryland 21201

Dear Mr. Barnickel:

In response to your letter dated July 14, 2016, we are providing the enclosed status report detailing the corrective actions that have been taken with respect to the five repeat findings noted in the July 24, 2015 Department of Human Resources Local Department Operations (LDO) audit report.

The Department takes audit findings seriously and is committed to resolving the findings identified in the aforementioned audit report. If there are any questions, please do not hesitate to contact William E. Johnson, Jr., Inspector General at 443-378-4000 or via email at [william.johnson1@maryland.gov](mailto:william.johnson1@maryland.gov).

Sincerely,

A handwritten signature in black ink, appearing to read 'Gregory S. James'.

Gregory James  
Acting Secretary

cc: Senator Guy J. Guzzone, Co-Chair, Joint Audit Committee  
Delegate C. William Frick, Co-Chair, Joint Audit Committee  
Joint Audit Committee Members  
Joan Peacock, Manager, Audit Compliance Unit, DBM  
William E. Johnson, Jr., Inspector General, DHR  
Marva M. Sutherland, Assistant Inspector General, DHR  
Warren Deschenaux, Executive Director, Department of Legislative Services  
Jared Sussman, Policy Analyst, Department of Legislative Services  
Tonya D. Zimmerman, Policy Analyst, Department of Legislative Services  
Stephen M. Ross, Policy Analyst, Department of Legislative Services  
Hannah E. Dier, Policy Analyst, Department of Legislative Services

*Equal Opportunity Employer*

## DHR LDO Audit JCR Status Update 1.1.17 (Findings #1, 4, 5, 7 and 8)

Finding #	Administration	Recommendation	Actions Taken as of 1/1/2017	Implementation Status
1	DHR	We recommend that DHR (that is, the Office of the Secretary and the management of DHR administrations) establish a process to actively monitor corrective actions taken to address OIG audit findings.	Based on the comments noted in the audit report response, DHR has established a process to actively monitor corrective actions necessary and corrective actions taken to address OIG audit findings. Additionally, as corrective action reviews are conducted by the OIG, the corresponding reports (i.e. summarizing the status of the local departments implementation of corrective actions) are issued to DHR management and discussed at the taskforce meetings, as deemed appropriate.	Implemented
4	Budget and Finance	We recommend that DHR establish appropriate accountability and control over fiscal operations. Specifically, DHR should ensure that the LDSSS <ul style="list-style-type: none"> <li>a. establish adequate controls over bank accounts and blank check inventories, including the timely preparation of account reconciliations and resolution of outstanding checks (repeat);</li> <li>b. comply with State procurement regulations (repeat); and</li> <li>c. establish proper accountability over prepaid gift cards (repeat).</li> </ul>	<p>DHR has 24 local Departments of Social Services (LDSS) – each with its own fiscal operations. Efforts to address audit findings are continuous and ongoing, with goals to improve financial competency, internal controls and fiscal processes. The remediation plan to address fiscal-related findings is multi-faceted and includes a combination of actions as described below.</p> <p><b>Bank Accounts</b></p> <p>Employee Training – Bi-monthly training sessions are held for LDSS Finance Officers. Multiple sessions in the past 12 months have included bank reconciliation training, cash receipts internal controls and internal financial reporting or “302 Reporting”. In addition, there has been one-on-one training for fiscal staff as requested. Employee training is a continuous commitment, as employee turnover keeps demand high.</p> <p>Periodic Centralized Monitoring – Accounting Operations at the central office of DHR has instituted a bank reconciliation review process. Each LDSS is required to submit their bank reconciliations (and supporting documentation) once each quarter. Three DHR accountants are assigned to review the bank reconciliations and identify areas of non-compliance. Review findings are communicated to the LDSS management team, if applicable.</p> <p>Local Office Visits – In the fall of 2015, DHR hired a contractual employee (a local liaison) to work with the LDSS fiscal staff. The local liaison visits various LDSS offices to discuss audit findings and remediation plans, assist with problem areas, train staff as needed, recommend fiscal control activities and evaluate the need for process improvements. The local liaison targets the local offices with the greatest need for coaching and training. As needed, the Director of Accounting Operations visits LDSS fiscal offices to address issues identified through monitoring.</p> <p><b>Procurement</b></p> <p>Employee Training – Bi-monthly training sessions are offered at the DHR Procurement Advisory Committee meetings, with a focus on areas of noncompliance and changes to processes and procedures.</p> <p>Periodic Centralized Monitoring – DHR’s central office of Procurement is in the process of instituting a quarterly review of direct voucher transactions.</p>	In Progress

## DHR LDO Audit JCR Status Update 1.1.17 (Findings #1, 4, 5, 7 and 8)

Finding #	Administration	Recommendation	Actions Taken as of 1/1/2017	Implementation Status
			<p>Employee Training – Bi-monthly training sessions are held for LDSS Finance Officers. Topics have included gift card internal controls.</p> <p>Periodic Centralized Monitoring – As part of the year-end close process, the LDSS Finance Officers are required to record negative accruals for their gift card inventory. Accounting Operations at the central office of DHR is finalizing a monitoring procedure that would require LDSS fiscal staff to report gift card inventories quarterly with their bank reconciliations. The quarterly reporting will include a requirement to show evidence that physical inventories are performed frequently by an employee other than the gift card custodian.</p>	
5	FIA	<p>Recommendation 5</p> <p>We recommend that DHR ensure that the LDSSs comply with all FIA program requirements. Specifically, DHR should ensure that the LDSSs</p> <p>a. establish appropriate controls over the EBT card inventories (repeat),</p> <p>b. perform supervisory reviews on the required number of case files (repeat), and</p> <p>c. perform timely follow-up on all potential payment or eligibility errors identified by the OIG (repeat).</p>	<p>The status of the corrective actions in accordance with OLA's recommendation follows:</p> <p>A. The FIA continues to utilize the blanket hiring exception request to maintain functional levels of clerical staff census to ensure separation of duties for EBT card operations. In an effort to establish long term best practices, the FIA Audit Task Force completed a deep dive session October 2015 that focused on EBT procedures and separation of duties. LDSSs submitted copies of their EBT Standard Operating Procedure (SOP) for review to the Bureau of Policy and Training and the Executive Director of FIA will issue an updated Action Transmittal in January 2017 statewide to ensure documentation is completed prior to issuance of vault cards, ensure separation of duties are strictly adhered to as outline in the revised EBT Action Transmittal. As a tag along to the Action Transmittal, the Bureau of Policy and Training is creating a web accessible training that will be available February 2017.</p> <p>B. The FIA has created a robust web-based real-time review and monitoring tool that allows the LDSSs to be able to calculate the percentage of approved applications and completed redeterminations that have been pre-reviewed and how many more are needed. Pre-Review Direct was launched December 2016 and all LDSSs will be utilizing this system by January 2017. The Director of Program Evaluation continues to monitor compliance using the 10% new applications and 15 % redeterminations requirement in accordance to the approved SOP.</p> <p>C. The Bureau of Program Evaluation monitors performance follow-up on all potential payment/eligibility errors that have been identified by the OIG and has eliminated the 8,540 outstanding matches, a 100% reduction. The Director of Program Evaluation continues to follow the procedures that were recommended by OIG by generating the Assistant Director and Director letters and maintaining documentation of letters sent by the Director of Program Evaluation.</p>	In Progress
7	OTHS	<p>Users' access to certain key computer systems was not properly restricted and monitored.</p>	<p>The Office of Technology for Human Services (OTHS) worked closely with the Human Resource Development and Training (HRDT) office to develop a process that would make it easier on the locals to ensure the timeliness of deletion requests. HRDT created an online form that the personnel officers at each Local DSS now uses to notify OTHS of off-boarding employees. The form is to be completed upon notification that the employee will</p>	In Progress

## DHR LDO Audit JCR Status Update 1.1.17 (Findings #1, 4, 5, 7 and 8)

Finding #	Administration	Recommendation	Actions Taken as of 1/1/2017	Implementation Status
			<p>be separating from the state. Upon completion, OTHS Security and local Security Monitors receive a copy of the submission so that the necessary actions can be taken. OTHS tracks the request and removes access accordingly.</p> <p>The local offices maintain copies of the submissions as well as a spreadsheet that is auto populated for audit purposes. The local office also receives a list of all personnel that have separated in the previous month so that they can verify there are no missing submissions.</p> <p>In addition to tracking deletions, OTHS now provides Security Monitor training every 6 months. Security Monitors must attend a training at least once every 2 years. OTHS tracks attendance and will revoke a Security Monitors status if the training requirement is not met. During the training, Security Monitors are instructed on proper completion of access and deletion requests, monitoring for appropriate access levels, and role assignments.</p>	
8	FIA	We recommend that DHR ensure that the Bureau of Long-Term Care properly performs Medicaid eligibility determinations.	<p>Similar to the Local Department of Social Services, the Bureau of Long-Term Care is audited once every 3 years; therefore, the next audit is estimated to commence April 2017. The status of the corrective action in accordance with OLA's recommendation follows:</p> <p>The Bureau of Long Term Care (BLTC) is using a Application Tracker tool that allows tracking of the status of applications throughout the entire 6-month consideration period. Applications are reviewed on the 15th and the last day of the month for every month that the application remains pending.</p> <p>The BLTC implemented an in-depth training component under the direction of the State Technical Administrator. Newly hired case managers remain in a "training" unit for a minimum of six months. Onsite refresher training for case managers has increased. The BLTC has conducted training for staff regarding the streamlining of the Long Term Care application process if an applicant is receiving Supplemental Security Income and will continue to offer refreshers and guidance on this process. Management within the BLTC continues to complete annual refreshers and policy updates in order to reinforce Long Term Care Medical Assistance policy requirements to all BLTC staff. COMAR was amended in February 2016 to match the Code of Federal Regulations regarding the five-year look-back period. BLTC continues to train staff in this area as well as the correct procedures involving liens on property.</p> <p>New protocols have been established to ensure LTC applications and corresponding documentation are promptly scanned/uploaded into the Enterprise Content Management Solution (ECMS) and retained to be used for eligibility determination and audit purposes. Ten additional scanners have been installed at the Bureau of Long Term Care bringing the total number of scanners to 25. This increases our ability to scan all documents received within 48 hours of receipt. Additionally, staff located inside the nursing facilities now has the capability of viewing and uploading documents from their remote locations.</p> <p>An Asset Verification System is expected to launch in March 2017. This will reduce dramatically the requests for authorized representatives to provide proof of financial assets and the fair market value of real property. In the meantime, case managers check the website suggested by OIG in order to perform real estate searches.</p>	In Progress





## **Exhibit 2 to April 4, 2017 Letter to the Joint Chairmen**

### **OLA's Assessment of Corrective Actions Taken by the Department of Human Resources**

#### **Prior Report Recommendation – Finding 1**

**We recommend that DHR (that is, the Office of the Secretary and the management of DHR administrations) establish a process to actively monitor corrective actions taken to address OIG audit findings.**

#### **Assessment of Corrective Action: Completed**

DHR established a Corrective Action Monitoring and Resolution task force to address the Office of Inspector General (OIG) audit findings. The task force comprises the directors of each DHR administration and an LDSS director. The task force has held biweekly meetings with the OIG since April 2015 during which the task force reviewed OIG audit findings and the related corrective actions taken to ensure they were adequate.

#### **Prior Report Recommendation – Finding 4**

**We recommend that DHR establish appropriate accountability and control over fiscal operations. Specifically, DHR should ensure that the LDSSs**

- a. establish adequate controls over bank accounts and blank check inventories, including the timely preparation of account reconciliations and resolution of outstanding checks;**
- b. comply with State procurement regulations; and**
- c. establish proper accountability over prepaid gift cards.**

#### **Assessment of Corrective Action: In progress**

- a. DHR implemented processes designed to ensure LDSSs establish adequate controls over bank accounts and blank check inventories. DHR hired a contractor to conduct bank reconciliation training for the LDSS finance officers. The training included the proper preparation of bank reconciliations, related controls over check signers, and the physical security over checks. On a quarterly basis, DHR's Accounting Operations Unit reviews the LDSSs' bank reconciliations and ensures there are no checks outstanding for extended periods. DHR completed its first quarterly review in January 2017. The review identified 15 LDSSs with no findings and 9 LDSSs with findings. At the time of our review, DHR was in the process of following up on these findings with the LDSSs.
- b. DHR has increased training in the areas of procurement noncompliance, including the appropriate use of direct vouchers; however, DHR has not implemented any procurement monitoring procedures to determine whether the training is effective and the proper procurement methods are being used.

- c. DHR has not established accountability over prepaid gift cards. DHR's status report noted that it would provide internal training and centralized monitoring of gift cards. As of February 2017, DHR had not initiated any training or monitoring.

#### **Prior Report Recommendation – Finding 5**

**We recommend that DHR ensure that the LDSSs comply with all Family Investment Administration program requirements. Specifically, DHR should ensure that the LDSSs**

- a. **establish appropriate controls over the EBT card inventories,**
- b. **perform supervisory reviews on the required number of case files, and**
- c. **perform timely follow-up on all potential payment or eligibility errors identified by the OIG.**

#### **Assessment of Corrective Action: In progress**

- a. The Family Investment Administration's (FIA) Audit Task Force convened a meeting in October 2015 to establish best practices for the EBT cards. The task force developed eleven action items of which four were completed and seven are still in process. The four completed action items include establishing appropriate controls over EBT card inventories, such as additional monitoring over the inventory process. The remaining seven action items focus on new standard operating procedures to provide additional guidance to the LDSSs.
- b. The FIA Bureau of Program Evaluation performed quarterly reviews of each LDSS beginning with the quarter ended September 30, 2016 to determine if an appropriate number of supervisory reviews were conducted and notified each LDSS of the results in writing. While this process was designed to identify instances in which the required number of supervisory reviews were not being performed, the process did not include a mechanism to ensure compliance with the review requirements or establish a mechanism for establishing accountability to ensure supervisory reviews are performed.
- c. On a monthly basis beginning in July 2016, FIA's Bureau of Program Evaluation reviewed the LDSSs' efforts to follow up on all potential payment or eligibility errors identified by the OIG, and notified each LDSS of the results in writing. The Bureau's latest review, as of March 2017, disclosed 11 LDSSs with outstanding potential errors, while 13 LDSSs had no outstanding potential errors at that time. Results of the review were communicated to the LDSSs, and we were advised by DHR management that DHR's central office staff will follow up on the errors if not addressed by the LDSSs.

#### **Prior Report Recommendation – Finding 7**

**We recommend that DHR establish appropriate accountability and control over information system access. Specifically, DHR should ensure that the LDSSs**

- a. **maintain a properly completed and approved authorization form for all user accesses granted, and assign access capabilities appropriate to each employee's job duties; and**

- b. perform formal, periodic monitoring of employee system access and promptly delete the access of former employees.**

**Assessment of Corrective Action: In progress**

- a. While DHR now provides mandatory security monitor training, DHR did not implement any procedures to help ensure that the LDSS maintained a completed and approved authorization form for all user accesses granted, and that assigned access capabilities were appropriate for each employee's duties.
- b. DHR implemented procedures to ensure that LDSSs promptly deleted the access of former employees and provided security monitor training; however, DHR did not implement procedures to ensure that the LDSSs performed formal, periodic monitoring of employee system access.

**Prior Report Recommendation – Finding 8**

**We recommend that DHR ensure that the Bureau of Long-Term Care properly performs Medicaid eligibility determinations.**

**Assessment of Corrective Action: In Progress**

DHR has increased Medicaid eligibility determination training for its Bureau of Long-Term Care employees and has established new protocols in certain areas, such as document management. However, DHR only verifies the propriety of the determinations through triennial OIG audits and, as of March 2017, no audits had been conducted since July 2014.

## Exhibit 3 to April 4, 2017 Letter to the Joint Chairmen

### Summary of Local Departments of Social Services' Audit Findings Reports issued by DHR's Office of the Inspector General (OIG) January 2015 through December 2016

Local Department of Social Services (LDSS)	Number of OIG Reportable Findings by Area					Total OIG Findings	Number of Repeat OIG Findings	Percentage of Repeat OIG Findings	Audit Report Issue Date
	Social Services Admin.	Family Investment Admin.	Fiscal Management	Computer System Security	Other				
Anne Arundel County	3	3	6	2	n/a	14	7	50%	July 2015
Calvert County	3	2	3	1	1	10	1	10%	September 2016
Carroll County	3	4	2	2	1	12	1	8%	December 2015
Charles County	8	5	8	1	2	24	8	33%	June 2016
Dorchester County	3	2	2	2	1	10	2	20%	August 2016
Garrett County	5	2	1	2	1	11	0	0%	April 2016
Harford County	4	1	4	3	1	13	2	15%	December 2016
Howard County	4	5	5	4	2	20	8	40%	December 2015
Montgomery County	9	7	4	4	n/a	24	12	50%	August 2016
Prince George's County	5	4	6	2	n/a	17	11	65%	September 2016
St. Mary's County	2	2	4	1	n/a	9	2	22%	November 2016
Somerset County	3	n/a	n/a	1	n/a	4	0	0%	April 2015
Talbot County	1	n/a	5	1	1	8	1	13%	June 2016
Washington County	2	n/a	1	1	n/a	4	0	0%	September 2015
Wicomico County	1	2	5	1	3	12	2	17%	March 2016
<b>TOTAL</b>	<b>56</b>	<b>39</b>	<b>56</b>	<b>28</b>	<b>13</b>	<b>192</b>	<b>57</b>	<b>30%</b>	<b>-</b>

n/a – Not applicable; no findings reported in this area.