

Audit Report

Comptroller of Maryland Information Technology Division (Fiscal Operations)

February 2022



OFFICE OF LEGISLATIVE AUDITS
DEPARTMENT OF LEGISLATIVE SERVICES
MARYLAND GENERAL ASSEMBLY

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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

February 2, 2022

Senator Clarence K. Lam, M.D., Senate Chair, Joint Audit and Evaluation Committee
Delegate Carol L. Krimm, 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 Comptroller of Maryland (COM) – Information Technology Division (ITD) for the period beginning May 31, 2017 and ending May 31, 2021. ITD provides computing and network resources and operates as a computer services bureau for the COM and certain other customer agencies.

Our audit disclosed that ITD expended \$955,953 during fiscal years 2018 through 2021 for one contractual senior executive employee, instead of filling a vacant existing State position to perform these services. Furthermore, unclear contract provisions and certain inadequate monitoring of hours worked resulted in salary payments, including both regular pay and overtime, to this employee totaling \$232,068 more than the contractually set maximum amounts.

Our audit included a review to determine the status of the finding contained in our preceding ITD audit report. We determined that ITD did not satisfactorily address this finding, which is repeated in this report.

COM's response to this audit, on behalf of ITD, is included as an appendix to this report. We reviewed the response to our findings and related recommendations, and have concluded 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 ITD 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, stylized 'G' and 'H'.

Gregory A. Hook, CPA
Legislative Auditor

Background Information

Agency Responsibilities

The Information Technology Division (ITD) of the Comptroller of Maryland (COM) operates the Annapolis Data Center (ADC) as a shared cost data center. All operating costs of the ADC are reimbursed by user agencies that are charged for services performed. In addition to operating a statewide computer network and providing data center disaster recovery capabilities, ITD develops and maintains application systems for the COM and certain other State agencies. Additionally, ITD maintains the operating system and security software environment in which agency applications are executed. Finally, ITD monitors information technology related services and maintains the information technology equipment inventory records for the COM. According to the State's records, ITD's operating costs totaled approximately \$40.0 million during fiscal year 2020.

Our audit focused on ITD's fiscal operations. A separate audit of the computer operations of the ADC is conducted and a separate audit report is issued.

Status of Findings From Preceding Audit Report

Our audit included a review to determine the status of the finding contained in our preceding audit report dated November 13, 2017. We determined that ITD did not satisfactorily address this finding; therefore, it is repeated in this report as Finding 2.

Findings and Recommendations

Contractual Senior Executive Employee

Finding 1

The Information Technology Division (ITD) hired a contractual employee as a long-term senior executive rather than using an existing vacant State position. In addition, the amounts paid to the employee exceeded annual maximums stipulated in the contract, which we concluded were not properly monitored.

Analysis

ITD hired a contractual employee as a long-term senior executive rather than using an existing vacant State position. In addition the amounts paid to the employee exceeded annual maximums stipulated in the contract, and hours worked in excess of the standard work week (40 hours according to the related contract) were not properly monitored for propriety. During fiscal years 2018 through 2021 the contractual employee was paid \$955,953 (See Figure 1).

Figure 1
Payments to Contractual Employee

Fiscal Year	Total Payments	Annual Contract Maximum	Payments Exceeding Maximum
2018	\$206,410	\$180,215	\$26,195
2019	236,782	174,720	62,062
2020	258,025	184,475	73,550
2021	254,736	184,475	70,261
Total	\$955,953	\$723,885	\$232,068

Source: State payroll records and employment contracts

Contractual Position Created Instead of Using Existing Budgeted Position

ITD created a contractual senior executive management position, rather than using an existing comparable vacant position. Specifically, an existing ITD contractual employee was hired to fill a newly created contractual senior executive position rather than using an existing vacant budgeted regular employee position. In this new position, the employee was to manage all information technology services for the Comptroller of Maryland (COM) - Office of the Comptroller (OOC) and the daily operations of the Annapolis Data Center, and

act as the Chief Information Officer for the agency. ITD had an existing budgeted senior executive management position with a salary level of \$132,600, and this position had previously been filled by an individual who performed the aforementioned services. OOC management advised the Department of Budget and Management (DBM) that this employee was uniquely qualified for the vacant budgeted position, but declined it when offered. It is our opinion that ITD believed increased compensation was necessary to obtain this individual's services and, consequently, in November 2017, ITD hired the individual as a contractual employee, which enabled ITD to pay a higher compensation of up to \$184,475 per year and ultimately paid up to \$258,025 (see Figure 1). Subsequently, the previous vacant budgeted senior executive management position was reclassified to create an additional ITD management position. The practical effect of this action was to create a permanent contractual position for a critical State function.

Regardless of the perceived necessity of increased compensation, State law requires that services from a contractual employee be infrequent, time limited, unusual, or for when the services need to be implemented quickly and for which there is no reasonable alternative. State law also prohibits DBM from continuing to certify contractual employment agreements if the services performed under the contracts encompass permanent functions and are regularly performed on a basis that is at least equal to 50 percent of the work responsibility of a full-time employee. We were advised by a DBM official that while there was no specific exception to the aforementioned law, DBM permitted the ITD contractual arrangement to continue as it was deemed to be in the best interest of the State.

Payments to the Contractual Employee Exceed Contract Maximums

Although the annual contracts for fiscal years 2018 through 2021 contained a maximum compensation ranging from \$174,720 to \$184,475 per year (See Figure 1), ITD paid the contractual employee \$231,568 more than the maximum allowed in the approved annual contracts. This occurred because the maximum compensation was based on a set hourly rate for a standard 40 hour work week, while these additional payments were made for hours worked in excess of the 40 hours per week (basically, overtime). Consequently, although the contract allowed for overtime, there was no set dollar amount or allowance for this included in the stipulated annual maximum compensation; and accordingly, that compensation amount was exceeded each year. For example, in fiscal year 2020, the contract maximum amount was \$184,475, but the contractual employee was paid \$258,025, resulting in total payments exceeding the maximum amount by \$73,550.

Overtime was Not Monitored for Propriety and Justification was Not Documented

ITD did not monitor overtime hours charged by the contractual employee and there was no documentation to justify the overtime hours worked. We were advised by OOC management that it was aware of the general tasks performed by this employee through routine periodic meetings. However, there were no specific procedures to ensure overtime hours worked were appropriate such as pre-approval of the overtime and requirements for documenting the justification for the overtime hours. Our test of 20 pay periods in fiscal years 2018 through 2021 during which the employee was compensated approximately \$75,200 for 894 overtime hours disclosed that there was no documented explanations or pre-approvals for any of the hours worked.

Recommendation 1

We recommend that ITD

- a. evaluate if the aforementioned senior executive position should continue to be contractual or a regular budgetary position be established with an appropriate level of compensation;**
- b. in conjunction with DBM, ITD should work to create an appropriate permanent regular budgetary position that is in accordance with State law;**
- c. ensure that contract maximum compensation amounts include anticipated or permissible overtime payments; and**
- d. implement procedures to monitor hours worked in excess of a standard weekly schedule by obtaining pre-approval when reasonable and written justifications.**

Equipment

Finding 2

Procedures and controls over equipment were not adequate.

Analysis

ITD had not established adequate procedures and controls over equipment, and was not in compliance with certain requirements of the Department of General Services' (DGS) *Inventory Control Manual*. According to its records, ITD's equipment was valued at approximately \$14.2 million as of June 30, 2021, which consisted of \$2.0 million in sensitive equipment, and \$12.2 million in non-

sensitive equipment.¹ ITD's equipment records include the Annapolis Data Center and all information technology equipment for the Comptroller of Maryland.

- Certain inventory and recordkeeping functions were not properly segregated as required. Specifically, the employee responsible for conducting physical inventories of equipment and investigating the differences between the inventory results and the related detailed records, also maintained the detail records and processed equipment disposals. We were advised by ITD that a separate employee was responsible for reviewing adjustments to the detail records; however, this review was not documented and this employee was not independent of the physical inventory. A similar condition was commented upon in our preceding report.
- ITD did not maintain a control account to ensure that the detail records accurately reflected all equipment balances. Instead, the detail records were compared to a running balance that was updated with data obtained from the same detail records.
- Physical inventories for sensitive equipment were not conducted within the required time frames. Specifically, as of June 2021, 305 items classified as sensitive equipment, such as computer laptops and tablets, with a recorded cost of \$462,000, had not been inventoried within one year, as required. A similar condition was commented upon in our preceding report.

The DGS *Inventory Control Manual* requires the duties of record keeping and conducting physical inventories be segregated. The *Manual* further requires that an independent control account be maintained on a current basis and be periodically reconciled with the detail records, and that a physical inventory be conducted for sensitive equipment items on an annual basis.

Recommendation 2

We recommend that ITD comply with the requirements of the DGS *Inventory Control Manual*. Specifically, we recommend that ITD

- a. segregate the duties of performing physical inventories and maintaining the equipment detail records (repeat),**

¹ In addition, to the \$14.2 million in equipment, ITD also capitalized computer software as equipment totaling \$36.7 million. We did not include the computer software in the equipment total because it was not subject to the same risks as equipment, such as computers, which could be misappropriated.

- b. establish an independent equipment control account and periodically reconcile the balance of that account with the total of the related detail records and investigate any differences, and**
- c. conduct annual physical inventories of sensitive equipment as required (repeat).**

We advised ITD on accomplishing the necessary separation of duties using existing personnel.

Audit Scope, Objectives, and Methodology

We have conducted a fiscal compliance audit of the Comptroller of Maryland (COM) – Information Technology Division (ITD) for the period beginning May 31, 2017 and ending May 31, 2021. 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 ITD'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 procurement, payroll, and equipment. Our audit also included certain support services provided by ITD to the other units of the COM. These support services consisted of monitoring information technology related services and maintaining information technology equipment inventory records. We also determined the status of the finding included in our preceding audit report.

Our audit did not include the computer operations and security controls of ITD's Annapolis Data Center (ADC). Rather, a separate audit is conducted of the ADC and a separate audit report is issued. Our audit also did not include certain support services provided to ITD by the COM – Office of the Comptroller. These support services (such as processing of invoices, maintenance of accounting records, and related fiscal functions) are included in the scope of our audits of the Office of the Comptroller.

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 31, 2017 to May 31, 2021, 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 ITD'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). 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. We also extracted data from the Maryland Inventory Tracking System for the purpose of testing ITD equipment records. 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 audit objectives. The reliability of data used in this report for background or informational purposes was not assessed.

ITD'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 ITD, 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 relating to conditions that we consider to be significant deficiencies in the design or operation of internal control that could adversely affect ITD'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.

The response from COM, on behalf of ITD, 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 COM regarding the results of our review of its response.

APPENDIX



Peter Franchot
Comptroller

John U. Hiter, Jr.
Director
Information Technology Division

January 31, 2022

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

Dear Mr. Hook:

We acknowledge receipt of the draft audit report on the Information Technology Division for the period beginning May 31, 2017, and ending May 31, 2021, and have submitted a written response to the report.

The Comptroller and the Director of the Information Technology Division appreciate your objective appraisal of our operations and commends your auditors for their professionalism and thorough review.

Sincerely,

Andrew Schaufele
Deputy Comptroller

John U. Hiter, Jr.
Director, Information Technology Division

cc: Honorable Peter V. R. Franchot, Comptroller

**Comptroller of Maryland
Information Technology Division**

Agency Response Form

Contractual Senior Executive Employee

Finding 1

The Information Technology Division (ITD) hired a contractual employee as a long-term senior executive rather than using an existing vacant State position. In addition, the amounts paid to the employee exceeded annual maximums stipulated in the contract, which we concluded were not properly monitored.

We recommend that ITD

- a. evaluate if the aforementioned senior executive position should continue to be contractual or a regular budgetary position be established with an appropriate level of compensation;
- b. in conjunction with DBM, ITD should work to create an appropriate permanent regular budgetary position that is in accordance with State law;
- c. ensure that contract maximum compensation amounts include anticipated or permissible overtime payments; and
- d. implement procedures to monitor hours worked in excess of a standard weekly schedule by obtaining pre-approval when reasonable and written justifications.

Agency Response			
Analysis			
Please provide additional comments as deemed necessary.	At the recommendation of the OLA, an evaluation of the senior executive position in question was completed.		
Recommendation 1a	Agree	Estimated Completion Date:	4/1/2022
Please provide details of corrective action or explain disagreement.	The Comptroller of Maryland (COM) will continue to perform the requested evaluation on an annual basis pending resolution of Recommendation 1b.		
Recommendation 1b	Agree	Estimated Completion Date:	TBD
Please provide details of corrective action or explain disagreement.			
Recommendation 1c	Agree	Estimated Completion Date:	4/1/2022

**Comptroller of Maryland
Information Technology Division**

Agency Response Form

Please provide details of corrective action or explain disagreement.	In response to the audit findings, the terms of the contract are being amended to establish fair compensation based on the qualifications, experience and performance of the individual and the consideration of overtime will be eliminated.		
Recommendation 1d	Agree	Estimated Completion Date:	
Please provide details of corrective action or explain disagreement.	This will no longer be applicable for this individual due to the modifications being made to the terms of the contract which will include elimination of overtime pay.		

**Comptroller of Maryland
Information Technology Division**

Agency Response Form

Equipment

Finding 2
Procedures and controls over equipment were not adequate.

We recommend that ITD comply with the requirements of the DGS *Inventory Control Manual*. Specifically, we recommend that ITD

- a. segregate the duties of performing physical inventories and maintaining the equipment detail records (repeat),
- b. establish an independent equipment control account and periodically reconcile the balance of that account with the total of the related detail records and investigate any differences, and
- c. conduct annual physical inventories of sensitive equipment as required (repeat).

We advised ITD on accomplishing the necessary separation of duties using existing personnel.

Agency Response			
Analysis			
Please provide additional comments as deemed necessary.	We appreciate the recommendations made by the OLA and we agree. Two of the recommendations resulted in process changes which were implemented shortly after receiving the finding in 2021, as is indicated below.		
Recommendation 2a	Agree	Estimated Completion Date:	9/22/2021
Please provide details of corrective action or explain disagreement.	We have updated our process to include an official sign-off of the reviews done by someone independent of the physical inventory.		
Recommendation 2b	Agree	Estimated Completion Date:	4/5/2022
Please provide details of corrective action or explain disagreement.	We are working with Administration and Finance to establish an independent control account that will be used to periodically reconcile the balance. This will be implemented by April 5, 2022.		
Recommendation 2c	Agree	Estimated Completion Date:	9/22/2021
Please provide details of corrective action or explain disagreement.	We have already modified our process to ensure all assets, to include sensitive items, are inventoried annually.		

AUDIT TEAM

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