

Audit Report

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**Comptroller of Maryland  
Information Technology Division  
(Fiscal Operations)**

November 2017

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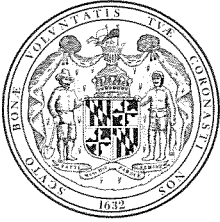
**OFFICE OF LEGISLATIVE AUDITS**  
DEPARTMENT OF LEGISLATIVE SERVICES  
MARYLAND GENERAL ASSEMBLY

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DEPARTMENT OF LEGISLATIVE SERVICES  
OFFICE OF LEGISLATIVE AUDITS  
MARYLAND GENERAL ASSEMBLY

Warren G. Deschenaux  
Executive Director

Thomas J. Barnickel III, CPA  
Legislative Auditor

November 13, 2017

Senator Craig J. Zucker, Co-Chair, Joint Audit Committee  
Delegate C. William Frick, Co-Chair, Joint Audit Committee  
Members of Joint Audit 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 March 24, 2014 and ending May 30, 2017. 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 did not maintain adequate controls over equipment. For example, ITD had not adequately separated employee responsibilities for maintaining equipment records and conducting physical inventories.

COM's response to this audit, on behalf of ITD, is included as an appendix to this report. We wish to acknowledge the cooperation extended to us during the course of this audit by ITD.

Respectfully submitted,

Thomas J. Barnickel III, 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 \$34.3 million during fiscal year 2016.

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.

## Findings and Recommendations

### Equipment

#### **Finding 1**

**Procedures and controls over equipment were not adequate.**

#### **Analysis**

The Information Technology Division (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 \$58.9 million as of June 30, 2017, which consisted of \$1.2 million in sensitive equipment, and \$57.7 million in non-sensitive equipment, including computer software. ITD's equipment records include the Annapolis Data Center and all information technology equipment for the Comptroller of Maryland.

One employee was responsible for maintaining the detailed equipment records and the related control account and for performing periodic physical inventories of equipment and, therefore, had access to the equipment. In addition, the physical inventories were not conducted within the time frames, as required. For example, as of June 2017, 270 items classified as sensitive equipment, such as computer laptops, with a recorded cost of \$630,695, had not been inventoried within one year, as required, including 44 items that had not been inventoried for periods ranging from 18 to 40 months. Under these conditions, errors or discrepancies could occur without timely detection.

The DGS *Inventory Control Manual* requires the duties of record keeping and conducting physical inventories be segregated. The *Manual* also requires that sensitive equipment be inventoried annually and non-sensitive equipment be inventoried at least once every three years.

#### **Recommendation 1**

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

- a. segregate the duties of performing physical inventories and maintaining equipment records, and**
- b. conduct equipment inventories within the required time frames.**

**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 March 24, 2014 and ending May 30, 2017. 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 accounts receivable, collections, procurement, 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.

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.

To accomplish our audit objectives, our audit procedures included inquiries of appropriate personnel, inspections of documents and records, observations of ITD's operations, and tests of transactions. Generally, transactions were selected for testing based on auditor judgment, which primarily considers risk. Unless otherwise specifically indicated, neither statistical nor non-statistical audit sampling was used to select the transactions tested. Therefore, the results of the tests cannot be used to project those results to the entire population from which the test items were selected.

We also performed various data extracts of pertinent information from the State's Financial Management Information System (such as revenue and expenditure 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 this source 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 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.

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.

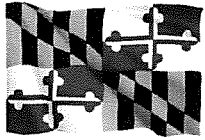
Our reports are designed to assist the Maryland General Assembly in exercising its legislative oversight function and to provide constructive recommendations for improving State operations. As a result, our reports generally do not address activities we reviewed that are functioning properly.

This report includes a finding relating to a condition that we consider to be a significant deficiency 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. This finding is also regarded as a significant instance of noncompliance with applicable laws, rules, or regulations. Other less significant findings were communicated to ITD that did not warrant inclusion in this report.

The response from COM, on behalf of ITD, to our finding 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



COMPTROLLER  
*of* MARYLAND  
*Serving the People*

Peter Franchot  
*Comptroller*

John Hiter  
*Director*  
*Information Technology Division*

November 6, 2017

Mr. Thomas J. Barnickel III, CPA  
Legislative Auditor  
Department of Legislative Services  
Office of Legislative Audits  
301 W. Preston Street, Room 1202  
Baltimore, MD 21201

Dear Mr. Barnickel:

Enclosed is the Comptroller's response to your report on the Comptroller of Maryland – Information Technology Division (Fiscal Operations) for the period beginning March 24, 2014 and ending May 30, 2017.

We have carefully reviewed the finding and believe that our response fully addresses the recommendations contained in the report. Should you need additional information or clarification, please contact Lindsay Welsh, Interim Director, Office of Risk Management by email at [lwelsh@comp.state.md.us](mailto:lwelsh@comp.state.md.us) or by telephone at 410-260-6156.

The Comptroller appreciates your objective appraisal of our operations and your recommendations for continuous improvement, and commends your auditors for their professionalism and thorough review.

Sincerely,

Sharonne Bonardi  
Deputy Comptroller

John Hiter  
Director, ITD

cc: Honorable Peter Franchot, Comptroller

## **Finding 1**

### **Procedures and controls over equipment were not adequate.**

#### **Analysis**

The Information Technology Division (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 \$58.9 million as of June 30, 2017, which consisted of \$1.2 million in sensitive equipment, and \$57.7 million in non-sensitive equipment, including computer software. ITD's equipment records include the Annapolis Data Center and all information technology equipment for the Comptroller of Maryland.

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#### **Recommendation 1**

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

- a. segregate the duties of performing physical inventories and maintaining equipment records, and**
- b. conduct equipment inventories within the required time frames.**

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

#### **Comptroller of Maryland – Information Technology Division's Response:**

The Information Technology Division concurs with the recommendations and going forward, will comply with the requirements regarding segregation of duties and routine equipment inventories as outlined in the DGS *Inventory Control Manual*.

AUDIT TEAM

**Michael J. Murdzak, CPA**  
Audit Manager

**Tu N. Vuong**  
Senior Auditor