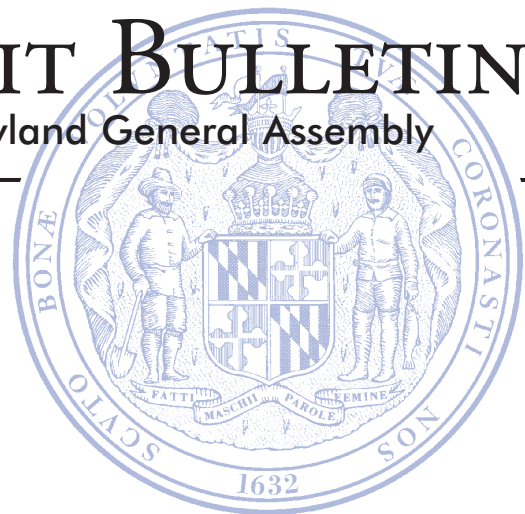


LEGISLATIVE AUDIT BULLETIN

Publication for Members of the Maryland General Assembly



BOARD OF LIQUOR LICENSE COMMISSIONERS FOR BALTIMORE CITY (BLLC)

OLA conducted a performance audit to evaluate the effectiveness and efficiency of the management practices of the BLLC as required by law. The law required the audit to focus on BLLC operations relating to licensing, inspections, disciplinary procedures, and management oversight.

BLLC lacked policies and processes needed to ensure efficient and effective operations.

BLLC lacked comprehensive policies in each area reviewed. BLLC staff were provided with minimal formal guidance for processing licenses, conducting inspections of licensed facilities, and handling disciplinary actions for instances of noncompliance with requirements. BLLC management lacked processes to effectively oversee and determine the efficiency and effectiveness of its operations.

Licenses were routinely issued without obtaining documents required by law to substantiate that licensing requirements had been met by the applicants. For example, BLLC lacked evidence that a valid trader's license was held by 358 of the 1,360 licensees (for the 2011 – 2012 licensing year) as required by law.

BLLC also issued licenses without evidence that the related fees were paid. In some other cases, BLLC either did not assess an allowable late application renewal fee or under-assessed such fees. For example, we found BLLC only assessed a late fee in 67 of the 141 instances in which a late fee could have been assessed, including 46 instances in which BLLC under-assessed the fee. For these 141 renewals, BLLC could have assessed late fees totaling \$86,300; however, it assessed and collected \$23,550.

Existing procedures did not detail the process to be used to conduct licensee inspections. Also, BLLC had not established any requirement as to the number and frequency of inspections and had not evaluated its staffing size or inspector workloads.

Our review of all inspections completed for the year ending August 31, 2011 found 96 licensees were inspected eight or more times, whereas 202 licensees were never inspected.

None of the 12 full-time inspectors regularly met BLLC's requirement that inspectors complete four routine inspections per day. We estimated that BLLC could have met its budgeted goal of completing 4,900 routine inspections for FY 2011 using as few as 6 full-time inspectors.

BLLC routinely either did not follow up timely on public complaints, as reported through Baltimore City's 311 Customer Service Request System, or failed to document the resulting investigations and resolutions. The two inspectors who generally performed 311 complaint investigations were not required to submit documentation of the investigations performed. Cases were often closed in the 311 System prior to completing an investigation.

Although the Board's assessment of fines for licensee violations appeared to be performed in a consistent manner, BLLC had implemented a number of

Inside this issue:

Department of Health and Mental Hygiene – Developmental Disabilities Administration

State Department of Assessments and Taxation

Department of General Services – Office of Procurement and Logistics

Findings from Selected Audit Reports

Reports Issued Since the Last Bulletin

disciplinary processes that may not be proper based on governing statutes. Without statutory authority or Board approval, BLLC management adopted alternatives to the Board hearing process to address licensee violations and infractions. Consequently, BLLC staff was essentially carrying out functions of the Board. For example, licensees were allowed to pay a fine or fee for certain violations without having a public Board hearing or reporting the actions to the Board.

BLLC management did not routinely obtain reports from its automated licensing system and the 311 complaint investigation system to monitor the related activities. Such reports could provide information on the status of licensing actions and complaint investigations and enable management to evaluate operational effectiveness and efficiency.

BLLC management also did not formally evaluate staff performance on a routine basis, and employees generally did not complete required financial disclosure and conflict of interest statements.

In response to a request from the Joint Audit Committee, we reviewed BLLC's October 2013 corrective action plan and concluded that the intended actions specified in the plan addressed the audit report recommendations. However, the implementation timeline for most report recommendations had target dates of April 2014 to June 2014.

Our subsequent discussions with BLLC staff indicate that management vacancies may hinder BLLC's efforts to meet those dates.

Department of Health and Mental Hygiene (DHMH) – Developmental Disabilities Administration (DDA)

DDA needs to ensure that individuals with developmental disabilities are receiving needed services, providers of those services are properly paid, and all eligible costs are billed and recovered from the federal government.

DDA did not monitor vendors responsible for ensuring that consumers served under DDA programs were receiving services as stipulated in their individual service plans and for performing consumers' annual Medicaid eligibility reassessments. For example, DDA did not obtain reports from these vendors, referred to as resource/service

coordinators (RSC), or review their records to assess vendor performance.

Our test of 16 consumers monitored by two RSCs in 2011 found for 5 consumers that the records lacked sufficient evidence that the RSC verified the delivery of all required services. Fifteen RSCs were responsible for monitoring 24,092 consumers with service expenditures totaling \$759 million in FY 2012.

DDA did not ensure its consumers received all required services.

DDA should revise its contractual payment system reimbursement methodology to better reflect actual costs incurred and should implement a process to ensure that all provider claims for services are submitted timely and processed. For one program with expenditures totaling \$109 million over a three-year period, DDA's related reimbursable costs exceeded its federal reimbursements by \$2.4 million for FYs 2011 and 2012. DDA may also have lost the opportunity to claim as much as \$5.2 million in federal funds due to its failure to ensure providers submitted required claims information.

Requests for federal reimbursement were not processed in a timely manner and certain claims rejected by automated Maryland Medicaid system eligibility edits were not investigated. DDA's federal fund revenue totaled approximately \$360 million during FY 2012.

DDA did not ensure that the consumers' contribution-to-care (CTC) amounts, which reduce DDA's payments to the applicable providers, were accurately recorded in its payment system. Over a 37-month period, CTC amounts recorded by providers in DDA's payment system were \$4.8 million less than the CTC amounts determined by DHMH during the consumer eligibility determination process. As a result, DDA may have paid more for consumers' care than required.

DDA did not ensure that certain providers submitted timely annual reports that contained all necessary information to perform year-end payment reconciliations to identify any overpayments or underpayments to providers. Program expenditures subject to this process totaled \$648 million during FY 2011.

Based on the results of the audit, including its failure to sufficiently address 7 of 14 prior report issues, we concluded that DDA's accountability and compliance level was unsatisfactory, in accordance with the rating system we established in conformity with State law.

State Department of Assessments and Taxation (DAT)

Certain aspects of DAT's quality assurance process for real property assessments need to be improved to help ensure that the 24 local assessment offices and their assessors are complying with policies.

Written guidance was not established regarding the oversight to be performed of the local offices by area supervisors, and DAT had not delineated the responsibilities of local office supervisors for reviewing and approving assessment values.

DAT needs to formalize certain processes to ensure staff compliance with its policies.

DAT policies also lacked specificity regarding the documentation to be maintained to support certain assessment values. For example, our review of three local assessment offices identified variations in the documentation maintained to support property assessment values, including a lack of support and supervisory approval for certain adjustments to assessed values.

Physical exterior inspections were not performed by DAT for all properties every three years in accordance with State law, and DAT lacked policies governing how physical inspections should be documented. The total assessable real property tax base was valued at approximately \$690 billion, consisting of more than 2.1 million statewide accounts.

DAT advised that past staffing shortages were primarily responsible for the lack of physical inspections. Although 22 additional assessor positions were received in FYs 2013 and 2014, DAT advised it will not be able to comply with the physical inspection law and that a law change may be necessary.

DAT's centralized real property database system had vulnerabilities that could allow all system users, including those with read-only access, to perform unauthorized modifications to critical data via commonly used system functions without detection. In addition, DAT did not establish procedures to ensure that certain data (such as property sales and permit information) received from local jurisdictions were properly recorded in the database.

Security and control weaknesses were noted with respect to DAT's computer network, including the failure to

properly configure firewalls and intrusion detection and prevention systems.

Certain verification procedures established by DAT to help ensure the accuracy of information submitted on personal property returns, franchise tax returns, and applications for homeowners' and renters' tax credits were not performed timely or were not comprehensive.

For example, annual personal property returns submitted by businesses for calendar years 2008 through 2011 had not been reviewed to ensure the values reported to DAT were proper. Also, appropriate actions were not taken to identify businesses that failed to file or submitted returns late. DAT provides local jurisdictions assessments, based on these returns, which jurisdictions use to issue personal property tax bills to the applicable entities.

Department of General Services (DGS) – Office of Procurement and Logistics (OPL)

OPL could not demonstrate that certain procurement awards made on a centralized basis for the use of State agencies, including the State fuel contract and certain intergovernmental cooperative purchasing agreements (ICPA), represented the best value to the State.

The structure of the five-year \$305 million State fuel contract procurement may have limited competition, resulting in only one bidder being eligible for the contract to provide motor fuel and heating fuel across the State. Previously, 13 separate contracts were used.

OPL did not consider rebidding when it determined only one bidder was eligible for the fuel contract award. When seeking approval, OPL did not clearly advise the Board of Public Works that this contract was essentially a single bid award.

OPL should ensure that the required written determination that participation in an ICPA will provide cost benefits to the State, promote administrative efficiencies, or promote intergovernmental cooperation is prepared and properly substantiated.

OPL could not demonstrate that certain procurements represented the best value to the State.

OPL participated in several ICPAs on behalf of the State; however, our test of four ICPAs valued at \$41.5 million found that OPL could not substantiate that vendors were selected via competitive procurement or could not adequately document its assertions that the ICPAs benefited the State. For one of those ICPAs, OPL also did not ensure that the vendor was pricing its products in accordance with the ICPA contract, resulting in certain pricing discrepancies going undetected.

OPL should ensure the current prices of goods and services offered by certain providers that, under State law, receive procurement preferences for State agency purchases are set at fair market prices and are published at least annually, as required.

For example, OPL did not determine and publish the fair market prices of all goods and services provided by Maryland Correctional Enterprises (MCE). When goods or services can be supplied at prices that do not exceed the prevailing market prices, State agencies should give procurement preferences to such agencies as the MCE.

A planned deliverable under the \$3.7 million eMaryland Marketplace (eMM) contract was not implemented as intended, and OPL did not seek to modify the related contract price. The eMM system, which is an Internet-based procurement system, was supposed to interface with the State's Financial Management Information System, but that enhancement was deemed impractical.

OPL assessed fees on certain vendor contracts, which were to be included in the prices of goods and services purchased by State agencies, without statutory authority.

For example, OPL assessed an eMM fee, intended to fund the maintenance of the system, on certain contracts that were not authorized for such fees, such as a one percent fee on the aforementioned State fuel contract that was not procured via eMM. Fees from this contract accounted for \$242,000 of the \$580,000 collected in eMM fees over a seven-month period. OPL also did not verify that vendors remitted all fees.

Although generally concurring with our audit findings and recommendations, DGS believes assessing the one percent eMM fee on contracts not procured via eMM is proper. This position differs with that of legal counsel to the Maryland General Assembly. Consequently, formal legal advice may have to be sought to clarify the issue.

Findings from Selected Audit Reports

Maryland Higher Education Commission (MHEC) – MHEC needs to take certain actions to ensure financial assistance awards to students are proper and such awards are maximized. MHEC did not take intended actions to use accumulated scholarship funds to increase the number of need-based scholarship awards to eligible applicants on its waiting list.

As of June 30, 2013, related unspent scholarship funds totaled approximately \$17.2 million. Based on grant award information for the 2011-2012 academic year, we estimated that 7,800 of the 31,000 applicants on MHEC's waiting list for that year could have received need-based scholarships.

University System of Maryland (USM) – Coppin State University (CSU) – A number of internal control deficiencies related to CSU's student accounts receivable procedures were identified, as well as a failure to take appropriate and timely action to collect outstanding student accounts. For example, certain student account transactions, such as non-cash credits and tuition waivers, as well as student refunds were not subject to independent verification, and CSU did not timely refer delinquent accounts to the State's Central Collection Unit.

We also identified a number of students with unpaid tuition and fees from prior semesters that were permitted to register for classes in violation of USM Board of Regents' policy. CSU's student accounts receivable totaled approximately \$3 million as of March 31, 2012, of which \$2.3 million had been outstanding for more than 120 days.

Review of Local Government Audit Reports – Annual Desk Review – OLA's review of 193 local government FY 2012 financial statements and related independent auditor reports found that certain local governments need to ensure they are in compliance with State laws and maintain positive general fund balances.

For example, the financial statements of 12 local governments contained disclosures that cash deposits were not adequately collateralized, or otherwise insured, as required by State law. This included one county for which the financial statements have included a similar disclosure for each year since FY 2000. In addition, unrestricted general fund deficit balances were noted for two local governments as of June 30, 2012, and this condition has existed for both governments since at least 2008.

LEGISLATIVE AUDIT BULLETIN

REPORTS ISSUED BY THE OFFICE OF LEGISLATIVE AUDITS

January 1, 2013 to December 31, 2013

Agency	Report Date	Number of Pages
Department of Public Safety and Correctional Services – Hagerstown Region	1/07/13	11
Department of Health and Mental Hygiene – Health Regulatory Commissions	1/07/13	23
Worcester County – Office of the Clerk of Circuit Court	1/08/13	5
Office of the State Prosecutor	1/08/13	4
Montgomery County – Office of the Clerk of Circuit Court	1/09/13	7
Department of Labor, Licensing and Regulation – Office of the Commissioner of Financial Regulation	1/09/13	5
Howard County – Office of the Clerk of Circuit Court	1/17/13	5
Statewide Review of Budget Closeout Transactions for Fiscal Year 2012 (Special)	1/22/13	16
Allegany County Public Schools (Financial Management Practices Audit)	1/29/13	40
Howard County – Office of the Register of Wills	1/30/13	6
Anne Arundel County – Office of the Register of Wills	2/05/13	5
Anne Arundel County – Office of the Clerk of Circuit Court	2/12/13	5
University System of Maryland – University of Maryland University College	2/14/13	18
Maryland State Department of Education	2/20/13	20
Department of Assessments and Taxation – Homestead Property Tax Credits (Performance)	2/28/13	33
Department of State Police	3/20/13	13
Board of Liquor License Commissioners for Baltimore City (Performance)	3/28/13	66
Baltimore City Police Department Death Relief Fund	4/01/13	5
University System of Maryland – University of Maryland, Baltimore	4/08/13	18
State Archives	4/16/13	7
Board of Public Works – Interagency Committee on School Construction	4/22/13	11
Department of Agriculture	4/24/13	11
Financial Management Information System – Centralized Operations	4/26/13	5
Maryland Agricultural Land Preservation Fund – Fiscal Year Ended June 30, 2012	4/30/13	7
Maryland State Board of Contract Appeals	5/06/13	4
Maryland Tax Court	5/09/13	5
Kent County Public Schools (Financial Management Practices Audit)	5/13/13	30
Allegany County – Office of the Register of Wills	5/21/13	5
Allegany County – Office of the Clerk of Circuit Court	5/30/13	5
Military Department	5/30/13	20
Washington County Public Schools (Financial Management Practices Audit)	6/10/13	32
Video Lottery Operation Licensees – Minority Business Participation (Performance)	6/18/13	14

Agency	Report Date	Number of Pages
Potomac River Fisheries Commission – Report for the Year Ended June 30, 2012 (Examination)	6/18/13	6
University System of Maryland – Towson University	6/18/13	18
Garrett County – Office of the Register of Wills	6/25/13	5
Crime Scene DNA Collection and Analysis Reporting by Law Enforcement Agencies (Special)	6/25/13	49
Garrett County – Office of the Clerk of Circuit Court	7/02/13	5
Public Service Commission	7/08/13	5
Cecil County – Office of the Register of Wills	7/08/13	5
Historic St. Mary's City Commission	7/11/13	6
Judiciary	7/16/13	8
Talbot County Public Schools (Financial Management Practices Audit)	7/17/13	28
Review of the Judiciary Electronic Attorney Exchange Data in Response to the April 2013 Joint Chairmen's Report (Special)	7/25/13	2
Department of Information Technology	8/01/13	22
Cecil County – Office of the Clerk of Circuit Court	8/14/13	5
University System of Maryland – Frostburg State University	8/21/13	13
Comptroller of Maryland – Revenue Administration Division	8/23/13	26
Review of Local Government Audit Reports – Fiscal Year Ending June 30, 2012 (Special)	9/17/13	14
Maryland African American Museum Corporation	9/19/13	10
Maryland Stadium Authority	10/02/13	7
Department of Health and Mental Hygiene – Developmental Disabilities Administration	10/02/13	28
Review of Community College Audit Reports – Fiscal Year Ending June 30, 2012 (Special)	10/11/13	6
Frederick County – Office of the Register of Wills	10/21/13	5
Frederick County – Office of the Clerk of Circuit Court	10/25/13	5
Maryland Higher Education Commission	10/29/13	22
Department of General Services – Office of Procurement and Logistics	11/08/13	30
Maryland Energy Administration	11/18/13	5
University System of Maryland – Coppin State University	11/18/13	26
St. Mary's College of Maryland	11/19/13	18
Canal Place Preservation and Development Authority	11/19/13	9
Video Lottery Operations Revenue – Small, Minority, and Women-Owned Businesses Account (Performance)	12/04/13	5
Department of Veterans Affairs	12/06/13	16
State Department of Assessments and Taxation	12/16/13	30

The Legislative Audit Bulletin is periodically issued by the Office of Legislative Audits (OLA) to inform the General Assembly of audits or reviews completed and to provide a summary of significant findings from selected reports. Unless specifically noted, the agencies generally agreed with the audit findings and recommendations, although some follow-up of the report response may have been necessary. Copies of reports can be obtained from the web site or by contacting either OLA or the Department of Legislative Services, 90 State Circle, Annapolis, Maryland 21401, 410-946-5400 - 301-970-5400. For further details about any report or finding, please contact OLA at the listed numbers. We welcome your comments and suggestions.

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