

# Audit Report

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## **Department of Housing and Community Development**

**Office of the Secretary  
Division of Finance and Administration  
Division of Information Technology**

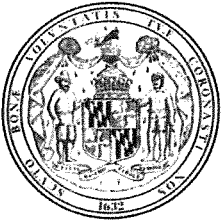
April 2012

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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

Karl S. Aro  
Executive Director

April 18, 2012

Bruce A. Myers, CPA  
Legislative Auditor

Senator James C. Rosapepe, Co-Chair, Joint Audit Committee  
Delegate Guy J. Guzzone, Co-Chair, Joint Audit Committee  
Members of Joint Audit Committee  
Annapolis, Maryland

Ladies and Gentlemen:

We have audited the Office of the Secretary, the Division of Finance and Administration, and the Division of Information Technology within the Department of Housing and Community Development (DHCD) for the period beginning July 1, 2008 and ending May 9, 2011. These units perform administrative and oversight functions to assist DHCD in achieving its goals of strengthening communities and providing affordable housing for people of limited income.

Our audit disclosed that DHCD lacked documentation that all collections received were verified to deposit. In addition, adequate accountability was not established over equipment and DHCD lacked documentation that corporate purchasing card purchases were made at the most competitive and appropriate prices.

DHCD's response to our findings and recommendations is included as an appendix to this report. We wish to acknowledge the cooperation extended to us by DHCD during the course of this audit.

Respectfully submitted,

A handwritten signature in black ink that reads "Bruce A. Myers". The signature is written in a cursive style with a large, stylized "B" and "M".

Bruce A. Myers, CPA  
Legislative Auditor



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

## **Background Information**

### **Agency Responsibilities**

The Department of Housing and Community Development (DHCD) provides services to strengthen communities and provides affordable housing for people of limited income. The mission of DHCD is to work with partners to finance housing opportunities and revitalize places for Maryland citizens to live, work, and prosper. To deliver these services, the Department is organized into six units. This audit report includes the operations of the following three units:

- Office of the Secretary
- Division of Finance and Administration
- Division of Information Technology

The remaining units of the Department (Division of Credit Assurance, Division of Development Finance, and Division of Neighborhood Revitalization) are included within the scope of, and reported upon, in a separate audit. According to the State's accounting records, during fiscal year 2011, total DHCD expenditures were approximately \$322.3 million, of which \$14.2 million related to the units audited.

### **Organizational Change**

Effective October 22, 2010, DHCD transferred the Maryland Affordable Housing Trust (MAHT) from DHCD's Office of the Secretary to DHCD's Division of Development Finance. Consequently, MAHT was not included in this audit, but will be included within the scope of our audit of DHCD's other units.

### **Status of Findings From Preceding Audit Report**

Our audit included a review to determine the status of the four findings contained in our preceding audit report dated February 19, 2009. Because of the aforementioned organizational change, one of these findings will be addressed during our audit of DHCD's other units. We determined that DHCD satisfactorily addressed two of the other three findings. The remaining finding is repeated in this report.

## Findings and Recommendations

### Cash Receipts

#### **Finding 1**

**DHCD lacked documentation that collections were verified to deposit.**

#### **Analysis**

DHCD lacked documentation that its collections had been verified to deposit. Although we were advised that certain verification procedures were in place, most of the deposits we examined lacked evidence that the verification procedures were performed. Our test of collections totaling approximately \$13.9 million, received during 20 days in fiscal years 2010 and 2011, disclosed that such documentation was not on file for 18 days with receipts totaling \$13.5 million. Consequently, there was a lack of assurance that deposit verifications had been performed. We were able to confirm that collections for all 20 days were, in fact, deposited.

According to DHCD's records, collections received and deposited by DHCD during fiscal year 2011 totaled approximately \$17 million, and consisted primarily of returns of certain grant funds, loan repayments, and interest from title company escrow accounts.

#### **Recommendation 1**

**We recommend that DHCD ensure that verifications of collections to deposit are documented.**

### Equipment

#### **Finding 2**

**Physical inventory results were not fully reconciled with detail records and certain equipment items were not accounted for.**

#### **Analysis**

DHCD's physical inventory procedures were deficient and did not comply with the Department of General Services' (DGS) *Inventory Control Manual*. According to DHCD's records, the value of its equipment totaled approximately \$5.6 million as of June 30, 2011. Although physical inventories of both sensitive and non-sensitive equipment were conducted during calendar year 2010, as of September 2011, the results were not fully reconciled to the related detailed equipment records. For example, according to DHCD's records, as of May 2011,

equipment totaling approximately \$649,000 (including sensitive equipment totaling \$565,000) had not been accounted for during the physical inventories for more than three years. This equipment included sensitive equipment items, such as computers, totaling \$167,000 that had not been accounted for since 2000. Because physical inventory results and the related equipment records were not fully reconciled, the proper disposition of these items, such as still on hand or missing, had not been resolved. The lack of an adequate reconciliation was also commented upon in our preceding audit report.

The DGS *Inventory Control Manual* specifies the procedures for reconciling physical inventories to detailed records, and for investigating, reporting to DGS, and removing records for any missing items. The Manual also requires that equipment be inventoried once a year for sensitive items and every three years for non-sensitive items.

#### **Recommendation 2**

**We recommend that DHCD comply with the aforementioned requirements of the DGS *Inventory Control Manual* by fully reconciling the results of the physical inventories to the related detail records, and by identifying, investigating, and resolving all discrepancies (repeat).**

### **Corporate Purchasing Cards**

#### **Finding 3**

**DHCD lacked evidence of competition for purchases made with corporate purchasing cards.**

#### **Analysis**

DHCD lacked documentation that employees solicited bids from more than one vendor when making purchases with a corporate purchasing card (CPC). Consequently, there was a lack of assurance that CPC purchases were made at the most competitive and appropriate prices. A review of six CPC transactions, each exceeding \$500, that were made during our audit period disclosed no documentation of bids or offers obtained from other vendors. These transactions included, for example, a purchase of six computers at a total cost of \$3,000 and a purchase of three cameras at a total cost of \$1,500.

We were advised by DHCD that, where practical, multiple vendors are researched for CPC purchases, but documentation of such is not maintained. State Procurement Regulations stipulate that, for small procurements (including purchases under \$5,000), competition should be sought to the extent practical



considering factors such as availability of vendors and the dollar value of the procurement. The regulations also indicate that documentation is required for both oral and written solicitations.

During fiscal year 2011, according to the bank's records, DHCD's CPC transactions totaled approximately \$760,000, of which approximately \$478,000 was spent for purchases exceeding \$500, including \$264,000 for purchases exceeding \$1,000.

### **Recommendation 3**

**We recommend that DHCD**

- a. ensure that employees seek competition to the extent practical for CPC purchases, as required by State Procurement Regulations; and**
- b. document actions taken to ensure competitive procurement.**

## **Audit Scope, Objectives, and Methodology**

We have audited the following units of the Department of Housing and Community Development (DHCD) for the period beginning July 1, 2008 and ending May 9, 2011:

Office of the Secretary  
Division of Finance and Administration  
Division of Information Technology

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 DHCD's financial transactions, records, and internal control, and to evaluate its compliance with applicable State laws, rules, and regulations. We also determined the status of the findings included in our preceding audit report.

In planning and conducting our audit, we focused on the major financial-related areas of operations based on assessments of materiality and risk. The areas addressed by the audit included cash receipts, procurements and disbursements, equipment, and certain State-funded loan program transactions. Our audit procedures included inquiries of appropriate personnel, inspections of documents and records, and observations of DHCD's operations. We also tested transactions and performed other auditing procedures that we considered necessary to achieve our objectives. Data provided in this report for background or informational purposes were deemed reasonable, but were not independently verified.

Our audit included certain support services (such as payroll, maintenance of accounting records, and related fiscal functions) provided by DHCD's Division of Finance and Administration to other units of DHCD. In addition, our audit did not include an evaluation of internal controls for federal financial assistance programs and an assessment of DHCD's compliance with federal laws and regulations pertaining to those programs because the State of Maryland engages an independent accounting firm to annually audit such programs administered by State agencies, including DHCD.

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

DHCD'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 DHCD regarding the results of our review of its response.

## APPENDIX



MARTIN O'MALLEY  
*Governor*  
ANTHONY G. BROWN  
*Lt. Governor*  
RAYMOND A. SKINNER  
*Secretary*  
CLARENCE J. SNUGGS  
*Deputy Secretary*

April 13, 2012

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

Dear Mr. Myers:

Enclosed please find our response to the legislative audit report of the Office of the Secretary, Division of Finance and Administration, and Division of Information Technology of the Department of Housing and Community Development (DHCD) for the period beginning July 1, 2008 and ending May 9, 2011.

I have reviewed the findings and recommendations contained in the report and have committed the DHCD to a plan of corrective action, which is summarized in the attachment. Additionally, our plan of action documents the approximate time frame for compliance with the audit report's recommendations.

The DHCD views the correction of legislative audit findings with the utmost seriousness. You can be assured that every action will be taken to ensure compliance with the audit's recommendations. If you have any questions regarding our response, please do not hesitate to contact me or Mr. Gary Beaver, Internal Audit Manager, at 410-514-7032 or at [beaver@mdhousing.org](mailto:beaver@mdhousing.org).

Sincerely,

A handwritten signature in black ink, appearing to read "Raymond A. Skinner".

Raymond A. Skinner  
Secretary

Attachment

cc: Mr. Gary Beaver, Internal Audit Manager, DHCD



## DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT (DHCD)

### Responses to Findings and Recommendations Contained in the Legislative Audit Report of the Department

For the Period Beginning July 1, 2008 and Ending May 9, 2011

#### **Finding 1**

**DHCD lacked documentation that collections were verified to deposit.**

#### **Recommendation 1**

We recommend that DHCD ensure that the verifications of collections to deposit are documented.

#### **DHCD's Response:**

DHCD concurs with the finding and recommendation. However, DHCD is confident that these verifications were performed and has implemented procedures to ensure that these verifications are documented when performed. As further evidence of the strength of DHCD's cash receipt procedures, we are unaware of any instance at any time when there has been a difference between a bank deposit and the amount recorded in FMIS as collections.

#### **Finding 2**

**Physical inventory results were not fully reconciled with detail records and certain equipment items were not accounted for.**

#### **Recommendation 2**

We recommend that DHCD comply with the aforementioned requirements of the DGS *Inventory Control Manual* by fully reconciling the results of the physical inventories to the related detail records, and by identifying, investigating, and resolving all discrepancies (repeat).

#### **DHCD's Response:**

DHCD concurs with the finding and recommendation. DHCD had previously prepared a list of missing assets totaling \$523,000 which was approved by the then Acting Secretary and submitted to DGS during the previous administration. These assets primarily consisted of outdated IT equipment which had been donated to non-profit organizations in prior years without the appropriate excess and surplus paperwork. The DGS delay in reviewing the listing caused them to reject the form when a new DHCD Secretary was appointed in the interim. During this timeframe, DHCD located a few of the missing assets, so it was determined that the most appropriate course of action was to retain these assets on the inventory records and look for them again during the next physical inventory to see if other assets on the missing list could be located. Very few additional assets were located during this process. DHCD will update the list of missing assets and resubmit the forms to DGS by June 30, 2012. Upon approval by DGS, DHCD will remove all items from the inventory records.

**Finding 3****DHCD lacked evidence of competition for purchases made with corporate purchasing cards.****Recommendation 3**

We recommend that DHCD

- a. ensure that employees seek competition to the extent practical for CPC purchases, as required by State Procurement Regulations; and
- b. document actions taken to ensure competitive procurement.

**DHCD's Response:**

DCHD concurs with the finding and recommendations. However, DHCD believes that cardholders have and do seek competition to the extent practical and can specifically confirm that extensive research was performed to ensure that the lowest prices and best functionality were obtained for the laptops and cameras cited as examples in the audit analysis. In addition, 54% of the purchases reviewed did not require documentation, since 32% were made from State-wide contracts and 22% from exempt or sole source purchases from government entities. On November 3, 2011 DHCD issued changes to CPC procedures to all cardholders requiring that documentation of price research efforts be submitted with the CPC envelopes each month, even if no formal oral or written solicitations were done, and also encouraging supervisors to check for and question price comparison practices and documentation when reviewing the cardholders' transactions.

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