

Audit Report

Department of State Police

November 2015



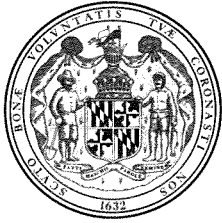
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DEPARTMENT OF LEGISLATIVE SERVICES
MARYLAND GENERAL ASSEMBLY

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DEPARTMENT OF LEGISLATIVE SERVICES
OFFICE OF LEGISLATIVE AUDITS
MARYLAND GENERAL ASSEMBLY

Warren G. Deschenaux
Executive Director

November 23, 2015

Thomas J. Barnickel III, CPA
Legislative Auditor

Senator Guy J. Guzzone, Co-Chair, Joint Audit Committee
Delegate Craig J. Zucker, Co-Chair, Joint Audit Committee
Members of Joint Audit Committee
Annapolis, Maryland

Ladies and Gentlemen:

We have conducted a fiscal compliance audit of the Department of State Police (DSP) for the period beginning December 20, 2011 and ending December 31, 2014. DSP comprises the Maryland State Police, the Office of the State Fire Marshal, and the State Fire Prevention Commission.

Our audit disclosed that DSP did not properly account for certain special fund activity. DSP did not establish separate accounts in the State's accounting records to readily identify individual special fund balances and did not ensure certain related expenditure activity was properly recorded. As a result, we noted one special fund had a deficit balance of \$44.2 million while another had a positive balance of \$34.4 million at the end of fiscal year 2014. Due to the nature of the financial activities and the expected monetary level of these funds, the balances did not appear reasonable. DSP had not investigated the fund balances to determine their propriety. DSP also did not maintain adequate documentation to support that federal, reimbursable, and special fund revenues recorded as of June 30, 2014 totaling \$28.2 million were available to cover incurred expenditures. To the extent that revenues are not available, general fund appropriations (or deficiency appropriations) may be needed to eliminate any resulting deficits.

For four service contracts totaling \$9.0 million, DSP either did not include or could not support the expected levels of services needed in the related procurement solicitations. Consequently, there was a lack of assurance that DSP received bids that satisfactorily addressed its needs, made the appropriate award decisions, and had established reasonable contract values. For two of these contracts, the methodology used to evaluate vendor financial proposals appeared unreasonable, and raises questions as to the propriety of the award decisions.

We also noted that DSP's procedures for processing handgun qualification licenses (HQL) and handgun registration applications were not sufficiently comprehensive. For example, DSP did not require handgun dealers to submit with the registration applications certain required HQL documentation and did not ensure that dealers submitted completed registration applications in a timely manner. Also, DSP did not ensure that handgun information was accurately recorded in its automated systems. We noted that the handgun serial numbers for approximately 4,000 registered handguns differed in the two automated systems used to record the initial handgun registration application and the completed registration information.

Finally, our audit disclosed numerous deficiencies with DSP's security and control over its information systems and network and a number of other findings involving the accounting and controls over collections, accounts receivable, and equipment.

An executive summary of our findings can be found on page 5. DSP's response to this audit is included as an appendix to this report. We wish to acknowledge the cooperation extended to us during the course of this audit by DSP.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Th J Barnickel III".

Thomas J. Barnickel III, CPA
Legislative Auditor

Table of Contents

Executive Summary	5
Background Information	7
Agency Responsibilities and Organizational Change	7
Status of Findings From Preceding Audit Report	7
Findings and Recommendations	9
Special Funds	
Finding 1 – DSP Did Not Properly Account for Certain Special Fund Activity	10
Finding 2 – DSP Lacked Adequate Controls Over Special Fund Collections and Accounts Receivable	12
Budgetary and Year-End Closing	
Finding 3 – Certain Year-end Closing Transactions Were Not Adequately Supported and Reporting Discrepancies Were Noted	13
Procurements	
Finding 4 – DSP Did Not Include or Could Not Support Approximate Quantities of Services in Certain Solicitations	15
Finding 5 – Procedural and Documentation Deficiencies Were Noted Regarding the Evaluation of Vendor Bids for Certain Service Contracts	16
Handgun Registration	
Finding 6 – DSP’s Procedures for Processing Handgun Qualification Licenses and Handgun Registration Applications Lacked Certain Controls	20
Finding 7 – Quality Control Procedures Were Not Comprehensive	21
Finding 8 – Controls Over Handgun Registration Application Fees and Related Accounts Receivable Records Were Not Sufficient	23

Information Systems Security and Controls	
Finding 9 – DSP’s Network Was Not Properly Secured	24
Finding 10 – Procedures for Maintaining and Securing DSP’s Workstations Were Not Sufficient	25
Finding 11 – DSP Lacked Assurance That Adequate Security and Operational Controls Existed Over Its Records Management System	26
Equipment	
* Finding 12 – DSP Did Not Establish Adequate Controls Over Its Equipment	28
Audit Scope, Objectives, and Methodology	31
Agency Response	Appendix

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

Executive Summary

Legislative Audit Report on the Department of State Police (DSP) November 2015

- **DSP did not properly account for certain special fund activities. DSP did not establish separate accounts in the State's accounting records to readily identify individual fund balances for certain activities, and certain expenditure activity was not properly recorded. As a result, one special fund had a deficit balance of \$44.2 million while another had a positive balance of \$34.4 million at the end of fiscal year 2014, neither of which appeared reasonable given the nature of the activity pertaining to these funds. DSP had not investigated these balances (Finding 1).**

DSP should ensure that all special fund activity is properly accounted for by establishing separate accounts to individually track financial transactions and properly record all applicable revenue and expenditures. DSP should investigate and make the necessary corrections to the aforementioned special fund balances.

- **Certain budgetary year-end closing transactions for fiscal year 2014 were not adequately supported and reporting discrepancies were noted. For example, DSP did not maintain adequate documentation to support that revenue totaling \$28.2 million recorded as of June 30, 2014 was available to cover incurred expenditures. DSP also retained certain special funds at year-end without proper legal justification (Finding 3).**

DSP should ensure that all revenue transactions recorded to cover expenditures are accurate and adequately supported and should work with the Department of Budget and Management to resolve any resulting deficits. DSP also should ensure that proper legal justification exists for all funds retained at year-end.

- **DSP did not include critical information in its solicitations for certain contracts tested to ensure DSP received bids that satisfactorily addressed its needs, made the appropriate award decisions, and had established reasonable contract values. For example, our test of five contracts disclosed that, for four of the contracts totaling \$9.0 million, approximate quantities for the various services needed either were not provided in the solicitations or could not be supported. A number of deficiencies were also noted in the process used to evaluate and award some of these**

contracts which, in some cases, raise questions as to the propriety of the award decisions and related contract values (Findings 4 - 5).

DSP should ensure that procurement solicitations contain the approximate quantity of services needed and ensure that such quantities are adequately supported. DSP should also ensure that evaluation documents are complete and the methodologies used to evaluate vendors' financial proposals ensure that the winning vendor provides the best value to the State. Finally, DSP should maintain adequate support for contract values.

- **DSP procedures over handgun qualification licenses (HQL) and handgun registration applications were not sufficiently comprehensive. For example, DSP did not require handgun dealers to submit certain required HQL documentation with the handgun registration applications and did not have procedures to ensure that dealers submitted completed applications in a timely manner. DSP also did not adequately ensure that handgun information recorded in its automated systems was accurate. We noted that the handgun serial numbers for approximately 4,000 registered handguns differed in two automated systems (Findings 6 - 7).**

DSP should take the recommended actions to improve controls over HQL and handgun registration applications. Specifically, DSP should ensure dealers submit all required information in a timely manner, investigate any discrepancies noted in our findings, and ensure that all critical information is recorded accurately in its automated systems.

- **Numerous security and control issues were noted regarding DSP's information systems and critical data. Specifically, DSP's network and numerous workstations were not properly maintained and secured, and assurance was lacking that critical data hosted by a third-party service provider were adequately safeguarded (Findings 9 - 11).**

DSP should take the recommended actions to improve security and controls over its information systems and critical data.

- **Controls over certain cash receipts, related accounts receivable, and equipment were not sufficient (Findings 2, 8, and 12).**

DSP should take the recommended actions to improve controls in these areas.

Background Information

Agency Responsibilities and Organizational Change

The Department of State Police (DSP) operates under the provisions of Title 2 of the Public Safety Article of the Annotated Code of Maryland. The Code provides that DSP shall safeguard the lives and the safety of all persons within the State, protect property, and assist in securing to all persons the equal protection of the laws. DSP provides these services through a headquarters unit located in Pikesville, Maryland and 22 barracks and detachments located throughout the State. In addition, DSP includes the State Fire Marshal and the State Fire Prevention Commission. According to the State's accounting records, during fiscal year 2014, DSP's operating expenditures totaled approximately \$319.3 million.

Chapter 372, Laws of Maryland 2013, effective July 1, 2013, created the Maryland Center for School Safety (Center) as an independent unit of State government with a governing board. This law provides that the Center shall collaborate with public and private entities (such as, local school systems, law enforcement agencies, state and local governments, community organizations) to provide a comprehensive, coordinated approach to school safety. DSP's budget includes funding for the Center and it provides administrative support to the Center including payment processing and accounting functions. The scope of our audit of DSP included the Center.

Status of Findings From Preceding Audit Report

Our audit included a review to determine the status of the five findings contained in our preceding audit report on DSP dated March 20, 2013. We determined that DSP satisfactorily addressed four of the findings. The remaining finding is repeated in this report.

Findings and Recommendations

Special Funds

Background

The Department of State Police (DSP) received revenue from various sources that was used to support certain field operations. For example, according to the State's accounting records, DSP received funds totaling approximately \$6.1 million during fiscal year 2014 from the speed camera monitoring program fund. DSP also received reimbursements from other governmental units and private entities for costs incurred by DSP in providing certain external services to those entities. During fiscal year 2014, DSP billed approximately \$50.5 million for these external services, of which approximately \$36.7 million related to the following activities:

- **Commercial Vehicle Enforcement Division (CVED):** DSP costs are billed to the Maryland Department of Transportation (MDOT) for operating inspection stations for commercial vehicles traveling in the State.

- **Reimbursable Overtime:** DSP costs are billed to both public and private entities that contract with DSP for services such as police patrols stationed at construction zones.

Fiscal Year 2014 External Services Billings	
Commercial Vehicle Enforcement	\$ 17,478,859
Reimbursable Overtime	7,044,435
JFK Memorial Highway	5,718,660
Automotive Safety Enforcement	5,194,172
Resident Trooper	1,224,354
Total	\$ 36,660,480

Source: State's accounting records

- **John F. Kennedy (JFK) Memorial Highway:** DSP costs are billed to MDOT for providing patrol and criminal enforcement on the JFK Memorial Highway.
- **Automotive Safety Enforcement Division (ASED):** DSP costs are billed to MDOT primarily for operating the automotive safety inspection program.
- **Resident Trooper:** DSP costs are billed to local jurisdictions for which DSP provides police enforcement.

Finding 1

DSP did not properly account for financial activity pertaining to certain special funds for which the related year-end balances appeared questionable.

Analysis

DSP did not properly account for certain special fund activity, especially as it related to the external services provided to other entities. Specifically, the accounting records were not set up to enable DSP to readily determine whether the costs of providing these services had been recovered. Furthermore, DSP did not ensure all such costs and related recoveries were properly recorded.

DSP did not establish separate accounts in the State's accounting records to readily identify individual fund balances for four of the aforementioned five external services activities. Although revenues and expenditures for each of these activities were being separately tracked, the individual fund balances for these activities were not available due to the manner in which the accounting records were set up. Consequently, several different activities were combined and reflected in two special fund balances. One special fund balance reflected the financial activity related to the CVED, reimbursable overtime, and ASED programs. The other special fund balance was used for the financial activity of the JFK Memorial Highway patrol services and the speed camera monitoring program. Without individual fund balances, DSP was unable to readily determine whether it recovered all costs charged for each of the four external services.

Furthermore, both special fund balances as reflected on the State's accounting records at June 30, 2014 appeared questionable. The fund used to account for CVED, reimbursable overtime, and ASED activities had a deficit balance of \$44.2 million. Because the costs for these activities are generally recovered on a reimbursable basis (DSP incurs costs and then is reimbursed) a small deficit balance would be typical. However, the amount of this deficit balance exceeded the expenditures for these activities for the entire year. The fund used to account for the JFK Memorial Highway patrol services and speed camera monitoring programs had a positive balance of \$34.4 million. The costs for JFK Memorial Highway patrol services are also generally recovered on a reimbursable basis while the speed camera monitoring program funds are received in advance. However, the positive fund balance significantly exceeded the approximately \$6.1 million in speed camera monitoring program funds received in fiscal year 2014.

We also noted certain expenditure activity for fiscal year 2014 was not properly recorded. In this regard, we noted instances in which expenditures incurred were not matched to the related revenue received. For example, although revenue received for indirect costs totaling \$2.5 million was properly reflected in the fund

used to account for CVED, reimbursable overtime, and ASER activity, the related expenditures had not been charged (or matched) to the same fund. In addition, this same fund was improperly charged for indirect costs totaling \$885,000 pertaining to JFK Memorial Highway patrol services. Such costs should have been charged to the fund used to account for the JFK Memorial Highway patrol services and speed camera monitoring programs, where the related revenue was recorded.

DSP had not identified and investigated the aforementioned inconsistent activity and the related balances in these funds, and could not determine if the positive and negative balances in these funds were related. As a result, DSP did not know if any of the aforementioned \$44.2 million deficit balance was recoverable, nor the proper disposition of the aforementioned \$34.4 million positive balance.

Furthermore, given the nature of the activity, it may be more appropriate for the financial activity associated with obtaining reimbursement for services from other State agencies to be budgeted and recorded in the State's accounting records as reimbursable funds. Reimbursable fund appropriations can only be expended to the extent that an agency has billed and subsequently received reimbursement from other State agencies.

Recommendation 1

We recommend that DSP

- a. establish separate accounts to individually track financial transactions, including fund balances, for reimbursable services provided to external entities;**
- b. ensure that all applicable financial transactions are properly recorded;**
- c. investigate the aforementioned fund balances to determine the portion applicable to each special fund activity and make the necessary adjustments in the accounting records; and**
- d. in conjunction with the Department of Budget and Management, determine whether certain activity should be budgeted and accounted for as reimbursable funds.**

Finding 2**DSP lacked adequate controls over special fund collections and related accounts receivable.****Analysis**

DSP lacked adequate controls over special fund collections and the related accounts receivable due from other governmental units and private entities. According to the State's accounting records, during fiscal year 2014, collections received and deposited into special funds totaled approximately \$10.5 million (excluding payments received electronically).

- Checks were not recorded and restrictively endorsed immediately upon receipt. Rather, checks were recorded and endorsed the following day, but not before being processed by several employees.
- The employees responsible for verifying that all recorded collections were deposited were not independent because they also processed or had access to the related collections prior to deposit.
- DSP did not verify the completeness of billings for overtime hours worked by troopers for services provided to public and private entities. According to the State's accounting records, during fiscal year 2014, these billings totaled \$7.0 million. Although DSP had procedures to verify that the amounts included on billings were supported, procedures were not sufficient to ensure that all hours worked were billed.

Troopers worked additional hours (reimbursable overtime) beyond their normal workday providing security services such as at construction zones on public thoroughfares. Reimbursable overtime hours recorded by troopers on their timesheets were subsequently entered into an automated system by their supervisors. DSP Finance Office personnel used reports generated from the automated system to manually enter information into the State's accounting records. The State's accounting records were then used to maintain accounts receivable records and to generate the related invoices. However, Finance Office personnel did not verify that all reimbursable overtime hours worked were subsequently entered in the State's accounting records. The reports from the automated system generally contained more than 100 pages each pay period of overtime, including reimbursable overtime; this volume of activity increases the risk of errors when manually entering this information in the State's accounting records.

- DSP did not adequately control adjustments to accounts receivable records, which totaled \$12.0 million during fiscal year 2014, according to the State's accounting records. Specifically, two employees responsible for approving adjustments also had access capabilities that allowed them to process these transactions without independent approval. Furthermore, these employees had access to the related collections.

The Comptroller of Maryland's *Accounting Procedures Manual* requires the immediate recordation and endorsement of checks upon receipt, the reconciliation of the initial record of collections with the amounts deposited by an employee independent of the cash receipts function, the segregation of critical duties, and the supervisory review and approval of adjustments.

Recommendation 2

We recommend that DSP

- ensure that collections are recorded and restrictively endorsed immediately upon receipt,**
- require an employee independent of the collections function to verify that all recorded collections were subsequently deposited,**
- ensure that all reimbursable overtime was properly billed by reconciling timesheet data recorded on its automated records with amounts invoiced, and**
- ensure that all adjustments to accounts receivable records are subject to independent review and approval by an employee who does not have access to the related collections.**

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

Budgetary and Year-End Closing

Finding 3

Certain year-end closing transactions were not always adequately supported and reporting discrepancies were noted.

Analysis

DSP's budgetary year-end closing transactions for fiscal year 2014 were not always adequately supported or accurately reported.

- DSP did not maintain adequate documentation to support that revenues recorded during the fiscal year 2014 budgetary closeout totaling \$28.2 million were available to cover incurred expenditures. To the extent that revenues are

not available, general fund appropriations (or deficiency appropriations) may be needed to eliminate any resulting deficits. Specifically, DSP could not substantiate the propriety of four federal and reimbursable fund revenue transactions tested totaling approximately \$13.4 million that were processed during the fiscal year 2014 budgetary closeout. As of May 11, 2015, DSP could not clearly document that it received any of this revenue. In addition, revenue for invoices related to CVED and ASSED expenditures totaling \$14.8 million was recorded at year-end to cover special fund expenditures even though the related funds had already been received and recorded in fiscal year 2014; this error improperly reduced the deficit balance of \$44.2 million (mentioned in Finding 1) on the State's accounting records.

- DSP did not accurately report and did not have valid legal justification for retaining certain special funds at year-end. DSP reported to the Comptroller of Maryland that it retained special fund balances as of June 30, 2014 in four budgetary programs totaling \$22.9 million and included legal references for each balance. However, the legal references reported by DSP provided justification for retaining only \$7.2 million of these funds, and legal justification for retaining the remainder of these funds (\$15.7 million, which related to external services mentioned in Finding 1) did not substantiate that these funds could be retained. Furthermore, the reimbursable nature of certain of these funds would preclude the retention of any fund balances. Finally, as mentioned in Finding 1, DSP accounted for revenue and expenditure activity for unrelated activities in two separate special funds, and was unable to explain or provide detailed documentation of the balances of those funds as of June 30, 2014. Therefore, the actual portion of those balances that could be legally retained is unknown.

The Comptroller of Maryland – General Accounting Division's (GAD) year-end budget closeout instructions require that proper detailed documentation of revenue transactions recorded to cover expenditures be maintained by State agencies to support their accounting transactions and for audit. In addition, State law requires any unspent balance of each appropriation made for the fiscal year to revert to the State's General Fund unless otherwise provided for by State law. GAD's closing instructions provide that all special fund balances to be retained are to be reported along with the legal justification for retaining the funds.

Recommendation 3

We recommend that DSP

- a. ensure that all revenue transactions recorded to cover expenditures are accurate and adequately supported, and work with the Department of Budget and Management to resolve any deficit balances; and**

- b. ensure that special fund balances are accurately reported in the budgetary close-out process and that there is valid legal justification for special funds to be retained, and revert any improperly retained special funds to the State's General Fund.

Procurements

Background

We judgmentally selected and reviewed the procurements for the five contracts listed in the table below, which were collectively valued at \$16.1 million.

Schedule of Tested Contracts

Contract Service	DNA Testing	Transmission Repair	Latent Print Services	Psychological Testing	E911 System
Contract Period	10/1/13 to 9/30/18	10/1/14 to 9/30/19	6/13/13 to 6/12/18	3/1/14 to 2/28/19	7/25/12 to 7/24/19
Contract Not to Exceed Amount	\$5.0 million	\$1.6 million	\$2.0 million	\$400,000	\$7.1 million
Contract Expenditures as of October 19, 2015	\$426,200	\$153,400	\$381,800	\$54,600	\$0

Source: State's accounting records and DSP records

Finding 4

DSP did not include or could not support the approximate quantities of services needed in its solicitations for certain contracts tested.

Analysis

DSP did not include or could not support the approximate quantities of services needed in its solicitations for four of the five contracts tested totaling \$9.0 million. Information about the expected levels of services could impact vendors' bidding decisions, as well as the outcome of the bid evaluation processes (see Finding 5). Therefore, the failure to provide such information based on a documented rationale impedes DSP's ability to determine whether it received the most favorable bids, made the appropriate award decisions, and established reasonable contract values. Furthermore, State procurement regulations require that solicitations provide an approximate quantity of goods or labor for an indefinite quantity contract.

- For two contracts tested (transmission repair and DNA testing), totaling \$6.6 million, an approximate quantity was not provided for each of the service types included in the procurement solicitation. For example, for the transmission repair contract, DSP solicited unit prices for the repair of 39 different types of DSP vehicles without providing any estimate of the expected transmission repair activity for each vehicle type (see Finding 5). The award was made based on the sum of these unit prices without regard to the expected activity. For the DNA testing contract, DSP only provided an overall estimated number of crime scene cases requiring analysis, but did not provide an estimated quantity for each of the 46 categories for which a price was solicited. As a result, the ultimate value of these contracts had no documented correlation to expected contract needs. Also, as noted in Finding 5, this condition adversely impacted the bid evaluation processes.
- For two other contracts tested (latent print services and psychological testing), totaling \$2.4 million, the approximate quantities provided in the solicitations could not be supported. For example, for the latent print services contract, DSP solicited an hourly rate for approximately 100 hours of work annually onsite at DSP and an hourly rate for another 100 hours of work at the contractor's location. DSP advised us that the approximate quantities was based on an estimation of the services to be expected and the amount of the previous contract for related services; however, no documentation could be provided to support this explanation.

Recommendation 4

We recommend that DSP

- ensure that procurement solicitations contain the approximate quantities of the specific items or services needed, and**
- document the basis of approximate quantities to be used in the solicitations.**

Finding 5

Procedural and documentation deficiencies were noted regarding the evaluation of vendor bids for certain service contracts.

Analysis

A number of deficiencies were noted in the processes used to evaluate and award three of the five service contracts tested which, in some cases, raise questions as to the propriety of the award decisions and the related contract values. In addition, none of the awards was published on *eMaryland Marketplace* (eMM) as required.

- Technical evaluations were not completed and adequately documented for two of the contracts tested (psychological and DNA testing), totaling \$5.4 million. Specifically, we noted instances in both of these contract evaluations in which certain team and individual technical evaluations were not signed by the evaluators and, for the psychological testing contract, some of the evaluation forms were incomplete in that all of the evaluation attributes were not addressed by the applicable evaluators.
- For two of the contracts tested (transmission repair and DNA testing), totaling \$6.6 million, the basis for evaluating the financial proposals, which was integral to the award decisions, did not seem reasonable. Specifically, DSP evaluated the proposals and selected the best proposal based on the sum of the price quotes for each type of service without the ability to consider the total estimated quantities needed (as noted in Finding 4). This methodology would be reasonable if the expected levels of services for each of the service types were the same, which is not the case for these two contracts. As a result, the evaluation methodology did not provide assurance the two contracts had been awarded to the vendors providing the best value to the State. In this regard, for the transmission repair contract (which was split into five State regions), a vendor was awarded the contract for one of the larger regions even though its unit price (\$1,300) for one of the 39 vehicle types, which accounted for approximately half of DSP's fleet, was on average \$115 more than the losing bidder's price.
- DSP awarded a portion of the contract for transmission repair to a vendor that did not meet all required specifications. The solicitation for this contract required vendors to have a location in each region for which they were submitting a response to the solicitation. However, DSP awarded the contract for four regions to one vendor even though that vendor did not have a location in any of the four regions. Furthermore, we were unable to determine how DSP evaluated the qualifications of another vendor awarded the contract for the fifth region, because DSP did not retain all of the related solicitation documents, such as the vendor's technical response.
- The award for the psychological testing contract was not consistent with the winning vendor's bid. Specifically, the psychological testing contract was awarded for \$400,000 even though the winning vendor's bid, based on DSP's estimate of service units required (which could not be substantiated as noted in Finding 4) and the vendor's unit price, totaled approximately \$201,000. DSP advised us that it awarded the contract for the higher amount to reflect actual estimated usage and to avoid having to process change orders in case it underestimated the quantity.

- DSP did not publish any of the five awards on eMM as required by State procurement regulations for contracts valued at more than \$25,000.

Recommendation 5

We recommend that DSP

- ensure evaluations are completed and adequately documented,**
- ensure the methodology used to evaluate financial proposals helps ensure the winning vendor's bid provides the best value to the State based on anticipated service needs,**
- award contracts only to vendors that meet the contract requirements established in the procurement solicitations and retain all critical bid documentation,**
- maintain documentation supporting the basis for award amounts including how those amounts relate to the winning vendor's bids, and**
- publish contract awards on eMM as required.**

Handgun Registration

Background

Obtaining and registering a handgun in Maryland is a multi-step process with specific procedural and documentation requirements for handgun dealers, DSP, and handgun applicants as noted in the accompanying chart. The Firearms Safety Act of 2013, effective October 1, 2013, provides that a handgun dealer or any other person may not sell, rent, or transfer a handgun unless the individual receiving the handgun first obtains and presents to the dealer or other person a valid Handgun Qualification License (HQL) issued by DSP. State law requires HQL applicants to be fingerprinted, to submit to an initial criminal background check by DSP, and to complete an

Maryland's Handgun Registration Process

1. Handgun Qualification License (HQL)

- Individual is fingerprinted and has the results submitted to DSP.
- Individual completes a DSP approved handgun safety course (unless exempt).
- Individual completes the online HQL application and pays the \$50 license fee.
- A DSP civilian clerk conducts a full criminal background check and, if not disapproved, issues an HQL within 30 days of receiving an application.

2. Handgun Registration

- Individual completes a paper handgun registration application and dealer (or individual if private sale) submits application to DSP.
- A DSP civilian clerk enters information into automated records and conducts a full criminal background check.
- DSP notifies dealer/individual of disposition within 7 days.
- Preliminary handgun information is entered into automated records.
- Monthly, DSP bills each dealer \$10 for each application.

3. Completed Sale

- Dealer submits completed application to DSP within 7 days of handgun transfer.
- DSP records final handgun sale information in automated records.

approved handgun safety course. Certain individuals, such as former police officers, are exempt from the HQL requirement.

Once an HQL is obtained (or is exempt as noted above) the individual may submit a handgun registration application to the dealer (or individual if a private sale), which is then forwarded to DSP for evaluation, including another criminal background check. If the application is not disapproved¹ by DSP, the handgun can be transferred. The dealer is then required to submit final transfer documentation to DSP.

DSP uses certain automated systems and databases to track HQL and handgun registration activity.

- **MyLicense** is a web-based system that is used by applicants to complete and submit their HQL applications. DSP uses MyLicense to process and track HQL applications and the status of the initial criminal background checks, and also to print the HQL.
- **Information Sharing for Applicant Background and Licensing (ISAB&L)** was implemented in January 2014 to receive and monitor handgun registration application activity, including timely processing, and serves as the accounts receivable record for application fees due from dealers.
- **Maryland Automated Firearms Services System (MAFSS)** is the official record of regulated firearms, including handguns, in the State, and records firearms information and data from the registration applications. MAFSS is also used for a variety of law enforcement purposes, such as to assist in investigating crimes. The Department of Public Safety and Correctional Services is responsible for the maintenance and security of MAFSS.

According to MAFSS, as of May 12, 2015, there were approximately 1.1 million regulated firearms registered to approximately 700,000 individuals in Maryland. According to DSP records, DSP received approximately 16,300 HQL applications and 31,000 finalized handgun registration applications during calendar year 2014. Firearm (including handgun) and HQL application fee collections during fiscal year 2014 totaled \$976,000 and \$573,000 respectively, according to the State's accounting records.

¹Not disapproved is the terminology used by DSP for approved.

Finding 6**DSP's procedures for processing HQL and handgun registration applications lacked certain controls.****Analysis**

DSP's procedures for processing HQL and handgun registration applications lacked certain necessary controls.

- DSP did not require dealers to submit a copy of an applicant's HQL with the handgun registration application as required by State law. DSP management informed us that clerks processing applications are required to review MyLicense to determine the validity of the HQL; however, this review is not always documented. DSP also did not take appropriate measures to verify that applicants who were exempt from the HQL requirements possessed a valid exemption. Although we were advised that dealers were required to inspect evidence of a valid exemption, DSP did not instruct dealers how to document the verification. Rather, DSP relied on information provided on the handgun application by the applicant without any specific indication that the dealer had inspected exemption evidence. While not required by State law, DSP could require dealers to record on the application the evidence (such as employment credentials) sighted during the application process to provide additional assurance regarding the validity of the exemption claimed.

DSP performs dealer audits, which include a review of the dealer's records; however, these audits would not verify an applicant's HQL or related exemption since the dealer may not retain the HQL or evidence of the exemption sighted during the application process.

- DSP did not have a procedure in place to readily identify and follow-up on dealers who did not submit to DSP each finalized handgun registration application within seven days of delivery of the handgun to the applicant, as required by State law. Specifically, DSP did not determine the disposition of all applications submitted that were initially recorded in ISAB&L for which a final application was not received.

Our test of 40 handgun registration applications that were not disapproved and, according to various DSP records, were transferred during the period from April 2013 through January 2015 disclosed that the finalized applications for 21 handguns were received late, including 10 that were received from 20 to 201 days after the handguns were transferred. Our test also disclosed one finalized application for a handgun transferred on February 14, 2014 that had not been received. In response to our inquiries, DSP

obtained a copy of the finalized application from the dealer on April 12, 2015, which was 422 days after the handgun was transferred.

- Numerous individuals were assigned capabilities on ISAB&L that allowed them to approve handgun applications even though they did not require it. For example, 13 individuals had such access capabilities even though they were no longer employed by DSP, and 6 DSP employees did not need the assigned access capabilities to perform their regular job duties. In addition, 14 employees were assigned administrator access capabilities that allowed them to change the status of an application without independent approval (such as from disapproved to not disapproved). Because DSP did not produce an output report of these status changes, improper changes would not be readily detected.

Recommendation 6

We recommend that DSP

- a. require dealers to submit a copy of the HQL with the handgun application as required by law and explore options to provide additional assurance that license exemptions were appropriate,**
- b. establish procedures to ensure that all finalized handgun applications are received on a timely basis as required by State law,**
- c. restrict user access capabilities to ISAB&L to employees who require it for their regular job duties, and**
- d. produce system output reports of handgun application status changes and ensure such changes are independently reviewed for propriety.**

Finding 7

Quality control procedures conducted to ensure the propriety of the HQL and handgun registration process and related records were not comprehensive.

Analysis

DSP had several processes to help ensure the propriety of the HQL and handgun registration processes and the related records, including quality control reviews of selected registrations and audits of dealer records. Our review disclosed that the quality control procedures conducted by DSP were not comprehensive.

- DSP did not adequately ensure that handgun registration data recorded in ISAB&L and MAFSS were accurate. Handgun registration information (such as name of registrant, gun make, and serial number) is manually entered into both ISAB&L and MAFSS. We were advised that the MAFSS information is

verified during independent quality control reviews of selected registrations (generally 10 percent of registrations processed) and during dealer audits. However, based on our analysis, these verification procedures do not appear to be sufficient given certain discrepancies we identified. Our automated comparison of approximately 27,500 applications that were recorded in ISAB&L from May 16, 2014 through March 31, 2015 with the related applications recorded in MAFSS disclosed approximately 4,000 instances in which the handgun serial numbers in ISAB&L and MAFSS were different.

These discrepancies could be caused by clerical errors when the application information is recorded into those systems as well as illegible information on the handwritten registration applications. While dealer audits performed by DSP help identify such discrepancies, we noted instances in which errors in the MAFSS data during those audits were not always corrected. Accurate handgun information in MAFSS is critical because MAFSS is the official record of handguns in the State and is one of the sources used by law enforcement when investigating crimes involving a handgun.

- Certain applications were excluded from DSP's independent quality control reviews that are performed to ensure the proper evaluation and disposition of HQL and handgun applications. Specifically, HQL and handgun applications that required a secondary evaluation because of possible criminal activity were excluded from the aforementioned reviews. We notified DSP of this issue during the audit and, effective March 2015, DSP updated its policies and procedures to include these applications in the independent quality control review process.

HQL and handgun registration applications were processed by civilian clerks based on a review of submitted documentation. Applications were forwarded for a secondary review to another clerk or a sworn officer if the review of the criminal background check disclosed any criminal activity. The independent quality control reviews are necessary since the secondary reviews only determine whether the criminal activity disclosed on the criminal background check disapproves an applicant but does not determine the accuracy of the work performed by the civilian clerks over the applications.

Recommendation 7

We recommend that DSP

- a. enhance existing procedures and controls to ensure accurate data are recorded in ISAB&L and MAFSS and investigate and correct questionable data deemed to be critical to the integrity of those systems,**

- b. ensure that all errors or other discrepancies noted during dealer audits are corrected, and
- c. include all HQL and handgun applications in the independent quality control review process in accordance with its new procedure.

Finding 8

Controls over handgun registration application fees and related accounts receivable records were not sufficient.

Analysis

Controls over handgun registration application fees and the related accounts receivable records were not sufficient. On a monthly basis, DSP invoiced handgun dealers \$10 for each application submitted by the dealer during the month. The related accounts receivable records were maintained on ISAB&L. During fiscal year 2014, firearm (including handgun) application fee collections totaled \$976,000, according to the State's accounting records.

- Handgun application fees were not adequately controlled when first received. Specifically, checks received through the mail were not initially recorded and restrictively endorsed until being processed by a second employee.
- DSP did not periodically reconcile fee collections recorded in the State's accounting records with the payments recorded in the accounts receivable records on ISAB&L.
- Three employees who processed collections were assigned capabilities on ISAB&L that allowed them to update the related accounts receivable records.

The Comptroller of Maryland's *Accounting Procedures Manual* requires the immediate recordation and endorsement of checks upon receipt, segregate cash handling duties from accounts receivable record keeping functions, and periodically compare cash receipts with the corresponding credits to accounts receivable records.

Recommendation 8

We recommend that DSP

- a. ensure that collections are recorded and restrictively endorsed immediately upon receipt,
- b. implement an independent reconciliation of collections recorded in the State's accounting records with payments recorded in the accounts receivable records on ISAB&L, and

- c. ensure that employees who have access to cash receipts do not also have access to the related accounts receivable records.

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

Information Systems Security and Controls

Background

DSP's Information Technology Division is responsible for information technology and communications management in support of field troopers, investigators, support personnel, allied law enforcement agencies, state and local government agencies, and the citizenry. DSP's information technology environment includes an integrated computer network that provides connections to a number of servers and workstations. Key network resources include the citation system, which is used for citations, warnings, field observation reports, and vehicle safety equipment repair orders, and the Records Management System (RMS). RMS is used by State troopers to record incidents (such as vehicle infractions and robberies), retain this information, and make it available when needed (for example, for court appearances). In addition, DSP had Internet connectivity and used firewalls and an intrusion prevention system to protect its network.

Finding 9

Firewalls, the intrusion prevention system, and three virtual private networks were not configured to ensure DSP's network was properly secured.

Analysis

Firewalls, the intrusion prevention system (IPS), and three virtual private networks (VPNs) were not configured to ensure DSP's network was properly secured.

- Firewall rules allowed numerous unnecessary connections to portions of DSP's network, placing various devices at risk. For example, numerous rules allowed many devices within untrusted network segments to have network level access to all DSP internal devices over various ports. In addition, we identified 10 firewall rules that were outdated and should be removed to better protect the network.

- Traffic between untrusted third parties and the devices in DSP's neutral network zone was not subject to IPS coverage. We determined that DSP's IPS appliances were not positioned to review traffic between these untrusted third parties and the devices, including important web and application servers, in DSP's neutral network zone.
- Traffic from three third-party business partners (for example, other State agencies) to DSP via VPNs was not adequately restricted. For example, we noted that, through one of these three VPNs, numerous third-party devices could access almost the entire DSP internal network via all ports.

The State of Maryland's *Information Security Policy* states that information systems shall be configured to monitor and control communications at the external boundaries of the information systems and at key internal boundaries within the systems. The *Policy* also specifies that intrusion detection/prevention tools and techniques must be employed to monitor system events, detect attacks, and identify unauthorized use of information systems and/or confidential information.

Recommendation 9

We recommend that DSP

- configure its firewalls and VPNs to adequately secure its network, and**
- properly position and configure its IPS appliances to review all traffic between untrusted third parties and the devices in DSP's neutral network zone.**

Finding 10

Procedures for maintaining and securing DSP's numerous workstations were not sufficient.

Analysis

Procedures for maintaining and securing approximately 2,400 DSP workstations were not sufficient.

- DSP was running an outdated and unsupported workstation operating system on its network for many months. Specifically, we identified 1,034 active workstations which were running the outdated and unsupported operating system. The operating system vendor no longer provides security updates for this operating system, leaving workstations running this operating system vulnerable to attack. The State of Maryland's *Information Security Policy* specifies that system hardening procedures shall be created and maintained to

ensure up-to-date security best practices are deployed for all systems including operating systems.

- Certain workstations were configured with users having administrative rights. Administrative rights are the highest permission level that can be granted to users and allow users to install software and change configuration settings. Our test of eight workstations disclosed that two employees' user accounts were inappropriately defined with administrative rights rather than with user rights. As a result, if the workstations used by accounts with administrative rights were infected with malware, the malware would run with administrative rights and expose these workstations to a greater risk of compromise than if the workstations' user accounts operated with only user rights.
- Workstations tested had not been updated with the latest releases for software products that are known to have significant security-related vulnerabilities. Although the vendors for these software products frequently provide software patches to address these vulnerabilities, DSP had not updated all of its computers for these patches. For example, of eight workstations tested for one of these software products we noted that four workstations were running older versions of this software.

Recommendation 10

We recommend that DSP

- a. update all workstations with outdated operating system software to a manufacturer supported version,**
- b. limit local administrative rights on user workstations to only personnel that require such rights, and**
- c. keep its workstations up-to-date for all critical security-related updates to potentially vulnerable installed software.**

Finding 11

DSP lacked assurance that adequate security and operational controls existed over its RMS.

Analysis

DSP lacked assurance that adequate security and operational controls existed over its RMS that was hosted by a third-party service provider. The RMS contains personally identifiable information of some (but not all) individuals involved in recorded incidents (such as vehicle infractions and robberies). The primary third-party service provider for the RMS provides hardware, software, support, and training services. The primary provider hosts the RMS at a subcontractor's data

center. This subcontractor is responsible for physical security controls, environmental controls, Internet connectivity, and disaster recovery services.

As of April 2015, DSP had neither performed independent security reviews at the primary service provider or the subcontractor for the RMS nor obtained reports of independent, standards-based security reviews of these two providers that included tests of controls to ensure that the controls identified were operational. Although we were advised that other reviews were conducted, these reviews were not comprehensive and were not performed annually. Furthermore, the agreement between the State of Maryland's Department of Information Technology (which initiated this contract on behalf of DSP) and the primary service provider did not require that comprehensive, independent standards-based reviews, that included tests of controls to ensure that the controls identified were operational throughout the period under review, be performed.

As a result of the aforementioned conditions, DSP lacked assurance that certain controls were in effect for the RMS, including the following:

- data in transit, data at rest, and backed-up data are encrypted
- intrusion detection, anti-virus and malware prevention, vulnerability scanning, and patch management have been implemented
- reports of privileged user access activities, authorized and unauthorized access attempts, and information security events are reviewed on a regular basis
- policies and procedures for user account and password controls for applications, databases, the server, and network infrastructure are in accordance with the State of Maryland's *Information Security Policy*
- network segments are separated by firewalls to ensure compliance with legislative, regulatory, and contractual requirements and that production and non-production environments are segmented
- documented policies and procedures exist and have been implemented for business continuity and/or disaster recovery
- data is backed up, stored offsite in an appropriate facility, and that such backup and storage procedures are tested regularly

The American Institute of Certified Public Accountants has issued guidance for auditing and reporting on reviews of service providers. This guidance

encompasses several types of reviews and related Service Organization Control (SOC) reports including a SOC 2 Type 2 review and report. A SOC 2 Type 2 report, which includes a review of controls placed in operation and tests of operating effectiveness for the period under review, would provide DSP with assurance as to the propriety of the design and operation of critical controls. A SOC 2 Type 2 report could include an evaluation of security, availability, processing integrity, confidentiality, and privacy over the RMS.

Recommendation 11

We recommend that DSP

- a. request the Department of Information Technology to initiate efforts to amend the contract to require that the primary provider and any subcontractors performing material services for the RMS periodically obtain SOC 2 Type 2 reviews and reports for the provided services to ensure that adequate controls exist over the RMS,**
- b. obtain and review copies of these SOC 2 Type 2 reports from the primary provider and its subcontractors and determine if the related independent reviews adequately address the aforementioned security concerns over the RMS, and**
- c. ensure that the primary provider and its subcontractors implement all critical recommendations made in the reports.**

Equipment

Finding 12

DSP did not establish adequate controls over its equipment.

Analysis

DSP did not establish adequate controls over its equipment. DSP's equipment balance reported to the Department of General Services (DGS) as of June 30, 2014 totaled approximately \$276.9 million (including vehicles).

- DSP did not complete annual physical inventories of sensitive equipment as required. According to DSP records as of April 2015, physical inventories of sensitive equipment were not conducted for 95 of the 113 DSP locations during calendar year 2014. In addition, the results of the inventories of sensitive equipment conducted in the remaining 18 locations were not reconciled with the related detail records.
- DSP did not always record equipment purchases. Specifically, our test of eight equipment purchases made between August 2013 and June 2014,

totaling \$2.5 million, disclosed that three equipment purchases totaling approximately \$140,000 had not been recorded in the detail records as of March 2015. For example, one purchase made in May 2014 of video streaming and management equipment totaling \$85,000 was not recorded in the detailed records.

Similar conditions regarding inadequate inventories and the failure to record equipment purchases have been commented upon in our six preceding audit reports dating back to January 1998. The DGS *Inventory Control Manual* requires that annual physical inventories be conducted for sensitive equipment, that variances be investigated and resolved, and that related documentation be retained for audit and verification purposes. The *Manual* also requires the recordation of all capital equipment items in the detail records for identification and control purposes.

Recommendation 12

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

- a. conduct physical inventories at the required intervals, reconcile the results of the inventories with the related detail records, and promptly investigate and resolve all differences (repeat); and**
- b. record all equipment purchases in the related inventory records in a timely manner (repeat).**

Audit Scope, Objectives, and Methodology

We have conducted a fiscal compliance audit of the Department of State Police (DSP) for the period beginning December 20, 2011 and ending December 31, 2014. 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 DSP'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 handgun registrations, payroll, cash receipts (including handgun registration application fees and reimbursement from other governmental units and private entities for external services provided), accounts receivable, procurements and disbursements, information systems, and equipment inventories. We also determined the status of the findings contained in our preceding audit report.

Our audit did not include an evaluation of internal controls over compliance with federal laws and regulations for federal financial assistance programs (such as the Homeland Security Grant Program) and an assessment of DSP's compliance with those laws and regulations because the State of Maryland engages an independent accounting firm to annually audit such programs administered by State agencies, including DSP and the Maryland Center for School Safety.

To accomplish our audit objectives, our audit procedures included inquiries of appropriate personnel, inspections of documents and records, observations of DSP'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) and the State's Central Payroll Bureau (payroll data), as well as from the contractor administering the State's Corporate Purchasing Card Program (credit card activity). 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 various sources were sufficiently reliable for the purposes the data were used during this audit. We also extracted data from DSP's Maryland Automated Firearms Services System and the Information Sharing for Applicant Background and Licensing system for the purpose of testing various handgun registration requirements. 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.

DSP'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.

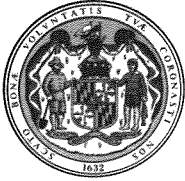
Because of inherent limitations in internal control, errors or fraud may nevertheless occur and not be detected. Also, projections of any evaluation of internal control to future periods are subject to the risk that conditions may change or compliance with policies and procedures may deteriorate.

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 DSP'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 DSP that did not warrant inclusion in this report.

The response from DSP 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 DSP regarding the results of our review of its response.

APPENDIX



LARRY HOGAN
GOVERNOR

BOYD K. RUTHERFORD
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COLONEL
WILLIAM M. PALLOZZI
SUPERINTENDENT

November 19, 2015

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

Dear Mr. Barnickel:

This letter is in response to the final OLA Fiscal Compliance Audit Report for the Maryland Department of State Police (MDSP) for the period beginning December 20, 2011 and ending December 31, 2014. Enclosed please find the Department's response to the Report. The Report notes compliance findings where substantial improvements are needed, and recognizes certain positive recommendations, which may serve as "model" practices.

The MDSP has developed a draft remedial action strategy and is using the audit findings as a guide for program and process improvements. We are developing near and long term corrective measures to improve elements in our Department. The MDSP looks forward to working with the Office of Legislative Audits to improve our Department and in turn improve the quality of the State's resources.

If you need additional information regarding this response, please contact Mr. Paul Abell, Chief Financial Officer, at 410-653-4245. Thank you for the opportunity to respond to the Compliance Audit Report.

Sincerely,

William M. Pallozzi
Superintendent

WMP:ks

Enclosure

"Maryland's Finest"



Audit Report

Department of State Police Response to Office of Legislative Fiscal Compliance Audit DECEMBER 20, 2011 TO DECEMBER 31, 2014

November 2015

Finding 1

DSP did not properly account for financial activity pertaining to certain special funds for which the related year-end balances appeared questionable.

Recommendation 1

We recommend that DSP

- a. establish separate accounts to individually track financial transactions, including fund balances, for reimbursable services provided to external entities;**
- b. ensure that all applicable financial transactions are properly recorded;**
- c. investigate the aforementioned fund balances to determine the portion applicable to each special fund activity and make the necessary adjustments in the accounting records; and**
- d. in conjunction with the Department of Budget and Management, determine whether certain activity should be budgeted and accounted for as reimbursable funds.**

DSP Response:

- a. DSP Agrees:** DSP will establish separate accounts to individually track financial transactions, including fund balances, for reimbursable services provided to external entities. DSP has already conferred with the General Accounting Division, who have assisted DSP in setting up the separate accounts for each reimbursable service.
- b. DSP Agrees:** DSP is currently in the process of ensuring that all applicable financial transactions are properly recorded by performing a quarterly reconciliation to match revenues to expenses and investigate any differences. This is an ongoing process.
- c. DSP Agrees:** DSP is in the process of investigating the aforementioned fund balances to determine the portion applicable to each special fund activity and make the necessary adjustments in the accounting records by June 30, 2016.
- d. DSP Agrees:** DSP will, in conjunction with the Department of Budget and Management, determine whether certain activity should be budgeted and accounted for as reimbursable funds. The DSP met with DBM on November 8, 2015 and agreed to leave as Special Funds since separate funds have been created.

Finding 2**DSP lacked adequate controls over special fund collections and related accounts receivable.****Recommendation 2****We recommend that DSP**

- a. ensure that collections are recorded and restrictively endorsed immediately upon receipt,**
- b. require an employee independent of the collections function to verify that all recorded collections were subsequently deposited,**
- c. ensure that all reimbursable overtime was properly billed by reconciling timesheet data recorded on its automated records with amounts invoiced, and**
- d. ensure that all adjustments to accounts receivable records are subject to independent review and approval by an employee who does not have access to the related collections.**

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

DSP Response:

- a. DSP Agrees:** Effective July 1, 2015, checks received in the Finance Division are immediately recorded and/or restrictively endorsed upon receipt; and the recordation and endorsement occurs the same day of the receipt of the check(s). In addition, check handling will be limited to only the employees who have keys to the money bag for deposit.
- b. DSP Agrees:** The deposit verification function is currently performed by an employee independent of the cash receipts process that does not have direct access to the related collections. The employee verifies that all recorded cash collections were subsequently deposited.
- c. DSP Agrees:** The Finance Division has taken steps to create and implement an Accounts Receivable Excel worksheet to record each vendor's name, Z- number, and the amount to be billed and the corresponding invoiced amount billed at each payroll pay period ending (PPE), to ensure the completeness of the amounts billed. Upon completion of each billing/invoicing pay period ending, the amounts recorded will be reconciled to the amounts invoiced, and any discrepancy will be determined and resolved.
- d. DSP Agrees:** Beginning this fiscal year, July 1, 2015, the Finance Division contacted the DOIT FMIS Helpdesk to request and to create a special Focus Report (W00T200A) that shows a User-ID of employees who entered a non-cash adjustment each month. This report will indicate the initiator of the non-cash credits adjustment to the accounts receivable records to ensure the segregation of duties between the employee who initiated the transaction and the individual who independently reviews and approves the transaction in FMIS. The reviewer will verify, initial, and date the report after the review for audit purposes.

Finding 3

Certain year-end closing transactions were not always adequately supported and reporting discrepancies were noted.

Recommendation 3

We recommend that DSP

- a. ensure that all revenue transactions recorded to cover expenditures are accurate and adequately supported, and should work with the Department of Budget and Management to resolve any deficit balances; and**
- b. ensure that special fund balances are accurately reported in the budgetary close-out process and that there is valid legal justification for special funds to be retained, and revert any improperly retained special funds to the State's General Fund.**

DSP Response:

- a. DSP Agrees:** DSP is currently in the process of ensuring that all revenue transactions recorded to cover expenditures are accurate and adequately supported, by implementing quarterly reviews, and will continue to work with the Department of Budget and Management should there be any deficient balances.
- b. DSP Agrees:** DSP is in the process of ensuring that special fund balances are accurately reported in the budgetary close-out process and that there is valid legal justification for special funds to be retained, and revert any improperly retained special funds to the State's General Fund by year-end close on June 30, 2016.

Finding 4

DSP did not include or could not support the approximate quantities of services needed in its solicitations for certain contracts tested.

Recommendation 4

We recommend that DSP

- a. ensure that procurement solicitations contain the approximate quantities of the specific items or services needed, and**
- b. document the basis of approximate quantities to be used in the solicitations.**

DSP Response:

- a. DSP Agrees:** The Quartermaster Division (QMD) has a Procurement Review Group (PRG) that reviews all solicitations prior to submission to the Control Agencies. The Director of QMD will ensure that the PRG verifies approximate quantities for the specific services or commodities are appropriate for the solicitation(s).
- b. DSP Agrees:** The QMD holds weekly meetings that include training with all procurement staff to ensure they are aware that proper research and documentation must be done to confirm the approximate quantities, whether by historical research or by gathering correct information from the DSP Installation/Unit/Division requesting the service or commodity.

Finding 5

Procedural and documentation deficiencies were noted regarding the evaluation of vendor bids for certain service contracts.

Recommendation 5

We recommend that DSP

- a. ensure evaluations are completed and adequately documented,**
- b. ensure the methodology used to evaluate financial proposals helps ensure the winning vendor's bid provides the best value to the State based on anticipated service needs,**
- c. award contracts only to vendors that meet the contract requirements established in the procurement solicitations and retain all critical bid documentation,**
- d. maintain documentation supporting the basis for award amounts including how those amounts relate to the winning vendor's bids, and**
- e. publish contract awards on eMM as required.**

DSP Response:

- a. DSP Agrees:** The DSP QMD created a written standardized evaluation criteria within 2 weeks of the stated recommendation and submitted it to each member of the evaluation team. QMD will review the submitted evaluations for accurate completion upon submission.
- b. DSP Agrees:** The DSP QMD will ensure all bidders are properly prepared to bid for each type of service or commodity based on estimated (historical) quantities or require the most accurate estimate received on the pricing sheet from the DSP Installation/Unit/Division requesting the service or commodity. In addition, this training is a part of the weekly procurement meetings held with all procurement staff to ensure their methodology used to evaluate financial proposals are logical and that the bidder's proposals provide the best value to the state.
- c. DSP Agrees:** The DSP QMD has a Procurement Review Group (PRG) that reviews all solicitations prior to submission on eMaryland Marketplace or to the Control Agencies. The PRG shall also review solicitations when returned from vendors that are over \$25,000 prior to submission to the Control Agencies and before entering into eMaryland Marketplace for award. The DSP QMD has created a checklist that is a working document for the contract requirements established in the solicitations and require the procurement staff to complete and maintain the checklist as part of the procurement package.
- d. DSP Agrees:** The DSP QMD will maintain all procurement documentation pertaining to a solicitation in one contract file. The DSP QMD procurement manual references these policies and procedures.
- e. DSP Agrees:** The DSP QMD immediately posted the eMaryland Marketplace (eMM) training modules and instructions on the DSP QMD share drive for all its procurement staff to reference when publishing contract awards. All personnel have been trained as of November 10, 2015.

Finding 6

DSP's procedures for processing HQL and handgun registration applications lacked certain controls.

Recommendation 6

We recommend that DSP

- a. require dealers to submit a copy of the HQL with the handgun application as required by law and explore options to provide additional assurance that license exemptions were appropriate,**
- b. establish procedures to ensure that all finalized handgun applications are received on a timely basis as required by State law,**
- c. restrict user access capabilities to ISAB&L to employees who require it for their regular job duties, and**
- d. produce system output reports of handgun application status changes and ensure such changes are independently reviewed for propriety.**

DSP Response:

- a. DSP Disagrees:** During the 2013 Legislative Session the Maryland General Assembly passed the Firearms Safety Act of 2013. This legislation, effective October 1, 2013, changed many aspects of gun licensing and regulation in Maryland. One such aspect is the required automation of Maryland's regulated firearm purchase and transaction process. To that end, the DSP does not require a dealer to make and submit a paper copy of an HQL for applicable applications to purchase a regulated firearm. Instead the DSP ensures the validity of HQL internally by crosschecking the HQL number against the HQL issuing database, MyLicense. The Department has drafted corrective legislation that seeks to repeal the requirement of paper submission within the current law that requires automation. During the 2013 and 2014 annual Regulated Firearms Dealer training seminars the DSP trained dealers on the exemption requirements of the HQL. This training literature remains posted to the DSP website. Training includes information regarding recognizing and validating law enforcement credentials as well as a direct link to the United States Armed Forces website for credentialing verification. In an effort to ensure dealers are complying with exemption requirements the DSP will increase the sample size of HQL exemption transactions during its required dealer audits and document the verification process.

Auditor's Comment: DSP states in its response that it disagrees with the recommendation to require dealers to submit a copy of the HQL with the handgun application because it verifies the HQL in MyLicense. However, as noted in the finding, these verifications were not always documented. DSP also states that it will submit legislation to remove the requirement for the submission of the HQL. Nevertheless, DSP should comply with current law requiring the submission of the HQLs until the requirement is repealed.

- b. DSP Agrees:** Standard Operating Procedure No. 29-1506, dated 6/2/2015 has been established in ISAB&L's functionality to ensure that all finalized handgun applications are received within seven days of delivery of the handgun to the applicant.

- c. DSP Agrees: In order to access ISAB&L a user must be on DSP's network and must have the ISAB&L client installed on the computer being used to access the data. The DSP has restricted user access capabilities to ISAB&L to employees who require it for their regular job duties.
- d. DSP Agrees: ISAB&L ensures that every field level data change is logged and every application record has an Application History report that displays the original data of a field, the new data for that field, the date and time the change took place, and the user name of the person who made the change. This Application History is available on-demand. Based on recommendations made by OLA in April 2015, Licensing Division implemented additional quality control reporting processes in ISAB&L. Using the above noted functionality, DSP will produce system output reports of handgun application status that pulls 100% of applications processed to final disposition by ISAB&L Admins who do not process applications as part of their regular duties. Changes made by these employees will be independently reviewed for propriety.

Finding 7

Quality control procedures conducted to ensure the propriety of the HQL and handgun registration process and related records were not comprehensive.

Recommendation 7

We recommend that DSP

- a. enhance existing procedures and controls to ensure accurate data are recorded in ISAB&L and MAFSS and investigate and correct questionable data deemed to be critical to the integrity of those systems,**
- b. ensure that all errors or other discrepancies noted during dealer audits are corrected, and**
- c. include all HQL and handgun applications in the independent quality control review process in accordance with its new procedure.**

DSP Response:

- a. DSP Agrees:** A fundamental reason for the passage of the 2013 Firearms Safety Act and the subsequent automation of Maryland's regulated firearm purchase was to improve data quality. DSP agrees that a paper based business process that relies on the handwritten transmission of information such as names, firearm serial numbers, and dates of birth that supports on average 50,000 regulated handgun transitions annually is subject to illegibility and data entry errors on all sides; applicant, dealer and DSP processing employees. Full automation is in progress and is estimated to be in full operation by the end of FY 2016. It will significantly minimize the data discrepancies and the DSP will enhance existing procedures and controls to continue to ensure accurate data are recorded in ISAB&L and MAFSS and investigate and correct questionable data.
- b. DSP Agrees:** Standard Operating Procedure No. 29-1312 is in the process of being updated to ensure a better check and balance process to support auditors in correcting the MAFSS record when data discrepancies are noted.
- c. DSP Agrees:** From April 1, 2014 until July 27, 2015 the DSP verified 18,552 applications to ensure the applicant possessed a valid HQL. From September 23, 2013 through July 20, 2014 MSP conducted 16,689 quality reviews of 77R's processed by more than 30 sworn police officers. Based on recommendations made by OLA in April 2015, Licensing Division implemented the following Quality Control (QC) reporting processes in ISAB&L:
 - **QC Report #2: Monthly QC of Secondary Review** - This report includes a random percentage (selectable between 1-5%) of all applications processed to final disposition by Sworn Officers where the applications were escalated to Secondary Review. The report also allows the user to select and view the marked applications in order to perform QC checks and confirm the applications were processed correctly.
 - **QC Report #3: Quarterly QC of Admins** - This report pulls 100% of applications processed to final disposition by ISAB&L Admins who do not process applications as part of their regular duties.

Finding 8

Controls over handgun registration application fees and related accounts receivable records were not sufficient.

Recommendation 8

We recommend that DSP

- a. ensure that collections are recorded and restrictively endorsed immediately upon receipt,**
- b. implement an independent reconciliation of collections recorded in the State's accounting records with payments recorded in the accounts receivable records on ISAB&L, and**
- c. ensure that employees who have access to cash receipts do not also have access to the related accounts receivable records.**

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

DSP Response:

- a. DSP Agrees:** DSP requires that collections are recorded and restrictively endorsed upon receipt. DSP incorrectly interpreted "immediately" and therefore failed to require the employee who opened and sorted mail to restrictively endorse collections, instead requiring the employee assigned to record the collection as that employee responsible for the endorsement. The DSP has since updated its desk top procedures as referenced in SOP 29-1506.
- b. DSP Agrees:** DSP has implemented an independent reconciliation of collections recorded in the State's accounting records with payments recorded in the accounts receivable records on ISAB&L. This process will be in full operation no later than January 31, 2016.
- c. DSP Agrees:** Based on recommendations made by OLA in April 2015, DSP corrected the three accounts noted to ensure that employees who have access to cash receipts do not also have access to the related accounts receivable record.

Finding 9

Firewalls, the intrusion prevention system, and three virtual private networks were not configured to ensure DSP's network was properly secured.

Recommendation 9

We recommend that DSP

- a. configure its firewalls and VPNs to adequately secure its network, and**
- b. properly position and configure its IPS appliances to review all traffic between untrusted third parties and the devices in DSP's neutral network zone.**

DSP Response:

- a.** DSP Agrees: DSP has maintained substantial network and device security such as IDPS, firewalls and network monitoring. The State of Maryland's *Information Security Policy* are guidelines and not mandates according to the Maryland Department of Information Technology. In order to increase security beyond what currently exists, firewall rules have been reviewed in general and those deemed to be unnecessary have been removed. The scope of rules has been reviewed and the scope or range of access has been reduced to minimum levels. Rules are now being reviewed periodically to ensure their legitimacy. The new policies and procedures expect to be completed by January of 2016.
- b.** DSP Agrees: The former Intrusion Detection System appliances are no longer in service. DSP has procured a new IPDS product and it is in operation on the firewall. This provides protection to both the DSP internal network as well as the DMZ network and corrects the noted issues.

Finding 10

Procedures for maintaining and securing DSP's numerous workstations were not sufficient.

Recommendation 10

We recommend that DSP

- a. update all workstations with outdated operating system software to a manufacturer supported version,**
- b. limit local administrative rights on user workstations to only personnel that require such rights, and**
- c. keep its workstations up-to-date for all critical security-related updates to potentially vulnerable installed software.**

DSP Response:

- a. DSP Agrees: This is an issue that was discussed with OLA involving limited funding and staff to implement all audit recommendations and OLA understood DSP's limitations at the time of this audit. At the time of the audit, 1034 workstations were identified to have the outdated operating system product. As of November 4, 2015, that number is down to approx. 346 desktops and less than 50 laptops (excluding MDTs). Another ~85 will be replaced by the end of the Fiscal Year, and further reductions are funding dependent. DSP agrees as discussed with OLA to continue to replace outdated systems as funding becomes available to do so.
- b. DSP Agrees: Due to Information Technology staffing cuts and reductions, there are local administrators (IT Techs and other authorized individuals who repair computers) who have local administrative rights to the workstations to effect repairs all over the State, without having to drive to each location to fix a helpdesk ticket. This is also to allow the local admin access to install software updates, printers etc. without having to wait for an ITD technician. This is the most effective and efficient use of these limited personnel while balancing timely repairs and upgrades. This access has been reduced, but cannot be eliminated because of limited staff. This will be addressed in Standard Operating Procedures which will be developed and implemented by January of 2016.
- c. DSP Agrees: DSP previously used an older vendor software product to push PC updates once they were approved. The use was stopped when the pushes overwhelmed the old hardware and caused network issues across the board. A current vendor product is now in use and the licensing fee for a two year license is approximately \$100,000. As discussed with OLA, this is a funding issue as are almost all audit findings cited in this report.

Finding 11

DSP lacked assurance that adequate security and operational controls existed over its RMS.

Recommendation 11

We recommend that DSP

- a. request the Department of Information Technology(DoIT) to initiate efforts to amend the contract to require that the primary provider and any subcontractors performing material services for the RMS periodically obtain SOC 2 Type 2 reviews and reports for the provided services to ensure that adequate controls exist over the RMS,**
- b. obtain and review copies of these SOC 2 Type 2 reports from the primary provider and its subcontractors and determine if the related independent reviews adequately address the aforementioned security concerns over the RMS, and**
- c. ensure that the primary provider and its subcontractors implement all critical recommendations made in the reports.**

DSP Response:

- a. DSP Agrees:** DSP will contact Maryland Department of Information Technology (DoIT) by January of 2016 for this finding and corrective action. DoIT is responsible for the finding and corrective actions.
- b. DSP Agrees:** DoIT is the contract holder/manager for the statewide CAD/RMS and would have to amend the contract to require the reports and get the concurrence of the contractor. DSP agrees to make this request by January of 2016, however, it cannot guarantee or be held responsible for compliance with this finding.
- c. DSP Agrees:** DSP will review the reports once received. This is dependent upon a change to the requirements and concurrence from the vendor. DSP agrees to ensure the primary provider and its subcontractors implement all recommendations providing reports are done and received and requirements are changed and accepted by the vendor.

Finding 12**DSP did not establish adequate controls over its equipment.****Recommendation 12**

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

- a. conduct physical inventories at the required intervals, reconcile the results of the inventories with the related detail records, and promptly investigate and resolve all differences (repeat); and**
- b. record all equipment purchases in the related inventory records in a timely manner (repeat).**

DSP Response:

- a. DSP Agrees: Calendar Year 2015 Capital and Sensitive inventories according to the DGS manual are currently being conducted at all units. Once inventories are complete, we will send discrepancy reports to units to resolve any difference.
- b. DSP Agrees: As of November 16, 2015 the Property Unit met with QMD receiving staff to train on the revised procedures that are being implemented with receiving stations to improve accountability and record acquisitions in a timely fashion. An estimated time for the process to be institutionalized will be no later than December 31, 2015.

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