



Department of Legislative Services
Office of Legislative Audits

Department of Human Resources

Office of the Secretary and Related Units

Report dated November 30, 2007

Presentation to Maryland General Assembly
House Committee on Appropriations
Subcommittee on Health and Human
Resources

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January 30, 2008



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Audit Overview

- The Department of Human Resources provides intervention services to stabilize families and vulnerable adults; encourages financial independence by providing temporary support and transition services; and provides for the welfare of children at risk.
 - DHR is organized into eight units, with the three following units included in this audit:
 - Office of the Secretary
 - Operations Office, which provides core administrative services to DHR units
 - Office of Information Technology for Human Services
 - During FY 2007, expenditures for these three units totaled \$108 million.
 - The audit report included 14 findings. Eight findings from the preceding report were repeated.
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Key Audit Issues

- DHR's computer services contracting practices, including bundling two contracts into one, may have resulted in reduced competition and higher contract costs.
- Potential federal funding totaling \$3.5 million was not obtained because an IT contract amendment was not submitted in advance for federal approval.
- Various other deficiencies:
 - Numerous repeat findings of inadequate procedures and policies to protect DHR's critical data files and programs.
 - The Department could not justify a \$31,300 lump-sum salary payment to a former official.



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Computer Hosting & Maintenance Contract

- On June 21, 2006, BPW approved a 3-year contract valued at \$110 million for hosting and maintenance of DHR's critical IT systems. Only one company submitted a proposal in response to DHR's RFP.
- Previously, hosting and maintenance services were provided by different contractors under separate contracts.
- Bundling appeared to limit competition, as two potential bidders for the maintenance services advised that the combination of those services with hosting into one contract precluded them from bidding. (Finding 1)



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Computer Hosting & Maintenance Contract (cont.)

- The lack of competition may have resulted in DHR paying higher prices for some services.
- For example, in FY 2007 DHR paid \$18.4 million for hosting services to the prime contractor. That contractor paid \$13.5 million to the two subcontractors providing virtually all of those services.
- One of the subcontractors was the sole prime contractor for hosting services under the prior separate hosting contract.



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Computer Hosting & Maintenance Contract (cont.)

- Costs associated with a January 2007 contract modification were not assessed for reasonableness. Hourly rates for a number of IT job categories were higher than rates established under an existing statewide contract with the same vendor.
- For example, one job category was to be paid \$197 an hour under the modification, but only \$137 an hour under the statewide contract. Under a prior DHR contract (that expired in 2006) with that vendor, the hourly rate for the same job category was \$103.



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Electronic Benefits Transfer System (EBTS)

- EBTS is used by assistance recipients to access cash and food stamp benefits.
- EBTS was operated by a financial institution under a 6-year contract originally awarded in September 2000, but extended several times.
- That contract expired in August 2006, but a number of extensions have been executed due to significant delays in preparing the RFP for the new contract. The rates under the extensions were significantly higher than the rates subsequently obtained under a new contract. (Finding 3)



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Electronic Benefits Transfer System (EBTS)

- A comparison of the extension rates and the new contractor's rates indicates that the delay in procuring a new contract resulted in increased costs, estimated at \$3 million for the 12-month period ended August 31, 2007.
- For example, under the contract extensions, DHR paid a monthly fee of \$2.56 per food stamp recipient, while under the new contract the fee drops to 84 cents.
- Documentation was not available to adequately support the evaluation committee's review of the proposals. The new contract (originally to be effective September 2007) was awarded to a bidder whose cost estimate exceeded the incumbent's proposal by over \$1 million.
(Finding 4)



Federal Funding Issues

Federal Funds Disallowance:

- \$3.5 million in claimed federal reimbursement for IT expenditures from July 1, 2005 to May 1, 2006 was disallowed because DHR failed to obtain prior federal approval before executing the related contract extension. (Finding 5)

Unsubstantiated Federal Revenue:

- At the close of FY 2006, DHR recorded federal revenue to offset prior TANF and foster care expenditures of \$32.2 million (going back to FY 1999), even though there were no federal funds available to finance these costs. (Finding 6)
- DHR advised that, as of June 30, 2007, the amount has been reduced to \$12.4 million. To the extent that federal funds are unavailable for this remaining deficit, State general funds will be required.



Information Systems Security and Control

- IT systems provide substantial support for accomplishing DHR's mission.
 - A number of DHR employees had unnecessary or unrestricted access to critical data files and programs, including those used to authorize public assistance benefits. (Findings 7 and 8)
 - Various security software reports were either not: comprehensive, reviewed, and/or generated (Finding 9)
 - DHR's internal network was vulnerable to security risks, including unnecessary Internet access. (Findings 10 and 11)
 - There was no comprehensive IS disaster recovery plan. (Finding 12)
 - All 6 IS findings were repeated, whole or in part, from the preceding report; with Finding 7 having been in audit reports dating to 1990.
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Payroll

- A \$31,300 lump-sum salary payment was made in March 2006 to a former senior management employee.
- Payment represented the value of a retroactive salary adjustment to the employee's date of hire in September 2004.
- DHR justified the adjustment to DBM, by citing an "error" in originally processing the employee's employment.
- Employee's personnel file contained no documentation of any salary error and when questioned by OLA, the DHR official who prepared the justification could not explain the nature of the error. (Finding 13)



Conclusion

- DHR should take appropriate action to maximize competition in its data processing procurements and to ensure that costs are minimized.
- DHR should initiate timely procurement processes and fully document all aspects of those processes.
- DHR should maximize its federal funding and eliminate deficits.
- DHR should take the recommended actions to provide adequate security over its information systems and to ensure that its disaster recovery plan is complete.
- DHR should maintain documentation for personnel actions.