

**Summary of Reports Issued and
Recommended Committee Action**

August 1, 2015 to November 30, 2015

Presentation to Joint Audit Committee

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December 8, 2015

Reports Issued August 1, 2015 to November 30, 2015

Summary

Total Reports Issued	30
Reports Recommended for Action	6

<u>Agency</u>	<u>Recommended Action</u>
1. Maryland Health Benefit Exchange	JAC Letter of Concern
2. Department of Business and Economic Development	JAC Hearing ¹
3. Video Lottery Operations Revenue – Small, Minority, and Women-Owned Businesses Account (Performance)	JAC Hearing ¹
4. Department of Public Safety and Correctional Services – Office of the Secretary and Other Units	JAC Hearing ²
5. Department of State Police	JAC Hearing ²
6. Department of Public Safety and Correctional Services – Division of Parole and Probation – Probation Intake and Fee Assessment Processes	JAC Hearing ²

Summary of Recommended Action

Joint Audit Committee (JAC) Hearing	5
JAC Letter of Concern	<u>1</u>
Total	<u><u>6</u></u>

¹ Presented to Joint Audit Committee in November 2015

² Presented to Joint Audit Committee in December 2015

**REPORTS ISSUED
AUGUST 1, 2015 TO NOVEMBER 30, 2015**

<u>Agency</u>	<u>Report Date</u>	<u>Number of Pages</u>
St. Mary's County – Office of the Clerk of Circuit Court	8/05/15	5
Caroline County – Office of the Register of Wills	8/19/15	5
Comptroller of Maryland – Office of the Comptroller – Bureau of Revenue Estimates	8/28/15	5
Maryland Commission on Civil Rights	9/01/15	5
Comptroller of Maryland – Central Payroll Bureau	9/02/15	5
Executive Department – Office of the Governor – Boards, Commissions, and Offices – Governor's Office for Children – Office of the Deaf and Hard of Hearing	9/04/15	8
Department of Transportation – Financial Management Information System – Centralized Operations	9/09/15	6
Kent County – Office of the Clerk of Circuit Court	9/14/15	5
Review of Local Government Audit Reports – Fiscal Year Ending June 30, 2014 (Special)	9/15/15	14
Caroline County – Office of the Clerk of Circuit Court	9/17/15	8
St. Mary's County Public Schools (Financial Management Practices Audit)	9/21/15	34
Department of Health and Mental Hygiene – Clifton T. Perkins Hospital Center	9/18/15	6
Office of the State Prosecutor	9/22/15	4
Montgomery County – Office of the Register of Wills	10/01/15	5
Maryland Health Benefit Exchange	10/02/15	33
Department of Health and Mental Hygiene – Springfield Hospital Center	10/06/15	7
Department of Business and Economic Development	10/09/15	30
Department of Health and Mental Hygiene – Spring Grove Hospital Center	10/15/15	7
Department of Health and Mental Hygiene – Western Maryland Hospital Center	10/16/15	8
Kent County – Office of the Register of Wills	10/20/15	6
Video Lottery Operations Revenue – Small, Minority, and Women-Owned Businesses Account (Performance)	10/23/15	29
Department of Public Safety and Correctional Services – North Region	10/28/15	13
Department of Public Safety and Correctional Services – South Region	10/28/15	18
Review of the Actions Taken by the Comptroller of Maryland – Revenue Administration Division to Resolve Repeat Audit Findings in Response to the April 2015 Joint Chairmen's Report (Special)	11/04/15	5
Worcester County – Office of the Register of Wills	11/04/15	5
Worcester County – Office of the Clerk of Circuit Court	11/10/15	5
Department of Housing and Community Development	11/16/15	21
Department of Public Safety and Correctional Services – Office of the Secretary and Other Units	11/18/15	27
Department of State Police	11/23/15	33
Department of Public Safety and Correctional Services – Division of Parole and Probation – Probation Intake and Fee Assessment Processes	11/30/15	23

Total Number of Reports Issued: 30

Reports Recommended for Committee Action Significant Audit Findings

August 1, 2015 to November 30, 2015

1) Maryland Health Benefit Exchange (MHBE) (10/02/15 – 33 pages – 10 Findings)

This report contains the findings for the fiscal compliance audit of the Maryland Health Benefit Exchange (MHBE), which excludes the results of an evaluation of the procurement and contracting policies and practices for significant contract awards to develop the original Exchange System. Those results will be presented in a separate performance audit report to be issued in the future.

- MHBE did not comply with its procurement policy when purchasing certain goods and services under the emergency and sole source procurement methods. Our review of five such contract awards totaling \$96.5 million disclosed that certain aspects of the procurements were not carried out in accordance with MHBE policies. Also, relevant procurement and contract documentation, such as evidence of negotiating for best price and terms, could not be provided.
- MHBE did not routinely obtain or evidence its review of certain vendor documentation to verify hourly labor charges.
- MHBE had not verified the propriety of FY2014 grant expenditures incurred by six entities providing outreach and enrollment services under the Connector Program totaling \$23.4 million.
- MHBE did not submit federal fund reimbursement requests in a timely manner, resulting in a loss of interest income of \$199,000.
- MHBE had not implemented procedures to account for and control its equipment inventory, including computer equipment purchased for the original Exchange System.
- The Board of Trustees of the Exchange was found to have violated the Open Meetings Act by the State Open Meetings Law Compliance Board.
- Numerous security and control issues were noted regarding MHBE's information systems, including the lack of appropriate safeguards for personally identifiable information.

Recommended Committee Action – Letter of Concern

Reports Recommended for Committee Action Significant Audit Findings

August 1, 2015 to November 30, 2015

2) Department of Business and Economic Development (DBED) (10/09/15 – 30 pages – 11 Findings)

- DBED did not establish effective oversight over the Premium Tax Credit auction, established under the Invest Maryland Program, since it did not ensure that comprehensive procedures had been developed and adopted to govern the auction process. Proceeds from the auction totaled \$84 million in exchange for \$100 million in tax credits to be provided to winning bidders (insurance companies). For example, procedures did not adequately explain how the final bid rate to be paid by the winning bidders was to be determined. In addition, the bidding methodology used by DBED resulted in all of the winning bidders paying the same lowest accepted bid rate even though most winning bids exceeded that rate. DBED lacked documentation as to why this methodology was determined to be the most advantageous to the State.
- The methodology used by the Maryland Venture Fund Authority to select venture firms to invest in qualified Maryland companies, as well as the determination of how much capital to provide to each firm, was not adequately documented. Periodic investment reports from these firms were often not received or were incomplete.
- Procedures used to verify employment data provided by recipients of financing from the Maryland Economic Development Assistance Authority and Fund were not effective. These data are often used in determining whether conditional loans and grants will be forgiven. Between December 2010 and January 2015, DBED forgave 22 loans and grants.
- DBED lacked formal procedures for its use of forbearance agreements for loans issued by its Maryland Small Business Development Financing Authority which become delinquent and did not preserve the historical record of the agreement activity.
- Employee capabilities to record critical transactions on DBED's financing programs monitoring system were not adequately restricted, and cash balances recorded on the system were not adequately reconciled with the State's records.
- DBED did not sufficiently verify applicants' compliance with job creation requirements of the One Maryland Tax Credit program, for which credits totaling \$54.7 million were issued during our audit period.
- Controls over DBED's Maryland State Arts Council Grants were not sufficient, including the lack of adequate documentation of grant award decisions.

Recommended Committee Action – Hearing (Presented at the Committee's November 2015 Meeting)

Reports Recommended for Committee Action
Significant Audit Findings
August 1, 2015 to November 30, 2015

3) Video Lottery Operations Revenue – Small, Minority, and Women-Owned Businesses Account (Performance) (10/23/15 – 29 pages – 7 Findings)

As required by Section 9-1A-35 of the State Government Article of the Annotated Code of Maryland, we conducted a performance audit to evaluate the utilization of the video lottery terminal (VLT) funds that are allocated to small, minority, and women-owned businesses as loans and investment capital by fund managers during FY2014. The source of these funds is grants made by the Board of Public Works (BPW) to fund managers from the Small, Minority, and Women-Owned Businesses Account (Account).

- The appropriate amount of VLT proceeds, which totaled \$8,421,677, was distributed to the Account for FY 2014. All loans we selected for testing appeared to be made to eligible small, minority, and women-owned businesses by the fund managers. We also concluded that each fund manager awarded at least 50 percent of its grants funds as loans to eligible businesses in targeted areas, as required by State law.
- The BPW and its administering agency, the Department of Business and Economic Development (DBED), since renamed the Department of Commerce, should enhance their oversight by establishing overall goals, objectives, and related outcome measures to direct the lending and investing activities and to measure and evaluate the success of this program and fund manager performance.
- DBED did not establish interim financial reporting requirements and did not ensure managers submitted audited financial statements of grant activity as required.
- DBED had not established a formal process to verify manager compliance with key contract requirements. For example, fund managers' underwriting processes were not reviewed and DBED did not ensure that loans were properly underwritten to reduce the risk of default.
- DBED had not established a formal evaluation process to assess the performance of managers, including whether desired results were achieved.
- DBED did not comply with all terms and conditions in the agreements that fall under BPW authority. DBED authorized a contract modification for one fund manager that increased the fund establishment expense fee for administrative costs by \$145,000 without BPW approval.
- DBED lacked effective oversight of the financial transactions processed by fund managers through the State checking accounts established to disburse loan and investment funds and pay the fund managers' expenses.

Recommended Committee Action – Hearing (Presented at the Committee's November 2015 Meeting)

Reports Recommended for Committee Action Significant Audit Findings

August 1, 2015 to November 30, 2015

4) Department of Public Safety and Correctional Services – Office of the Secretary and Other Units (11/18/15 – 27 pages – 9 Findings)

- The Office structured the procurement of inmate services in a manner that may have limited competition, resulting in only one contractor bidding on the contract. The Office combined, into a single request for proposal, the procurement of commissary operations (a revenue producing contract) with the design and implementation of an inmate banking information technology (IT) system and the procurement of inmate welfare kits, previously supplied by Blind Industries and Services of Maryland. The Office instructed bidders to include estimated costs for implementing the IT system as a reduction from the proposed commissions from commissary operations and, accordingly, the true expected revenue from commissary operations and the actual costs of the banking system were unknown.
- The Office entered into interagency agreements with a State university that enabled it to augment its staff beyond its budgeted positions. The FY 2015 agreement effectively created an additional 30 positions, at a cost of \$3.4 million, beyond the 214 positions authorized in the budget for the Office's Information Technology and Communications Division (ITCD). The university performed no oversight of these employees and its involvement was generally limited to hiring the employees and paying their salaries.
- Liquidated damages totaling \$840,000 were not assessed against the inmate mental healthcare contractor when required staffing levels were not met for FYs 2013 and 2014. The Office authorized the contractor to provide additional staffing levels for more than a year before modifying the contract and seeking Board of Public Works' approval.
- The Office did not ensure the correct inmate release date information was transferred from its Offender-Based State Correctional Information System I to its new Offender Case Management System (OCMS), which was implemented in August 2014. Noted discrepancies in inmate release dates for at least 2,500 inmates had not been resolved.
- Sensitive personally identifiable information was not appropriately safeguarded in OCMS, and account, password, and monitoring controls were not sufficient.
- The Office did not adequately reconcile its cash balance of fines, costs, fees, and restitution (FCFR) with the corresponding cash balance on the State's accounting records. Certain controls were not established over refunds to offenders for FCFR overpayments.
- Equipment maintained by the Office's ITCD was not adequately controlled, including a failure to periodically reconcile its control account and the detail records and report missing equipment valued at \$3.2 million that had not been located from 1 to 7 years.

Recommended Committee Action – Hearing (presented during the December 2015 JAC meeting)

Reports Recommended for Committee Action
Significant Audit Findings
August 1, 2015 to November 30, 2015

5) Department of State Police (DSP) (11/23/15 – 33 pages – 12 Findings)

- 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 FY 2014, neither of which appeared reasonable given the nature of the activity pertaining to these funds. DSP had not investigated these balances.
- Certain budgetary year-end closing transactions for FY 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.
- 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, for four contracts tested 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.
- 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.
- 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.
- Controls over certain cash receipts, accounts receivable, and equipment were not sufficient.

Recommended Committee Action – Hearing (presented during the December 2015 JAC meeting)

Reports Recommended for Committee Action Significant Audit Findings

August 1, 2015 to November 30, 2015

6) Department of Public Safety and Correctional Services (DPSCS) – Division of Parole and Probation (DPP) – Probation Intake and Fee Assessment Processes (11/30 /15 – 23 pages – 4 Findings)

We conducted an audit of the probation intake and fee assessment processes within the DPSCS for certain offenders monitored under the Division of Parole and Probation (DPP), including offenders in the Drinking Driver Monitor Program (DDMP). This audit was initiated based on an allegation we received through our fraud hotline.

- DPP did not revise its offender intake processing policies and procedures manual when a new automated case management system – the Offender Case Management System (OCMS) – was implemented in December 2012. Offender probation monitoring was previously performed using the Offender-Based State Correctional Information System II (OBSCIS II), which continues to be used to record and track offender fees and assessments. The use of two systems added more complexity to the intake process.
- Procedures and controls at the four field offices selected for review that prepared offender assessment documents were insufficient to ensure all fees and restitution were properly assessed and recorded. As of May 2015, none of these field offices had established a documented supervisory review process to ensure that all fees and restitution were properly calculated and recorded in OBSCIS II.
- Procedures and controls over user access in the DPP module of OCMS were not sufficient to ensure that only appropriate and necessary access was granted and such access was not periodically reviewed. Also, the capabilities defined to certain critical system user roles were not appropriately restricted and input validation controls were not comprehensive.
- We conducted an automated match of OCMS and OBSCIS II data to identify DDMP cases in which DDMP fees may not have been fully assessed or were not assessed at all. This match identified 3,983 cases in which DDMP fees were potentially under-assessed for a total of \$2.1 million. Our detailed review of 45 of these cases disclosed that, collectively, DDMP fees totaling \$42,625 were not assessed in 32 cases. We also identified certain errors with the assessment of supervision fees. Generally for the remaining cases tested, while the assessments were determined to be proper, other data reliability problems, as well as certain limitations in our match, caused the cases to be identified as potential under-assessments. For these reasons, the extent to which the DDMP fees were actually under-assessed is unknown.
- The proper assessment of DDMP fees and their ultimate collection are important since collections are credited to a special fund account used to pay program costs. DDMP fees collected during FY 2014 totaled \$6.4 million. However, the applicable special fund has frequently incurred deficits, requiring general fund deficiency appropriations.

Recommended Committee Action – Hearing (presented during the December 2015 JAC meeting)