

Audit Report

Department of Natural Resources

July 2017



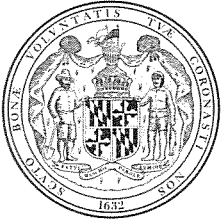
OFFICE OF LEGISLATIVE AUDITS
DEPARTMENT OF LEGISLATIVE SERVICES
MARYLAND GENERAL ASSEMBLY

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DEPARTMENT OF LEGISLATIVE SERVICES
OFFICE OF LEGISLATIVE AUDITS
MARYLAND GENERAL ASSEMBLY

Warren G. Deschenaux
Executive Director

Thomas J. Barnickel III, CPA
Legislative Auditor

July 12, 2017

Senator Craig J. Zucker, Co-Chair, Joint Audit Committee
Delegate C. William Frick, Co-Chair, Joint Audit Committee
Members of Joint Audit Committee
Annapolis, Maryland

Ladies and Gentlemen:

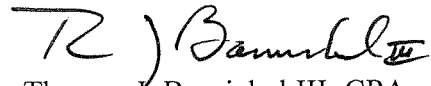
We have conducted a fiscal compliance audit of the Department of Natural Resources (DNR) for the period beginning February 5, 2013 and ending January 5, 2016. DNR's primary purpose is to oversee the management and use of the State's living and natural resources for the current and future enjoyment of Maryland's citizens and visitors.

Our audit disclosed that DNR had not established sufficient procedures and controls over its web-based licensing and registration system (known as COMPASS). Specifically, numerous system users at the Regional Service Centers could process voids and price changes (including changing the price to zero) without appropriate supervisory review. In addition, DNR did not obtain independent security reviews of COMPASS, which was maintained and hosted by contractors, to ensure that proper controls were in place to safeguard personally identifiable information from customers (such as name, date of birth, and driver's license number). During fiscal year 2015, approximately \$20.3 million in revenue was processed through COMPASS.

DNR lacked adequate controls (such as proper initial recordation of checks and independent bank deposit verifications) over collections at two locations, which during fiscal year 2015 totaled \$19.1 million. Finally, DNR did not use available statewide contracts nor comply with State procurement regulations for the purchase of certain equipment maintenance and installation services. Purchases for these services were artificially divided to circumvent oversight and approval requirements, and sufficient evidence of competitive bids was lacking.

DNR'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 DNR.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "T. J. Barnickel III". The signature is written in a cursive style with a large initial "T" and "J".

Thomas J. Barnickel III, CPA
Legislative Auditor

Table of Contents

Background Information	4
Agency Responsibilities	4
Special Review of Resource Sharing Lease Agreements	4
Status of Findings From Preceding Audit Report	5
Findings and Recommendations	6
COMPASS Licensing and Registration System	
* Finding 1 – DNR did not establish sufficient controls over the processing of voids and price changes.	6
* Finding 2 – DNR lacked assurance that COMPASS was properly secured against operational and security risks.	7
Cash Receipts	
* Finding 3 – DNR lacked adequate controls over collections at the Annapolis headquarters complex and one Regional Service Center.	9
Telecommunication Tower Maintenance Contracts	
Finding 4 – DNR did not use available statewide contracts nor comply with State procurement regulations for the purchase of telecommunication tower maintenance and equipment installation services.	11
Audit Scope, Objectives, and Methodology	14
Agency Response	Appendix

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

Background Information

Agency Responsibilities

The Department of Natural Resources (DNR) oversees the management and use of the State's living and natural resources for the current and future enjoyment of Maryland's citizens and visitors. These resources include the Chesapeake Bay and its tributaries, state forests and parks, and fisheries and wildlife. DNR maintains a headquarters location in Annapolis and seven Regional Service Centers. According to the State's records, during fiscal year 2015, DNR's capital and operating expenditures totaled \$330.2 million.

Special Review of Resource Sharing Lease Agreements

On November 18, 2016, we issued a report on our special review of resource sharing lease agreements payments deposited into escrow accounts maintained outside of State control by a law firm. Under these agreements, DNR and two other State agencies received compensation from telecommunication companies for the use of the State's communications infrastructure, such as the installation of private communication systems on State-owned towers. From February 2001 through June 2016, the companies deposited lease payments totaling \$4.4 million into the escrow accounts and the payments were subsequently used by DNR and another State agency to acquire equipment and services totaling \$3.8 million.

Our review concluded that agreements were not effectively monitored, sufficient accountability and control was not established for the lease payments, and purchases of equipment and services with these funds were not properly controlled and accounted for. The report contained findings and recommendations to all three State agencies including the following select findings related to DNR:

- DNR did not maintain comprehensive records of its resource sharing agreements.
- DNR did not establish effective oversight of escrow accounts.
- Purchases were not subject to any independent supervisory review and approval and were not made in accordance with State procurement regulations.
- DNR did not record, tag, and inventory equipment purchased with escrow account funds and could not provide a listing or identify the location of equipment purchased.

We also noted that a DNR employee used escrow account funds to pay \$73,350 to an out-of-State vendor to install a telecommunications tower on DNR land without conducting a proper procurement and executing a written contract. DNR agreed to the findings and recommendations in our November 2016 report. During our fiscal compliance audit, we noted additional concerns with DNR's use of this vendor for tower maintenance work (see Finding 4 of this report).

Status of Findings From Preceding Audit Report

Based on our assessment of significance and risk relative to our audit objectives, our audit included a review to determine the status of five of the six findings contained in our preceding audit report dated August 18, 2014. We determined that DNR satisfactorily addressed two of the five findings. The remaining three findings are repeated in this report. We did not follow up on the remaining finding, which pertained to equipment inventory procedures.

Findings and Recommendations

COMPASS Licensing and Registration System

Background

The Department of Natural Resources (DNR) is responsible for issuing commercial fishing and recreational sports licenses which can be obtained at one of seven DNR Regional Service Centers (RSCs) and numerous third party sales agents (such as sporting goods stores) throughout the State. In April 2012, DNR implemented a web-based licensing and registration system, called COMPASS, for the issuance of recreational licenses, which was expanded in August 2013 to include commercial fishing licenses, and again in December 2015 to include boat licensing, registration, and taxes. Customers can process these transactions online, over the phone with call center staff, at RSCs, or for certain transactions, in-person with third party sales agents.

To comply with State and federal laws, COMPASS collects customer data, such as name, social security number, date of birth, driver's license number, and address. According to State law, certain of this data is deemed personally identifiable information (PII). The development, maintenance, and hosting of COMPASS is outsourced to a private contractor (service organization) which subcontracted hosting, backup, disaster recovery, maintenance of servers, firewalls, other network equipment, physical security, environmental controls, electrical power, and internet connectivity to two vendors.

According to DNR's records, fiscal year 2015 revenues processed through COMPASS totaled approximately \$20.3 million, including \$9.3 million initially collected by authorized third-party sales agents.

Finding 1

Numerous COMPASS users at the RSCs could process voids and price changes without supervisory review and approval at the time the transactions were processed and the post-transaction supervisory review at the Annapolis RSC was not effective.

Analysis

Numerous system users at the RSCs could process voids and price changes (including changing the price to zero) without supervisory review and approval at the time the transactions were processed and based upon our review of the procedures at the Annapolis RSC, the post-supervisory review of the transactions was not effective.

We noted that RSC cashiers could initiate and void the same transaction within 30 minutes of initiation as well as process a price change (which are permitted by regulations for certain customers, such as a disabled veteran) without supervisory approval.

Our test of 10 voided transactions processed at the Annapolis RSC during fiscal year 2015 disclosed there was no documented supervisory review and approval of these transactions. In December 2015, DNR began generating output reports of voided transactions to assist supervisors in the monitoring of these transactions after the fact, but DNR management advised us that these reports were not complete as they did not include all voided transactions.

Our test of 12 price changes processed at the Annapolis RSC during fiscal year 2015 disclosed there was no documented supervisory review and approval or supervisory comparison to customer supplied documents supporting the nature of the revised transaction amount. In May 2016, the Annapolis RSC began generating output reports of price change transactions; however, we were advised that the supervisor only reviewed the listed reason for the price change without also tracing to supporting documentation. Similar conditions were commented upon in our preceding audit report.

According to DNR's records, during fiscal year 2015, there were 8,640 price changes processed at the RSCs that cumulatively reduced fees by \$112,000, and 7,172 voids processed in COMPASS. Due to the lack of reliable output reports the value of these voids could not be quantified.

Recommendation 1

We recommend that DNR establish complete and reliable reports of voids and price changes and procedures for documented supervisory review and approval of these transactions (repeat).

Finding 2

DNR lacked assurance that COMPASS was properly secured against operational and security risks.

Analysis

DNR lacked assurance that COMPASS was properly secured. DNR personnel advised us that as of May 2016, COMPASS' primary service provider and a critical subcontractor had not obtained independent security reviews of COMPASS. The contract between DNR and the primary service provider required that the primary service provider and all subcontractors performing

material services for COMPASS must obtain annual independent security reviews (either a Service Organization Controls review or other equally comprehensive review) for COMPASS. Accordingly, DNR lacked assurance that COMPASS, and the customer PII contained therein was properly secured. We noted that the dates of birth for 1.4 million customers and the drivers' licenses for 1.1 million customers were being stored in plain text. A similar condition regarding the lack of security reviews was commented upon in our preceding audit report.

The American Institute of Certified Public Accountants has issued guidance concerning examinations of service providers. Based on this guidance, service providers (like the aforementioned contractors) may contract for an independent review of controls and resultant independent auditor's report referred to as a Service Organization Controls (SOC) report. There are several types of SOC reports, with varying scopes and levels of review and auditor testing. One type of report, referred to as a SOC 2 Type 2 report, contains the service organization's description of its system and the results of the auditor's examination of the suitability of the system design, operating effectiveness for the period under review, and any evaluation of system security, availability, processing integrity, confidentiality, and privacy. Due to the nature and sensitivity of the information contained in COMPASS, if a SOC review is performed in lieu of an equivalent comprehensive review, we believe a SOC 2 Type 2 report would be appropriate.

Recommendation 2

We recommend that DNR

- a. enforce the provisions of its COMPASS contract, by requiring that independent security reviews (such as SOC reviews with Type 2 reports) be performed for the primary service provider and all subcontractors providing material services; and**
- b. obtain and review copies of these independent reports and ensure that the independent security reviews and related reports on COMPASS address all relevant and critical security controls and further ensure that the service providers implement all critical recommendations made in these reports (repeat).**

Cash Receipts

Background

According to DNR's records, collections (cash, checks, and credit cards) totaled approximately \$66.4 million during fiscal year 2015. These collections consisted of \$38.3 million collected at seven RSCs and third party sales agents, \$10.8 million collected by various DNR units at the Annapolis headquarters complex,

\$10.8 million collected at State parks, and \$6.5 million collected online solely via credit cards through the State Park Reservation System. For some of the collections, deposits are made by the remote locations (for example, the State parks and the seven RSCs). Collections received at DNR's Annapolis headquarters are deposited by the Financial and Administrative Services Department (FAS).

Finding 3

DNR lacked adequate controls over collections at the Annapolis headquarters complex and the Annapolis RSC.

Analysis

DNR lacked adequate controls over collections at the Annapolis headquarters complex and the Annapolis RSC. According to DNR's records, fiscal year 2015 collections at headquarters totaled \$10.8 million and at the RSC totaled \$8.3 million (including \$7.2 million in cash and check collections and \$1.1 million in credit card collections).

Annapolis Headquarters

- An independent verification of validated deposits slips to recorded collections was not properly performed. The individual who performed the deposit verification did not compare the validated deposit slip to the initial recordation (the mail log) of checks received for deposit. Rather, the validated deposit slip was compared to a secondary summary record of collections, (the deposit reconciliation form) which was prepared during the deposit process. In addition, this employee was not independent of the cash receipt process since the employee had access to collections.
- Checks received by two departments at the Annapolis headquarters were not adequately safeguarded. For example, at one department, the checks were not restrictively endorsed immediately upon receipt, and at the other department, checks were not initially recorded upon receipt and were stored in an unlocked storage room until they were forwarded to FAS for bank deposit. According to DNR's records, fiscal year 2015 cash receipts deposited for these two departments totaled \$657,400.
- FAS did not deposit certain checks pending a determination as to why DNR received the check (for example, no related accounts receivable record), but did not maintain a comprehensive listing of these unidentified checks requiring resolution in order to control, monitor, and document the ultimate disposition of the checks. If subsequent research concluded that the check was properly received by DNR, it would be processed for deposit; otherwise

FAS returned the check to the sender. The lack of a comprehensive record could result in checks being misappropriated or lost without timely detection. We determined that during fiscal year 2015, 70 checks totaling \$788,446 were withheld from deposit pending investigation, and that due to the lack of accountability, DNR was unable to readily determine the ultimate disposition of these checks. We tested 8 of those checks, totaling \$203,500, and determined that 5 were deposited and 3 were returned to the sender.

Annapolis Regional Service Center

- A supervisory employee, who was responsible for closing out cashiers' daily transactions and approving voids and price changes, was not independent of the collection process. The employee routinely performed cashiering duties, which gave the employee the capability to void receipt transactions without independent approval as mentioned in Finding 1, and had access to the cash receipts in the vault.
- Checks received in the mail were not always recorded and restrictively endorsed immediately after the envelopes were opened. Rather, the opened envelopes were stored in a common area until staff was available to process the paperwork and associated payments. Based upon our observations on three days, we sighted nine unendorsed checks totaling \$1,078 that remained undeposited for periods ranging from at least 4 to 33 days. Because the paperwork was frequently not date stamped when received, the actual delay may have been longer.
- Bank deposits were not verified to the initial recordation documents (such as, the cashier closeout reports), but rather, to a summary document of receipts that was prepared during the deposit process.

Similar conditions regarding a lack of supervisory employee independence and improper deposit verifications were commented upon in our preceding audit report.

The Comptroller of Maryland's *Accounting Procedures Manual* requires that receipts recorded on initial source documents be traced to deposit by an employee independent of the cash receipts functions. The *Manual* also requires the restrictive endorsement and initial recordation of checks immediately upon receipt as well as safeguarding cash receipts until deposit.

Recommendation 3

We recommend that DNR

- a. ensure deposit verifications are performed by an employee independent of the cash receipts functions using initial recordation documents (repeat),**
- b. initially record and restrictively endorse checks received in the mail immediately upon opening the envelopes,**
- c. properly secure all collections until bank deposit,**
- d. establish accountability and control over unidentified checks and document the final disposition of the checks, and**
- e. ensure that supervisory employees responsible for closing out cashiers' daily transactions maintain independence from the cash collection process.**

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

Telecommunication Tower Maintenance Contracts

Finding 4

DNR did not use available statewide contracts nor comply with State procurement regulations for the purchase of telecommunication tower maintenance and equipment installation services.

Analysis

DNR did not use available Statewide contracts nor comply with State procurement regulations when procuring certain telecommunication tower maintenance and equipment installation services. Purchases for these services were artificially divided to circumvent oversight and approval requirements, and sufficient evidence of competitive bids was lacking. Furthermore, invoices for those services were not adequately verified prior to payment. Consequently, DNR did not ensure it received the best value for these services and that all contracted services were provided. We determined that this arrangement with the vendor began as early as 2011. According to State records, during the period from July 2011 to April 2016, DNR paid this vendor approximately \$387,200 for these services¹.

¹ Additional payments totaling \$73,350 were made to this vendor from special bank accounts to install a telecommunication tower. Concerns with the activity from the special bank accounts were commented upon in our November 18, 2016 special review on Resource Sharing Lease Agreements.

Available Statewide Contracts Were Not Used

DNR employees who oversaw tower maintenance did not use available Department of Information Technology (DoIT) Statewide information technology contracts to procure tower maintenance and equipment installation services from pre-qualified vendors. Essentially the same services available under the DoIT contract were obtained from an out-of-State vendor. DNR could not document that the vendor had proper qualifications, licensing certifications, and insurance to perform tower climbs or to install and align microwave antennas. In addition, the vendor was not registered with the State Department of Assessments and Taxation as required by State law.

Purchases Were Artificially Divided to Circumvent Oversight and State Procurement Regulations

The same DNR employees artificially divided purchases circumventing oversight and State procurement regulations, which generally require competitive bidding for purchases over \$5,000. The individual smaller dollar value procurements that resulted from these artificially divided purchases allowed DNR to avoid certain internal and external approvals and procurement requirements. Specifically, vendor payments totaling approximately \$387,200 were comprised of individual purchases under \$50,000, which DNR management advised is the threshold requiring review and approval by DNR's procurement department. In addition, none of the purchases for telecommunication services were approved by DoIT as required. Furthermore, \$288,700 of those procurements were divided into purchases under \$15,000, which circumvented the requirement to publish the solicitation on *eMaryland Marketplace*.

Procurements totaling \$164,800 were of sufficiently small dollar amounts that they could be made using corporate purchasing cards. Even though State procurement regulations require the solicitation of oral or written bids for certain small procurements, including those made with corporate purchasing cards, DNR could not provide documentation that such solicitations were made by these employees. Finally, this vendor was the only bidder for procurements totaling \$90,650, most of which were under \$15,000. DNR management advised us that other vendors were solicited and declined to bid on these purchases, but DNR could not adequately support its assertions.

Subsequently, in February 2016, DNR's procurement department noticed the frequent payments to this vendor and recommended use of the Statewide DoIT contract or the award by DNR of a master contract for tower maintenance services due to the ongoing need for these services. As of November 2016, neither course of action had been pursued by DNR.

Invoices Were Not Adequately Verified Prior to Payment

Although we were advised that the employee approving the invoices for payment confirmed that the related equipment and services were received, this confirmation was not documented. Furthermore, we were advised that the confirmation was generally received from the DNR employees who unilaterally procured the related services.

State agencies are encouraged to use available Statewide contracts with pre-qualified vendors to procure goods and services. If not using Statewide contracts, State procurement regulations generally require a formal written competitive procurement and publication of the solicitation on *eMaryland Marketplace* for procurements over \$15,000. Purchases expected to cost between \$5,000 and \$15,000 require at least two bids, which can be solicited in writing or orally directly from vendors at the discretion of the agency's purchasing agent. State law and regulations also prohibit procurements from being artificially divided to circumvent procurement requirements. Furthermore, DoIT approval is required for all telecommunication procurements and Board of Public Works approval is required for such purchases over \$200,000.

Recommendation 4

We recommend that DNR

- a. use available Statewide contracts and comply with State law and regulations by discontinuing the practice of artificially dividing procurements;**
- b. when competitively procuring services, maintain complete bid documentation and ensure procurements are approved by appropriate internal personnel and control agencies;**
- c. review the activity associated with this vendor for propriety, and report the results of the review, including related procurement activity, to the appropriate control agency;**
- d. ensure that vendors are licensed in the State, and obtain and document all necessary vendor qualifications and certifications; and**
- e. ensure invoices are adequately verified prior to payment by obtaining documented confirmation that the related equipment and services were received.**

Audit Scope, Objectives, and Methodology

We have conducted a fiscal compliance audit of the Department of Natural Resources (DNR) for the period beginning February 5, 2013 and ending January 5, 2016. 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 DNR'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 procurements and disbursements, corporate purchasing cards, cash receipts, payroll, special funds, and critical information technology systems. We also determined the status of five of the six 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 and an assessment of DNR'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 DNR.

To accomplish our audit objectives, our audit procedures included inquiries of appropriate personnel, inspections of documents and records, observations of DNR'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 sources were sufficiently reliable for the purposes the data were used during this audit. We also extracted data from DNR's COMPASS for the purpose of testing licensing transactions and system access. 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.

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

DNR's response to our findings and recommendations is included as an appendix to this report. As prescribed in the State Government Article, Section 2-1224 of the Annotated Code of Maryland, we will advise DNR regarding the results of our review of its response.



Larry Hogan, Governor
Boyd Rutherford, Lt. Governor
Mark Belton, Secretary
Joanne Throwe, Deputy Secretary

July 10, 2017

Thomas J. Barnickel III, CPA
Legislative Auditor
Office of Legislative Audits
301 W Preston Street, Room 1202
Baltimore, MD 21201

Dear Mr. Barnickel:

Thank you for your report and the opportunity to respond. The attached responses to each of the audit findings demonstrate the department's sincere efforts to address those deficiencies and to improve our efficiency and effectiveness.

Should you need additional information or clarification, please do not hesitate to contact Sharon Carrick, Director of our Audit and Management Review team at sharon.carrick@maryland.gov (410) 260-8783.

Sincerely,

Mark J. Belton

cc: Joanne Throwe, Deputy Secretary
Allan Fisher, Assistant Secretary, Mission Support
Sharon Carrick, Director, Audit & Management Review

Department of Natural Resources
Response to OLA Audit Report – 2016
10 July 2017

Finding 1 -- *Numerous COMPASS users at the RSC could process voids and price changes without supervisory review and approval at the time the transactions were processed; and the post-transaction supervisory review at the Annapolis RSC was not effective.*

Recommendation 1 – *establish complete and reliable reports of voids and price changes and procedures for documented supervisory review and approval of these transactions. (repeat)*

Department Response: The department agrees with the recommendation which has already been implemented.

Additional Department Comments:

- Compass was modified subsequent to OLA's 2016 on-site visits to address the inconsistencies in the void and variance reports. Licensing staff have confirmed that the reports are now complete and reliable.
- The voids and price variance reports have been modified to incorporate a verification signature, representing supervisory review and confirmation that the voids and price overrides were appropriate.

Finding 2 – *DNR lacked assurance that COMPASS was properly secured against operational and security risks.*

Recommendation 2(a) – *enforce the provisions of its COMPASS contract by requiring that independent security reviews (such as SOC reviews with Type 2 reports) be performed for the primary service provider and all subcontractors providing material services*

Recommendation 2(b) – *obtain and review copies of these independent reports and ensure that the independent security reviews and related reports on COMPASS address all relevant and critical security controls and further ensure that the service providers implement all critical recommendations made in these reports (repeat)*

Department Response: The department agrees with the recommendations and is working towards full compliance by December 1, 2017.

Additional Department Comments:

- The department is in possession of a SOC 2 Type II audit report dated 5/26/2016 for the subcontractor providing material services. The department is moving its COMPASS system to cloud-based equipment and hosting model in July 2017. It is our understanding that this environment was audited and found to be SOC 1, 2 and 3 compliant as of 10/28/2016. Following this transition, a SOC 2 Type II audit of the developer and manager of COMPASS will be scheduled.

Department of Natural Resources
Response to OLA Audit Report – 2016
10 July 2017

Finding 3 – *DNR lacked adequate controls over collections at the Annapolis headquarters complex and the Annapolis RSC.*

Department Response: The department acknowledges that we could have a higher level of internal controls as required by OLA’s internal control procedures. Because of the limitation of necessary resources, the department has been actively pursuing a partnership with the Maryland Motor Vehicle Administration (MVA) as a resolution to this matter.

Additional Department Comments:

- The department has reviewed each transaction where a check was identified as not being deposited for a period ranging from 4 to 33 days (second bullet under Annapolis Regional Service Center). In every circumstance but one, the submission, including the check, was returned to the applicant for additional information or correction. The applicant resubmitted the check originally written along with the additional/corrected information. Analyzing deposit delay using the check date overstated the time between receipt and our ability to process that transaction. The delay between check date and processing resulted from actions by the applicant, not the department. No receipt date was stamped on the documents for the remaining transaction, making it impossible to determine the true processing delay.

Recommendation 3(a) – *ensure deposit verifications are performed by an employee independent of the cash receipts functions using initial recordation documents. (repeat)*

Department Response: The department agrees with the recommendation which has already been implemented.

Additional Department Comments:

- The department’s Finance and Administrative Services (FAS) Unit validates deposits using Bank of America’s Cash Pro Online program. This report is used to verify that all collections are reconciled to the Bank of America bank statement report. The employee who performs the deposit validation does not have access to the accounts receivable database or the safe in which deposits are kept awaiting pickup, nor does this employee perform any other cash receipts function. The Manager of General Accounting is the approver of the deposit reconciliation.

Recommendation 3(b) – *initially record and restrictively endorse checks received in the mail immediately upon opening the envelopes.*

Department Response: The department agrees with the recommendation which has already been implemented.

Department of Natural Resources
Response to OLA Audit Report – 2016
10 July 2017

Additional Department Comments:

- Managers of the department's seven Service Centers were notified shortly after our 5/10/17 meeting with OLA that mail should not be opened until just prior to processing.

Recommendation 3(c) – *properly secure all collections until bank deposit*

Department Response: The department agrees with the recommendation which has already been implemented.

Additional Department Comments:

- Maryland Park Service has addressed staffing issues that contributed to this finding and made procedural changes to ensure the restrictive endorsement and recordation of checks upon receipt.
- Fishing & Boating Services has procured stamps to restrictively endorse checks upon receipt and has implemented deposit reconciliation by staff independent of the cash receipts process.

Recommendation 3(d) – *establish accountability and control over unidentified checks and document the final disposition of the checks*

Department Response: The department agrees with the recommendation which has already been implemented.

Additional Department Comments:

- FAS developed a spreadsheet to track unidentified checks removed from the deposit reconciliation that is maintained by an employee independent of the cash receipts process. It contains the check number, name, amount, and date removed from the deposit, as well as the final disposition of the check.

Recommendation 3(e) – *ensure that supervisory employees responsible for closing out cashiers' daily transactions maintain independence from the cash collection process*

Department Response: The department agrees with the recommendation and acknowledges the importance of separation of duties relative to the processing of cash receipts.

Additional Department Comments:

- Compliance is difficult due to the limited number of staff at our Service Centers. The Service Center manager generally prepares the deposit; and while the manager does not wait on customers on a daily basis, they often cover the counter during lunch breaks, when staff is out for illness or vacation, and at times of extremely heavy customer load.

Department of Natural Resources
Response to OLA Audit Report – 2016
10 July 2017

- The current effort to locate DNR Service Centers at Maryland MVA locations will offer greater opportunity for independent review. The Dundalk Service Center has been moved to the Essex MVA. The Salisbury Service Center will be moving to MVA in the fall of 2017. Planning has already begun for the Bel Air Service Center's move. All other Service Centers will be scheduled for future consolidation with nearby MVA facilities.

Finding 4 – *DNR did not use available statewide contracts nor comply with State procurement regulations for the purchase of telecommunications tower maintenance and equipment installation services.*

Recommendation 4(a) – *use available statewide contracts and comply with State law and regulations by discontinuing the practice of artificially splitting procurements*

Recommendation 4(b) – *when competitively procuring services, maintain complete bid documentation and ensure procurements are approved by appropriate internal personnel and control agencies*

Recommendation 4(d) – *ensure that vendors are licensed in the State, and obtain and document all necessary vendor qualifications and certifications*

Recommendation 4(e) – *ensure invoices are adequately verified prior to payment by obtaining documented confirmation that the related equipment and services were received*

Department Response: The department agrees with the recommendations which have already been implemented.

Recommendation 4(c) – *review the activity associated with this vendor for propriety, and report the results of the review, including related procurement activity, to the appropriate control agency*

Department Response: The department agrees with the recommendation which has already been implemented.

Additional Department Comments:

- All items purchased with escrow funds have been accounted for. While we lack the technical expertise to confirm that work was performed properly, we did confirm that DNR staff provided tower access on each of the dates that work was invoiced, and that there were no reports of system outages during the period of time the vendor provided those services.
- The department continues to work with DoIT and the Maryland State Police to address lease modifications and effect transfer of the escrow funds to the Major Information Technology Development Project Fund.

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