



Department of Legislative Services
Office of Legislative Audits

Maryland State Department of Education

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Presentation to the Joint Audit Committee

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Department of Legislative Services

Office of Legislative Audits

Report Overview

The report contained 11 findings, including 3 repeat findings from the prior report.

Key Findings

Cost Recoveries - Statewide indirect cost recoveries were not reverted to the General Fund, as required.

Interagency Agreements - Interagency agreements with a State university were used improperly to staff a technology position, monitoring was inadequate, and certain costs were not supported.

Contract Procurement - State procurement regulations were not always followed and sufficient procedures for monitoring contractor performance were lacking.

Child Care Oversight - Procedures were not sufficient to ensure required criminal background checks were obtained and pursued for child care employees, and user access to the automated Child Care Subsidy Program was not properly restricted.



Statewide Indirect Costs (Finding 1)

Statewide indirect cost recoveries from the federal government for FYs 2012 - 14 totaling \$12.3 million were not reverted to the State's General Fund as required by State law.

- The recoveries represent reimbursement for the costs of other State agencies in support of MSDE federal grant activities.
- \$27 million of indirect costs recoveries for MSDE's own costs were recovered and appropriately retained for the same period.
- MSDE advised us that these recoveries were insufficient for its needs and that it retained the statewide indirect costs recovered to help fund its own central service functions.



Interagency Agreements (Finding 3)

MSDE entered into three consecutive interagency agreements with Towson University to provide a Chief Information Officer (CIO), rather than use an existing budgeted position.

**Schedule of Interagency Agreements and Associated Costs
November 2011 through June 2015**

Agreement Number	Billing Period		Total Costs*	Administrative Costs	
	From	To		Value	Percent of Total Cost
1	11/14/11	06/30/13	\$314,793	\$47,219	15%
2	07/01/13	11/29/13	82,591	12,389	15%
3	01/06/14	06/30/15	373,282	104,519	28%
		Total	\$770,666	\$164,127	21%

* Total costs include the administrative costs.

Source: State accounting records and DECO invoices submitted to MSDE

FY 2014 payments under the agreements exceeded the budgeted CIO position's salary and fringes by \$58,000.



Interagency Agreements (Finding 3)

- MSDE controlled the selection of the individual hired under the third agreement (its involvement in the hiring under the other two agreements was unknown). MSDE was solely responsible for the daily supervision and monitoring.
- The University's involvement was generally limited to hiring the CIO (who was not a university employee), paying the salary, and invoicing MSDE for reimbursement.
- The agreements lacked sufficient details to facilitate effective monitoring of the deliverables.
- MSDE could not explain or provide documentation as to how the agreed-upon costs were developed, nor could it provide any independent analysis to determine whether the administrative fees, which ranged from 15 to 28 percent of total costs billed, were reasonable.



Contracts (Finding 4)

Various contract procurement and monitoring issues were found based on our tests of nine service contracts procured during the period from July 2011 through May 2014 totaling \$20.3 million.

- Three contracts totaling \$18.1 million did not have adequate documentation of the procurement and contractor selection processes.
- One contract valued at \$1.2 million did not include specific deliverables or task orders to direct the vendor's work and to enable effective monitoring of performance and verification of invoices.
- Four contracts totaling \$1.1 million did not have the minimum 20-day bid solicitation time (the period between the date of publication of the invitation for bid and the due date for the bids).
- Two contract awards totaling \$2 million were not published on *eMaryland Marketplace* as required.



Child Care Programs (Finding 6)

MSDE is responsible for State child care programs, including licensing about 9,800 facilities to serve 219,000 children, monitoring compliance with regulations, and taking enforcement actions.

Finding 6 – Criminal Background Checks

Procedures were not sufficient to ensure that criminal background checks were obtained for all individuals employed at child care facilities and that the results of background checks and subsequent alerts were adequately pursued.

- No process was established requiring verification that facility employees were recorded in CCATS, a system used for child care licensing and monitoring. There was no record of initial background checks for 2 of 9 individuals tested.
 - MSDE staff did not fully investigate alerts of subsequent criminal activity, such as by substantiating the individuals were no longer associated with the facilities.
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Child Care Programs (Finding 7)

Finding 7 – Child Care System Access

User access to the Child Care Subsidy Program features on CCATS was not restricted to those individuals requiring access to perform their jobs and to prevent the recording of improper transactions.

- Our review of critical system access assigned to 681 users disclosed numerous users who were assigned unnecessary or inappropriate system access, including 68 ex-employees.
- MSDE did not periodically generate reports for its review that identified all users and their accesses.
- Subsidies paid during FY 2014 using the System totaled \$81 million.



Other Findings

Finding 2 – Untimely Drawdowns

Expenditures associated with a federal grant were not recovered in a timely manner, resulting in lost interest income of \$140,000.

Finding 5 – Cash Receipts

Collections received in the business office, which totaled approximately \$47.4 million during FY 2014, were not adequately controlled.

Findings 8 to 10 – Information Technology (IT)

Critical IT operations, including sensitive personally identifiable information, were not properly safeguarded. Disaster recovery plans and procedures for backing up critical databases were not comprehensive.

Finding 11 – Questionable Activity

Certain questionable payroll and personnel activity was not disclosed to the appropriate legal authorities.



Conclusion

MSDE should

- revert future statewide indirect cost recoveries to the State's General Fund;
- discontinue its practice of using interagency agreements to hire individuals, adhere to State regulations when procuring contracts, and monitor related contractor performance;
- enhance its procedures to ensure that criminal background checks are obtained for all child care employees and related results and subsequent alerts are adequately pursued, and restrict access to Child Care Subsidy Program features; and
- implement recommended actions to recover federal funds timely, improve security and controls over collections and information systems, and report questionable activity as required.