

Audit Report

**Department of Human Services
Office of the Secretary and Related Units**

September 2017



OFFICE OF LEGISLATIVE AUDITS
DEPARTMENT OF LEGISLATIVE SERVICES
MARYLAND GENERAL ASSEMBLY

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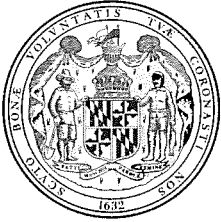
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DEPARTMENT OF LEGISLATIVE SERVICES
OFFICE OF LEGISLATIVE AUDITS
MARYLAND GENERAL ASSEMBLY

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September 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 Office of the Secretary and related units of the Department of Human Services (DHS) for the period beginning August 13, 2012 and ending August 30, 2015. DHS 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.

Our audit disclosed that DHS did not effectively administer contract terms and task order activity under a \$125 million information technology contract. DHS did not have formal procedures to evaluate the vendor cost proposals for each task order, nor was there any evidence DHS verified the reasonableness of employee hours and related costs proposed by the vendor. In addition, DHS adopted a change in the billing process from a deliverable basis to a fixed-price installment basis, which was not consistent with contract terms. This change resulted in DHS paying approximately \$4 million more than necessary for one project that was ultimately cancelled.

As a result of the lack of monitoring of the same contract, DHS issued and paid for \$8.4 million in task orders beyond the \$10 million authorized in the contract for fiscal year 2015 without preparing a contract modification and obtaining Board of Public Works approval as required by State procurement regulations. In addition, the resulting expenditures exceeded the DHS available fiscal year 2015 appropriation by approximately \$4.5 million, including \$1.7 million in general funds; DHS deferred this amount until fiscal year 2016 without disclosing the unfunded liability to the Comptroller of Maryland's General Accounting Division, as required.

Furthermore, DHS did not properly plan and administer task order projects for this contract, resulting in payments totaling approximately \$10.1 million for a project that was subsequently cancelled, including the \$4 million referenced above. DHS management advised us that it does not anticipate resuming the project; therefore, there is no evidence that the deliverables received will provide any future benefits.

DHS guaranteed a minimum compensation to two legal firms awarded emergency contracts resulting in approximately \$616,000 more being paid than if the firms were reimbursed on a per-case fee, which was the reimbursement method used for the other six legal firms. DHS could not explain why this change in contract provisions was made nor why some firms were offered this payment provision while others were not. DHS also did not have adequate procedures to ensure payments made to legal firms were proper and did not follow up on deficiencies regarding services provided that were noted during annual site visits of the firms. Furthermore, DHS did not adequately monitor certain grants, such as to community organizations to address homelessness and hunger, to ensure that funds were spent and services were performed in accordance with the grant agreements.

DHS did not properly secure its information systems. For example, sensitive personally identifiable information stored on several DHS databases was not properly protected. In addition, monitoring controls over critical databases were not sufficient to properly protect these databases. Furthermore, DHS lacked assurance that the service provider that operated the Electronic Benefits Transfer System had properly secured the system against operational and security risks. Finally, internal control and record keeping deficiencies were noted with respect to purchases and disbursements, and payroll. For example, DHS paid a State university \$300,000 for services that were not provided.

DHS' 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 DHS.

Respectfully submitted,



Thomas J. Barnickel III, CPA
Legislative Auditor

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Background Information

Name Change and Agency Responsibilities

Chapter 205, Laws of Maryland 2017, effective July 1, 2017, changed the name of the Department of Human Resources to the Department of Human Services (DHS).

DHS 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. To deliver these services, DHS is organized into seven budgetary units. This audit included the operations of the Office of the Secretary, which provides overall direction and coordination for all DHS programs and activities; the Operations Office, which provides core administrative services to DHS units; and the Office of Technology for Human Services, which is responsible for the overall management and direction of DHS' information systems. The remaining four units of DHS are audited and reported upon separately.

According to State records, during fiscal year 2016, expenditures for all of DHS' seven budgetary units totaled approximately \$2.5 billion, of which the majority was for assistance programs such as the Food Supplement Program. For the three units included in this audit, the expenditures totaled approximately \$126.6 million during this period.

Organizational Change

Effective July 1, 2015, the grants management duties and responsibilities within DHS were reorganized consistent with State budget law. Specifically, prior to July 1, 2015, the Office of Grants Management (OGM) was budgeted within DHS' Office of the Secretary and, subsequently, OGM was budgeted within DHS' Family Investment Administration (FIA). The activities of OGM through June 30, 2015 were included in this audit. The subsequent activities of OGM will be included in a separate audit of FIA.

Status of Findings From Preceding Audit Report

Our audit included a review to determine the status of the nine findings contained in our preceding audit report dated June 24, 2014. We determined that DHS satisfactorily addressed five of these findings. The remaining four findings are repeated in this report.

Findings and Recommendations

Information Technology Contract

Background

The Department of Human Services (DHS) contracted with a vendor for the period from June 2010 through December 2015 at a total cost of approximately \$125.4 million to provide computer applications services (such as enhancements and changes) to existing DHS information technology systems and programs. The contract allowed for two renewal options, the first of which was exercised at a cost of approximately \$51.5 million through December 2017. The original contract and renewal options included two levels of service:

- **Level 1** services were for projects expected to take fewer than 500 hours to complete. These services were included in the monthly fixed cost paid to the vendor. Payments for Level 1 services during the audit period totaled approximately \$47 million according to DHS' records.
- **Level 2** services were for projects expected to take more than 500 hours to complete. For these services, DHS solicited a technical proposal from the vendor for each task order, including the number of anticipated hours and cost to complete each task. Payments for Level 2 services during the audit period totaled approximately \$30 million according to DHS' records.

Finding 1

DHS did not effectively administer contract terms and task order activity to ensure the reasonableness of vendor proposed services and costs. DHS also issued \$8.4 million in task orders in excess of the amount authorized for fiscal year 2015 without a contract modification; the resulting expenditures created unfunded liabilities at year-end totaling \$4.5 million.

Analysis

DHS did not effectively administer contract terms and task order activity associated with Level 2 services, resulting in a lack of assurance that services and costs proposed by the vendor were reasonable. Furthermore, DHS issued and paid for task orders during fiscal year 2015 in excess of the amount authorized under the contract without processing a contract modification. The resulting excess expenditures for these task orders could not be paid during that year because of the lack of an available appropriation, creating unfunded liabilities that were not reported during budgetary closeout.

The Reasonableness of Task Order Hours and Costs Were Not Assessed

DHS did not have formal procedures to verify the reasonableness of the employee hours and related costs proposed by the vendor to complete each task order. For example, in its May 2014 task order to develop a system for DHS consumers to use to apply for eligibility benefits and to manage their accounts online, the vendor estimated that it would take 12,840 hours at a total cost of \$1,551,414 (average of \$121 per hour). This task order and the related contract also included the number of proposed personnel, estimated number of hours by labor category and project phase, and the maximum labor rates for various positions. DHS management personnel advised us that, for this and other task orders, it reviewed the task order proposals for reasonableness; however, there was no documentation of these reviews nor could DHS explain the methodology used to determine the reasonableness of the proposed costs.

Furthermore, although there was no requirement for the vendor to provide the actual hours worked on approved task orders, nor would that information affect amounts paid on approved task orders, DHS did not attempt to obtain this information to help assess the reasonableness of future task order proposals.

Vendor Billings Were Not Consistent with Contract Terms

In March 2012, DHS formally adopted a change in the billing process for level 2 services, from a deliverables basis to a fixed-price installment basis, that had no relationship to the contract deliverables. That is, the total cost of the task order was divided into equal monthly payments to be paid by DHS throughout the term of the task order, coinciding with DHS' budgeted funds. This was inconsistent with the contract, which required that task orders be billed on a deliverables basis so that the vendor was paid when specified deliverables were received and accepted. While DHS received weekly status reports detailing the deliverables received, the receipt of deliverables did not affect the payments even if deliverables were delayed. The failure to make vendor payments on a deliverables basis contributed to the losses noted in Finding 2 when a task order was cancelled.

Task Orders Authorized Were Not Monitored

DHS did not monitor task orders and related expenditures for level 2 services, resulting in the issuance of, and payment for, approximately \$8.4 million in task orders beyond the \$10 million authorized in the contract for fiscal year 2015. While a maximum of \$50 million was authorized for level 2 services in the original contract, specific contract provisions limited the maximum for such services to \$10 million each year. DHS management was not aware that the task orders issued had exceeded the amount authorized in the contract until we brought this to its attention. Accordingly, DHS did not prepare a contract modification

nor did it obtain Board of Public Works approval as required by State procurement regulations for contract modifications exceeding \$50,000. The resulting expenditures exceeded the DHS available fiscal year 2015 appropriation by approximately \$4.5 million, including an estimated \$1.7 million in general funds; DHS deferred these expenditures until fiscal year 2016 without disclosing the unfunded liability to the Comptroller of Maryland's General Accounting Division (GAD) during the fiscal year 2015 budgetary closeout process, as required.

Recommendation 1

We recommend that DHS

- a. establish procedures to ensure hours and related rates proposed by the vendor on task orders are reasonable,**
- b. attempt to obtain documentation of actual hours worked by each vendor employee by task order and assess the reasonableness of the hours worked in relation to the hours proposed to assist in future task order reviews,**
- c. ensure that future payments for Level 2 services are made on a deliverable basis consistent with contract terms,**
- d. monitor task orders authorized to ensure that contracted amounts are not exceeded without first obtaining the necessary authorizations and entering into contract modifications,**
- e. seek retroactive approval from BPW for the aforementioned contract modification, and**
- f. report all unfunded year-end liabilities to GAD, as required.**

Finding 2

DHS cancelled an information system modernization project after paying approximately \$10.1 million, including approximately \$4.8 million that was paid unnecessarily.

Analysis

DHS did not properly plan and administer task order projects, resulting in payments totaling approximately \$10.1 million towards a \$27.6 million information system modernization project that was subsequently cancelled. This amount included approximately \$4 million in payments in excess of the value of the work performed because of the payment method used, and approximately \$781,000 that could have been avoided if the vendor had been timely notified of the project cancellation. DHS management advised us that it does not anticipate resuming the project; therefore, there is no evidence that the deliverables received

for the \$10.1 million paid will provide any future benefits to the State. These costs were generally shared equally with the federal government.

In December 2011, DHS issued two task orders valued at approximately \$27.6 million for a project to modernize the Client Automated Resource and Eligibility System (CARES), a project that was cancelled in October 2012. DHS management advised that the project was cancelled due to the enactment of the federal Affordable Care Act (ACA). We question DHS' decision to initiate this project since the ACA had been enacted in March 2010 and the procurement for the new health benefit exchange system began in October 2011.

Furthermore, as noted in our preceding finding, the majority of the \$10.1 million paid to the vendor under these task orders was made on an installment basis. The value of deliverables submitted by the vendor and accepted by DHS during this period was approximately \$6.1 million. Therefore, notwithstanding the cancellation of the project and the questionable value of the deliverables received, this installment payment method resulted in DHS paying approximately \$4 million more than if the payments had been based on deliverables.

Finally, DHS did not formally cancel the project in a timely manner resulting in additional costs for the cancelled project. Specifically, while we were informed that DHS advised the vendor in October 2012 that the project was cancelled, DHS continued to pay the vendor for invoices up to December 2012. In January 2013, DHS formally notified the vendor of the cancellation in writing. DHS subsequently questioned approximately \$1.7 million in vendor payments made during this three-month period, and ultimately agreed to allow the vendor to retain approximately \$781,000.

Recommendation 2

We recommend that DHS enhance its planning prior to the issuance of task orders and take timely action to cancel tasks to avoid unnecessary costs.

Maryland Legal Services Program

Background

DHS' Maryland Legal Services Program (MLSP) was created to ensure the delivery of quality and effective legal representation in State court to children who are victims of abuse or neglect. These legal services are referred to as Child in Need of Assistance (CINA) proceedings and Termination of Parental Rights (TPR) proceedings. MLSP also provides legal services to indigent adults

involved in adult guardianship proceedings. State regulations require DHS to contract with legal firms to represent these children and indigent adults.

During the audit period, DHS attempted to procure a new contract with several legal firms to provide these services. However, the procurement was not approved by the Board of Public Works for a number of reasons, such as concerns with the lack of continuity of care resulting from the procurement of new legal firms. To ensure that there would not be a lapse in services, DHS entered into emergency contracts with eight incumbent legal firms to represent CINA and TPR cases for the period from September 2013 through August 2015 totaling approximately \$24.5 million.

Finding 3

DHR guaranteed a minimum compensation to two of the eight legal firms awarded emergency contracts, resulting in payments of approximately \$616,000 more than if, like the other six firms, they were paid on a per-case fee.

Analysis

DHS guaranteed a minimum compensation to two of the eight legal firms awarded emergency legal services contracts, but did not attempt to maximize the cases assigned to these two legal firms. Rather, we were advised by DHS management that cases were assigned on a rotating basis to all legal firms in the respective jurisdictions. As a result, based on our analysis, during the period from September 1, 2013 through August 31, 2015, DHS paid these legal firms approximately \$616,000 more than if the legal firms were reimbursed on a per-case fee, which was the reimbursement method used for the other six firms.

For example, during this period, one of these legal firms was assigned 2,708 cases which, based on its per-case fee of \$1,150, would have resulted in total compensation of \$3,114,200. However, this legal firm was paid \$3,520,000 because of the guaranteed minimum, resulting in excess payments of approximately \$406,000. The guaranteed minimum compensation for the two-year period for the other legal firm was \$1,100,000, and we calculated the associated excess payments to be \$210,000.

The guaranteed minimum compensation provision for these two firms was not included in previous contracts with these firms, and five of the eight firms were not offered this provision. The sixth legal firm elected not to take the guaranteed minimum compensation provision. DHS could not provide an explanation as to why this provision was only offered to three of the firms. We were advised by DHS management that the clause for a guaranteed minimum compensation was

negotiated by an executive management employee who is no longer employed by DHS and that there was no documentation of these negotiations.

Recommendation 3

We recommend that in the future, DHS eliminate guaranteed minimums from its legal services contracts.

Finding 4

DHS did not have adequate procedures to ensure that payments to legal services firms were proper, and did not follow up on deficiencies with the services provided by the legal firms that were noted during annual site visits.

Analysis

DHS did not have adequate procedures to ensure that payments to legal firms were proper and did not follow up on deficiencies with the services provided by the legal firms that were noted during annual site visits.

- DHS did not always obtain and review court orders to verify that it was legally responsible to provide services for the individuals invoiced by the legal firms. Similar conditions regarding DHS not ensuring the propriety of payments to legal firms were noted in our two preceding audit reports. In response to our prior report, DHS management advised us that it requested the firms to provide court orders with their invoices. Subsequently, certain legal firms challenged the legality of providing that information and did not comply with the request.

Instead, for three larger jurisdictions, DHS obtained information directly from the courts to verify it was legally responsible for providing the services for these individuals. However, our test of 10 fiscal year 2014 and 2015 invoices, totaling approximately \$2.2 million, from legal firms which provided services in these three jurisdictions, disclosed that, for 3 of the invoices totaling approximately \$329,000, the verifications were not signed and dated and DHS could not document that it sighted the court records for all individuals on the invoice. For example, one invoice included charges totaling \$18,400 for services provided to 16 individuals in one jurisdiction. However, our review of the court records disclosed that one of these individuals had actually received authorized legal services from the same firm in another jurisdiction.

For the remaining 21 jurisdictions, DHS only verified the propriety of a limited selection of individuals invoiced by reviewing the court orders during annual site visits to the legal firms. Subsequently, we were advised that DHS

modified its contracts to require the legal firms to submit documentation to substantiate each individual receiving services.

- DHS did not follow up on deficiencies noted during annual site visits of each legal firm. These visits were performed to ensure legal firms were providing the required number of hours for each case, attorneys had a sufficient number of contacts with the clients, the attorney/client ratio was reasonable, and the overall quality of the services performed was adequate, as provided for by the contract.

Our test of one site visit for each of the eight legal firms disclosed that three legal firms did not respond to DHS' requests for information to support that services were provided, and DHR did not take any follow-up action. For example, on one site visit, DHS noted that there were "significant concerns/issues" including a lack of documentation that required client visits were conducted. DHS requested evidence of the client visits, but did not receive the requested information and did not take follow-up action to pursue the missing information, such as by withholding payments. As a result, there was a lack of assurance that the legal firms complied with contract requirements.

Recommendation 4

We recommend that DHS

- a. ensure that all payments made to legal firms are only for individuals for whom DHS is responsible to provide legal services (repeat); and**
- b. follow up with the legal firms when deficiencies are identified during site visits, including those noted above and, in consultation with the Office of the Attorney General, take appropriate action such as by withholding payments when firms do not comply with contract provisions.**

Grants Management

Finding 5

DHS lacked sufficient procedures and accountability over certain grants.

Analysis

DHS lacked sufficient procedures and accountability over certain grants. DHS' Office of Grants Management provides funding to a network of community and faith-based organizations, local departments of social services, and State and local agencies. According to State records, grant payments totaling approximately

\$17.9 million were made to numerous grantees in various programs relating to homelessness, hunger, and community initiatives during fiscal year 2015.

- DHS did not verify that certain grant funds were spent as intended. Our test of 15 disbursements made during fiscal year 2015 totaling approximately \$4.4 million related to 8 grantees under four grant programs (including Feeding Maryland and Emergency Transitional Housing Services) disclosed that DHS did not obtain sufficient supporting documentation for any of these disbursements. Although the grant agreements required grantees to provide expenditure reports on a regular basis, DHS did not require grantees to provide supporting documentation, such as food and hotel receipts, so that the reports could be verified.
- DHS did not recover Maryland Emergency Food Program (MEFP) grant funds when grantees did not provide documentation that grant funds were used as intended. MEFP grant payments totaled approximately \$969,000 during fiscal year 2015. DHS conducted a review of a selection of grantees and identified 12 MEFP grantees with fiscal year 2015 grant expenditures totaling \$36,000 that could not support the propriety of expenditures totaling \$28,900. As of February 24, 2016, DHS had not made any attempt to collect the unsupported grant funds.

Since DHS did not review all grantees to identify unsupported grant funds, additional grantees could have similar amounts due to the State. Our test of 7 other 2015 MEFP grants with grant awards totaling \$99,000 disclosed that DHS could not provide support for \$31,400 in grant funds for 3 grantees. The MEFP funds are advanced at the beginning of the fiscal year and grantees are required to submit documentation to support the proper use of the funds (that is, for the purchase of food) and return any unused funds to DHS.

Similar conditions regarding the failure to verify that grant funds were used as intended were commented upon in our two preceding audit reports.

Recommendation 5

We recommend that DHS

- a. independently verify, at least on a test basis, that grant funds are spent as intended (repeat); and**
- b. recover grant funds when the grantee does not provide documentation to support that grant funds were used as intended, including those noted above.**

Purchasing and Disbursements

Finding 6

DHS did not adequately monitor Department-wide user access to critical functions on the State's Financial Management Information System (FMIS) and did not establish adequate online controls over purchase orders.

Analysis

DHS did not adequately monitor user access to critical functions on the State's FMIS and did not establish adequate online controls over purchase orders. According to State records, during fiscal year 2015, DHS used FMIS to process approximately \$409 million in expenditures (excluding \$1.6 billion in grants that were generally interfaced from CARES and would not be impacted by this finding). DHS' FMIS Support Unit (FSU) is responsible for monitoring the Department-wide FMIS access capabilities of all DHS employees.

Our review disclosed that FSU did not follow up with DHS units who did not respond to monthly confirmations of user access. FSU sent monthly reports of FMIS users and their assigned access capabilities to each of DHS' 50 FMIS units for review. The units were required to respond to FSU indicating whether access assigned to each of the employees listed on the report was appropriate based on assigned job duties. Our test of these reports for six months between October 2014 and August 2015 disclosed that between 14 and 19 units did not respond each month, including 16 units that did not respond to three or more monthly requests and 8 units that did not respond to any monthly requests. FSU did not follow up with any of these units to determine if the access was proper.

DHS also did not establish adequate online approval requirements over purchase orders which, according to State accounting records, totaled approximately \$210 million during fiscal year 2015. Specifically, four Office of the Secretary employees could initiate and approve purchase orders without independent approvals. While our review disclosed that these four employees did not use this capability during fiscal year 2015, the possibility exists that unauthorized purchases could be made without detection.

Recommendation 6

We recommend that DHS

- a. follow up with units that do not respond to the monthly employee access reports, and**
- b. use the available FMIS security features to establish independent online approval requirements for all purchasing transactions.**

Finding 7
DHS paid \$300,000 to a State university for services that were not provided.

Analysis

DHS paid a State university for services that were not provided. In July 2015, DHS and a State university entered into an agreement for the university to upgrade a power system at one of the university's buildings that DHS used as an emergency shelter. The agreement specified that the university would provide DHS with detailed documentation to support labor and equipment costs, not to exceed \$300,000, and documentation of an inspection to ensure that the upgraded system was in good working order. In August 2015, DHS paid the State university's invoice for the full \$300,000 but, as of March 2017, the upgrades had not been performed. DHS management could not explain why it paid the invoice without ensuring the services were performed.

Recommendation 7

We recommend that DHS

- a. ensure that the University provides the aforementioned power system upgrades or recover the funds paid; and**
- b. in the future, obtain documentation to ensure services are performed prior to payment.**

Federal Funds

Finding 8
DHS did not modify its payment rates for residential rehabilitation services, resulting in the use of State funds to cover the cost of services that are potentially eligible for federal reimbursement.

Analysis

As a member of the State's Rate Setting Reform Stakeholders Workgroup,¹ DHS did not revise its rates paid for residential rehabilitation services, as recommended by a federal audit. This precluded federal reimbursement of those costs under Medicaid, and resulted in the use of State funds for services that are potentially eligible for federal reimbursement. According to State records, DHS received federal fund reimbursements totaling approximately \$20.7 million in fiscal year

¹ The Workgroup was created under the State's Interagency Rates Committee. The State's Interagency Rates Committee was established to improve the rate-setting process for residential child care and comprises the Maryland Department of Health and the Departments of Human Services, Juvenile Services, Budget and Management, and Education, as well as the Governor's Office of Children.

2015 under the Medical Assistance program (Medicaid) for residential rehabilitation services.

In its August 2011 audit report on the State's Medicaid claims, the U.S. Department of Health and Human Services (HHS) concluded that the State's use of a flat per diem rate for Medicaid claims for all residential rehabilitation services from October 1, 2005 through September 30, 2007, regardless of the specific services received by each client, made it unclear whether such services were eligible for Medicaid reimbursement. These Medicaid claims were for residential rehabilitation services costs incurred by the Department of Human Services and the Department of Juvenile Services. In response to the HHS audit report recommendations, the Maryland Department of Health, which administers the State's Medicaid program, agreed to pursue changes to the State's methodology for setting per diem rates for residential rehabilitation services and to ensure claims were properly documented in accordance with that methodology.

This issue was referred to the State's Rate Setting Reform Stakeholders Workgroup in the fall of 2011. The Workgroup determined that most services included in the per diem rates, such as room and board and recreation, were not Medicaid-covered services. Therefore, the Workgroup concluded that the small portion of Medicaid-covered services (such as mental health counseling by a licensed clinical social worker) should be recovered directly by the providers as fee-for-service claims and a reduced State per diem rate should be established for the non-Medicaid eligible services.

However, as of March 2017, DHS and the Workgroup had made limited progress in determining a new reduced per diem rate for the non-Medicaid eligible services. Effective July 1, 2015 DHS is no longer recovering any federal funds for residential rehabilitation services and continues to pay providers using the original per diem rate methodology. As a result, costs associated with these services that are eligible for Medicaid reimbursement are now being funded solely by the State's General Fund. DHS was unable to provide us with an estimate of the amounts that have not been recovered.

Recommendation 8

We recommend that DHS

- a. as a member of the Rate Setting Reform Stakeholders Workgroup, ensure that a methodology is established for a per diem residential rehabilitation services rate that includes only non-Medicaid services, and that Medicaid-eligible services are billed separately by the providers as fee-for-service claims; and**

- b. determine the feasibility of identifying and recovering allowable Medicaid-eligible services costs and pursue retroactive federal reimbursement.**

Information Systems Security and Control

Background

The DHS Office of Technology for Human Services (OTHS) is responsible for the overall management and direction of DHS' information systems. These systems include critical applications such as the mainframe-based Clients' Automated Resource and Eligibility System (CARES), the mainframe-based Child Support Enforcement System (CSES), and the server-based Children's Electronic Social Services Information Exchange (CHESSIE).

These systems are used to provide eligible individuals public assistance, food subsidies, child support payments, and foster care payments. Maintenance and operation of these information systems are provided by a combination of outsourced services and DHS personnel. OTHS operates both an internal network at DHS' headquarters and a wide area network which connects to DHS' locations throughout the state. Additionally, DHS obtains Internet and Statewide Government Intranet connectivity from networkMaryland.

Finding 9

Sensitive personally identifiable information (PII) was not properly protected by DHS.

Analysis

Sensitive PII was not properly protected by DHS. Specifically, we noted that sensitive PII was stored in several databases in clear text. For example, we noted that as of August 10, 2016, a table in one of these databases contained sensitive PII for 1,605,558 unique individuals in clear text. This included the individuals' full names, social security numbers, and dates of birth. In addition, we determined that this sensitive PII was not protected by other substantial mitigating controls. Finally, although DHS had generated an inventory of its PII, DHS advised that it had not reviewed this inventory to identify and remove unnecessary PII records.

This PII, which is commonly associated with identity theft, should be protected by appropriate information system security controls. The State of Maryland *Information Security Policy* requires each agency to protect confidential data using encryption technologies and/or other substantial mitigating controls.

Recommendation 9

We recommend that DHS

- a. review its inventory of PII and determine if it is necessary to retain the PII and delete all unnecessary PII; and**
- b. for remaining PII, properly protect such PII by encryption or other substantial mitigating controls.**

Finding 10

Monitoring controls over the CARES, CSES, and CHESSIE databases were not sufficient to properly protect these databases.

Analysis

Monitoring controls over the CARES, CSES, and CHESSIE databases were not sufficient to properly protect these databases.

- Although direct modifications to numerous tables in the CARES and CSES databases were logged, direct modifications to numerous tables in 17 separate databases and direct modifications made by 15 individuals were not included in a critical security report used to review such modifications.
- DHS had not logged any critical database security and audit events for the CHESSIE database until September 2015. In addition, the logging initiated in September 2015 did not include certain events such as those generated by database administrators. Furthermore, DHS advised that it regularly generated reports of these logged activities and performed reviews and investigations of events recorded on these reports; however, there was no documentation supporting these reviews and investigations. Similar conditions were commented upon in our preceding audit report.

The State of Maryland *Information Security Policy* states that information systems must generate audit records for all security-relevant events and procedures must be developed to routinely review audit records for indications of unusual activities, suspicious activities, or suspected violations, and report findings to appropriate officials for prompt resolution.

Recommendation 10

We recommend that DHS

- a. include all direct modifications to CARES and CSES database tables in the critical security report used to review such modifications; and**
- b. log all critical CHESSIE database security and audit events, generate reports of these events, review these reports on a timely basis, and**

document these reviews and any investigations with the documentation retained for future reference (repeat).

Finding 11

Malware protection for DHS computers and Intrusion Detection Prevention System (IDPS) coverage for the DHS network were not sufficient to properly protect DHS computers and network.

Analysis

Malware protection for DHS computers and IDPS coverage for the DHS network were not sufficient to properly protect DHS computers and network.

- DHS did not ensure, on an ongoing basis, that malware protection software was installed, up-to-date, and operational on all of its computers. DHS utilized an automated malware protection console to manage the malware protection software installed on its computers. However, we identified 1,691 computers (out of 10,870 active DHS computers) that were not listed on the console as of June 2016.
- Numerous workstations were configured with users having administrative rights. Administrative rights should be provided only to network and system administrators and select others since these rights are the highest permission level that can be granted to users and allows users to install software and change configuration settings. Our test of 78 workstations disclosed that 37 user accounts had been provided administrative rights on their workstation. We were advised by central DHS IT staff that documentation was not readily available for assessing the propriety of the assigned administrative rights for these 37 workstations. As such, central DHS IT staff lacked assurance that the assigned administrative rights were necessary. Accordingly, if these 37 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. In addition, users with administrative rights could disable the malware protection software on their workstations.
- Effectively there was no IDPS protection for the DHS network. Specifically, we noted that the three network-based IDPS devices employed by DHS were set to detect and report rather than block identified malicious traffic. However, the potentially malicious traffic identified by two of these three devices was never received by the appliance responsible for reporting such traffic and the reports generated for the third device were of a summary nature

and did not contain the detailed information necessary to identify and investigate potential network intrusions.

Recommendation 11

We recommend that DHS

- a. ensure that malware protection software is installed and operational on all of its computers;**
- b. ensure that administrative rights on workstations are restricted to network and system administrators and other select users requiring such rights with justification for assignment of such rights documented and retained centrally for future reference;**
- c. configure its network-based IDPS devices to prevent high-risk, potentially malicious traffic from entering the network and log and report all lower-risk traffic; and**
- d. regularly generate detailed reports of logged IDPS security events, review these reports, and investigate unusual or suspicious items on these reports, with such reviews and investigations being documented and retained for future reference.**

Electronic Benefits Transfer System

Background

DHS contracted with a service provider to implement, operate, and maintain a web-based Electronic Benefits Transfer System (EBTS) for the State of Maryland's Temporary Cash Assistance and Food Supplement Programs. The EBTS provides cardholders with access (through a user ID and password) to their cash benefits as well as to perform administrative functions such as report a card lost or stolen, change a PIN, and request a replacement card. The most recent contract that was executed with the incumbent vendor covered an initial period from January 1, 2015 to June 30, 2019, with a cost not to exceed approximately \$12.3 million through June 2019. The contract included two optional renewal periods (of two years each), which could extend the contract through June 30, 2023.

Finding 12**DHS lacked assurance that the EBTS service provider was properly secured against operational and security risks.****Analysis**

DHS lacked assurance that the EBTS service provider was properly secured against operational and security risks. Specifically, the only independent review of controls obtained subsequent to our prior audit did not address key security controls and no other reports were obtained to cover subsequent periods, even though they were contractually required. The most recent contract between DHS and the service provider required the provider to engage an independent auditing firm to conduct Service Organization Controls (SOC) reviews (both a SOC 1 and SOC 2 reviews) and report annually.

- The service provider procured an independent review over its EBTS service to be performed in accordance with the American Institute of Certified Public Accountants' Statement on Standards for Attestation Engagement 16 and received a SOC 1 Type 2 report dated August 31, 2015 for the period August 1, 2014 through June 30, 2015. However, this was the only independent review of controls obtained subsequent to our prior audit. In addition, the SOC 1 report did not address several key security controls necessary for the EBTS service, which would have been addressed under a SOC 2 review. For example, we noted that the SOC 1 report, which is generally used in connection with financial statement reporting, did not state that vulnerability scanning and patch management policies and procedures existed and had been implemented or that intrusion detection, malware prevention, and antivirus protection had been implemented. Furthermore, the SOC 1 report did not stipulate that disaster recovery and business continuity policies, processes, and procedures existed and had been regularly tested. Similar conditions related to the SOC 1 report were commented upon in our preceding audit report.
- As of December 13, 2016, the service provider had not obtained the contractually required SOC 2 Type 2 review and report which could have addressed the aforementioned security controls.

The American Institute of Certified Public Accountants has issued guidance concerning examinations of service providers. Based on this guidance, service providers (like the aforementioned service provider) may contract for an independent review of controls and resultant independent auditor's report referred to as a SOC report. There are several types of SOC reports, with varying scopes and levels of review and auditor testing. 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.

Recommendation 12

We recommend that DHS

- a. ensure that the service provider complies with the contract and obtains all required independent reviews, including a SOC 2 Type 2 review that addresses all critical control provisions relating to security, availability, and other concerns for the EBTS contract; and**
- b. review copies of these SOC 2 Type 2 reports and determine if the related independent reviews adequately address the aforementioned security concerns over DHS' use of EBTS services, ensure that the service provider implements all critical recommendations made in the reports, document these efforts, and retain the documentation for future reference (repeat).**

Payroll

Finding 13

DHS did not adequately investigate payments to employees on multiple State payrolls.

Analysis

DHS did not investigate employees appearing on the Comptroller of Maryland – Central Payroll Bureau's (CPB) quarterly reports of employees on multiple State payrolls (that is, employees who worked for both DHS and another State agency). DHS management advised us that DHS did not review the quarterly CPB reports and, instead, reviewed biweekly CPB reports of newly hired DHS employees with possible secondary employment. Because the biweekly reports only included newly hired employees, this review was not sufficient. Furthermore, DHS management advised us that the reviews were only performed on a test basis and were not documented.

An adequate review of dual employment of all employees ensures that employees are not recording overlapping hours on their timesheets for both State agencies. For example, it came to the attention of the DHS Office of the Inspector General that an employee falsely recorded on the employee's timesheet that the employee was working for DHS when the employee was actually teaching a course at a State university. This allegation did not result from DHS' review of dual employment reports. The DHS Office of the Inspector General estimated that the

employee received between \$2,000 and \$2,600 in pay from DHS during fiscal year 2013 while teaching courses at the university. The employee was terminated in 2014. Our review of four quarterly dual employment reports in fiscal year 2013 disclosed that this employee was listed as working at both DHS and the university.

During fiscal year 2015, based on State records, 61 DHS employees received payments totaling approximately \$1.2 million from both DHS and other State agencies (including other DHS units) during the same pay periods. The payments to these employees do not necessarily indicate a problem since the employees may not have recorded overlapping work hours at both agencies. In this regard, our review of five employees for five pay periods with earnings totaling approximately \$17,000 did not identify any overlapping hours.

CPB has directed State agencies to investigate all employees appearing on the quarterly reports to ensure that the employees were not claiming the same work hours for multiple jobs during the same periods. According to the State's records, during fiscal year 2015, DHS' payroll expenditures totaled approximately \$493 million.

Recommendation 13

We recommend that DHS

- a. use quarterly reports provided by CPB to investigate all employees on multiple payrolls, and**
- b. retain documentation to support these investigative efforts.**

Audit Scope, Objectives, and Methodology

We have conducted a fiscal compliance audit of the Department of Human Services and related units (DHS) for the period beginning August 13, 2012 and ending August 30, 2015. 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 DHS' 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 electronic benefit transfers, grants, federal funds, legal services, purchases and disbursements, corporate purchasing cards, information systems security and control, and payroll. Our audit included various support services (such as payroll, purchasing, maintenance of accounting records, and related fiscal functions) provided by DHS' Office of the Secretary and related units to the other units of DHS. 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 pertaining to federal financial assistance programs and as assessment of DHS' 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 DHS.

To accomplish our audit objectives, our audit procedures included inquiries of appropriate personnel, inspections of documents and records, observations of DHS' 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 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.

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

DHS' response to our findings and recommendations is included as an appendix to this report. As prescribed in the State Government Article, Section 21224 of the Annotated Code of Maryland, we will advise DHS regarding the results of our review of its response.

APPENDIX



Larry Hogan, Governor | Boyd K. Rutherford, Lt. Governor | Lourdes R. Padilla, Secretary

September 1, 2017

Mr. Thomas J. Barnickel III
Legislative Auditor
Office of Legislative Audits
301 West Preston Street, Room 1202
Baltimore, Maryland 21201

Dear Mr. Barnickel:

Please find enclosed the Department of Human Services' (DHS) responses to the draft Legislative Audit Report of the Department of Human Services – Office of the Secretary for the period beginning August 13, 2012 and ending August 30, 2015.

If there are any questions regarding these responses, please contact the Acting Inspector General, Terry Scates of my staff at 443-378-4000 or terry.scates@maryland.gov.

Sincerely,

A handwritten signature in black ink that reads 'Lourdes R. Padilla'. The signature is written in a cursive, flowing style.

Lourdes R. Padilla
Secretary

Enclosures:

cc:

Gregory James, Deputy Secretary, Operations
Craig Eichler, Chief of Staff
Samantha Blizzard, Special Assistant, Office of the Secretary
Terry P. Scates, Acting Inspector General, OIG
Kenyatta Powers, Chief, Office of Technology for Human Services
Rebecca Jones Gaston, Executive Director, SSA
Nicolette Smith-Bligen, Executive Director, FIA
Sandy Johnson, Executive Director Procurement
Stafford Chipungu, Chief Financial Officer



Finding 1

DHS did not effectively administer contract terms and task order activity to ensure the reasonableness of vendor proposed services and costs. DHS also issued \$8.4 million in task orders in excess of the amount authorized for fiscal year 2015 without a contract modification; the resulting expenditures created unfunded liabilities at year-end totaling \$4.5 million.

Recommendation 1

We recommend that DHS

- a. establish procedures to ensure hours and related rates proposed by the vendor on task orders are reasonable,**
- b. attempt to obtain documentation of actual hours worked by each vendor employee by task order and assess the reasonableness of the hours worked in relation to the hours proposed to assist in future task order reviews,**
- c. ensure that future payments for Level 2 services are made on a deliverable basis consistent with contract terms,**
- d. monitor task orders authorized to ensure that contracted amounts are not exceeded without first obtaining the necessary authorizations and entering into contract modifications,**
- e. seek retroactive approval from BPW for the aforementioned contract modification, and**
- f. report all unfunded year-end liabilities to GAD, as required.**

DHS concurs with these recommendations:

- a. DHS has implemented a task order review process. In this process a vendor will submit a formal time and cost estimate for requested scope of work. An internal DHS Review Team is convened to review the estimate. Historical project analysis along with subject matter knowledge assessments are used to ensure that the estimate is reasonable and in sync with the scope of work. The DHS internal review results are then compared to the vendors through independent estimation process results for commonality and alignment.

In addition, under the Agile Safe methodology time and costs estimates have been replaced by user story estimating which is conducted by the Agile teams. Accordingly, as projects are migrated into the Agile arena from Waterfall, traditional time and cost estimates will no longer be pursued or used by DHS. DHS will continue to reference and monitor time and cost estimates for those Waterfall projects currently underway.

- b. To further provide governance, monitoring and oversight over actual hours worked by the vendor DHS is utilizing the project management tool,

Version One. Version One is used in conjunction with vendors to track all hours against the actual work and task orders assigned. The hours for work within Version One are reviewed and signed off for approval on a weekly basis.

- c. DHS understands and accepts that installment payments should no longer be permitted on the Application Maintenance/Operations and Enhancement Services Contract and will ensure that level 2 service payments for waterfall projects are made on a deliverable basis. As previously stated, Agile projects will be estimated via user stories by the Agile teams.
- d. DHS tracks and monitors all authorized task orders. The DHS PMO (Project Management Officer) review invoices on a monthly basis against funding allocation. In certain instances, encumbered funds have also been assessed to provide a comprehensive view of DHS available funds.
- e. DHS concurs with this recommendation.
- f. Any year-end liabilities will be reported to GAD.

Finding 2

DHS cancelled an information system modernization project after paying approximately \$10.1 million, including approximately \$4.8 million that was paid unnecessarily.

Recommendation 2

We recommend that DHS enhance its planning prior to the issuance of task orders and take timely action to cancel tasks to avoid unnecessary costs.

DHS concurs with this recommendation:

DHS has taken steps to address this issue and therefore, concurs with this recommendation. DHS tracks and monitors all costs associated with task orders. DHS has incorporated a task order vetting process by way of the DHS IT Advisory Council. The Council which is comprised of the DHS Deputy Secretaries and various Program Executive Directors, meet monthly to review and approve proposed task orders. In addition to this governing body, task orders are reviewed by DHS internal teams along with the vendor on a weekly basis.

Finding 3

DHS guaranteed a minimum compensation to two of the eight legal firms awarded emergency contracts, resulting in payments of approximately \$616,000 more than if, like the other six firms, they were paid on a per-case fee.

Recommendation 3

We recommend that in the future, DHS eliminate guaranteed minimums from its legal services contracts.

DHS disagrees with this finding:

After DHS failed to obtain the approval of the CINA contracts by the Board of Public Works in August 2013, BPW directed the Department to enter into emergency contracts. DHS senior management engaged in negotiations in order to obtain the emergency contracts, which resulted in continuation of legal services for children with no disruption in services. The two contractors provided legal services for several thousand children under the emergency contracts.

Maintaining stability was of paramount importance to the Department and a failure to reach an agreement with the seven vendors would have resulted in upheaval for approximately 16,364 children and the risk of children losing statutorily mandated counsel. Inevitably, cases would have to be delayed, in order for new attorneys to be assigned. Continuity of representation was a priority of concern for the Board of Public Works. DHS determined that providing stability and continuity of representation for approximately 16,324 vulnerable children was priority and engaged in negotiated contracts with the incumbent legal service providers. Further, the Department determined that maintaining the calendar system, which was created for the jurisdictions with multiple contractors in 2007, was appropriate, as it had been established by the ranking of vendors which occurred in the 2007 contract awards.

DHS also believes that the OLA analysis is incorrect. The contract language relied upon by OLA is as follows, “[P]ayment to the Contractor pursuant to this Contract shall be at the rate provided in the Pricing Proposal of [amount] Dollars per case per year or a guaranteed minimum of [amount] per Contract year. Any amount in excess of the minimum dollar amount each year, shall be billed at the per-case rate.” The contract required the contractor to elect to either select to invoice the Department at the price per-case rate or select the guaranteed minimum dollar amount. Two of the contractors elected to invoice the Department the fixed price option (guaranteed minimum) and invoiced the Department for one twelfth of the amount for each year of the two (2) year emergency contract. The two contractors

were paid only the guaranteed minimum amount provided in their respective contracts. The two contractors provided legal services for three thousand four hundred sixty six (3466) children in a total of five (5) jurisdictions during the 2 year contract period. The average cost per case was \$1459, which was not the highest cost per case paid to all of the incumbent CINA contractors. The price per case ranged from \$700 to \$1688 for all of the incumbent CINA contractors.

One contractor elected to invoice the Department using the price per case amount and invoiced the Department at the per-case rate each month during the two (2) year emergency contract. That contractor provided legal services for nine hundred ninety five (995) children and was paid the agreed upon case rate for each child. Thus, the contractors provided high quality representation for the children at a reasonable rate.

It should be noted that DHS has subsequently completed a new procurement for these services. The new contracts do not include any guaranteed minimums.

Auditor's Comment: Although DHS contends that the report analysis is incorrect, no information is provided in its response that contradicts the audit report analysis. As stated in the finding, DHS guaranteed minimum compensation to two firms providing legal services but did not maximize cases assigned to them, resulting in higher payments to these two firms. The remaining six firms were paid on a per-case basis, five of which were not offered the guaranteed minimum compensation option. Nevertheless, DHS states that the recommendation has been implemented.

Finding 4

DHS did not have adequate procedures to ensure that payments to legal services firms were proper, and did not follow up on deficiencies with the services provided by the legal firms that were noted during annual site visits.

Recommendation 4

We recommend that DHS

- a. ensure that all payments made to legal firms are only for individuals for whom DHS is responsible to provide legal services (repeat); and**
- b. follow up with the legal firms when deficiencies are identified during site visits, including those noted above and, in consultation with the Office of the Attorney General, take appropriate action such as by withholding payments when firms do not comply with contract provisions.**

- a. DHS concurs with the recommendation, but disagrees with the repeat status of this recommendation. Specifically, the prior audit recommendation stated “verify that payments made to legal firms are only for individuals for whom DHS is responsible to provide legal services (for example, require legal firms to submit copies of the court orders appointing the firm as the representative).

At the time of that earlier finding, the original contracts with the legal services providers did not require the submission of the supporting documentation as a part of the invoice submissions. However, MLSP modified all contracts to include the submission of appointment orders and documentation of billable events. As of September 1, 2016, all CINA/TPR and Adult Guardianship contracts require the submission of an appointment order and documentation that a billable event occurred, for each case that is invoiced. Therefore, DHS has complied with this portion of the recommendation.

Regarding the test of 11 invoices, MLSP informed OLA that two (2) MLSP staff members were assigned to compare the invoices with the court issued reports, the MLSP Director and the MLSP contract monitor. Furthermore, in response to the prior audit, MLSP established a process to perform an in-depth review of 20% of the invoices. The 20% invoice review represented a risk based approach, as the review included the three largest multiple vendor jurisdictions. The three jurisdictions generated approximately 50% of all monies paid under the CINA contracts. The 20% review was also based on verbal advice provided by OLA during the prior audit indicating that a 20% audit of invoices would be sufficient to resolve the audit finding.

During this current (2012-2015) audit cycle, OLA management stated that while there was no legal authority or best practice to determine the percentage of invoices that should be reviewed, and therefore OLA would not remove the audit finding unless DHS conducted 100% review of all invoices, in a timely fashion. OLA management indicated that it would not define a timeframe within which the review must occur to be considered “timely”.

DHS has subsequently introduced new processes that will allow for a 100% review of invoices, including appointment orders and court orders.

Auditor’s Comment: DHS contends that OLA provided advice during the preceding audit that a 20 percent review of invoices would be sufficient; however, OLA has no record of providing this advice. Also, DHS contends that, during the current audit, OLA management stated there is no legal requirement or best practice to determine the percentage of invoices to review. The review of all

invoices prior to payment is a fundamental internal control practice that should be implemented to mitigate the risk of improper payments, which DHS has agreed to do.

- b. DHS concurs with this recommendation. DHS/MLSP restructured the contract monitoring process requiring timely follow to material/significant deficiencies relative to contractual provisions. Additionally, MLSP developed and implemented standard operating procedures specifically with respect to obtaining appropriate supporting documentation and maintaining concise and comprehensive reports.

Grants Management

Finding 5

DHS lacked sufficient procedures and accountability over certain grants.

Recommendation 5

We recommend that DHS

- a. independently verify, at least on a test basis, that grant funds are spent as intended (repeat); and**
- b. recover grant funds when the grantee does not provide documentation to support that grant funds were used as intended, including those noted above.**

DHS concurs with this recommendation:

- a. In Fiscal Year 2016, FIA developed comprehensive guidelines regarding the use of MEFP funds, and instructions for submitting documentation to verify that the funds were expended on allowable activities. The new guidelines include instructions on how to submit quarterly activity reports, proof of expenditures (receipts), and keeping record of expenses for audit and monitoring purposes.

FIA uses smart sheets as a tracking tool to document the submission of activity reports including proof of MEFP expenditures. This tool is also used to schedule and track monitoring visits. OIG was given access to this tool in April 2015.

Site Monitoring Visits are used to verify that grant funds are spent as intended. These visits are conducted on an annual basis. As of this fiscal year (FY18), the legislative requirement for visits was amended to include annual visits for those Emergency Food Organizations that receive over

\$6,000.00. Visits are also conducted for organizations that appear to be having problems, new EFOs and those that have not received a visit in a year or two.

In addition, grantees are required to submit quarterly reports that include receipts to document purchases related to MEFP. FIA staff reviews these records to ensure that MEFP funds were used for the intended purpose.

- b. The FIA MEFP Coordinator reviews 100% of MEFP receipts submitted by the grantees as part of the quarterly reports. If there are non-food items identified on the receipts, the Coordinator notifies the grantee, in writing, that such purchases will not be counted toward the allotted MEFP funds. If a particular Grantee has not expended MEFP funds by the end of the state fiscal year, FIA asks that the balance be returned to the State. Grantees that fail to respond are referred to Central Collections. FIA tracks returned funds.

Purchasing and Disbursements

Finding 6

DHS did not adequately monitor Department-wide user access to critical functions on the State's Financial Management Information System (FMIS) and did not establish adequate online controls over purchase orders.

Recommendation 6

We recommend that DHS

- a. **follow up with units that do not respond to the monthly employee access reports, and**
- b. **use the available FMIS security features to establish independent online approval requirements for all purchasing transactions.**

DHS concurs with this recommendation:

The unit responsible for monitoring FMIS access will track responses from agency managers who review monthly security reports.

Financial Management Information System (FMIS) security profiles for all of the cited employees have been corrected. Agency managers review monthly FMIS security reports, and training is being provided to assist managers with those reviews. Also, supplemental ad hoc reports are being used by the FMIS Support Unit to identify inappropriate system access.

Finding 7**DHS paid \$300,000 to a State university for services that were not provided.****Recommendation 7****We recommend that DHS**

- a. ensure that the University provides the aforementioned power system upgrades or recover the funds paid; and**
- b. in the future, obtain documentation to ensure services are performed prior to payment.**

DHS does not concur with the context this finding which regards this project as a payment of \$300,000.00 by DHS to a “vendor” for goods and/or services. This transaction should be considered an intergovernmental transfer of funds pursuant to a MOU between two State entities to assist with the installation of a standby power system and better enabling the State to provide emergency services to individuals and families who are victims of disasters or emergency situations, within and outside the borders of the State.

Auditor’s Comment: DHS contends that the agreement was an intergovernmental transfer of funds, which should be viewed differently than payments to vendors. We disagree since the payment method has no bearing on the premise of our finding. As stated in the finding, the agreement required payment to the university for the labor and equipment costs for the power system upgrade. Payment should not have been made prior to the installation and related inspection of the equipment.

DHS will continue to actively monitor this project through its 100% completion (inclusive of any testing, adjustments or minor alteration activities). DHS will continue to ensure that appropriate documentation is received, as well as monitor the progress of the project against its proposed construction timeline; requesting explanation for any deviations or project setbacks.

DHS’ Office of Emergency Operations participates in the aid and relief of the distressed citizens of Maryland and those abroad during declared emergencies which are a result of natural weather related disasters, civil unrest, mass care sheltering, reunification efforts, etc... The installation of standby power systems throughout the State for critical infrastructure was a priority for the former Governor’s Office. This priority was articulated throughout the State Stat program. The priority was also adopted as a strategic goal for DHS. As such, funding to pre-wire and equip state disaster shelter facilities with backup power was included and carried in departmental budget allocations for multiple fiscal years. An opportunity

to further carry out this strategic goal presented itself when Towson University (TU) announced their plans to undergo a large-scale systematically phased multi-million dollar renovation project with a construction timeline spanning through 2017.

TU is one of the institutions that DHS has partnered with to serve as an emergency shelter during mass care sheltering events. Therefore, DHS has an obligation to stage and equip the facility with emergency resources that are specifically put in place for use when the facility is serving as a disaster shelter. Backup power is one of the most critical resources to be installed in disaster shelter facilities.

As part of the aforementioned renovation project, DHS and TU entered into an agreement by way of a fully executed (July 2015) memorandum of understanding (MOU) which denotes that, TU is to install a Standby Power System at their Burdick Hall facility with DHS' pecuniary assistance.

Adhering to the agreement, DHS provided funding by way of a direct intergovernmental transfer to another state entity (TU) to assist in the purchase of equipment and supplies, for the renovation of the Burdick Hall; specifically to enable it to provide back-up power during emergency mass care sheltering operations. DHS has continued to monitor the progression of the TU renovation project by requesting monthly updates (progress reports) and by performing site visits with specific focus on the Burdick Hall component and the installation of the standby/backup power system.

As late as August 9, 2017, TU progress reports, purchasing documents and correspondence show that DHS' funds have been exhausted and used to procure wiring, paralleling switchgear, transfer switches, and other miscellaneous equipment; all critical and necessary components of the standby/backup power system. The aforementioned equipment has been received and is being appropriately stored (with loss protection) until its systematic installation. It is anticipated that the bulk of the installation of the standby/backup power system will be completed in October of 2017; testing, adjustments and minor alterations to occur thereafter. To date, the project has achieved an overall 75.3% completion.

Federal Funds

Finding 8

DHS did not modify its payment rates for residential rehabilitation services, resulting in the use of State funds to cover the cost of services that are potentially eligible for federal reimbursement.

Recommendation 8

We recommend that DHS

- a. as a member of the Rate Setting Reform Stakeholders Workgroup, ensure that a methodology is established for a per diem residential rehabilitation services rate that includes only non-Medicaid services, and that Medicaid-eligible services are billed separately by the providers as fee-for-service claims; and**
- b. determine the feasibility of identifying and recovering allowable Medicaid-eligible services costs and pursue retroactive federal reimbursement.**

DHS disagrees with these recommendations:

Rates for residential services are set by the Interagency Rates Committee (IRC) of which DHS is one of six (6) State agencies. The IRC is maintained by the State Department of Education. In addition, DHS is not the designated State agency responsible for Medicaid. For this audit finding to be affixed to this Department is inappropriate.

Auditor's Comment: Although the rates are established by the Interagency Rates Committee, DHS is a member of that group. Given the financial impact on its budget, we continue to believe that DHS should use its membership status to ensure a methodology is established to allow for federal reimbursement of eligible costs.

Information Systems Security and Control

Finding 9

Sensitive personally identifiable information (PII) was not properly protected by DHS.

Recommendation 9

We recommend that DHS

- a. review its inventory of PII and determine if it is necessary to retain the PII and delete all unnecessary PII; and
- b. for remaining PII, properly protect such PII by encryption or other substantial mitigating controls.
 - a. DHS concurs with this recommendation.
 - b. DHS concurs with this recommendation and will implement additional security controls to comply with cryptographic requirements.

Finding 10

Monitoring controls over the CARES, CSES, and CHESSIE databases were not sufficient to properly protect these databases.

Recommendation 10

We recommend that DHS

- a. include all direct modifications to CARES and CSES database tables in the critical security report used to review such modifications; and
- b. log all critical CHESSIE database security and audit events, generate reports of these events, review these reports on a timely basis, and document these reviews and any investigations with the documentation retained for future reference (repeat).

DHS concurs with these recommendations:

- a. DHS has already corrected the issues described.
- b. DHS implemented logging, and has made significant progress since the previous audit period. Although the solution provided auditing of all administrative commands, DHS is working to implement logging of all database security and audit events. DHS will continue to conduct reviews and will document all reviews and investigations for future reference.

Finding 11

Malware protection for DHS computers and Intrusion Detection Prevention System (IDPS) coverage for the DHS network were not sufficient to properly protect DHS computers and network.

Recommendation 11

We recommend that DHS

- a. ensure that malware protection software is installed and operational on all of its computers;

- b. ensure that administrative rights on workstations are restricted to network and system administrators and other select users requiring such rights with justification for assignment of such rights documented and retained centrally for future reference;**
 - c. configure its network-based IDPS devices to prevent high-risk, potentially malicious traffic from entering the network and log and report all lower-risk traffic; and**
 - d. regularly generate detailed reports of logged IDPS security events, review these reports, and investigate unusual or suspicious items on these reports, with such reviews and investigations being documented and retained for future reference.**
- a. DHS disagrees with the number of computers that were identified as not having malware protection software installed and up to date. As discussed, these numbers were inaccurate due to technology refresh. However, DHS concurs to develop a process for ensuring reconciliation of these numbers to ensure that malware protection software is installed and operational on all computers.
 - b. DHS concurs with this recommendation and will develop and enforce a written policy related to the assignment of local administrative rights.
 - c. DHS concurs with this recommendation. Although DHS had its network-based IDPS devices set to detect and send alerts, DHS will configure them to prevent mode for high-risk traffic.
 - d. DHS concurs with this recommendation and will configure the logging system to regularly generate detailed reports, and will review/investigate unusual or suspicious items, document reviews, and retain for future reference.

Electronic Benefits Transfer System

Finding 12

DHS lacked assurance that the EBTS service provider was properly secured against operational and security risks.

Recommendation 12

We recommend that DHS

- a. ensure that the service provider complies with the contract and obtains all required independent reviews, including a SOC 2 Type 2 review that addresses all critical control provisions relating to security, availability, and other concerns for the EBTS contract; and**

- b. review copies of these SOC 2 Type 2 reports and determine if the related independent reviews adequately address the aforementioned security concerns over DHS' use of EBTS services, ensure that the service provider implements all critical recommendations made in the reports, document these efforts, and retain the documentation for future reference (repeat).**
 - a. DHS concurs with this recommendation.
 - b. DHS concurs with this recommendation.

Payroll

Finding 13
DHS did not adequately investigate payments to employees on multiple State payrolls.

Recommendation 13

We recommend that DHS

- a. use quarterly reports provided by CPB to investigate all employees on multiple payrolls, and**
- b. retain documentation to support these investigative efforts.**

DHS concurs with these recommendations:

The following actions have been taken to address this issue:

- a. Contact was made with the Comptroller's Central Payroll Bureau (CPB) to update CPB's distribution list so that the Department's Payroll Unit receives the quarterly reports of employees on multiple payrolls.
- b. Department payroll staff has been re-trained in researching, documenting and record retention of the dual employment reports.

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